

**WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)**

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
#1 memo	<del>Rostow to Planning Group Members</del> <i>open 1-22-08</i> <del>S 1 p</del>	<del>6/29/65</del>	<del>A</del>
#1a rpt	"Contingency Planning" <i>exempt 1-22-08</i> S 4 p	6/29/65	A
#2 rpt	<del>"Atlantic Policy after the German..."</del> <del>S 15 p</del> <i>OPEN 4.7.99</i>	<del>6/25/65</del>	<del>A</del>
#12 memo	Rostow to Planning Group Members S 1 p	5/22/65	A
#12a rpt	"Questions on International Implications..." S 12 p	undated	A
#18 memo	<del>Rostow to Planning Group Members</del> <del>C 1 p</del> <i>open 1-22-08</i>	<del>4/16/65</del>	<del>A</del>
#19 memo	Rostow to President S 1 p	4/14/64	A
#19a memo	Polk to Rostow S 5 p	4/7/64	A
#20a rpt	"Pakistan and Communist China" S 15 p	4/65	A

FILE LOCATION

**NSF, Agency File, State Department, Policy Planning, Vol. 5**

**Box 52**

RESTRICTION CODES

- ) Closed by Executive Order 12356 governing access to national security information.
- ) Closed by statute or by the agency which originated the document.
- ) Closed in accordance with restrictions contained in the donor's deed of gift.

NATIONAL ARCHIVES AND RECORDS ADMINISTRATION

NA FORM 1429 (8-85)

DEPARTMENT OF STATE

Counselor and Chairman

Policy Planning Council

Washington

RECEIVED Copy #14  
McGEORGE BUNDY'S OFFICE  
June 29, 1965

1965 JUN 29 AM 11 52

~~SECRET~~

TO: Planning Group Members

SUBJECT: Planning Group Meeting,  
Thursday, July 1, 1965, 12:00 noon

Contingency planning will be the topic for discussion at our next meeting at noon on July 1, 1965 in the S/P conference room (room 7261 New State Bldg.).

The Department of State is currently engaged in preparing its semi-annual inventory of existing and projected contingency plans. In connection with this task, the views of the Planning Group on possible subjects for contingency planning would be most helpful. We might also usefully review existing interagency arrangements for contingency planning.

The attached paper is based on recent discussions of contingency planning within S/P and may provide a starting point for our meeting of July 1.

W. Rostow

Attachment:

Paper on  
Contingency Planning

~~SECRET~~

GROUP 3

Downgraded at 12 year intervals;  
not automatically declassified

DECLASSIFIED  
E.O. 13292, Sec. 3.4  
By sp/cen, NARA, Date 1-9-08

~~SECRET~~

0

2

ATLANTIC POLICY AFTER  
THE GERMAN ELECTION

A paper prepared in the Policy Planning Council for internal use and for consideration at the Board of Consultants' meeting, July 2.

June 25, 1965

~~SECRET~~

~~SECRET~~

MEMORANDUM

SUBJECT: NATO Policy After the German Election

I

1. The Problem. This memorandum discusses our broad strategy toward NATO after the German election. Needless to say, this is closely related to other matters--e.g., the UK economy, developments at Brussels, policy on German unity and Eastern Europe. But we can't tackle all these issues in one meeting, and have chosen to concentrate on NATO at this session.

2. The Basic Choice. After being re-elected, General de Gaulle will probably begin to reduce French participation in NATO. He may make it difficult to maintain some NATO facilities now on French soil. He may indicate, at some point, that he would like to see NATO replaced after 1969 by a much looser alliance. He may threaten to pull out earlier if the alliance is changed in major respects before then.

In this situation there seem, broadly speaking, to be three alternatives:

One: We can roll with the punch: keeping those NATO  
programs

~~SECRET~~



~~SECRET~~

- 2 -

programs from which French withdraws going on an "empty chair" basis, and relocating NATO facilities that are no longer welcome in France. Our allies would probably support this course of action. In the resulting period of stalemate and inaction, however, the alliance might tend to fragment toward a series of divisive bilateral relations.

Two: We could seek to reshape the alliance, striking for (i) an "inner group" of those nations willing to accept a higher degree of integration (probably the US and the WEU countries minus France); (ii) participation by the European members of this "inner group" as a collective entity; and (iii) a strengthening of the international superstructure (NATO Defense Minister, NATO Political Minister, standing group of Wise Men, etc.). None of our allies would favor this course of action, however--at least not unless de Gaulle's provocation were much more blatant than we can expect from this skilled tactician, and probably not even then.

Three: We can follow a middle course, which would include the defensive reactions projected in Course One plus support for constructive ventures which fall short

of NATO

~~SECRET~~

~~SECRET~~

- 3 -

of NATO reorganization and do not require French participation, but would strengthen defense ties between the US and interested European countries. The key question is whether these countries are ready for the forward movement and risk of a clash with the French that would be involved. This we can only find out through consultation with them. But there is no point in consulting until we know what we are consulting about. The rest of this memorandum tries to define just that: what the third course of action would amount to in terms of specific ventures.

3. Purposes. In launching such constructive ventures, it would be important to have our purposes clearly in mind:

(a) To bring the US and Europe closer together, by trying to meet European desires for a larger role within an Atlantic context.

(b) To find ways in which the UK can work more closely with the Continent, in the period before it can join EEC.

(c) To strengthen multilateral Atlantic arrangements in which the Germans can play a satisfying role, on a basis of equality with other major European countries.

Now to

~~SECRET~~

~~SECRET~~

- 4 -

Now to the specific ventures.

## II

4. Non-Nuclear Integration. Greater integration of non-nuclear forces on the Central Front would have substantial advantages. It would give the Germans further assurance that US forces were there to stay. It would help to tie the FRG and its armed forces more closely to the West. Development and practical planning for use of an integrated US-UK-FRG force would probably be a better way of resolving differences on strategy than theoretical discussions in NATO. Some economies might be achieved.

Granted these advantages of non-nuclear integration, two basic issues arise:

First: should we favor such integration among European or Atlantic forces? This is simply another way of asking whether integration should be postponed until after de Gaulle, since "European" integration would not be feasible before then.

Second: If we are to proceed now with Atlantic

integration

~~SECRET~~

~~SECRET~~

- 5 -

integration, on what scale should this be sought? At one extreme, would be an effort to integrate the majority of US, UK, and FRG forces on the Central Front. This would maximize the advantages noted above, but it might well encounter both practical difficulties and Continental suspicions of US "hegemony". At the other extreme, we might merely convert the ACE Mobile Force (six battalions) from an earmarked to a standing force--which would, however, be too small to be of much use on the Central Front. An intermediate course would be to create an integrated non-nuclear force of the order of one army corps, to deal with unintended conflict on the Central Front. Then one could see how integration of both forces and logistics worked, and decide where to go from there.

The main need now is to get on with discussing these possibilities with the UK and FRG, and see which--if any--attracts them.

5. East of Suez. There is a dilemma here:

- There are urgent immediate needs East of Suez which it is in our interest that the UK continue to meet.

- We

~~SECRET~~

~~SECRET~~  
- 6 -

- We do not want such UK action to foreclose long-term UK evolution toward Europe--e.g., by causing the UK to cut the Army of the Rhine or otherwise turn away from Europe.

The short-term answer may lie in assisting and encouraging the UK to maintain its responsibilities in both Europe and Asia. In the long term, the solution may lie in a wider European sharing of the Asian burden. As a means of pursuing both these ends, it may be useful at some point to mount an informal trilateral US-UK-FRG review of military priorities and related financial problems, which would include needs in both Europe and East of Suez. Such a review might:

a) help to ensure that European as well as Asian needs received high priority in UK defense planning, and also help Healey to resist pressures from other elements in the Cabinet to cut defense;

b) help to make clear to the FRG the hard choices that are involved, - thus possibly affecting German attitudes toward the UK offset problem and toward financial help for the UK;

c) help in the very long term to pave the way for a larger European role East of Suze, by getting the FRG

to begin

~~SECRET~~



~~SECRET~~

- 7 -

to begin to think of the possibility of a world-wide role and by getting the UK used to consulting about East of Suez with its European partners;

d) strengthen ties between the UK and FRG and help to dispel any German suspicions that the UK is East of Suez by choice rather than by necessity--suspicions which could feed Gaullist desires to exclude the UK from Europe.

The main need is to get on with discussing all this with the UK and FRG. Such discussions could grow out of current UK-FRG talks about German offset purchases to help support the BAOR or conceivably out of US, UK, and perhaps German talks about the UK financial problem.

6. Nuclear. The first question to be faced here is whether movement toward a collective nuclear force should be sought after the German election, or should be deferred until after either de Gaulle or 1969, whichever comes soonest, - trying to hold the fort with consultation in the meantime.

The case for deferral is that this accords with the generally cautious mood in Europe today. The case for action is that the basic trends are not in our favor (UK pushing ahead with a national submarine force, German

aspirations

~~SECRET~~

~~SECRET~~

- 8 -

aspirations for equality continuing to mount, possibility of Indian nuclear program with backlash on Europe), so that lost time may equal lost opportunity.

On balance, it seems in the US interest to move ahead after the German election--but only if we, the Germans, the British, and the Italians are ready to face de Gaulle's ire, pressures from Moscow and from local left-wing groups, etc. A movement followed by retreat would be worse than no movement at all. Early post-election consultation with the FRG is indicated.

If we are to move ahead, the object should be to develop not just a collective force but a collective nuclear organization in which the US and interested European countries (probably UK, FRG, Italy, and Netherlands) could work together to get on with a broad range of practical tasks:

- a) Creating and managing a collective nuclear force.
- b) Joint development of nuclear disarmament and non-proliferation proposals.
- c) Making arrangements for a larger European role in research, development, and production of advanced nuclear

delivery

~~SECRET~~

~~SECRET~~

-9-

delivery systems (to the extent that this is not covered through other joint production arrangements which may be developed, as discussed in par. 7 below).

d) Consultation about over-all Western nuclear strategy--thus permitting the present Defense Ministers' Select Committee to be folded into the exercise.

e) Consultation about crises involving East-West confrontation in third areas with potential for nuclear escalation.

Having set up a collective nuclear organization to pursue these purposes, and having agreed on some initial actions to this end, the interested countries could then (as in EEC) leave further practical actions to be considered and taken within the institutional framework that they had created.

This approach, in which the European members could take part as a collective entity, would respond to a wider range of their concerns than the ANF/MLF alone. There would thus be more political attraction in it for each of the European

heads of

~~SECRET~~

~~SECRET~~

-10-

heads of government, who have so far shown themselves rather skittish at the barrier. It would do more to strengthen the US-European defense partnership than the MLF, because it would bring the US and European countries together in a broader spectrum of nuclear cooperation. And it would enable the Johnson Administration to launch a nuclear policy which was distinctively its own, rather than merely a continuation of past efforts.

7. Defense Production. European countries want a larger role in production not only of advanced nuclear delivery systems but also of conventional arms. There are several problems here:

a) European national production is often not competitive with the US. Perhaps joint production by several European countries would help to get their costs down.

b) Balance of payments difficulties reinforce deficit countries' normal tendency to buy at home. Some kind of defense payments union might be helpful. Countries which were in deficit position could then spend for defense purposes in other member countries, which would undertake not to use the foreign exchange receipts for any purpose other than

defense

~~SECRET~~

~~SECRET~~

-11-

defense expenditures for X years. Thus any foreign exchange deficit incurred on defense account would, in effect, be sterilized for a specified period.

c) Habit and parochial prejudice may be the strongest obstacles of all. And they may be difficult to overcome without a strong group outside of national governments forcing the pace--as the Commissions have done in the European Community. An Atlantic Defense Production Organization, with a strong Director General and staff, might help to meet this need. It could develop specific proposals for sharing of production and if agreed by governments, it could oversee their execution. If such an outfit existed, the collective nuclear organization might procure nuclear delivery systems via this route.

### III.

8. The thread which runs through many of the issues discussed in this paper is the need for intimate discourse between the US, UK, and FRG--and, in some cases, Italy and the Netherlands as well - in order to concert on specific action. To this end:

a) When

~~SECRET~~



a) When talking bilaterally with these countries' FonMin's about NATO's future, we should emphasize the need for getting on after the German election with the constructive ventures referred to above, instead of concentrating wholly on defensive reactions to de Gaulle's expected moves.

b) We should at an appropriate time begin, informally and through planning channels, to discuss these ventures with the German Foreign Office--as we have already done with UK planners.

c) We should encourage the UK to suggest US-FRG-UK discussion of defense needs and resulting financial burdens--possibly as an outgrowth of current UK-FRG discussion of the BAOR's financial needs.

d) We should consider whether and when to surface the idea that a Ministerial meeting of the ANF/MLF Working Group might, this fall, commission a Wise Men's exercise to review the whole question of nuclear sharing,--taking account of this report, of the results of the DefMin Select Committee exercise, and of broad guidance re a collective nuclear organization on which the Ministers might then agree.

~~SECRET~~

-13-

9. Looming over all of this will be the UK financial problem. If large scale long term help proves needed, Germany will have to be a major source. And, given German views of UK economic prospects, there will have to be an important political element in any German loan decision. Erhard has said publicly more than once that what Germany does for the UK in the economic field will bear some relation to what the UK does on matters of interest to Germany. Here again the main need would seem to be to proceed to discussion among interested countries--in the first instance probably the US, UK, and FRG.

10. Inter-Relation. It may prove easier, when we come to the crunch, to go forward on several of these ventures together, rather than tackle them separately--since some have more appeal for the FRG, some for the UK, and some for the US. In this sense they make a balanced package. It is difficult, however, to speculate fruitfully on how to exploit this inter-relation some months hence. Too many imponderables are involved. A wide variety of approaches--e.g., a Presidential trip, a US "Marshall Plan type" speech with some pre-arranged European responses--all these could be considered. The main thing

~~SECRET~~

~~SECRET~~

-14-

thing now is to get on with the specific and immediate  
US-UK-FRG consultation that might help to make all this  
possible.

~~SECRET~~

RECEIVED  
McGEORGE BUNDY'S OFFICE

1965 JUN 29 PM 5 22

3 2809  
~~Bator~~  
Rit. - FMB has  
a copy

Address by the Honorable W. W. Rostow  
Before the Society for International Development  
at The Brookings Institution, Washington, D.C.  
on Wednesday, June 2, 1965

\* \* \* \* \*

Present Status of International Development Policy

output and productivity are necessary not merely to feed rapidly enlarging populations (with a still higher rate of urbanization) but also as a source of industrial raw materials, as a source of foreign exchange earning or saving, and as part of the process of providing enlarged domestic markets for industrial development.

What is also beginning to be agreed -- but not yet satisfactorily implemented -- is the concept of an agricultural production "system." We in the Planning Council brooded about the successes and failures of agriculture in the developing countries in the first postwar generation. We followed closely the important MIT project at Dedham last summer. I have emerged from these exercises with a rather simple view of the agricultural "system" in the form of the necessary and sufficient conditions for bringing about an agricultural revolution.

Putting aside infrastructure and minimum education and assuming a certain backlog of relevant agricultural science, there are four necessary and sufficient conditions for an agricultural revolution.

First, the farmer must receive a reliable and fair price.

Second, credit must be available at reasonable rates for him to make the change in the character of his output or the shift in productivity desired.

Third, there must be available on the spot (not in the agriculture ministry, but on the spot) technical assistance that is relevant to his soil, his weather conditions, and his change in either output or in productivity.

Finally, there must be available at reasonable rates two types of industrial products: inputs such as chemical fertilizers, insecticides, and farm tools; and incentive goods -- that is, the things he or his wife or family would work harder to get, if they were cheaper or if his income were higher.

These



## Present Status of International Development Policy

In preparing to come and talk with you I adopted a simple procedure. I set down on a yellow pad the concrete problems in development policy which I've encountered in recent years, as they came to mind. The work of the Policy Planning Council plus my job as the United States Member of the Inter-American Committee on the Alliance for Progress (CIAP) have given me the opportunity to observe and to participate in development policy over a quite wide range.

This array of problems is set down, then, from living experience.

Some of them are large; some of them, relatively narrow. All of them are unsolved or, at least, represent issues about which we have a great deal more to learn.

At the end, I shall try to say something in general about this array of problems. But my final generalizations were not made at the beginning. I looked at what I had written down and thought of what it was possible to say, in general, about the pattern of the specific problems that emerged.

The first problem relates to the proper approach to agricultural development. We are now going through an important shift in the field of development thought and policy. It is widely recognized among those working on development that agricultural development is no longer to be regarded as an alternative to industrial development, but as an essential part of the industrialization process. It is understandable that in the early postwar years this should not have been so clear. Agriculture was regarded, in part, as a stigma from colonialism or from a period of dependence. Industry was the symbol of independence. It is now better understood that increases in agricultural

output

These four conditions can be satisfied in a good many ways. As I have wandered about the developing areas and studied the evidence available I have been struck by the variety of institutional forms in which agricultural success stories appear; but they all have the characteristic of organizing around the farmer these four necessary and sufficient conditions.

It can be done, for example, by the Japanese cooperative outside of São Paulo. A well-run cooperative is one way to do the job. It can be done by a food processing firm, such as Campbell Soup in Mexico. The conditions can be supplied by someone selling chicken feed, like Purina. The chicken revolution can bring the price of protein down in a prompt and dramatic way in a developing area.

I was talking yesterday to a gentleman from Rhodesia who described to me an extremely interesting project called African Farming Development. A group of private businessmen, on a non-profit basis, raised something like £300,000. They went into a tribal area and have brought about 150 African families from a level of zero cash income within three years to something like a \$1000 per family, by getting them into cash crops and providing them with these four elements.

The problem we face in agriculture -- the unsolved problem -- is how to learn from these success stories (which you can find in Taiwan, the Sudan, in parts of Pakistan, in parts of Africa, in parts of Latin America) and to build systematic policies on what we now know can, in fact, be accomplished.

We face the problem of rapidly diffusing known methods. This is a challenge faced both by the governments in the developing areas and the aid organizations committed to help them. It will require changes in attitude and in method to do the job.

The second point is narrower. It relates to the relation between agricultural diversification and

marketing.

marketing. I have been crusading for some time against archaic methods of marketing in the developing countries. I undertook this crusade not because I had lost perspective on all the elements that must enter into the modernization of rural life, but because it is clear that economists have systematically neglected marketing in development economics. The reasons for this neglect can be tracked back to our common origins in the physiocratic tradition. And, perhaps influenced by economists, policy-makers have also neglected marketing.

There is an important connection between agricultural diversification (which we all seek) and the relative efficiency of marketing systems. One of the reasons it is so difficult to get control over the supply of traditional exports, which is fundamental to maintaining reasonable prices on the world scene, is that the export crops have often been the first to have reasonably efficient marketing systems associated with them. It is often more profitable for a farmer to produce an export crop, such as coffee, on inappropriate, low-productivity land than to do market gardening for the cities simply because in dealing with the export firms he gets a higher proportion of the final price than when he deals with the intermediaries who control domestic marketing.

The diversification of agriculture often turns out to hinge on the modernization of the marketing arrangements for the alternative diversified crop.

My third point concerns chemical fertilizers. Mr. Lester Brown, of the Department of Agriculture, has just put out a most interesting pamphlet\* on the agriculture position in the developing world. It dramatizes the fact that, in the face of the population increase that we confront, we must look to a rapid increase in yields. The possibilities for land expansion are not wholly

exhausted

---

\*Increasing World Food Output: Problems and Prospects, by Lester R. Brown. Foreign Agricultural Economic Report No. 25. U.S. Department of Agriculture, Economic Research Service, Foreign Regional Analysis Division. April 1965

exhausted in the developing world; but as one looks at the scale of food problems ahead one must look primarily to a yield revolution. Excepting the case of Japan, which is worth careful study, these yield revolutions have come relatively late in the stage of development of most countries. The task is, then, to produce an early revolution in agricultural yields in the contemporary developing nations.

As I have tried to emphasize, there is no single factor, by itself, that has caused a revolution in agricultural productivity; but it is also true that chemical fertilizers can be a most powerful agent in an agricultural productivity revolution. To get chemical fertilizers absorbed we all know requires more than production at a factory site. You need an environment in which chemical fertilizers are distributed efficiently and are available to the farmer at a fair price, along with instruction and guidance about when and how to apply them to his soil, moisture conditions, etc.

Nevertheless, having recognized the interdependence of the agricultural system we must try in our development policy to launch a mighty push in the production and distribution of chemical fertilizers. This is necessary not only to deal with the population and urbanization problems that press hard on food supplies but for another reason. One of the ways to force the pace of change in agricultural policy as a whole is to have available an expanded supply of chemical fertilizers and, along with them, effective marketing and technical assistance arrangements. A systematic drive in the developing areas to generate a radical increase in fertilizer production is not only a necessary element in a "systems" approach but also one way to force the pace of the change in agriculture policy in general.

Fourth, a non-technical point. The Peace Corps is, evidently, one of the proudest American achievements in the field of development. It derives from the deepest and most creditable impulses in our society. I have always felt, however, that its highest contribution would

not

not be in what the Peace Corpsmen did themselves nor even in the enrichment of the life of our country which this whole experience is bringing about. It would be in stimulating within the developing countries their own Peace Corps or its equivalent.

If the presently developing countries are to move on from their present transitional stage to full modernization, all of the barriers between the city and the countryside need to be broken down, including the human barriers. I once observed that the most critical gap in the world is not between the rich and the poor countries: it is between the rich and the poor within developing countries. There is a need for the privileged, the educated, the modern young people to leave their cities, which are often as modern as any in North America or Western Europe, and get out and work side by side with their fellow citizens in their own countries. This is one of the most profound requirements for the modernization of developing countries: economically, socially, and politically. One of the requirements of development policy is to encourage the emergence of systematic efforts to bridge the gap between the city and the countryside; and, when institutions which perform this function emerge -- as they are beginning to emerge -- to throw the full weight of the international community behind them.

In Latin America, for example, there is a remarkable operation of this kind going forward in Peru inspired by President Belaúnde called Cooperación Popular. A somewhat similar organization is emerging in Chile. Still another in Colombia. Work of this kind is under way in Venezuela.

It is often easier to get a dam financed or a big road project or a steel mill than it is to mobilize modest financing for such institutions. Their worth, however, in terms of the whole modernization process, transcends their scale.

But even in economic terms these institutions make sense. I have never seen lower capital-output ratios, in the quite technical sense (that is, higher productivity

per unit



per unit capital invested), than I did up in the Peruvian highlands in some of the Cooperación Popular projects, of which I inspected about thirty in one busy day.

My first four points all related in different ways to one critical dimension of development policy; that is, agriculture and the linkages of urban-rural life.

Now a word about population. The population problem is being increasingly discussed. It is, of course, a matter of policy decision -- either for nations or for families -- of the most sensitive kind. And it is properly sensitive since it is a decision of relative value that nations and families can only make on their own. My point here is, therefore, technical and narrow.

I have been interested for some time in trying to get the strictly economic discussion of the population question out of its most conventional form and into a form more recognizably economic -- that is, recognizable for economists.

The conventional way of stating the problem economically is to say that, given a capital output ratio of, say, 3, a one percent increase in population requires three percent of GNP invested to maintain income per capita. This implies that, if the investment rate is maintained, income per capita would rise faster with a lower rate of population increase. This formulation is enough to dramatize the problem in broad terms, but it doesn't do what I think needs to be done before planners and governments (and, in the end, the society as a whole) can weigh properly their judgments about family size against the consequences of those judgments for their rate of development.

To make that calculation one must try to get the calculus about the extra child into the same form that we make estimates for other particular forms of investment; that is to say, the planner in a developing country should be able to relate investment in education, steel mills, roads, power, etc., to investment in population control.

There have been various efforts to look at the productivity of investment in population control. The most

original calculations are those of Dr. Stephen Enke. He concludes: "If national economic resources were devoted to retarding population growth rather than accelerating production growth, these resources could be 100 or so times more effective in raising some less developed countries' outputs per head." The rough relationship, as he finds it, between the rate of return over cost of investment in population control as against investment in other directions, is about 100 to 1. Of course, this does not mean that one should cease investment in productive activities and concentrate simply on investment in population control. He estimates, in fact, that a maximum likely level of investment in population control would be something like one percent of a total development budget, but that such an expenditure might reduce the crude birth rate by the one-third which is necessary to halve the natural rate of increase in population.

As I say, the question of policy in the field of population control is a matter for nations and families to decide. But I think we are beginning to get some feel for what, under present technology and organization, the costs are for population control projects. Whether or not Dr. Enke's important calculations turn out to be definitive, it is clear that the productivity of such investment, in terms of the rate of increase in the national product per capita, is enormous.

Now the problem of inflation. Here I shall talk as a member of the Inter-American Committee on the Alliance for Progress. I do so partly because we have been working hard on inflation and have published our collective conclusions, and partly because a high proportion of the problem of inflation in developing countries is to be found in certain parts of Latin America.

We presented our conclusions in a document, CIAP 170, which was issued last October. We began by stating as bluntly and as accurately as we could the consequences of inflation in developing countries. I might read the list of charges we made.

Inflation

Inflation diverts investment away from its most productive uses and towards forms of investment which are a hedge against inflation rather than those which would maximize either private profit or public welfare.

It leads to flows of scarce capital abroad.

It damps exports, by tending to produce overvalued exchange rates which do not keep up with the rate of domestic inflation.

It diminishes domestic savings.

It leads to unsound industrial price policies, since under inflation businessmen are obsessed with the need to hedge against the next round of inflation rather than finding price policies which would maximize profits over the long run. In countries suffering from inflation businessmen behave as if there was no elasticity in the demand curves they face.

It hits hardest the poorest sections of the population which have the least ability to protect themselves against inflation.

It restricts and renders most expensive borrowing from abroad. Countries suffering from inflation find it hard to get loans from the international financing institutions and must rely disproportionately on short-run, high-interest suppliers credits.

Finally, and perhaps most serious of all, the social groups within a society suffering from inflation are forced to be at war with one another, each trying to outdo the other in efforts to hedge against inflation; and thus, by their efforts to protect themselves, they cause the next round of inflation.

When one comes to face operationally, not theoretically, but operationally, the problem of ending inflation in an environment where a whole society has become used to it, one faces a most searching series of practical problems. We in CIAP tended to group those problems under three headings.

First,

First, the task of cutting down the government deficit. Along with private credit constraint this is the most conventional heading of counterinflation policy. It requires cutting back the subsidies to the public corporations which in Latin America account for a high proportion of the government deficits. It requires increased tax collections. It requires credit ceilings and all the other devices of monetary restraint.

Second, mounting a systematic attack on the cost of living. This can be done by moving large supplies of agricultural products into the urban markets and also by inducing industrial price policies in wage goods which would keep the cost of living as low as possible. Some imaginative efforts to do this are now under way in both Brazil and Chile where credit is being offered to industrial firms that cooperate.

In the end, however, one needs an incomes policy and the social compact which underlies a successful incomes policy. An understanding must be developed in the society about real wages, productivity, and price policy that is consistent with real wages being equal to productivity in a non-inflationary environment.

If one drives this problem back on all three fronts, the final engine of inflation turns out to be the expectation of inflation itself. And it is the behavior of the government which is the largest, single determinant of those expectations: its behavior in its own wage rate negotiations; in tax collection; in budget policies; and all the other activities which impinge on the economy.

Having lived and worked with this problem for several years, I find, looking back, that the classic debate, between the monetary and the structural approaches to inflation, is quite incomplete and not wholly helpful. We now know enough, not only about inflation but what it takes to stop it, to cease the theological debate and establish a consensus. This consensus should embrace all the elements that must be brought to bear to bring this phenomenon to a halt in developing countries.

I would

I would add that I know of no effort being undertaken by any government in the field of economic policy for which I have more respect than the effort of the Brazilian Government to bring its people out of the inflationary environment in which they have lived so long and which has frustrated the legitimately high hopes and expectations of the Brazilian people.

I turn now to the problem of foreign trade. What one needs now in Latin America and in a good many other developing areas which have had a first phase of industrialization, is a mentality that would regard export promotion -- the diversification of exports -- as a major task of development itself. All of us in the developed countries have evident and real responsibilities towards the developing nations in the trade field. For example, the United States ought not to impede the imports of the traditional exports of developing countries, nor to make difficulties about their exports of manufactures. But, having said that, I am sure that the bulk of the job lies in the developing countries themselves. If one looks closely at what actually impedes industrial exports from developing countries, it is perfectly obvious that those impediments lie in attitudes and habits built into the operational style of the first generation of industrialists, excessively protected as they are behind high tariff barriers, operating often under monopolistic conditions. Moreover, the governments have often erected bureaucratic and other barriers against exports in non-traditional fields. The task of generating diversified exports is a development task within the developing countries; and those of us trying to assist from the outside can help, as we can in any other development sector.

We are beginning now in some parts of Latin America -- notably Mexico, Brazil, and to some extent in Argentina -- to see the beginnings of this kind of effort. I was greatly heartened, when I was in Seoul recently, to see Korea moving up rapidly in the field of manufactured exports and beginning to make a dent in the rather massive gap between its required imports and its export earnings.

Eighth,

Eighth, project generation. It is still true for the developing countries as a whole -- despite some exceptions -- that the major lack is not money but bankable projects. This statement requires elaboration. The conclusion sometimes drawn that we are offering enough assistance to meet absorptive capacity is only a half truth. We could, I am sure, profitably use more aid in the development process.

Nevertheless, it is true that the gap perceived in the creation of the United Nations Special Fund, for example, was a real gap; and it still exists.

The point I would make here is that we need more than the Special Fund or other externally financed feasibility studies. We need new types of institutions within developing countries which would gather together their own engineers, their own economists, their own experts in agriculture (or in whatever other field may be involved) to make local firms capable of conducting these feasibility studies. Sometimes in developing countries we find an institution turning out a regular flow of bankable projects (for example, the Brazilian electric power institute). And these find little trouble in being financed. If one looks into the history of such successful project-generating exercises, one finds that someone took the trouble to organize a local institution whose regular job it is to close the gap between a good idea and a bankable project.

As we look ahead, for example, to the work of the African Development Bank, I would hope that a good part of its work in its initial phase might be not merely to bring in outsiders to do feasibility studies, but to assemble into teams people in the region with these basic talents. Evidently, one of the great shortages, by definition, in developing countries is the shortage of engineers and economists; but there are usually more about than one might think. Some of them can't even find jobs. One of the most productive uses for them would be in institutions designed to bridge the gap between a good idea and a bankable project; because there is quite a bit of project money unused on the international scene.

Ninth,

Ninth, a word about private enterprise. As one looks at the stage of most of the developing countries, one can perceive a most important change coming about in the classic argument over public versus private enterprise. Just as it is no longer quite the thing to do to argue industry versus agriculture, it is becoming not the thing to do to argue public versus private enterprise. A pragmatic understanding is emerging on the legitimate role of each. This is natural as industrial sectors grow and diversify. It becomes evident that there are certain functions which governments must continue to handle and others which are best handled by private enterprise. An understanding also emerges that the public interest can be looked after in ways other than through government ownership and operation of plants.

With respect to foreign private enterprise there is also a change taking place, but more slowly. It is gradually coming to be appreciated that private foreign enterprise can be a most powerful agent for development if it is properly brought into the developing country and on the right terms. It can contribute, of course, not only capital but management, technology, and, sometimes most important of all, an organizational example which can be imitated.

In talking in Korea a couple of weeks ago, I addressed myself (as they wished me to do) to their understandable anxiety that they might be overwhelmed if they normalized their economic relations with Japan. I told them I did not fear this: first, because their own industrialization -- their own takeoff -- had begun, and they had a vital private sector of their own which would be difficult to overwhelm; second, I told them of the evolution in this matter of the relations between the United States and Mexico. I tried to evoke the mood of Mexico in the late 1930's and the then prevalent attitudes toward foreign private capital. And I traced the story down to the CIAP country review of Mexico last August -- where the Mexicans calculated that in 1965 they would import \$220 million in private capital. The Mexicans have given careful thought to the sectors

where



where they want private capital to go and to the terms which would permit the maintenance of effective control of their own economy. They have learned to use private foreign capital wisely, for their own development purposes. And it is an important lesson.

There is often a gap between the perception of people who work on development in governments and the political language of debate on this matter within developing countries. The debate is moving in the right direction, but political discourse lags behind the perception of governments. We are moving towards a more rational and constructive approach towards the role of private foreign enterprise in development; but the narrowing of that gap is urgent. Both sides must learn the kind of relationship that is profitable for foreign private enterprise and also truly creative in terms of the stage of development of the country concerned.

A final point about regionalism. I have come, in general, to the conclusion, which I have expressed in a few talks lately, that we are moving towards a stage in world organization in which regionalism may be an important creative area in fields which transcend economics. Briefly stated, it is because we have in all of the regions of the world, rich and poor alike, a desire of nations and peoples to take a larger hand in their own destiny: an impulse, if you like, to be less dependent upon the United States and upon other industrial powers. On the other hand, simple nationalism -- powerful and understandable as it is -- is not capable of solving the security problem of nations; nor, indeed, is the nation state a useful unit for solving regional political problems, nor the problems of trade, money, aid, and development.

Out of the interplay between a desire for national independence -- which it has been the object of U.S. policy to support since the Truman Doctrine -- and the inescapable imperatives of interdependence, we shall see movements towards regionalism.

On the economic side, this takes the form of the young, but in some ways quite sophisticated, machinery generated in the Alliance for Progress. This includes

the



the Inter-American Development Bank and CIAP. Quite extraordinary teamwork now prevails, as among the World Bank, the Inter-American Bank, and AID under CIAP auspices. CIAP is a kind of board of directors for the Alliance for Progress. Its head is a Latin American; six out of seven members of the board are Latin American. The Alliance for Progress is truly under Latin American management; and, if I may say this of my colleagues, under strong-minded and capable management.

I had the privilege of seeing Europe in the Marshall Plan period and observing the impulses that led toward unity. Working now with my friends in Latin America, I can observe impulses parallel to those in Europe of fifteen years ago -- towards integration. The setting is different as are many of the problems. But the parallel is unmistakable.

At a still earlier stage one can see in Africa -- in the Organization of African Unity and the Economic Commission for Africa -- a desire for some sort of a systematic regional development program to which the African Development Bank at Abidjan may well contribute.

Similarly, the work of putting together an Asian Development Bank, which will be going forward in the months ahead, may help to give Asia an increased sense of regional identity.

In the end, of course, the tasks of development must lie largely within the countries themselves. That is the most simple statement one can make about development, but perhaps it can't be said too often. But while regional organization and external aid can be no substitute for domestic measures, they can reinforce those measures and make them more rational in many different ways.

In effect, we appear to be repeating an experience which may have appeared unique; that is, the combination of the Marshall Plan and movement toward European unity. The experience of other regions will, evidently, not repeat that of Europe in any simple way. Each will have a different

time

time scale. Each will have a different set of relationships with the United States and with other countries and regions of the world. But I am reasonably confident that a good deal of our effort in the next decade and generation of the development business will assume the form of building these regional arrangements and learning how to work with them in systematic ways.

Now what can be said in general about these ten items?

The developing world is, of course, a world which is not uniform. What we call developing nations range from countries at \$500-\$600 per capita -- close to European levels -- down to countries which are barely over \$50 per capita per annum. We are talking about a ten to one spectrum. Moreover, the time at which they began systematic efforts at economic development varied greatly. There is no uniformity in the period over which purposeful efforts at modernization have been attempted.

Nevertheless, the bulk of the population of the developing world lives in societies already in takeoff; that is to say, in the first phase of sustained industrialization: India, Pakistan, Brazil, Argentina, Thailand, the Philippines, Taiwan, Malaysia, etc.

The concept of takeoff is now used in various ways, some of them more evocative and literary than technical; but it did have, in its definition, a fairly clear technical meaning. It is the first phase of sustained industrialization -- a phase confined to a relatively few identifiable sectors.

The most typical sector in modern times for takeoff has been import substitution of consumers goods. In the case of Latin America, this was brought about by a series of impulses beginning in the 1930's: first, the disastrous fall in value of traditional Latin American export prices and markets required import substitution; the Second World War reinforced it, due to the lack of European and United States consumers goods; then import substitution was made virtually a development theology of its own. It was perhaps overdone; but even in the 19th century import substitution was one of the routes into the first phase of industrialization. Indeed, taking New England as a case of regional

takeoff based on cotton textiles, that is how we did it up there, behind Daniel Webster's tariffs.

What unites a good many of these ten observations is that we have had a generation of concentration on industry and on the infrastructure that was needed minimally to start this kind of industrial enclave in a traditional or only partially developed society. But now the takeoff phase is either at an end -- as it clearly is in Argentina, Brazil, Chile, Uruguay, Mexico -- or the potentialities for building industrial momentum on this narrow basis are coming to an end.

In the poorer, less developed parts of Latin America, for example, and in some parts of Asia, there is still quite a lot of lift that import substitution for consumer goods can grant; for example, in the Central American Common Market. But what unites a good deal of what I have to say is that we have come to the end of one phase of the development process, rooted in infrastructure plus import substitution of consumer goods.

We must now take the developing nations through the inevitable structural adjustment that tends to come at the end of takeoff and get them organized so that they can drive on in the next generation or so to technological maturity. The drive to technological maturity is the process of spreading the techniques of modern science and technology, which are absorbed first in a few sectors, out over the face of society.

In the course of these import substitution takeoffs, agriculture was systematically neglected, ignored, or dealt with as a second order of business. This was true socially and politically as well as economically. The men who generally held power in the takeoff phase were men whose political base tended to lie in the cities. This is not universally true, but it is widely true. The architects of takeoff were city boys, and their political constituencies were urban.

Now our common problem is to deal with the structural distortions that were left behind as a result of

the way

the way this first phase came about; to get programs of investment and development which are much wider in their objectives; and to help developing countries move forward into a sustained drive towards technological maturity.

The momentum we can now see in Mexico is an example of what happens if that structural adjustment is successfully made. Mexico is now on a track of diversified industrial and agricultural development over a wide front. With all the normal vicissitudes of growth, this track should, nevertheless, take Mexico forward in the next couple of generations to full technological maturity.

The true meaning of the structural adjustments now being attempted in Brazil, Chile, and Argentina -- the meaning of the decade of stagnation in Uruguay -- is that they are in transition from one phase to another in development. When that transition is made and their investment patterns and development strategies are squared away, we will see in these more advanced parts of Latin America a sustained drive to industrial maturity which, I believe, will astonish us. When those transitional difficulties are surmounted we shall see a momentum which will quickly make it clear to Latin America and to the world that great new industrial powers are in the process of rapid emergence.

The concept of stages of growth was quite consciously not built on levels of income but on degrees of absorption of technology. Countries much poorer than, let us say, Brazil, are or may be in a similar situation so far as stages of growth are concerned. The anxiety we all feel about agriculture on the Indian subcontinent and concerning the need to generate diversified exports from the quite substantial industrial foundations present there, reflects much the same type of problem we see in Latin America, despite the difference in average income levels.

Thus, the emphasis I have given to agriculture and to urban-rural marketing links, and to institutions to promote human and social ties, reflects a critical part of the transition from takeoff to a national basis for moving towards industrial maturity.

Similarly,

Similarly, if one looks carefully at the historical origins of inflation in the countries that suffer from it, this phenomenon also turns out to be a disease to which takeoff societies are particularly (but not uniquely) vulnerable. The attempt rapidly to set in motion certain types of social welfare benefits and public subsidies at a time when the capacity of the society to sustain them was inadequate, is at the root of inflation in many places. The diversification of exports and the identification of the proper role of private enterprise (domestic and foreign) are -- like inflation control -- part of the package of policies which will be needed to move those nations, which have had their first stage of industrialization, forward through their structural adjustment into the drive toward technological maturity.

As for the younger countries in the family of developing nations, which have not had their import substitution takeoff, what we owe them and their citizens is to try to learn from the misfortunes which befell other nations in their first phase of industrialization. We should try to help them move forward -- exploiting import substitution possibilities where appropriate, but avoiding excessive protectionism, and, above all, trying to keep, from the beginning, a better balance between urban and rural development than did the countries which preceded them in this century's great wave of industrialization.

DEPARTMENT OF STATE

Counselor and Chairman  
Policy Planning Council  
Washington

June 18, 1965

LIMITED OFFICIAL USE

TO: Planning Group Members

SUBJECT: Planning Group Meeting,  
Thursday, June 24, 1965, 12:00 noon

At the Planning Group meeting next Thursday,  
June 24, 1965, we will have a military briefing on  
Viet Nam, presented by a representative of the JCS.

W. W. Rostow

LIMITED OFFICIAL USE

4  
will go if  
possible  
mfb

Mr. B.  
did  
not go

DEPARTMENT OF STATE

Counselor and Chairman  
Policy Planning Council  
Washington

2545

✓  
File 5

June 11, 1965

LIMITED OFFICIAL USE

TO: Planning Group Members

SUBJECT: Planning Group Meeting  
Thursday, June 17, 1965, 12:00 noon

At the Planning Group meeting next Thursday,  
June 17, 1965, we will continue the discussion held  
at the meetings of May 27th and June 3rd on  
"Questions Concerning International Implications  
of Ballistic Missile Defense."

W. W. Rostow

LIMITED OFFICIAL USE



→ N Bundy ✓ 2507  
6

DEPARTMENT OF STATE  
Counselor and Chairman  
Policy Planning Council  
Washington

June 11, 1965

LIMITED OFFICIAL USE

TO: The Secretary  
THROUGH: S/S  
FROM: S/P - W. *h* Rostow  
SUBJECT: President Johnson's Equivalent of the  
Marshall Plan

The Concept

Our Administration stands, at home and abroad, in a situation not unlike that of the Truman Administration between March and June 1947. We have faced firmly the security challenges posed for us in Southeast Asia and the Caribbean as Truman faced the crises in Greece and Turkey early in 1947; but we have not yet come fully to grips with the creative challenge which is our equivalent to the task of reviving Western Europe.

The equivalent challenge for the latter half of the 1960's is to generate increased momentum in economic and social development in Asia, the Middle East, Africa, and Latin America; to induce the governments and peoples of those regions to concentrate more of their own political energies on those tasks, as opposed to other less wholesome activities; and to engage more effectively the resources of the United States, Western Europe, Japan, and other advanced nations in the enterprise.

Somewhat

LIMITED OFFICIAL USE



LIMITED OFFICIAL USE

2

Somewhat more U.S. aid resources are, in my judgment, now required; but nothing like the order of magnitude of the Marshall Plan. (An initial fund of, perhaps, \$1 billion, spent over several years would probably do the trick.) What is required, aside from more U.S. (and other) money, is a clear analysis of our problem; a vision of what we seek to achieve; and determined leadership by the President and the whole Executive Branch.

As this paper suggests, many of the directions in which we are already moving respond to the problem we must grip; just as UNRRA, the British Loan, the French Loan, and various ad hoc efforts to organize European economic recovery preceded the Marshall Plan (e.g., the European Coal Organization, the European Central Inland Transport Organization, etc.). It is a quantum jump in scale and in conception that is now required.

Only the President of the United States can produce that quantum jump.

The Problem

The situation in the various developing regions can be set out usefully in terms of positive and negative factors.

1. The positive factors are these:

-- In Latin America, the Alliance for Progress exists; it is moving forward; although the relation of CIAP to the OAS machinery must be rationalized, it is an adequate institutional base.

-- In Africa, there are impulses to organize more effectively via the African Development Bank and the Economic Commission for Africa; there is

something

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

3

something of a backlash against Communist efforts to exploit African nationalist and racial frustrations; there is increased concern with economic development problems; both Nasser and Nkrumah are feeling the limits of their political power, while undergoing severe economic strains.

-- In Asia, the President's Johns Hopkins speech has sparked a real surge of energy in the Mekong Valley enterprise of the U.N. and in the impetus behind the Asian Development bank; Japan is groping to find a way to enter constructively on to the Asian scene in a larger way; the India and Pakistan consortia exist; there is momentum and something to work with in Malaysia, Thailand, the Philippines, South Korea, and Taiwan.

-- In the Middle East there is no regional base for accelerated development efforts, but, as noted above, Nasser feels and has articulated the limitations under which he operates.

-- The capacity of developed countries to provide help is increasing. Gross national product is rising in the industrialized countries, including the USSR. The U.S. and Soviet military budgets are less than they were last year.

2. The negative factors are these:

-- In Latin America, the Dominican crisis has produced a political shock at a time of politico-economic crisis in Colombia; political crisis in Bolivia and Uruguay; a precarious but not unhopeful situation in Argentina. Latin America is shadowed by the decline of export prices or markets in cocoa, sugar, and bananas, and by the vulnerability of the coffee price to over-supply. In general, the Alliance for Progress is at a hopeful but fragile point that needs a second-stage booster.

-- In Africa,

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

4

-- In Africa, a decline in certain export prices coincides with a more general sense of economic frustration rooted in the inadequacy of political and economic development institutions and particularly in a lack of capacity to develop bankable projects and to mount effective programs of agricultural development.

-- In India we have a weak government plus an economic situation where the lack of adequate foreign exchange support from the outside is a critical bottleneck in economic development; in addition, India and Pakistan are drifting into a dangerous relation to each other and away from us.

-- Aside from the endemic frustration of the developing regions in generating a capacity to earn additional foreign exchange from traditional exports, and the almost equally endemic incapacity to generate feasibility studies and bankable projects, the rate of population growth and food demand is outstripping the rate of increase in agricultural production in many parts of these regions, posing a transcendent problem for the planet.

3. In this setting, delicately balanced between hope, moderation, and serious development effort on the one hand and grave unsolved problems on the other, a concerted political effort is underway to turn the governments and peoples of these regions against the United States and the West. The multiple and partially competing sources of this effort are, of course, Peiping; the ambitious radical nationalists (Sukarno, Ben Bella, Nkrumah, Nasser); and Moscow. Their focus, at the moment, is Bandung II at Algiers.

4. Conclusion. The scale of U.S. (and other) aid efforts; the approach to agricultural development; the

approach

LIMITED OFFICIAL USE

approach to population policy; the approach to compensation for fluctuations in export earnings; and the measures to expand non-traditional exports are, evidently, inadequate to the problems we confront.

The Proposal

In the delicately balanced equation which determines the strength of moderates and moderation in the developing areas, this proposal would bring fully to bear, on a world basis, the most important overlapping interests that exist between them and us: their interest in our resources; our interest in their greater concentration on their own development.

It is proposed, specifically, that the President, at an early moment -- perhaps in his San Francisco speech, which would precede the opening of the Algiers Conference on June 29 -- speak in the following vein.

"The building of peace requires that the developing nations of Asia, the Middle East, Africa, and Latin America produce for their people an environment of growth and of hope, rising standards of welfare and increasing social justice, of confidence that the life of the next generation will be richer in opportunity than that of the present generation.

"Despite the inherent difficulties of the revolutionary period through which the developing nations are passing, much progress has been made. In many parts of the world the conditions for steady economic and social progress exist or are within our grasp.

"Surveying the scene as a whole, however, I believe we are at a critical historic moment, delicately balanced between forward momentum and frustration. Our common task is to tip this balance in the right direction. I am convinced that we must boldly face certain weaknesses in the common development effort and dedicate ourselves anew to their remedy.

"The

LIMITED OFFICIAL USE

6

"The United States is prepared to play its part to achieve this result.

"The world development effort requires a second-state booster which must engage not merely the United States but the other nations and international institutions committed to economic and social development and, above all, the governments and peoples in the developing regions.

"First, we must recognize the gap between the slow increase in agricultural production and the rapid increase in food requirements in developing nations. The shadow of hunger already lies across a good part of the human race. Unless we increase our efforts that shadow could darken to famine. More food is also needed to provide the improved diets that must go with rising incomes. It lies within our common grasp to provide an adequate diet for every man, woman, and child on this planet. A concerted drive is required to increase agricultural production in developing regions and to supplement these efforts by the fullest use of our food surpluses.

"Second, we must recognize the difficulty faced by developing nations in earning increased foreign exchange through their traditional exports. We and they must do what we can to insure that earnings from these commodities are sustained; to diversify agricultural production; and to diversify exports into new lines.

"Third, we face the paradox that there are more funds available for project financing than there are bankable projects. We must concert our efforts to turn hopeful ideas into solid projects and enterprises.

"I call upon the leaders in the developing nations to recognize the reality of these problems and to concentrate their efforts on finding solutions for them.

"I shall

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

7

"I call upon those engaged in existing and emerging international development institutions to re-dedicate themselves to their mission with fresh imagination and energy.

"As for the United States, I am prepared to ask the Congress for additional funds, beyond existing aid levels and beyond the special resources for which I have asked for Asian development. These resources would be set aside in a special fund to be known as the Fund for Multilateral Development. It would be used to fulfill these specific purposes:

"First, to support special programs designed to modernize rural life; to increase agricultural productivity; to diversify agricultural production. I have instructed the Administrator of the Agency for International Development and the Secretary of Agriculture to concert their efforts and to produce programs designed to use fully our own food surpluses and to make more effective our contribution to agricultural development in the developing regions.

"Second, to compensate for foreign exchange losses from traditional exports where countries have complied with international commodity agreements and where they are undertaking serious development programs, including intensive efforts to diversify their agricultural production and their exports.

"Third to accelerate the making of feasibility studies and the building of local institutions for this purpose. In this great international barn-raising we must close the gap between good ideas and specific projects which can meet the legitimate tests for international financing.

"I am prepared to see our resources made available for these purposes woven into the work of multilateral institutions or procedures.

"In Latin

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

8

"In Latin America we already have in the Alliance for Progress machinery for managing such an accelerated effort. The regular review of country programs through the Inter-American Committee on the Alliance for Progress is the appropriate mechanism for pressing forward on these fronts. We are prepared to work in a similar way with regional institutions in other areas. In Africa the nations may wish to work through the African Development Bank and the Economic Commission for Africa. In Asia, the Economic Commission for Asia and the Far East and the Asian Development Bank we are now discussing, could play a similar role.

"I would hope that members of the OECD would take stock together of the situation in the developing nations and harness their resources, their capital, and technical assistance on an enlarged basis to meet these three critical challenges.

"I would hope that the Soviet Union would also recognize these critical challenges to humanity and contribute substantially to their solution.

"Men have the capacity to make history or to be its victims.

"This is a moment for us all - notably those who bear responsibility in the industrialized parts of the world - to recognize the frustration which limits the life and prospects of most of the human race; to raise our sights; and, by concerted efforts, create in the years ahead a world where all of us are moving forward."

Comment

A proposal of this kind could have the following effects:

-- It would draw attention towards development and away from hell-raising at Algiers, strengthening the hand of the moderates.

-- It would

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

9

-- It would come at a time of sober second-thoughts about the universal UNCTAD approach, but get at the legitimate underlying concerns and issues which lead to UNCTAD.

-- By linking additional balance of payments support to the review of development programs and to measures to diversify agriculture and exports, it avoids automaticity -- that is, the granting of U.S. money simply because export earnings have declined. The criteria could easily screen out Sukarno, Nasser, and Nkrumah.

-- By citing CIAP, the procedure offered is multilateral, but linked to a system where: development criteria are applied with some seriousness; and the U.S. maintains its freedom of action and ultimate control over its own funds.

-- It would strengthen the Alliance for Progress at a critical moment and strengthen as well the movement towards regionalism in Africa and Asia.

-- Above all, at a moment when the politics of the developing nations are precariously balanced between moderation and radicalism and their economies between momentum and frustration it might provide, if seriously followed up, a critical marginal push in the right direction.

cc:     U - Mr. Ball  
      AID - Mr. Bell  
      M - Mr. Mann  
      NEA - Mr. Talbot  
      IO - Mr. Cleveland  
      ARA - Mr. Vaughn  
      E - Mr. Solomon

LIMITED OFFICIAL USE



2 345  
S  
1  
/

DEPARTMENT OF STATE  
COUNSELOR AND CHAIRMAN  
POLICY PLANNING COUNCIL

June 2, 1965

TO: Mr. McGeorge Bundy

Mac -

You may wish to have this draft of a talk I must give in Miami on June 8, as raw materials for the President's San Francisco speech on the anniversary of the UN.

W.W. Rostow

2345  
7a

DRAFT -- May 29, 1965  
Speech by Mr. Rostow  
University of Miami  
June 8, 1965

Peace: The Central Task of Foreign Policy

I

On an occasion of this kind it may be appropriate for a State Department planner to consider with you certain of the fundamentals of our foreign policy and what in our national experience has shaped them.

I had the great privilege recently of spending nine days and nights in Japan discussing our foreign policy with the leaders of almost every important group in Japanese society. One always learns from discussions of this kind, either at home or abroad.

As I talked with our Japanese friends it became increasingly clear how deeply our postwar foreign policy has been shaped by the memory of our failures between the First and Second World Wars. (I concluded, incidentally, that Japanese attitudes towards foreign policy are also strongly shaped by their inter-war experiences, notably their experience under military dictatorship in the 1930's.)

After the

After the First World War we failed to join the League of Nations. We failed to give France security guarantees on the continent of Europe. We failed to maintain our armed forces. We withdrew into a transient isolationism.

A good many Americans looked back on the First World War as a no doubt well meant but inappropriate intervention beyond our shores. We sought peace, but we sought it mainly by proclaiming its desirability -- an attitude symbolized by the Kellogg-Briand Pact.

When the peace was challenged by the Japanese attack in Manchuria in 1931, we did nothing. When in 1935 Hitler moved in the Rhineland, testing the strength and will of the West, we did nothing. President Franklin Roosevelt's efforts to arouse the country to the danger of Hitler -- notably in his famous quarantine speech of 1937 -- failed to gather adequate public support. The Congress fought off every effort to strengthen our military and diplomatic posture in the face of growing danger in Europe and Asia. Only with the fall of France did public opinion shift.

In the spring of 1940 opinion polls indicated, as they had for some time, that two thirds of the American public  
believed

believed it was more important to keep out of war than to aid Britain; by September less than half of the American public held this view; and by January 1941 70 per cent were prepared to aid Britain at the risk of war. Thus we came to recognize our vital interests late, in the midst of a dangerous war, and only after our friends were hard pressed or overwhelmed.

The capacity of the West to deal with the threatening events of the 1930's was complicated, of course, by the world depression which we did not prevent and which we and our friends managed badly.

As a result of our whole performance in the generation after 1918, we had to fight a war that was almost certainly preventable. It yielded the terrible harvest we all know. As a nation we tend to agree with Winston Churchill's judgment that the Second World War was unnecessary; and we are intent on preventing a third world war, if it lies within our power to do so.

## II

Out of the inter-war experience what we learned can be summarized, I believe, in terms of three conditions for peace.

First,

First, peace requires that aggression not pay. At every critical moment in the postwar years, from the Truman Doctrine forward, those responsible for the nation's foreign policy have recalled our failure to act soon enough in the face of aggression during the 1930's. Deep within us is the judgment that a failure to deal with limited aggression produces not peace but a larger war in a not very distant future.

Second, we learned that peace requires institutions and peacekeeping machinery capable of insuring that international agreements are kept once they are made and that the peace is not violated.

In a way that baffled Churchill and Stalin, President Roosevelt, in his wartime negotiations, appeared obsessed with the future role of the United Nations. He had been, after all, the defeated candidate for the vice presidency in 1920 when the last hope for United States entry into the League was lost. He gave the greatest attention to building a political base at home which would guarantee that, this time, we would not fail to join the international peacekeeping organization.

The third lesson we learned was that peace requires us to work with others to remove the underlying causes of economic,  
political,

political, and social instability which attract and hearten ambitious aggressors, while distracting and rendering vulnerable their potential victims.

These are the three lessons, I believe, of our costly failures of the inter-war years.

These are the touchstones we still bring to the central task of contemporary foreign policy.

### III

How shall that task be defined?

That task is no less than building -- day by day, brick by brick -- a peaceful world community which would live by the rules laid down in the United Nations Charter.

Since 1914 we have not had an orderly international community. We have lived for a half century in an environment of war and the danger of war, latterly with a nuclear sword of Damocles over our heads.

How have we pursued this objective of a peaceful world community?

We began, of course, with high hopes that the United Nations could immediately achieve the objective. We dismantled our armed forces unilaterally. We laid before the United

Nations



Nations an imaginative proposal for placing atomic energy under effective international control.

It was Stalin who destroyed this simple, hopeful vision. He rejected the Baruch proposal for international control of atomic energy and proclaimed to the world, in his famous speech of February 1946, that he judged the postwar years an interval of opportunity for the expansion of communism. Although the cold war had earlier antecedents, that speech was an important benchmark.

But it was only a year later, with the British inability to continue its support of Greece and Turkey against Moscow's pressure, that we were drawn fully back into the world -- this time to meet aggression at an early rather than a late stage.

In the period of almost 20 years that has followed the Truman Doctrine, we have been engaged, almost without respite, in dealing with one form or another of Communist aggression -- in Greece and Turkey; in Western Europe; twice in Berlin; in Korea; at Quemoy and Matsu; in Southeast Asia; in the Caribbean; and at many other points.

Nevertheless, what I would like to make clear today is that we have never regarded the containment of aggression as a sufficient objective. The larger vision -- of moving towards  
a world

a world community at peace -- has not changed. We have done more and we are now doing more than merely fending off various kinds of Communist efforts at expansion.

We have been trying to meet all three of the conditions for peace where we can, while drawing those countries which now are ruled by Communist regimes, into peaceful relations with us and others as fast as opportunity may offer.

#### IV

In Europe and the Atlantic, for example, we first had to make sure that aggression did not succeed in a Western and Southern Europe weakened by war; but that was only the beginning of our task.

In NATO we have built an elaborate political and military institution capable of insuring an environment of stability throughout the area; and within that framework, in the Marshall Plan and afterwards, we have maintained remarkable economic, political, and social stability in a critical part of the world community. More than that, through the OECD we have been moving with the Atlantic community and Japan towards concert in monetary, trade, and aid policies. These quiet efforts have made a major contribution towards creating an environment of progress and hope in many parts of the world.

The Atlantic



The Atlantic agenda of unsolved problems is long, as President Johnson made clear in his speech of May 7 on the twentieth anniversary of V-E Day. But, if you compare what we have done with Western Europe and Japan in the twenty years after the Second World War with the course of events in the generation after 1918, the scale of our common achievement can be perceived. We still face, for example, major unsolved problems with respect to the handling of international finance and monetary reserves; but if we had had in 1929 the kind of intimate day-to-day collaboration among the central bankers and monetary authorities that we now have, there is little doubt that much of the catastrophic world depression after 1929 could have been avoided.

#### IV

In this Hemisphere also we have moved in terms of the three conditions for peace.

We have worked -- as we are working every day -- to insure that aggression in this Hemisphere does not pay, whether it takes the form of the installation of Soviet missiles in Cuba or indirect aggression.

We are

We are gradually building institutions for peacekeeping within the inter-American system capable of insuring that international agreements are kept and the peace is not violated.

Above all, in the Alliance for Progress we are in the midst of a great adventure, working shoulder to shoulder with our Latin American friends to remove the underlying causes of political, social, and economic instability in that region.

In Asia we face a region which lacks, at this stage in its history, the underlying sense of community and communal destiny that exists in Western Europe and Latin America. Our security commitments in Asia were not undertaken on a regional basis, but in response to a series of particular circumstances where U.S. power and our guarantee alone could fill dangerous vacuums into which the Communists evidently intended to move. The Japanese security treaty followed upon our occupational responsibilities; our present ties with South Korea resulted from the North Korean aggression of 1950 and the United Nations decision to resist that aggression; our commitments in Southeast Asia arose from the withdrawal of the French presence and commitment and were formalized in the Manila Pact as well as the Geneva Agreements of 1954 and 1962.

Nevertheless,

Nevertheless, our basic policy in Asia is also designed to fulfill the three conditions for peace.

We are now engaged in Viet Nam in an effort to demonstrate that the particular form of aggression being practiced there by Hanoi will not pay.

The peacekeeping machinery created by the Geneva Accords of 1954 and 1962 has obviously proved inadequate; and we are looking towards the day when more effective peacekeeping machinery might insure in that region that international agreements are kept in the future.

Finally, moving beyond our bilateral assistance programs, President Johnson, in his Johns Hopkins speech of April 7, 1965, gave new impetus to economic and social development in Asia, this time encouraging the strengthening and creation of regional development institutions.

In Africa we acquired in the postwar years less direct responsibilities than in Europe, Latin America, and Asia. That continent does not border the Communist world. It is, nevertheless, like most regions in the revolutionary transition to modernization, vulnerable to intrusion, subversion, and guerrilla warfare. These vulnerabilities are the object of systematic exploitation by Communists, and we have been called  
on to play

on to play our part to avoid the danger of indirect aggression in that area.

We observe with interest and respect the efforts of the Organization of African Unity to develop the capacity to handle regional disputes, as was done in the conflicts between Somali and Ethiopia, Morocco and Tunisia. And, as Secretary Rusk indicated in his testimony of March 9 on this year's foreign aid bill before the Senate Foreign Relations Committee, we believe that regional institutions, such as the United Nations Economic Commission for Africa and the African Development Bank may well be helpful in the long, slow process of creating in Africa the underlying conditions for economic and social progress and political stability.

In short, despite the understandable focussing of public attention on the crises which stem from the Communist compulsion to extend their power where weaknesses in the non-Communist world appear to permit, we have remained true to our vision of what the building of peace requires. Quiet, creative work goes forward in all those regions of the world where we have the opportunity to act constructively with others.

V

What about peace with the Soviet Union and, indeed, with Communist China?

With respect to the Soviet Union the making of a stable peace centers, of course, on the related issues of German unity and arms control arrangements backed by effective international inspection. A divided Germany and a divided Europe cannot be the foundations for a peaceful world community; but the ending of that division requires security arrangements judged reliable by East and West alike.

We do not despair of achieving this result by peaceful means. It is, in fact, a major object of our policy. But it may well take some time before those responsible for policy in Moscow perceive that it is their interest to protect the legitimate security interests of the Soviet Union not by a tense confrontation in the middle of Europe, not by a fragile empire of uncertain satellites, but by a solid European security agreement and by granting to the German people the right of political self-determination.

In the meanwhile, we shall work to find more limited areas of agreement, helping in particular to bring the nations of Eastern Europe into a more normal and natural relationship to Western

Western Europe and the rest of the world.

With respect to Communist China, our ultimate objectives are no less pacific; but the issues obstructing peaceful relations are also no less difficult and precise.

The Chinese Communists have not foresworn the use of force in the Formosa Straits. They aim to take over an island which, through a mutual security agreement, we are committed to protect and which we intend to protect.

Moreover, the men in Peiping are openly encouraging aggression through subversion and guerrilla warfare conducted across international frontiers in Southeast Asia and elsewhere.

These positions they proclaim in public; and they assert them, with equal force, to us when we talk bilaterally in Warsaw.

As Secretary Rusk has often said, the problem of peace with Communist China hinges on Peiping's decision to leave its neighbors alone.

One cannot, therefore, promise a quick and definitive resolution of the issues which define the cold war and obstruct the building of a peaceful world community. On the other hand, there is no reason to abandon hope or cease to pursue this large objective. A generation's labor by free men has produced remarkable results in advancing each of the three conditions for peace.

In working



In working with others in many parts of the world, we have successfully met a wide range of aggressions: from nuclear blackmail to guerrilla warfare; from the marching of conventional forces across international frontiers, as in Korea, to the blockade of Berlin. Working with those who wish to maintain their independence and who understand the mortal danger of permitting aggression to pay, in any form, at any place, we command the capacity in the international community to continue to frustrate aggressive probes against us.

And, leaving aggression aside, it is clear from the historical test of this generation that we have nothing to fear from communism in peaceful competition. Whether measured in terms of economic growth, social justice, human freedom and creativeness, free men and free societies can evidently do more for the human race than Communist dictatorship.

Second, while the international peacekeeping machinery we have created thus far is clearly inadequate and must be built further in many directions and places, the world community has shown a remarkable capacity to face the hard facts of interdependence and to create institutions which build on those facts -- in the Atlantic world, in this Hemisphere, and now increasingly in Africa and in Asia.

Although

Although the United Nations was, of course, diminished by Stalin's decision in 1946 to initiate the cold war, and although it is now going through a difficult passage, it has performed and is performing many vital services. In the Middle East, in Cyprus, in the Congo, in Kashmir, it has helped to damp regional conflicts which might otherwise have expanded dangerously. In Korea it made clear the will of the international community to resist overt aggression with conventional forces. The four regional economic commissions of the United Nations go about their work steadily and may in the future play an even more vital role in Africa and in Asia as regional development programs take hold, just as the Alliance for Progress has enlarged the opportunities for creative action by the Economic Commission for Latin America. With the widening of relations between Eastern and Western Europe, the useful role of the Economic Commission for Europe in Geneva may also expand. And beyond these regional functions, the United Nations must evidently remain a central part of the architecture which, in the end, a peaceful world community will require.

## VI

In discussing with you the approach to peace which underlies our foreign policy, I would not wish to ignore the reality of the crises in the Dominican Republic and in Viet Nam.

It may be



It may be useful to look at these difficult problems, however, not merely as isolated and dangerous clashes, involving the use of United States military force overseas, but in terms of the long, laborious job of peacemaking.

As I say, deep in our experience is the judgment that there will be no peace to make if aggression in any form is permitted to pay.

In Southeast Asia we face an explicit and thoroughly professional form of aggression concerning which the Communist parties of the world have debated for many years. What they debate, however, is not the legitimacy of what they call wars of national liberation. They assume their right to conduct such aggression. They debate only the appropriate degree of risk Communists should take in pressing against us by subversion and guerrilla warfare. To them these techniques of subversion and guerrilla warfare and the effort by a disciplined Communist minority to seize from within an inherently revolutionary situation are just as real mechanisms for the expansion of Communist power as the marching of troops across frontiers or the launching of missiles.

Behind what may appear to be civil conflict in South Viet Nam and the chaos in Santo Domingo a few weeks ago  
are cool

are cool, disciplined, and purposeful men and a strategy and tactics matured from long experience and debate.

In meeting such indirect aggression, however, we have not lost sight of the second and third conditions for peace. As President Johnson pointed out in his speech at Baylor on May 28, the community of nations and people in this Hemisphere are moving to respond to the crisis in the Dominican Republic by refining and enlarging our common institutions; and, as I noted earlier, peace in Southeast Asia will also require on the part of the world community improved peacekeeping institutions.

Moreover, in both areas these crises have heightened our determination to press forward with those constructive ventures in economic and social development which alone can help move transitional nations from their present state of vulnerability to indirect aggression towards that modern and confident nationhood on which their long-run independence must rest.

## VII

Looked at in this way -- in terms of the three conditions for peace -- peacemaking is, indeed, the central task of our foreign policy.

We have

We have worked at it for a generation. We have made progress. There is, however, another generation's work ahead.

But the scale of the task and its slow, laborious pace should be no cause for discouragement. We are engaged in an enormous piece of international architecture, which the United States is in no position, by itself, to impose on the world. Increasingly, responsibility must be taken by others, as they generate the resources, the political, and social stability to share the burdens; and as their proper and understandable pride moves them from dependence upon the United States to relations of dignified interdependence.

Nevertheless, success in the generation ahead will continue to depend upon the strength and will and dedication of the United States and of Americans. There is no substitute for American military power in the protection of freedom now in existence or in sight. We still command the critical margin of economic resources for the development of other nations. We remain inescapably the greatest single power on earth; and that power is evident and real and felt by others whether we act or fail to act.

But more is

But more is required of us than the engagement of our military and economic resources. Peacemaking requires that we continue to evoke out of our history and experience the best qualities that are in us -- the commitments made at our birth as a nation to the equality of men before God and the law; the sense of human fellowship which suffuses equally our military advisers in the countryside of Viet Nam and our Peace Corpsmen working in the Andes; our genius for building and making work institutions for common action based on the acceptance of diversity; and, above all, the commitment to persevere in building -- no matter how long it may take -- a world community in which men and nations can live at peace.

No less is required of us for the safety of the nation and the continuity of civilized life on this small planet.

Mr. Bundy 1275

8

DEPARTMENT OF STATE  
COUNSELOR AND CHAIRMAN  
POLICY PLANNING COUNCIL

Mac:

Here's the old text.

You can judge - but it  
did strike me as more lucid  
and sharper in contour than  
some of what I read

Walt

1275  
✓  
8a.  
June 7, 1964

Draft Presidential Statement -- Southeast Asia

I speak to you tonight about Southeast Asia, at one of the most solemn moments of decision this nation has faced since 1945.

President Eisenhower, President Kennedy, and I have faced crises in Southeast Asia over the past ten years. We have all sought the same objective. Our common objective is that the governments of that region honor the international treaties which apply in the area; leave each other alone; resolve their differences peacefully; and devote their great talents to elevating the life of their peoples, many of whom live amidst poverty, ignorance, and disease.

We have no territorial claims or ambitions in the area; but we have undertaken certain solemn obligations over this decade to ensure the peace of Southeast Asia and the independence of certain nations within

-- In June 1954 we stated that we would view any renewal of the aggression in violation of the [1954] agreements with grave concern and as seriously threatening international peace and security."



-- In September 1954 we signed the Manila Pact, on which our participation in SEATO is based. The Pact recognized, in a special protocol, that aggression by means of armed attack on South Viet Nam would endanger the peace and safety of the signatories.

-- In July 1962 we signed the Declaration on the Neutrality of Laos which provided for the withdrawal of all foreign forces and respect for the neutrality and independence of that country.

The agreements of 1954 and 1962 were also signed by the government in Hanoi. It promised in 1954 that it would "respect the territory under the military control of the other party, and engage in no hostile act against the other party." It promised in 1962 that it would "not introduce into the Kingdom of Laos foreign troops or military personnel" and that it would "not use the territory of the Kingdom of Laos for interference in the internal affairs of other countries."

I come to report to you that these agreements are now being grossly and systematically violated by the government in Hanoi. We are publishing today, as I speak, ample evidence of that violation.

There is no doubt that Viet Minh troops remain in Laos contrary to international agreement.

There is no doubt that Hanoi is conducting the guerrilla war in South Viet Nam. It is training men in the North, infiltrating them through Laos, supplying them with critical arms, and, day by day, directing the war by radio.

The objective of this campaign is to discourage and dishearten the governments in Vientiane and Saigon and their peoples; to produce political disintegration; and then Communist take over.

This is the illegal method which Communists call Wars of National Liberation. It is a form of international aggression designed to slip under our legal, diplomatic, and military defenses. The Free World has faced major Communist guerrilla war efforts several times in the postwar years: in Greece, Malaya, and the Philippines. What is unique about the war in South Viet Nam and in Laos is the scale of the external element. There was virtually no infiltration of arms and men in Malaya and the Philippines. Victory in Greece came after the external element was eliminated and the Yugoslav border closed. But in Laos and Viet Nam we confront wars run from outside those areas



by a general staff in Hanoi. And the arms and men infiltrated into South Viet Nam and the external support from Hanoi are critically important.

\* \* \* \* \*

The question before us -- and before the world community -- is basically simple: Shall this form of aggression be permitted to succeed or not?

Shall the government in Hanoi be permitted to keep its troops in Laos in violation of a solemn international agreement or not?

Shall the government in Hanoi be permitted to mount a guerrilla war against the government and people of South Viet Nam or not?

\* \* \* \* \*

As you know, I have considered this matter deliberately and carefully. I have explored the facts. I have explored the diplomatic and military alternatives open to us, one by one. I have considered with an open mind suggestions made by our allies. I have prayed for wisdom and guidance.

My conclusions are these.

First, the infiltration of arms and men into South Viet Nam cannot be stopped by measures taken solely within the borders of South Viet Nam.

Second, the Viet Minh forces cannot be forced to withdraw to their proper borders by actions taken solely within Laos.

Third, both Laos and South Viet Nam are now in mortal danger if the violation of the 1954 and 1962 Accords is permitted to continue.

Fourth, the whole of Southeast Asia and Indian sub-continent would be placed in mortal peril if Communist aggression in Laos and South Viet Nam is permitted to succeed.

Fifth, if this so-called War of National Liberation is permitted to succeed in Southeast Asia, we must expect Communists to expand the use of this method in Asia, Africa, and Latin America. Indeed, such operations are now already being conducted by Communists in those continents.

\* \* \* \* \*

I have concluded that the time has, therefore, come to bring to bear whatever power may be necessary to persuade the authorities in Hanoi to honor fully their obligations under the 1954 and 1962 Accords.

We have no interest in and no intention to occupy North Viet Nam or any other territory. We have no intention to try to overthrow the government in Hanoi. But we must be prepared to impose sufficient cost upon the authorities in Hanoi so that they judge it wiser to obey than to continue to violate the 1954 and 1962 Accords.

\* \* \* \* \*

The question arises: What shall we do if the authorities in Hanoi or their friends choose to expand their aggression in response to our actions?

Let us be clear what that decision would mean. It would mean that they would prefer to go to war rather than to obey treaties they had signed. It would mean that they insist, to the point of war, on continuing to conduct a so-called War of National Liberation across international boundaries.

Under those circumstances, we in the United States -- and free men everywhere -- must be prepared fully to meet the challenge.

I have already ordered U.S. ground, air, and naval units to take up stations in the region of Southeast Asia to deal with any expansion in Communist aggression in the area.

We shall meet such expanded aggression, if it is undertaken, with all the weight required to check it. There will be no privileged sanctuaries for those who undertake such expanded aggression.

\* \* \* \* \*

But our intent in taking this posture is not war. It is peace.

We are entering into communication with the authorities in Hanoi with three purposes: to make absolutely clear our intent that the 1954 and 1952 Accords be honored; to urge them to adopt a peaceful policy in Southeast Asia; and to make clear the course of action we shall follow if they continue their present policy.

There are those who would urge us to settle this matter in an international conference. We are, of course, prepared to go to a conference on Southeast Asia, but not under conditions where the agreements reached at previous conferences are being violated. A 1964 conference accepted when the 1962 agreement was being violated would be, simply, a reward for aggression. We shall not lend ourselves to this dangerous course of action.

\* \* \* \* \*



This is a good figure. We could say the dust has settled and here is what we see clearly. BKS

We may face dangerous days and weeks ahead. We may face sacrifice. But let us remember these things.

The issue in Southeast Asia is the same issue we have faced since 1945 in Greece and Turkey; in Berlin; in Korea; during the Cuba missile crisis; and at many other points around the world when the independence of nations and the freedom of men was placed in jeopardy by one form or another of Communist aggression. Our power is great when our cause is just. We can and we shall see this through. Moreover, we should never forget the tragic lesson of the 1930's. The appeasement of aggression leads to war, not to peace.

I am now convinced that this is the time to draw a line in the dust in Southeast Asia. And that line is, simply, that the 1954 and 1962 Accords must be respected.

\* \* \* \* \*

To our friends in Western Europe I would say: the issue in Southeast Asia is the same issue we confronted after the war in Turkey, Greece, and Berlin. The cause of freedom is indivisible on this small planet. We of the Atlantic must stand together in defense of the independence and freedom of the peoples of Southeast Asia, as we of the Atlantic have stood together -- shoulder to shoulder -- to protect the independence

and freedom of the peoples of Western Europe over the past generation.

To our friends in Moscow, I would say -- here is a test of whether we can go forward to ease tensions and to move towards a world of arms control and disarmament. As Chairman Khrushchev said in his letter to me of December 31, 1963, referring to Viet Nam: "No force should be used in settling this matter...." The fact is that Hanoi is using force in both Laos and South Viet Nam. The fact is that the Soviet Union undertook, as co-chairman of the Geneva Conference of 1962, to ensure that Hanoi would obey that accord. Let us now, before it is too late, promptly remove the element of force and treaty violation which endangers the peace.

Let us prove that we are truly prepared for peaceful, if competitive, coexistence; for that competition cannot be peaceful if some regimes feel free to mount illegal aggression across international boundaries and to violate their international obligations.

To our friends in Latin America and Africa, I would say -- if we do not rally now to defeat the methods of aggression being applied against Laos and Viet Nam by the authorities in Hanoi, the Communist parties on your continent will certainly

be encouraged to apply them closer to home. Indeed, there are already Communists in Latin America and Africa busily at work trying to develop the method of aggression which now threatens Southeast Asia. Now is the time for all of us to bring under control these illegal techniques of aggression.

What is at stake here is whether the decade ahead will be a period of disruption and war, or whether, with Southeast Asia pacified, we can concentrate our energies and resources on the tasks of economic and social development.

To our friends in Asia, I would say this -- in whatever country you live, under whatever regime.

The United States has no territorial interests in Asia. We are bound by international treaties and by our commitments under the United Nations Charter to help protect the independence of nations against external aggression. These we shall honor. But our policy towards Asia is simply this: We wish to see emerge in Asia strong, independent, modern nations, each respecting its own traditions, its own sovereignty and respecting equally the traditions and sovereignty of others.

I have been in Asia -- in your cities and in your villages. I know the poverty that exists, the illiteracy, the disease. These are our real enemies, not each other. I also know the



progress that some of you have made in recent years and the progress you could make in the years ahead.

If, at this fateful crossroads, we turn towards peace, not war, new opportunities will open for us.

The Mekong Valley, now the scene of bloody struggle, could be turned by a great international effort into a mighty engine of peace and progress. We in the United States stand ready to help in these and other adventures of construction.

These are the proper duties of men on this small planet -- to struggle for peace and for the welfare of our children and the generations to come.

If we can achieve peace in Southeast Asia and respect for international agreements, the United States is prepared to throw its weight even more fully into the crusade for economic and social progress in Asia.

\* \* \* \* \*

This is our hope and our vision. But before we can bring it to life, the hard facts of aggression and violation of international agreements must be faced and dealt with.

I ask of you now, my fellow Americans, the strength, the unity, the courage, and the determination which has been our salvation in all our great crises of the past.



It is our destiny in this generation to be the protector of the independence of nations and the freedom of men. We must not -- and with the help of God we shall not -- fail to fulfill that destiny.

DEPARTMENT OF STATE  
Counselor and Chairman  
Policy Planning Council  
Washington

*Bundy*  
*regul*  
*kn*  
9

LIMITED OFFICIAL USE

June 7, 1965

TO: Planning Group Members

SUBJECT: Planning Group Meeting  
Thursday, June 10, 1965, 12:00 noon.

At our Planning Group meeting this Thursday, June 10, we will have with us Sir John Nicholls and Mr. Michael Palliser of the British Foreign Office. They will lead off the discussion.

*W. W. Rostow*  
W. W. Rostow

LIMITED OFFICIAL USE

DEPARTMENT OF STATE  
Counselor and Chairman  
Policy Planning Council  
Washington

✓ Mr Bundy 2315  
10

May 28, 1965

LIMITED OFFICIAL USE

TO: Planning Group Members

SUBJECT: Planning Group Meeting  
Thursday, June 3, 1965, 12:00 noon

The Planning Group meeting next Thursday, June 3, 1965, will continue the discussion held at the meeting of May 27th on "Questions Concerning International Implications of Ballistic Missile Defense."

W. W. Rostow

LIMITED OFFICIAL USE

2249  
✓Bundy  
11

May 26, 1965

LIMITED OFFICIAL USE

TO: The Secretary  
THROUGH: S/S  
FROM: S/P - W. W. Rostow  
SUBJECT: A Suggested TV Program on Foreign Policy  
ACTION MEMORANDUM

At dinner alone with Father Ted Hesburgh last night we reviewed the problem of expounding U.S. foreign policy both at home and abroad in the light of his extensive knowledge and my recent experiences with the teach-in, at the Portland regional conference, in Japan, etc.

We agreed that the presentation of foreign policy issues in the press and over commercial TV has two weaknesses. Those media emphasize the dramatic aspects of crises at the expense of constructive dimensions of our foreign policy; and they do not provide sufficient time for full development of the issues and for orderly debate.

The following proposal emerged which he asked me to put to you.

1. The academic first team of the U.S. would organize to sponsor a foreign policy TV program; i.e., Jay Stratton, Pusey, Murphy, Brewster, Hesburgh, etc.

2. The

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

- 2 -

2. The program might run on Sunday nights for (say) two hours, once a month or even once every two weeks on the educational TV network if not picked up commercially.

3. Each program would be devoted to one major foreign policy issue, not necessarily a crisis issue.

4. The format would provide for three elements: the laying out of essential facts; the laying out of government policy; responsible debate and questioning of government officials.

5. The moderator might be, for example, Herman Wells.

Hesburgh's question (and mine) is: assuming such a responsible group undertook to organize a program of this type, would you entertain a request to provide officials of the Department to expound our policy?

Approve \_\_\_\_\_

Disapprove \_\_\_\_\_

cc: P - Mr. William Jorden

LIMITED OFFICIAL USE

13

DEPARTMENT OF STATE  
Counselor and Chairman  
Policy Planning Council  
Washington

May 14, 1965

TO: Planning Group Members

SUBJECT: Planning Group Meeting  
Thursday, May 20, 1965, 12:00 noon

At our Planning Group meeting next Thursday, May 20, Mr. Jack H. Vaughn, Assistant Secretary for Latin American Affairs, Department of State, will be with us to present his views and lead discussion on problems ahead in Latin America. There will be no paper.

W. W. Rostow

✓  
Mr McGeorge Bundy  
5 14  
May 8, 1965

TO: Mr. Donald Wilson  
FROM: W. W. Rostow  
SUBJECT: Town Affiliation Program.

In view of your urgent responsibilities with respect to the Dominican Republic and the essentially minor nature of what I want to pass along to you, this memorandum can be taken as a substitute for my incompleted telephone call.

On the first leg of my trip to Japan (Washington-Chicago), I found myself sitting next to a man named E. Snowden Chambers who, singlehandedly in USIA, looks after the town affiliation program which was started in the 1950's. I asked him how it is going and he gave me a lively and, I believe, honest account. There are some 300 town affiliations, of which, in his view, 75 to 100 are vital. Following an earlier State Department injunction, they have concentrated quite heavily on Japan and Germany.

While in Japan I checked on the view of various members of the country team. They think well of the program as a foundation for our long-term relations with the Japanese people. I also sat next to the mayor of Kyoto, a quite remarkable gent who has a link to Boston. It is evident that this kind of tie has quite a lot of meaning to him and the town.

As a result of my conversation, Mr. Mark Bortman, who manages the program outside the Government, called on me. He said that they are trying to extend the program more substantially in Latin America. He underlines, like Chambers, that the vitality of a link depends upon finding at both ends one determined, energetic character. He estimates that something like 110 are truly vital.



My impression is that these links are a valuable, long-term foreign policy asset, created at virtually no cost to the Federal Government; that links via towns may prove more viable over the long pull than via states, because they engage more intimately and directly the human beings involved; they give Americans, frustrated by the complexities of foreign policy, something creative and real, if limited, to do; and that the program is worth a thoughtful review by USIA officials, with an eye to giving it more direction and encouragement.

Neither Chambers nor Bortman is asking for significant additional money or staff. They would appreciate a little encouragement from the USIA brass and, especially, guidance as to how to proceed as they try to open up Latin America. They feel that, since the enterprise was started under the Eisenhower Administration, they have been treated a bit like orphans since 1961, although Chambers is a Democrat and Bortman evidently friendly with Democrats.

In any case, the enterprise may be worth a moment of your time.

In addition, when the smoke clears, I would like to pass along a few observations on my experiences as a traveling salesman in Japan.

WWRostow:rln

DEPARTMENT OF STATE  
Acting Counselor and Chairman  
Policy Planning Council  
Washington

15

*Mr. Bundy  
did not attend*

May 3, 1965

TO: Planning Group Members

SUBJECT: Planning Group Meeting  
Thursday, May 6, 1965, 12:00 noon

At the Planning Group meeting next Thursday, May 6, Mr. Rostow will report on his trip to Japan and Korea.

*bo*  
Henry Owen

PERSONAL guests to be charged  
to my account

No. \_\_\_\_\_ Amount \_\_\_\_\_

OFFICIAL guests to be charged  
to my account

No. \_\_\_\_\_ Amount \_\_\_\_\_

Signed: \_\_\_\_\_

*Assistant Secretaries' Dining Room U. S. Department of State*



*Menu*

*Mr Bundy*

*15a*

## APPETIZERS

Shrimp Cocktail	.65	Herring Marinade	.55
Beef Boullion	.15	Jellied Consomme	.15
Fresh Fruit Cup	.30	Tomato Juice	.15

## SOUP DU JOUR

.15

Beef Barley



Broiled to Order 10/15 Minutes to Prepare

Filet Mignon	2.50	Double Lamb Chop, Mint Jelly	1.15
Rainbow Trout Bernaise	1.25	Delmonico Steak	1.75

Golden Fried Gulf Shrimp 1.25



## LUNCHEONS

(Includes Soup or Juice, Bread and Butter and Beverage)

- |   |      |
|---|------|
| 1. Grilled Yearling Liver with Crisp Bacon slices,<br>Whipped Potatoes and Buttered Onion Rings | 1.60 |
| 2. Hot Barbecued Beef Sandwich,<br>Whipped Potatoes and Lima Beans                              | 1.50 |
| 3. Breaded Pork Chopette au Champignon Meuniere,<br>Julienne Carrots & Vegetable Slaw           | 1.50 |
| 4. Escalloped Tuna-fish & Egg en Casserole,<br>Asparagus Cuts & Vegetable Slaw                  | 1.40 |

## VEGETABLES

.20

Asparagus Cuts	Julienne Carrots
Fordhook Lima Beans	Vegetable Slaw
Buttered Onion Rings	Whipped Potatoes

## SALADS

The Executive Bowl	1.00
Seafood Salad Platter DeLuxe	1.00
Roast Meat Salad Plate	1.00
Fresh Fruit Plate	.60
Diet Salad	.55

Thursday

May 6, 1965

## SANDWICH COMBINATION

1.00

Cup of Soup or Tomato Juice

Grilled Hamburger on Roll

Choice of Beverage

## SANDWICHES

Club Deluxe .....	Breast of Chicken, Crisp Bacon, Garnish of Golden Potato Chips	1.25
Dixie Twist .....	Sugar Cured Ham and Spring Chicken, Salad on Double Twist Roll	.75
Steak Sandwich .....	Broiled Cube Steak on Buttered Crouton, Served with Delicious Bernaise Sauce	.90
All American .....	Open Faced Broiled Sandwich of Smoked Ham, Red Ripe Tomato Slices and Tangy Cheese	.85
Hot Pastrami .....	Generous Portion of Hot Pastrami on Rye Bread, Tasty Cabbage Relish, Dill Pickle Chips	.95
Riviere .....	Imported Norweigan Sardines, Garden Chives, Sliced Tomatoes and Fresh Cucumbers	.75

## DESSERTS

Creamy Tapioca	.20	Apricot Pie	.20
Fresh Strawberry Pie	.40	Butterscotch	
Raisin Crumble Pie	.20	Cream Pie	.20
Hot Fudge Sundae	.25		

## BEVERAGES

.15

Coffee, Hot or Iced	Sanka
Tea, Hot or Iced	Postum
Milk	Lemonade

A 10% service charge will be added to your monthly statement.

16

# DEPARTMENT OF STATE

## FOR THE PRESS

APRIL 22, 1965

NO. 80

### CAUTION - FUTURE RELEASE

FOR RELEASE AT 1:00 A.M., E.S.T., FRIDAY, APRIL 23, 1965. NOT TO BE  
PREVIOUSLY PUBLISHED, QUOTED FROM, OR USED IN ANY WAY.

ADDRESS BY THE HONORABLE W. W. ROSTOW  
COUNSELOR AND CHAIRMAN, POLICY PLANNING COUNCIL  
DEPARTMENT OF STATE  
UNDER THE SPONSORSHIP OF ASAHI SHIMBUN, TOKYO, JAPAN  
FRIDAY, APRIL 23, 1965, 3:00 P.M. (TOKYO TIME)

#### Economic Development in Asia

##### I

To talk of the economic development of any great region is by definition to consider a wide variety of problems. During the Marshall Plan in Europe, for example, in a region which is generally regarded as homogeneous, we faced together with our European friends problems as different as those of Greece, on the one hand, and of Denmark, on the other. In the Alliance for Progress we now face together with our Latin American friends problems which range from the relatively early stage of development of, say, Ecuador to the highly sophisticated problems of Argentina and Brazil.

Even within the U.S. and Canada there are important regional differences which constitute, in effect, the coexistence of different stages of growth within a given nation; for example, it is only in the past generation that one could say with confidence that a take-off had occurred in important parts of the American south and in Quebec. And, in the end, each nation, like each individual, is unique. Although similar problems must be confronted at each stage of development, the correct answer can only be devised on the spot, in the light of each nation's resources and history, its traditions and ambitions.

To lay before you, therefore, some reflections on the present state of economic development in Asia is a somewhat dangerous adventure in generalization. Leaving Japan and Hong Kong aside, the level of gross national product per capita runs from over \$250 in Malaysia to something like \$55 in Nepal, a range of something like five to one. What is called in Asian bureaucratic parlance "the developing ECAFE region" -- that is, excluding Japan and the other advanced nations of Asia -- contains a few countries which have an excellent balance between population and natural agricultural resources -- notably such food exporters as Burma, Thailand, and, in normal times, South Viet-Nam. But it also contains regions where population increase presses hard against the land. In the Free World as a whole, the population density is 55 per square mile; but it is 425 in Ceylon, 368 in India, 273 in Pakistan. Asia contains some nations which already command a capacity to produce not only a wide range of consumer goods but also many heavy industry products; but it also includes nations just beginning the earliest forms of industrial activity.

There are, nevertheless, some generalizations about Asian development and our experience of the first postwar generation, which can usefully be made. I shall try to focus my remarks around four major issues: the present stage of industrial development in Asia; the role of agriculture; the problem of expanding and diversifying exports; and the scope



for regional cooperation. I shall conclude with some observations on the relevance of certain aspects of Japan's historical and contemporary experience for other Asian nations and on Japan's capacity to help carry forward the next stage of development throughout the region.

## II

If one examines in general the pattern of Asian development in the last decade, it is clear that, despite many vicissitudes, a great deal of progress has been made in manufacturing industry. With relatively minor exception, the contribution of industry to the domestic production of Asian countries has been rising, in some cases rising at a high rate -- averaging between 6 percent and 11 percent per annum over the past decade, as against an average increase of GNP of 4 percent.

An initial concentration on industry and a relative neglect of agriculture in Asian development was quite natural in political terms and also reflected an understanding at the time of what was economically desirable. The modernization of an economy consists, in its essence, in the progressive diffusion and absorption of what modern science and technology can offer; and industrial activity is the most dramatic and obvious form for the incorporation of modern technology.

As in other developing areas -- for example, Latin America -- a good deal of Asian industrialization has been concentrated on the production of consumers goods in substitution for imports. The economy of a developing country can benefit from this kind of activity in two ways. In the first instance, it begins to learn to solve the problems of industry itself; and, by cutting down the import of certain manufactured consumers goods, it reserves more of its foreign exchange earning capacity for the import of capital goods and essential industrial raw materials. But the development of import-substitution industries does not have, of course, a simple one-way effect on imports. By raising the level of income, it increases the demand for imports in general; and by advancing industrialization itself, it sets up an enlarged demand for imported capital goods.

The argument for an overriding emphasis on industry in the first phase of industrialization was reinforced by a widespread sense that industry was the essence of modernization while the continued concentration on agriculture and agricultural exports was a sign of continued inferior or colonial status. I recall in the early postwar years listening in Geneva to many speeches in the Economic and Social Council of the United Nations, in which representatives from developing countries argued the priority of industry over agriculture, using as a technical base the simple and true fact that productivity per man was generally higher in industry than agriculture; and, if productivity was to rise, a shift from agriculture to industry was necessary. And, indeed, the reduction of the proportion of the working force engaged in agriculture remains one highly relevant measure of modernization.

The possibilities of import substitution of consumers goods have by no means been wholly exhausted throughout the region in this first phase of Asian industrial development; but there is a growing sense in the region -- and a correct sense -- that a new strategy is called for. Import substitution of consumers goods will no longer suffice.

The need for a new and wider strategy arises from two massive facts. First, in many critical parts of Asia the population increase is outstripping the rate of increase of food production. And the region,

taken



taken over-all, has become increasingly dependent on food imports. Second, the relatively slow rate of expansion in traditional Asian export products, combined with weak international prices for some Asian exports, has posed sharply the question: How can the developing nations of Asia earn more foreign exchange? Industrialization requires an endless expansion in imports, as the history of Western Europe, Japan, and North America indicates, down to the present day.

### III

There is no doubt that in the first generation of postwar development the importance of rural development to the total modernization of developing societies was underrated in many parts of Asia; and the doctrines and policies for rural development, applied both by many Asian nations themselves and by those providing external assistance, were inadequate. It was not fully understood within many developing nations that agriculture is not merely an essential source of food for a rapidly expanding and urbanizing population, which was bound to use a large part of whatever increase in income that occurred to improve its diet, but that, in addition to this basic role in supplying food, agriculture is a critical source of raw materials for industry itself and, properly exploited, an important source for the earning of additional foreign exchange. Finally--and this is only now becoming fully understood--mature industrialization requires much larger markets than the rather narrow urban markets which were sufficient to sustain the first phase of import substitution of consumers goods. The farmer is needed by urban industry not merely to supply food and raw materials and foreign exchange earnings--he is also needed as a customer for industrial products, if industrial momentum is to be sustained and Asian industry is to move on from its import substitution phase to maturity.

This interconnection between industrialization and agricultural development becomes clear if one examines carefully what we have learned from the success stories and the failures in agricultural development in this first postwar generation. It is quite evident that agricultural development must be regarded as a complex multifaceted system--just as industrial production is such a system. There are certain necessary and sufficient conditions which must be met if a sustained rise in agricultural production and productivity is to occur.

The question of essential infrastructure (roads, schools, etc.) is, evidently, basic. This dimension of rural development is a necessary but not sufficient condition for the modernization of the countryside. The following four further factors appear to be essential to produce a true modernization of agriculture in a developing region.

First, the farmer must be offered a fair and reliable return for his product. In many cases this most simple precept has not been honored. In some Asian countries there are too many intermediaries between the farmer and the consumer. In other cases a traditional trading class exploits a monopoly position as an intermediary. Some governments deliberately keep farm prices low in order to keep down the urban cost of living. Finally, the lack of land reform or inadequate enforcement of existing land reform measures often limits the farmer's return.

Second, the farmer needs credit at reasonable rates if he is to acquire the means to raise his productivity or shift to high productivity cash or commercial crops.

Third,

Third, the farmer needs practical technical assistance relevant to his soil, his rainfall conditions, and to the change in method or product which is most efficient for him in his particular setting.

Finally, the farmer needs to have available two types of manufactured goods at reasonable prices: agricultural inputs, such as fertilizers, tools, and pesticides; and he also ought to have available consumers goods of good quality at reasonable prices to make it attractive for him and his family to make the extra effort to increase his production and productivity.

A fair and reliable price; credit at reasonable rates; relevant technical assistance; and manufactured products at reasonable prices-- these seem to be the necessary and sufficient conditions for success, where roads, schools, and other basic infrastructure are provided.

If one examines the failures and frustrations in agricultural development in postwar Asia, one can find that one or more of these elements in the system was missing.

There are a variety of ways in which these elements can be provided to the farmer. Producers cooperatives, for example, have proved effective in some cases; in others, modern food processing activities have been able to provide the critical elements in the system, as have well-run plantations.

But it is important to note that a consensus has emerged from our sometimes frustrating efforts in many parts of the world over the past generation that the agricultural problem must be dealt with on all four of these fronts if we are to get the increase in production and modernization of rural life which is needed.

India has attacked some of these problems in imaginative ways; but the scale of the problem has thus far outstripped the financial and administrative resources devoted to it. There has recently been an increased recognition in India of the need to devote more resources to agriculture.

Many of the countries of Southeast Asia have undertaken programs of agricultural development which have included producers cooperatives, government programs for provision of agricultural credit and technical assistance through community development and extension programs. Typically, however, these programs have suffered from lack of attention and from inadequate administration. Land tenure arrangements and inadequately enforced land reforms have kept price incentives lower than is desirable. (Taiwan is an important exception in regard to land reform.)

Malaysia is an outstanding case of a country which is devoting major investment resources to agriculture to useful effect. The political situation in Malaysia has favored such a course. Malaysia's marketing system is effective and both producers and consumers goods are readily available in rural areas at reasonable prices, although in the Malaysian case these goods are still obtained primarily through imports rather than by local manufacture. The heart of the Malaysian agricultural program is a land development scheme under which the government helps individual farmers get started, through provision of land on reasonable terms, initial planting material for cash crops and supporting technical

assistance.

assistance. Thus, through a combination of governmental and private action the necessary elements are brought together.

In Thailand, a combination of agricultural research, the introduction of improved seed and the opening of new agricultural lands through the development of roads and a malaria eradication program have produced a quite remarkable development of corn production. Thailand is now one of the world's leading corn exporters. It sells most of its crop to Japan.

In Pakistan, too, one can see a heartening expansion in agricultural production, accompanied by wide-ranging measures to modernize the countryside.

Within the whole agricultural complex it is worth looking with particular attention at marketing arrangements--both marketing from the farm to the city and marketing to the rural areas of manufactured goods.

In modern development economics and policy there has been a systematic tendency to underestimate the importance of the marketing links between urban and rural life. This neglect stemmed, in part, from the initial concentration on industrial development and on the major initial tasks of building the economic and social infrastructure, notably education, transport, and the supply of electric power. But it is perhaps appropriate for an economist to point out that all of us have been trained in a tradition, going back to the eighteenth century, which tends to emphasize production and leaves distribution to be dealt with as a second order of business.

The archaic and expensive methods of distribution, which mark most developing nations, take on, however, a critical role at the present stage in Asian development, for it is impossible to offer the farmer the inducements he needs if there is an extravagant gap between the price he gets and the price of his product in the city; and, unless there is greater efficiency in the distribution of manufactured products to rural areas, the selling price of such goods to the farmer will be so high that the market for manufactures cannot be widened at his inevitably low level of income.

What I am asserting as a general proposition, then, is that economic development in Asia can no longer be based on the immediate postwar rationale for industrialization. It is no longer a question of the priority of industry over agriculture. It is a question of modernizing rural life in Asia as a basis for continued rapid industrialization. Without the modernization of rural life, industrialization can be damped down or even throttled, not only by the pressure of population on food supplies or by the lack of adequate industrial raw materials or agricultural exports abroad, but by the inadequacy of the domestic market itself.

Although the symptoms of this damping of industry by inadequate attention to agriculture can be observed in several countries of Asia, the most extreme case is, of course, Communist China, where failures in the agricultural sector led to the collapse after 1958 and to a present situation where industrialization over a wide front has been slowed down or stopped and scarce foreign exchange must be used on a large scale to buy food abroad for the coastal cities.

## IV

This chain of thought bears also on the searching question of the future of foreign trade in developing Asia.

It is clear that the capacity of the developing Asian countries to earn foreign exchange, and to earn it on a sufficient scale so that their growth becomes self-sustaining, requires an increase in what are often called non-traditional exports. We must all do what we can to facilitate exports of traditional Asian commodities and, by international agreements and other devices, to help sustain their prices; but of their very nature, and especially in a world of modern technology, there are relatively low ceilings on what we can expect from these efforts. This means Asia, in its effort to generate an increased flow of foreign exchange, must look to new kinds of agricultural products and raw materials; to agricultural and raw materials processed to higher stages; and to manufactured goods.

There are two observations I would make on this pervasive problem of the developing regions of Asia and elsewhere.

The first is that the development of new lines of exports is hard and serious work. It is, if you like, an important dimension of development itself. Although foreign investment can play an important role in improving the competitiveness of exports through the import of foreign technology, no amount of assistance from outside can substitute for the energy and attention of the government and the business community of the developing country. The possibilities of diversifying and expanding exports must be studied at home. Potential markets must be studied abroad. An export-mindedness must be made to pervade commercial and industrial groups which, in the first generation, have been able to sit in relative comfort, making high unit profits behind tariff barriers erected to sustain import substitution industries. Bureaucratic arrangements for exporting must be simplified and financial arrangements provided which encourage an enlarged flow of exports. Diplomatic missions abroad must help the private sector establish reliable markets. Serious and sustained efforts at quality control must be introduced.

When these efforts are made, there is ample evidence that the skills available to developing countries make it possible for them to find sales outlets abroad for manufactured products. The remarkable export expansion of the Republic of China and of Hong Kong in the postwar period, as well as the longer experience of Japan itself, have demonstrated this proposition.

Those who aim to assist in Asian development should be prepared to help at every stage in the generation and sale of such new export products.

A second observation is, perhaps, less familiar; and it is an observation which would link what I had to say earlier about the expansion in domestic markets to the capacity of developing countries to expand their foreign trade.

The most effective base for the export of manufactures is a large domestic market. It is no accident that for many developing countries the first manufactured product to be exported has been cotton textiles. Indeed, this was how the industrial revolution began in Britain in the



late eighteenth century. Britain was followed as an exporter by the United States in the early nineteenth century; then by many other countries, notably Japan and India; and now it is true of others. The reason is, or course, that even in countries with low levels of per capita income, the market for textiles is large; and it is natural that efficiency in production, distribution, and quality control should first be attained in such a mass consumption industry.

The history of manufactured exports is, in large part, the history of a series of projections abroad of skills developed in exploiting a large domestic market. In this century the United States was the first country to develop a large export trade in automobiles, because we began the era of the mass automobile in the 1920's; and it is wholly natural that, now that several countries in Europe, as well as Japan, have entered the age of the mass automobile, the United States faces a number of effective competitors in the international markets.

What I am asserting, then, is that the expansion of the domestic market which is required to produce a modernization of rural life and an ample market for domestic industry is also the proper base for the development of diversified exports.

In the first generation of postwar development in Asia, then, there was a concentration on consumers goods import substitution industries and infrastructure. Both must continue to engage our attention and our resources in the decade and generation ahead. But our basic strategy for Asian development must shift, I believe, towards the modernization of rural life and the building of new interconnections between industry and agriculture, on the one hand, and towards a new seriousness in developing efficient and diversified export sectors.

## V

In executing this strategy, it is worth asking ourselves the question: How can regional cooperation help? How can groups of nations in the same general region behave in such a way as to make their development strategy mutually reinforcing? The first generation of development has been, in many ways, inward looking. Each country concentrated on its first phase of industrialization and on basic national infrastructure, looking abroad mainly to sell its traditional exports and for capital to support these activities. To what extent should the developing nations of Asia now look outward and especially to each other, within their region, in support of the new strategy?

Although economic development must, in the end, depend mainly on the efforts of the citizens within each country, there are, I believe, five ways in which the nations of Asia can help one another in this next phase of the region's economic evolution.

First, through intensified intraregional trade. Relatively low transport costs and an intimate knowledge of the tastes and requirements for particular products should make it possible to generate a disproportionate increase of intraregional trade, as production and exports diversify. The Asian nations should look, of course, for markets in every quarter of the globe. But there clearly are natural possibilities within the region that deserve systematic exploitation.

Second,

Second, systematic efforts can also be made to harmonize development plans in such a way as to permit Asian nations to concentrate in fields of greatest natural advantage and to reduce the possibilities of overproduction and idle industrial capacity. For example, in Asia, as in other developing regions, particular attention is required, in the present state of population pressure on food supplies, to the efficient production, distribution and trade in chemical fertilizers. The exploitation of chemical fertilizer resources in Asia might proceed more swiftly and rationally if it were based on regional rather than simply national perspectives. And this may be true of other heavy industries. An intensive and regular examination of the region's development plans and programs should permit substantial economies in capital as well as enlarged opportunities for trade of mutual advantage.

Third, in both Europe of the Marshall Plan days and contemporary Latin America, it has been found helpful to create regional arrangements in which each nation's development program is regularly and systematically examined in a multilateral process, with the presence and cooperation of the governments and international institutions prepared to assist in external financing. Such country reviews -- now an annual feature of the Alliance for Progress -- may reveal significant additional opportunities for external assistance; and they provide a means for mobilizing additional development funds, as more effective self-help measures are taken by each country.

In this connection, it is the view of the United States Government that a well designed Asian Development Ban, which has substantial financial and other support within the region, could be extremely useful in promoting regional and subregional development, and in focusing the major sources of capital and technical assistance around national development programs. We look forward to the further discussions of this scheme scheduled for this summer.

Fourth, certain of the countries within the region may wish to generate even more intensive measures of economic cooperation than are possible on an all-regional basis. This has always been the hope which lay behind, for example, the schemes to develop the Mekong River basin. And there are, as we all know, many unexploited opportunities for intense economic cooperation between neighboring countries; for example, between India and Pakistan, whose relations are now unfortunately inhibited, but whose possibilities for mutual economic support we all hope will be exploited in the fullness of time. There may also be possibilities for certain countries to compensate for the small size of their national markets by forming subregional common market arrangements, as the countries of Central America have so successfully done.

Finally, in the setting of the strategy outlined here, there would certainly be an enlarged role for intensified technical assistance on a regional basis, notably in the fields of agriculture, marketing, and export promotion.

## VI

In this next phase of Asian development, Japan evidently commands an enormous potential to assist others. It is evident that the strategy for Asian development I have outlined conforms to that which Japan itself has pioneered in emerging to its present position as a great world industrial power. From the earliest days after the Meiji Restoration,

Japan



Japan never made the mistake of neglecting its agricultural resources nor its agricultural population. The educational system established in rural, as in urban, areas in nineteenth century Japan remains one of the remarkable achievements of modern economic and social history. Japan's land reform, from the beginning, left the farmer and his family with powerful incentives to increase productivity. Japan pressed not only the efficient use of water for double cropping but also showed the way in Asia in the intensive use of chemical fertilizers, on which, it is not too much to say, modern industrial Japan has been built.

Moreover, Japan has used its agricultural resources and domestic rural market as a foundation for its industrialization. Japan's agriculture has supplied not merely food for the cities but raw materials for industry and export earnings, starting with the silk exports of the nineteenth century which first brought the disciplines of quality control and commercial marketing to the Japanese countryside.

Contemporary Japan, perhaps more than any other nation which developing Asia might study, has demonstrated what can be done to make the rural population a market for industrial products and how, on this foundation an export trade can be built of the most diversified and sophisticated kind.

Moreover, Japan demonstrated that part-time industrial work could be woven into the rhythm of rural life.

In short, deep in the living experience of this nation are the lessons and the know-how which ought to be made available in the next decade and generation to all of developing Asia. Each nation will, of course, devise its own particular methods and institutions. But there can be no more relevant storehouse of practical experience than that which modern Japan incorporates -- notably, as I say, in the fields of agriculture and the diversification of foreign trade.

Within the various kinds of multilateral enterprises which, we all hope, developing Asia will mount in the years ahead, Japan evidently has a constructive role which its human and material resources now permit it to fulfill. Japan has already played, in recent years, an important and constructive part in such regional activities as ECAFE, the Colombo Plan, and the Asian productivity organization -- as well as in the emergence of the concept of an Asian Development Bank.

In such ventures the United States is prepared to play an active part along with other developed countries who share an interest in the success of the economic and social development of Free Asia. But we are conscious that there is a growing and healthy desire in Asia, as elsewhere, for nations and peoples to take a larger hand in shaping their own fate through the strengthening of regional organizations.

The inescapable interdependencies which govern our common life on this small planet require us to work together very closely in matters of defense and in matters of economic development, monetary affairs, and trade. Simple, old-fashioned nationalism can provide our peoples neither safety nor prosperity in the modern world. This is as true of the United States as it is true of any of the Asian nations.

Increased

*both on their own initiative and*

Increased collaboration among the nations of Free Asia can, however, permit them to achieve higher levels of development and, at the same time, to establish more effective relations of partnership and interdependence with the United States and others concerned for their safety and their welfare. It was in this spirit that President Johnson made his recent proposals for the concerted development of Southeast Asia--proposals that we hope will be given shape by leaders in Asia, under the initiative of the Secretary General of the United Nations. In the evolution of Free Asia over the years ahead, we look forward to working with our friends across the Pacific in intensified multilateral ventures.

The object of the United States in the exercise of its world responsibilities since the Second World War has not been to build an empire: it has been to play our part in helping build a peaceful and orderly world community. Within such a community--governed by the principles of the United Nations Charter--each nation ought to find a role of dignity, pressing forward its legitimate national interests while respecting the interests of others and respecting the interdependence of all nations in a world of modern technology and communications.

Looking back over this first postwar generation, we all have a right to feel a deep underlying confidence. Despite the Korean war and the current crisis in Southeast Asia, despite the unrelenting intent of some Communists to disrupt the life of Free Asia and to extend their power, the free peoples of Asia have demonstrated an enormous vitality. The development of Japan since 1945 has been, of course, a true miracle. But in many other parts of Asia there has also emerged a will to build modern nations, true to their old traditions, culture and history, true to their own visions of the future, increasingly capable of absorbing and using for their own purposes modern science and technology.

There is nothing in the Communist performance in Asia or elsewhere to lead us to believe that history is not on the side of free men. On the contrary. By every test of creative capacity, Free Asia is outstripping that part of Asia now under Communist rule.

With respect to economic and social development, then, Asia can go forward with the conviction that it is on the right track. It should, we believe, go forward following a strategy something along the lines of that which I have outlined today--a strategy which would widen the horizons of development by the modernization of rural life, combined with intensified efforts to trade and to cooperate with other nations, accompanied, of course, by accelerated industrialization.

In executing that strategy, Japan has a major mission to perform; and we in the United States are prepared to work side by side with you, assisting with resources, technical assistance, good will, and faith that a new, free and modern Asia shall emerge.

\* \* \*

4/26/65

Mr. Bator

17

Do you want to attend? (Mr. Bundy can't)  
If so, please let Mr. Rostow's office know.

a b

4/26/65

Alice: Mr. Bator asked me to return this to you;  
he has his own copy; he does not know  
at this point whether or not he can attend.

djw

DEPARTMENT OF STATE  
Acting Counselor and Chairman  
Policy Planning Council  
Washington

*Mr McGeorge Bundy*  
*Ma*

April 22, 1965

TO: Planning Group Members

SUBJECT: Planning Group Meeting  
Thursday, April 29, 1965, 12:00 noon

At our Planning Group meeting next Thursday, April 29, we will have another discussion on the population problem, focused around: U.S. private and government technical assistance in the population field available to requesting countries.

*Henry Owen*  
Henry Owen

Attachments

Summary Paper  
Economic Programs to Prevent Births  
by Stephen Enke  
Lower Birth Rates - Some Economic Aspects  
by Stephen Enke, 12 Feb 1965



17-b

SUMMARY PAPER

Technical assistance currently provided by, or available from, United States private and public sources, to nations of the free world requesting aid for their programs dealing with population problems.

The following material has been assembled to provide background for discussions of planning of the A.I.D. population program that is developing to implement the recent policy statement sent to the field extending the scope of assistance now available in the population field. The material is presented as follows:

I. Private U.S. organizations, agencies, and foundations:

- a. The Population Council
- b. The Ford Foundation
- c. The Rockefeller Foundation
- d. Planned Parenthood - World Population
- e. Population Reference Bureau
- f. Milbank Memorial Fund
- g. The Hugh Moore Fund
- h. The Pathfinder Fund
- i. Professional, Religious, and Other Groups
- j. U.S. Universities

II. U.S. Government technical assistance - A.I.D.:

- a. Circular Airgram A-280, March 2, 1965, to all A.I.D. Missions
- b. State Airgram CA 9137, March 3, 1965, to all U.S. Embassies
- c. Steps taken by A.I.D. to develop current policy

## I. PRIVATE U. S. ORGANIZATIONS

### a. The Population Council

"The Population Council is a private foundation organized in 1952 in order to promote and support significant activities in the broad field of population. In just over a decade of activity The Council has undertaken training, research, and technical assistance on population and family planning in 59 countries on all the continents.

From 1953 through 1964 The Population Council gave \$5.9 million in demographic grants, \$5.4 million in bio-medical grants, and \$1.7 million in fellowships. Its fellowship program has helped to train 194 students in demography, 91 in bio-medical work, and, beginning in 1963, 17 in family planning administration. Fellows have come from 45 countries; 181 of the 302 Fellows have been from Asia.

The Population Council's budget has risen from \$147,000 in 1953 to about \$5 million in 1964. Financial support has come from the Council's founder and chairman, John D. Rockefeller 3rd, from other individuals, and from several foundations, particularly Ford and Rockefeller. Though it is a relatively small organization, it is still the leading world source of technical assistance, governmental or non-governmental, in this important area.

The Council is currently advising on national family planning programs in South Korea, Taiwan, Pakistan, Turkey, and Tunisia, and is assisting the government of Thailand in a pilot family planning project. All of these countries have resident Council representatives. In addition, the Council has assisted the United Nations in the establishment of regional demographic centers in Chile, Egypt, and India, and is involved in pilot projects in many other places, including Latin America and the United States. It is concerned with the development of new contraceptive technology, and has supported most of the research and evaluation of the newer intra-uterine contraceptive devices.

The Council is organized in three divisions, Demographic, Bio-Medical, and Technical Assistance, and is staffed by specialists in demography, physiology, public health administration, the social sciences, and communications. It operates with a staff of 32 in its headquarters, where the Demographic and Technical Assistance Divisions have offices, 17 in the laboratories and offices of its Bio-Medical Division at the Rockefeller Institute, and 16 in other countries.

From its beginning the Council has served as a clearinghouse for information about population and family planning. It has helped with the publication of numerous books and reports, sponsored many conferences, and initiated a quarterly bulletin, Studies in Family Planning. It has recently begun to give additional attention to public awareness of population problems.



The President of The Population Council stated in his 1961 Annual Report: "The Council does not advocate to our own government, or to any other, any course of action -- save one. It advocates only that all peoples should study and seek solutions to their own population problems by modern scientific means. The Council, therefore, restricts itself to the technical and scientific fields. This limitation results from no lack of conviction on the part of the trustees and officers about the dangers of rapid population growth. It rests simply on the belief that the scientific and technical fields are those in which our kind of organization can be most effective."

b. The Ford Foundation

"The problem of rapidly expanding world population has been a concern of the Ford Foundation since 1952. Initial grants were made for demographic research and training and for support of the Population Council and the Population Reference Bureau.

"In the 1960s Foundation support expanded to medical and biological research and training and, through its Overseas Development program, to family-planning programs undertaken by governments of developing countries. In 1963, the Foundation established a separate Population program, which concentrates on medical, biological, social, and public-health research and training in the United States and Europe. Foundation assistance for efforts in the field of population through February 1965 totaled \$45.5 million.

"To help expand educational resources for work on population problems, the Foundation has provided support for the development of a university-wide population program at the University of Michigan and for major population study centers at Cornell, Georgetown, Johns Hopkins, and Harvard Universities, and the Universities of Chicago and Pennsylvania. An important aspect of these centers is the training of foreign teachers and officials for work on population problems and family planning in their countries.

"To help developing countries better analyze their population problems, grants have been made to Princeton, Pennsylvania, and the London School of Economics and Political Science for demographic training and research.

"To draw more young scientists to the field of reproductive biology and to accelerate the pace of research, grants have been made for programs at the University of Wisconsin, the Worcester Foundation for Experimental Biology, Massachusetts; the University of Geneva; the Karolinska Institute and University of Lund, Sweden; Harbor General Hospital, Torrance, California; and the University of Pennsylvania. Sixteen medical schools in the United States have been given research stipends for undergraduates working in areas of reproductive biology. Research at leading demographic, biological, or family-planning centers has also been assisted in Argentina, Australia, Chile, Colombia, Denmark, Malaysia, the Philippines, and the West Indies.

"Major primate colonies for reproductive research are being established with Foundation support at the Universities of Pittsburgh and Pennsylvania, and funds have been earmarked to establish a large scale primate research center overseas.

"The largest Foundation-assisted program in population abroad is India's. Grants have gone to twelve research laboratories and to several training centers. At the Indian government's request, funds, research equipment, and consultants have been provided in two dozen specialized fields ranging from statistical analysis to contraceptive manufacture. Research on motivational factors in India's many population groups was initiated with a Foundation grant. The Foundation has also committed \$5 million for a family-planning and health program in five states to organize intensive district projects and to assist the central government in setting up National Institutes for Health Administration and Family Planning.

"Other major Foundation efforts in the population field abroad included support of an official program of family-planning research and training in Pakistan and of a program to set up family-planning centers in cities and semi-rural areas in Tunisia."

#### c. The Rockefeller Foundation

"The interests of The Rockefeller Foundation in the population field are centered around four major areas: demography; biological and medical research on the physiology and biochemistry of reproduction; support to family planning services on a research and demonstration basis; and to educational programs directed to clarifying the effects of population growth on individual and collective social and economic well-being. The Foundation has over the years supported work in the first two of these four broad fields. The present program continues these in sharper focus, adds the latter two action fields, and may in the future be extended to other areas which further experience shows to be critical to the ultimate goal of population stabilization.

"Demography. The Foundation has had a substantial interest in the development of demography and the training of demographers. Over several decades, research and training have been supported at the Office of Population Research of Princeton University; at the Scripps Foundation for Research in Population Problems, Miami University, Oxford, Ohio; at the University of Michigan; at the University of California at Berkeley; and by the Population Investigation Committee, London School of Economics.

The Population Council has been aided in its fellowship program for the training of population specialists from Asian, African and Latin American countries.

"Demographic research is now reasonably well supported in the advanced countries. The Foundation expects to aid the development of the field in the newly emerging countries on a broad basis, and elsewhere to continue to support research which has a close relationship to worldwide population problems.

"There is still a major need for trained demographic personnel in the underdeveloped countries. For the foreseeable future these countries will have to rely for all but preliminary basic training on the resources already established in the advanced countries. The Foundation therefore plans to assist centers which have developed graduate and postgraduate demographic training programs of high quality and to assure the availability of fellowship funds for trainees.

"Biology of Reproduction. Beginning in 1931, the Foundation assisted in the development of increased understanding of the biological mechanisms associated with the reproductive process through grants to the Committee for Research in Problems of Sex of the National Research Council. This support, which terminated in 1963, provided just over \$2 million for research in the field. Much of the early work on reproductive endocrinology in this country received support in this way. In five universities research programs originally supported through the National Research Council outgrew the Council's resources, and were aided directly by the Foundation. The Universities of California, Chicago and Rochester, and Columbia and Cornell Universities received a total of \$1,066,000 under this program. In addition, many individual investigators and university departments received aid for research in a wide variety of fields related to reproductive biology under the Foundation's experimental biology program.

"Funds now available from other sources are in general sufficient for the support of both basic work and clinical research in the advanced countries. The present population program will emphasize the development of work in reproductive biology in the emerging countries.

"Action Programs in Population Control. Here, the Foundation expects to support programs on a research and study basis, as well as selected programs designed for demonstration or teaching.

"Trained personnel at all levels are needed for large-scale government-supported or -sponsored family planning programs in effect in a number of countries, and it is expected that the need will increase in the future. Accordingly, the Foundation plans to support teaching centers, primarily in the United States, which offer training programs for population specialists.

"Education: The Foundation plans to aid programs designed to increase public awareness of the importance of population problems, and to support work in allied fields, such as motivational research, communication studies, etc., related to increasing the possibility of bringing about individual awareness of the need for population limitation."

Grants in the Fields of Population Studies:

<u>Year</u>	<u>Total</u>
1943 - 1949	\$639,280
1951 - 1957	\$1,052,310
1958 - 1963	\$2,458,380
1964	\$2,786,500

d. Planned Parenthood - World Population

"Planned Parenthood - World Population: Organized a half century ago, the Planned Parenthood Federation of America, Inc. merged in 1961 with the World Population Emergency Campaign. The basic objective of the group is: To make available to all the peoples of the world the most effective and acceptable scientific means of voluntary conception control, and to encourage them to use them, so that responsible parenthood will become a universal reality. The organization presses for expansion of Federal support for research in fertility control. Some 120 affiliates in 33 states and the District of Columbia operate medically supervised clinics which offer instruction in a variety of family planning techniques." Support is provided for conferences, consultations, public information, publications; and research support through Margaret Sanger Research Bureau which was designated as PP-WP's research division in 1963. Grants are provided in evaluation, motivational and related fields. In the international population field the International Planned Parenthood Federation, with member groups in 35 countries, has in the past two years played an increasingly significant role. Planned Parenthood - World Population leaders have actively participated in shaping the IPPF program, and PP-WP provides major financial support to the world organization (1963, \$397,990).

Planned Parenthood - World Population has a staff of 63 individuals with professional experience in the fields of medicine, public health, social work, nursing, social science, public relations, in its six Divisions: Field, Medical, Social Science, Information and Education, Program Development, and Fund Raising.

Annual income from some 80,000 individuals, from patient fees, and from 835 foundations in the United States in 1963 amounted to \$6,327,531, as compared with \$4,283,061 in 1958.

e. The Population Reference Bureau, Inc.

The Population Reference Bureau, Inc. was founded in 1929 as a non-profit educational membership organization. "Recognizing that the mass media, including the press, radio, and television, are powerful influences in public education, the Bureau provides background information to these media in order to give as many people as possible the facts about population dynamics - to create an intelligent awareness of the mounting population problem among the millions of people not likely to be exposed to the subject in any other way. In addition, the demographic implications of relevant national and international events, analyzed in the Bureau's publications, have enabled editors, writers, and commentators to bring to public notice the pervasive impact of population factors on each person's life." In 1963 the expenditures amounted to \$239,763.

f. Milbank Memorial Fund

Since 1928 the Milbank Memorial Fund has undertaken research and provided a limited number of grants in the field of demography. The research has included cooperative projects with the Census Bureau, other governmental agencies, universities, and other foundations. The Fund has also sponsored meetings and conducted and participated in research on fertility and the social and psychological factors affecting fertility.

g. The Hugh Moore Fund.

This privately endowed foundation was established in 1944 to call to the attention of the American public the dangers inherent in the "population explosion". The Fund has awarded grants to the Population Reference Bureau, International Planned Parenthood Federation, and has awarded occasional technical and scientific research grants. The Fund initiated the World Population Emergency Campaign.

h. The Pathfinder Fund.

The greater part of the Fund's activities are in the field of medical family planning. Organized in 1958, the Fund makes grants to various scientific organizations, assisting in formation of family planning groups, and carries on extensive work through Fund field workers in over 35 foreign countries.

i. Among the professional, religious, and other groups now active in the population field in the United States are: American Public Health Association; American Medical Association; National Committee on Maternal Health; American Eugenics Society; American Association for the Advancement of Science; National Association of Social Workers; Y.W.C.A.; Catholic Association for International Peace; National Catholic Welfare Conference; the American Assembly; National Council of the Churches of Christ; Unitarian Universalist Association; Union of Hebrew Congregations; American Baptist Convention; Commission of Churches on International Affairs; Brush Foundation; Conservation Foundation; Women's International League for Peace and Freedom.

1. United States Universities.

Among the University population study centers are: University of California, Cornell, Chicago, Harvard, Johns Hopkins, Michigan, North Carolina, Notre Dame, Pennsylvania, Princeton, Wisconsin, Georgetown University, the George Washington University Center, University of Puerto Rico and the University of Hawaii. Thirty six Medical Schools and eight Schools of Public Health are engaged in research activities in reproductive biology or in teaching in the population field.



## II. U.S. GOVERNMENT - A.I.D.

### a. Circular Airgram A-280

On March 2, 1965, Circular Airgram A-280 was dispatched to all A.I.D. Missions (full text, see Attachment 1). Excerpt:

"At present it is important that each A.I.D. Mission assign one of its officers, as Latin American Missions have done, to become familiar with the problems of population dynamics and program developments in the country and to keep the Mission Director, Country Team personnel and AID/W appropriately advised.

"A.I.D. does not advocate any particular method of family regulation. As noted earlier, freedom of choice should be available.

"Requests for assistance in this field, as in others, will continue to be considered only if made or approved by appropriate host government authorities. Such assistance would, in any case, merely be additive to the host country's own efforts and assistance from other sources.

"Requests for assistance will be handled, as in any other field, on a case by case basis. We are prepared to entertain requests for technical assistance. Where appropriate, the requests will continue to be referred to private agencies. We are prepared to receive and consider requests for commodity assistance. A.I.D. will not consider requests for contraceptive devices or equipment for manufacture of contraceptives. Experience has made it clear that the cost of these latter items is not a stumbling block in countries that are developing effective programs. Other items could be provided by A.I.D., such as vehicles and education equipment for use in maternal and child health and family planning programs. We are also prepared to receive requests to assist in local currency financing of such programs."

### b. Airgram CA-9187

On March 3, 1965, Airgram CA-9187 was dispatched to all U.S. Embassies attaching the A.I.D. Circular Airgram A-280 population message in its entirety:

"The following circular has been sent to all A.I.D. Missions to report recent developments and bring A.I.D. personnel up-to-date in the population field. It should be brought to the attention of senior embassy officers. The Department hopes that Ambassadors will extend full cooperation to Mission Directors, as appropriate, in carrying out these programs."

### c. Actions taken or planned to implement the extended A.I.D. assistance policy in the population field:

1. Staff. Notable allocation of time to population policy by Senior Staff has been made, particularly during the past six months. Fully half time has been allotted to A.I.D. population work by Dr. Leona Baumgartner, AA/TCR,

Dr. Philip R. Lee, Chief of TCR/Health Service; full time by Dr. Bruce Jessup, TCR/Health Service/Population Reference and Research Branch. In the Office of Program Coordination, population coordination and staff responsibility rests with the Associate Assistant Administrator, Mr. Robert Smith, and Mr. Leonard Kornfeld of PC/EPD.

In the past month the Regional Assistant Administrators in FE, NESR, and Africa Regions have assigned responsibility for population coordination in each Region to one man in addition to regular duties. As requested in Circular Airgram A-230, Mission Directors in these Regions are designating a Mission A.I.D. population officer from their staff. In the Latin America Region, the population staff consists of a part-time consultant, a full-time physician, an administrator, and one secretary. One demographic, one economic and two medical consultants were appointed in 1964 by A.I.D. to assist with population program development. One demographic officer from the U.S. Census Bureau, Dr. James Maslowski, will join the TCR/Population Reference and Research Branch in May 1965. Through university contracts and a contract with the Population Council, it is planned to provide the Agency and the Missions with additional population consultants in the coming year.

2. Budget: For FY 1965, \$1,230,000 has been budgeted for TCR/Population Reference and Research Branch and 1,041,000 for the Latin America A.I.D. Population Office. These are central funds to be allocated in large part for institutional development of U.S. and Latin American training and research centers in the population field. With the extension of A.I.D. assistance into direct family planning program support, it is anticipated that requests from less developed countries to Missions may total several million dollars in the next few months. Some of the informal discussions with India, Pakistan, Turkey have indicated need for financial support of programs to train family planning workers in large numbers; U.S. consultants in all fields bearing on development of country-wide family planning programs; field research and program evaluation; transportation and mass communications equipment; professional salary supplements, etc.

3. Training: March 22-26, 1965, the Latin America Population Office/AID conducted a training course in population at the School of Public Health of the University of Puerto Rico, attended by Population Officers from twenty AID/LA Missions. In June of 1965, a one-week seminar will be conducted at Johns Hopkins for fifty selected Population Officers from Missions in all four Regions and from AID/W. Through PASA's with the U.S. Public Health Service, Census Bureau, and the Children's Bureau, new training courses in vital statistics, demography, measurement of population change, and midwifery and family planning are being financed by A.I.D., and will be ready for foreign students in September 1965.

Major contracts are being negotiated with the Population Centers at Notre Dame, Michigan, Johns Hopkins, and North Carolina Universities to develop their capability to support through training programs, research, and consultation the population work of A.I.D. The Latin America Population office in January 1965 allocated \$400,000 to DESAL (Chilean Center for Economic Development) for establishment of a center for the study of family planning.

4. Research: Funds are available through TCR/AID/Division of Research. A research proposal, submitted by Dr. Forrest Linder, National Center for Vital Statistics, USPHS, received approval by the A.I.D. Research Advisory Committee in January, and it is hoped will soon be cleared.

5. Regional A.I.D. Activities - PC Activities

a. The Latin America Population Unit is staffed by a full-time physician Director, Dr. Benedict Duffy, an administrator, Miss Nadine Saxton, and a secretary. Dr. Edgar Berman serves as Consultant and the University of California provides two part-time demographic consultants to the Latin American Missions. There are designated population officers in twenty Latin American Missions. The LA Population Unit has negotiated with the Department of Social Affairs of OAS on the formation of a CIAP population survey team; negotiated contracts with DESAL and CELADE for training purposes; is exploring contracts with Notre Dame University, the Population Council and FERES, a Church-related social research and action federation to do studies on values, attitudes and motivations in family planning in Brazil, Colombia and Peru. The Latin America Population Unit has recently aided the program for family planning of the Jamaican Government through provision of educational services. The Latin America Population Program is assisting both directly and through Mission Population Officers in the development of institutions for population study in Costa Rica, Venezuela, Mexico, Brazil, Colombia, Chile and Peru.

b. Africa Region -- The Region has assigned the Health Division Chief, Dr. Clayton Curtis, as the Regional Population Coordinator; a study has been prepared by Mr. Black, AFR/DP, on Agricultural Production and Population Growth in Africa; Missions have been invited to send representatives to the Johns Hopkins/AID June Conference, and to appoint Mission Population Officers.

c. NESAS Region -- The NESAS Region has asked that the Institutional Development Chief, Mr. Harold Winer, add population coordination to his other duties; sent out a follow-up airgram on training programs, policy, et al to all NESAS Missions. The India A.I.D. Mission has borrowed for three months, from the Johns Hopkins India Population Staff, a physician to assist with development of Mission population. Dr. Baumgartner served March and April as a member of the United Nations Population Commission, which was invited to study the problem for the Indian Government. NESAS Missions have appointed senior Mission staff members to serve as population officers.

d. FE Region -- The FE Region has assigned responsibility for regional population coordination to the Chief of the Health Division, Mr. John Clay; follow-up airgrams on training and meetings have been dispatched. The support long given to Korea and Taiwan in health and family planning is currently being expanded through support of requests by the Taiwan Government and the University of Michigan; support is being given to the International Planned Parenthood Seoul Conference, to be held May 26-29, 1965.

e. A.I.D. Program Coordination Staff activities in the population field -- The Assistant Administrator of PC and an officer in PC/EPD have been designated as the coordinators of population activities. Current activities include development of population statement of policy for Program Submission Report; C-5 Tables for Missions on population; and demographic material for assistance in Mission preparation.

6. A.I.D. Population Liaison with U.S. Private and Government Agencies

It has been the responsibility of AID/TCR and the Latin America Population Office to maintain close contact with the organizations listed in Part I; with the National Academy of Science Population Committee; the National Science Advisor's Staff; Bureau of the Budget; Departments of Commerce; HEW, particularly USPHS and NIH; State Department; Departments of Agriculture and Interior.

Summary:

Leadership in the United States in technical assistance in the population dynamics and family planning fields has come from private organizations, agencies, and foundations. For several decades A.I.D. has provided assistance in population and census studies through a PASA with the U.S. Census Bureau to some thirty requesting countries. Over the same period of time A.I.D. funds and technical assistance in the general health service field have provided the foundation for medical services which are now being used, particularly in Taiwan and Korea for the implementation of their family planning programs, relying heavily on the pill and the IUD. In 1965, the type of assistance in the population field available through A.I.D. has been expanded significantly. The A.I.D. assistance program in the population field, to implement the policy expansion announced in 1965, is presently being developed and staffed.

## ECONOMIC PROGRAMS TO PREVENT BIRTHS\*

Stephen Enke, Ph.D.

### Introduction

Many of the Less Developed Countries (LDC's) seem destined to double their populations by 1995. But they cannot double their invested capital much sooner. Natural resources ("land") are fixed in supply. And technical productivity is not likely to increase at 2.5% yearly. So gross national product divided by population may barely rise in these countries.

However, if national economic resources were devoted to retarding population growth rather than accelerating production growth, these resources could be 100 or so times more effective in raising some LDC's outputs per head.

The economic worth of preventing a birth in a seriously overpopulated LDC is usually from once to twice the annual per capita income of that country.

The resource cost of preventing a birth varies according to method used, but is roughly from \$5.00 to \$7.50 over 5 years. With recent devices such as the intrauterine coil it is perhaps

---

\*The ideas presented in this paper are extremely brief summaries of research by the author described more thoroughly elsewhere. References to such include: "The Gains to India from Population Control" (Review of Economics and Statistics, May 1960); "The Economics of Government Payments to Limit Population" (Economic Development and Cultural Change, July 1960); "Government Bonuses For Smaller Families" (Population Review, July 1960); "Some Reactions to Bonuses for Smaller Families" (Population Review, July 1961); and Economics for Development (Prentice-Hall, 1963) Part IV. This paper has also been influenced by "National Family Planning Programs: A guide", Studies in Family Planning, No. 5, December 1964, by B. Berelson of The Population Council.

as low as \$2.00. Cost per couple participating in a reasonably mixed method program to reduce births is roughly \$1 per year.

A typical LDC must cut its crude birth rate by one-third if it wishes to halve its natural increase rate. This means that from 8 to 12 adults per 100 population would have to be practising contraception in some rather effective form. The cost of such a national program would be about 10 U.S. cents annually per head of population. The resultant budget would constitute, for most LDC's, about 1% of the cost of their present overall development programs. This 1% of total development budgets, spent reducing births, could be as effective in raising output per head as the other 99% altogether.

### Superior Effectiveness of Resources Invested in Reducing Births

Output per head ( $V/P$ ) can be increased by investing resources in making the output numerator larger or the population denominator smaller than they would otherwise be in say 1975.

Suppose \$0.5 million worth of resources are invested every year in industrial plants to raise national output. The rate of return on these investments is 15% a year. After 10 years, \$5.0 millions has been invested, and the output increase ( $\Delta V$ ) attributable to it is \$0.75 millions a year. Perhaps national output ( $V$ ) at the start in 1965 was \$500 millions. Then the proportionate change in yearly national output ( $\Delta V/V$ ) due to this \$5.0 investment is .0015.

Now suppose \$0.5 millions of resources - but medical and contraceptive resources this time - are invested each year in a birth reduction program that stresses the use of intrauterine devices (IUD's). The cost per participant each year is about \$1 so there are 500,000 participants on an average each year during the 1965-75 time period. And perhaps the live birth fertility of a typical woman participant - or female partner of a male participant - is 0.15 infants a year. Thus the reduction in births ( $\Delta P$ ) over 10 years is .75 million infants. Perhaps national population at the start in 1965 was 5.0 millions. Then the proportionate change in national population ( $\Delta P/P$ ) due to this investment is 0.15.

If \$5.0 millions over 10 years gives a  $\Delta P/P$  of .15 when used to retard population growth, and a  $\Delta V/V$  of .0015 when invested to accelerate output growth, the superior effectiveness ratio of birth reduction over output expansion ( $V\Delta P/P\Delta V$ ) is 100 times.

This ratio of superiority varies proportionately with assumed rates of fertility of women practising contraception ( $f$ ), and inversely both with returns to capital ( $r$ ) and with cost of



program per participant. Table 1 gives examples. It is staggering to encounter such a ratio when comparing different economic policies.

Table 1

Superior Effectiveness Ratio ( $VAP/PAV$ )  
(Sensitivity to  $f$  and  $r$ )

		$f$			
		.10	.15	.20	.25
$r$	.20	50	67	100	125
	.15	67	100	133	167
	.10	100	133	200	250

It does not follow, however, that conventional development investments (e.g., power dams and cement plants) should be terminated in favor of birth reduction programs. At most, these latter programs could never usefully cost more than perhaps 1/25 of the former's budgets. And, in free societies, the State can only use resources to slow population growth to the extent that adults want fewer children.<sup>1/</sup>

### Economic Worth of Preventing Births

Infants at birth have a capital value to the nation at large - negative or positive - however much they are loved by parents. As potential workers they are an asset, even though some may not survive to 15 years of age, and even though their marginal product of labor may be low because capital and land are relatively so scarce. But as consumers, immediately and all their lives, they are a liability.

Conceptually, for 1000 representative infants born in 1965, one can estimate the present discounted value of their future streams of production and consumption. In an LDC with a  $V/P$  of \$100 yearly, future consumption of a typical infant may be worth \$250 now. And its future output contribution, if the marginal product of labor is between half and one-quarter the output per worker, may be \$100. Thus a representative "marginal" infant will

<sup>1/</sup> This paper does not consider the relative worth of improving population quality through expenditures on health and education.

subtract more from the economy than he adds, over his or her life, and this difference has a present discounted value of minus \$150.

In most overpopulated LDC's this ratio of about 1.5 the income per head will hold approximately. Applying this ratio indicates roughly the maximum value of resources that the State can afford to prevent such a birth forever. Thus, if V/P is \$250 yearly, perhaps the worth of preventing a birth permanently is somewhere between \$250 and \$500.1/

### Economic Cost of Reducing Births

The economic resource cost of reducing births through contraceptive practices is extraordinarily low. This cost varies of course depending upon the mix of methods used - IUD's, vasectomies, condoms, foam tablets, pill, etc. For a major national program, stressing a reasonable mix of methods, over 5 years the cost per birth prevented would probably be between \$5.00 and \$7.50. This estimate assumes - see Table 2 - that 70% of "acceptors" use IUD's, 20% use condoms and foam tablets, and 10% choose vasectomies. Indicated resource costs would be mostly a government charge. Births prevented depends on many assumptions, including the number of live births a couple adopting no controls would have.

Any government program should apply a criterion in deciding which contraceptive methods to stress. Biological effectiveness is not a proper criterion: a method with a high failure rate, such as withdrawal, may be so cheap to publicize that births reduced per unit funds expended may be very high. Conversely, the pill is among the most effective methods, but it could cost \$6000 for 100 couples over 5 years as against \$200 for IUD's. Rather, where program budgets are unalterable, the suboptimum method is that which maximizes birth reductions per unit cost. However, a higher optimum is attained if the budget itself is a variable, being selected so that the economic cost of an extra reduction in births equates its economic worth.

1/ A shorter-term approximation of the value of preventing births is based on the present value of the consumption "saved" during the first 15 years of a child's life. In a nation with a V/P of \$100, and discounting at .15, this is about \$280, allowing for childhood deaths. The equivalent worth of definitely having a child next year instead of this year ("spacing") is then \$36 roughly. Simply not having an infant this year is worth about \$50-\$70 depending on fertility rates. All these estimates scale with national V/P.

## Necessary National Budgets for Birth Reduction Programs

Suppose an LDC wished to reduce its natural increase by one-half.

Typically, crude birth rates in 1965 could be 42 per thousand a year. Death rates by 1975 could be 18 instead of today's 22. A one-third cut of 14 points in the birth rate will then reduce annual population increase from 2% to 1% a year.

In representative LDC's, roughly one-third of the population are fecund and exposed. Hence, per 100 population, about 16 women (or 16 men) are conceivable participants in a national birth reduction program. But from these must be deducted young couples who want to start families, women actually pregnant, and matrons who are not yet pregnable again.

Accordingly, a realistic "target" group per 100 population is perhaps 8 individuals in any single month, 10 a year, and 12 during 5 years.

If the cost per year for an average participant is \$1, and 10 individuals per 100 population are participants in any year, the annual budget cost per head is U.S. 10 cents.

What budgets would be needed in a few selected countries is given in the second column of Table 3. Column 4 gives these budgets as a per cent of these nations' current total programs for economic development. The average is under 1 per cent.

## Using Incentive Payments

Governments of LDC's will soon recognize that each participant in a well planned birth reduction program (a) costs during 5 years about \$5 in resources, (b) prevents the birth of at least .75 infants, and (c) thereby "saves" from \$75 to \$150 worth of net consumption for even the poorest national economy. Unless religion prohibits, these governments will encourage birth reductions, and actively seek voluntary participants. Each additional "acceptor" contributes significantly to higher incomes per head.

Sooner or later these governments will also use financial incentives to promote birth reductions. Examples are payments for "introducing" people at the clinics and generous fees to private doctors for IUD insertions. Wide retail margins may be allowed distributors of condoms, etc.

Bonuses of \$25 a year might be paid to married women who remain non-pregnant by whatever means after say their second child.

Volunteers for vasectomy, depending on age, could reasonably be paid a bonus typically equal to several times the annual per capita income. Noteworthy is that such bonuses are so-called transfer payments, represent cash flows, and hence do not divert resources from production.

#### Comment

It is paradoxical, although resources used to retard population growth may be 100 times more effective in raising output per head, that 99% and more of economic development programs should still be spent to accelerate production growth. Part of the explanation lies in religious conviction, cultural attitudes, and simple ignorance of contraceptive possibilities among the poor. Meanwhile, whether admitted or not, it is among the wealthy and educated that contraception is mostly practised in all countries.

Table 2

**Approximate Cost-Effectiveness of a National Birth Reduction Program  
Using an Economical Mix of Contraceptive Methods  
(Per 100 "Acceptors")**

<u>Method</u>	<u>Number "Acceptors"</u>	<u>5-year Resource Cost</u>	<u>5-year Birth Reduction</u>
IUD's	70	\$140	70
Vasectomies	10	40	10
Condoms & Tablets	20	240	10
5-Year Totals	100	\$420	90
Acceptor per Year		\$ 0.94	.18

Table 3

**Estimated Cost of Birth Reduction Programs Relative to  
National Development Budgets for Selected Countries**

<u>Country</u>	<u>Population (000,000)</u>	<u>Est. Cost Family Planning Program (000,000 yr.)</u>	<u>Total Cost Development Program (000,000 yr.)</u>	<u>Relative Cost of Program to Reduce Births</u>
	(1)	(2)	(3)	(4)
Brazil	80	\$ 8.0	\$2,043	0.4 %
India	470	47.0	3,921	1.2
Mexico	40	4.0	412	1.0
Pakistan	107	10.7	1,064	1.0
Taiwan	13	1.3	149	0.9
Turkey	30	3.0	538	0.4

Col. 1, 1964 estimates.

Col. 2, population x10 cents.

Col. 3, includes U.S. assistance, coop. country's contribution,  
and expenditures from other external aid sources.

Col. 4, Col. 2 divided by Col. 3.

LOWER BIRTH RATES - SOME ECONOMIC ASPECTS

(12 February 1965)

ERRATA

P. 4, line 14:	K should be k
P. 7, last line:	.20 should be .25
Table 1, Col 3;	Heading should read: "Postponing a Fraction of a Birth Forever"
Table 2, last row, last 3 numbers:	Should be 562.5, 5.62, and 1.12
Table 4, footnote, 3rd to last line:	"Two-thirds" should read "one- third"



17-e

LOWER BIRTH RATES - SOME ECONOMIC ASPECTS

Stephen Enke

Consultant

Office of Program Coordination  
Agency for International Development

12 February 1965

# LOWER BIRTH RATES - SOME ECONOMIC ASPECTS

## C O N T E N T S

<u>Section</u>	<u>Page No.</u>
PREFACE	
PART I - Why Fewer Births?	
A - The Demographic Threat . . . . .	1
B - Economic Cost of Uncontrolled Births . . . . .	2
Increasing population with over population p. 3	
High birth rates and excessive infant dependency p. 5	
Calculating the present discounted value of infants p.3	
Return on investments in labor p. 11	
C - Comparative Effectiveness of Resources Invested in Birth Reductions . . . . .	12
PART II - How Reduce Births?	
A - Probable Magnitudes & Cost of Major Programs . . . . .	16
Magnitude of program p. 16	
Cost of program p. 20	
Possible specific constraints p. 22	
B - Preference Among Methods . . . . .	26
Government determination of "best" method p. 26	
Preferences of "acceptors" p. 33	
Reconciling the preferences of government and public p. 36	
C - Resource Costs and Bonuses to Increase Acceptance. . .	38
Using resources for popularizing reductions p. 39	
Financial incentives for program workers p. 40	
Financial incentives to attract participants p. 41	
CONCLUSIONS . . . . .	45
FOOTNOTES	
REFERENCES	
ANNEX I	

## LOWER BIRTH RATES - SOME ECONOMIC ASPECTS

### PREFACE

This short essay is written by an economist for use by those concerned with rapid population increases. It outlines some economic aspects of recent demographic and medical events that relate to the evolving population policies of the Less Developed Countries and the United States Government. It is offered as personal opinion only.

## PART I - WHY FEWER BIRTHS?

### A. The Demographic Threat

The demographic nature of the population threat is now so widely recognized among policy makers that only a few magnitudes deserve repetition.

(1) Most Less Developed Countries (LDCs) are experiencing a natural increase in population of from 2 to 3.5 per cent a year - which means a doubling of population every 38 to 22 years.

(2) All LDCs have "high" birth rates of over 30 births per thousand population a year, and some approach 45. All More Developed Countries have crude birth rates of under 30 per thousand a year. High birth rates are a characteristic, consequence, and cause of under-development.

(3) The rising rate of natural population increase during the last two decades is attributable to rapidly falling death rates. Mass epidemics have been largely controlled by such traditional public health measures as inoculation and quarantine. Malaria control has proved to be a successful and inexpensive way of indirectly reducing fatalities. In most LDCs it is expected that death rates will continue to fall, although not perhaps so fast or so inexpensively as in the recent past. Further improvements will have to depend more upon medical care and hospital treatment of individual patients. Nevertheless, over the next decade or two, many suppose that death rates will decline faster than will birth rates in a majority of LDCs.

(4) Current age specific fertility and death rates are unstable.

They cannot continue for many more decades in already overpopulated countries that are effectively closed economies. Either birth rates must decline, or death rates attributable to malnutrition and even famine must rise towards the end of this century. International migration is probably not a feasible solution for Asia. Nor is it probable that mass movements of food grains and concentrates can or will be made available in sufficient quantities to provide more than an extra decade or so in which to reduce birth rates before disaster.

(5) Thus little time remains for those countries that have (a) high rates of natural increase, (b) high population densities already in terms of agricultural and other economic resources, and (c) too numerous and ethnically distinct a population for emigration to provide adequate relief. India, Pakistan, and Egypt notably fit this description. But there are many others.

#### B. Economic Cost of Uncontrolled Births

The economic cost of overpopulation and/or high birth rates takes several forms. The most serious are not always the ones most immediately recognized by governments. Thus, planning authorities in some countries are much concerned by the cost of extra schools and other social infrastructure necessitated by a rapidly increasing population. This is a serious problem. But other aspects of overpopulation and/or high birth rates are more critical and more pervasive.

### Increasing population with over population

The countries that most rightly fear a doubling in population in 38 to 22 years are those that are already "overpopulated". <sup>1/</sup>

Officials in these countries sense that gross national output will not have doubled by the time that population has doubled. This is because a more or less doubled labor force, accompanying a twice as large population in say A.D. 2000, will not have doubled investment and doubled land resources with which to work. Innovations that result in more output per unit input of labor, capital, and resources may not be sufficient during the next 30 odd years to offset slow capital accumulation and the inability of "land" to multiply itself also. In this case there would be a reduction in output per head and no economic development.

Any extra GNP ( $\Delta Y$ ) stems from extra employed labor ( $\Delta L$ ), extra capital stock ( $\Delta K$ ) and extra innovations that increase productive efficiency. There can only be a zero natural resource increase ( $\Delta R$ ). Thus, one possible macro-economic approximation for short-time periods of say five years is:

$$\% \Delta Y = \{1 (\% \Delta L) + k (\% \Delta K)\} + \{1 + \phi\}$$

where  $\phi$  is increase in "productivity" over the period.

If population growth dynamics permit one to suppose that the ratio of population to labor remains unchanged over 5 years, and one assumes that the degree of employment of labor is about constant, some predictions can be made about the effect of extra population on output and income per head if the values of  $l$ ,  $k$  and  $\phi$  can be estimated roughly. In certain situations  $l$  and  $k$  may approximate the shares of labor and capital respectively in national



income.<sup>2/</sup> Perhaps  $l = .5$  and  $k = .2$ . That they sum to less than unity, leaving .3 attributable to fixed natural resources, is a measure of the diminishing returns of labor and capital together in terms of "land".

The use of this kind of equation can be demonstrated with a not unrealistic example. Assume a country with a 12% increase in  $P$  and  $L$  during 1965-70. Perhaps  $\% \Delta K$  is 30% over these 5 years.<sup>3/</sup> Then, if there are no innovations ( $\phi$ ) there is a .5 times .2 (i.e., 6%) increase in  $Y$ , attributable to  $\Delta L$ . Also there is a .2 times .30 (i.e., 6%) increase in  $V$ , attributable to  $\Delta K$ <sup>4/</sup>. Summing, after 5 years there is 12 per cent more output to be distributed among 12% more people, so output per head has remained unchanged.

In this example the magnitude of  $l$  provides an inverse measure of "overpopulation". The smaller  $l$ , the greater "overpopulation". The smaller  $l / K$ , the more economically scarce are natural resources.

This hypothetical case also distinguishes Less from More Developed Countries. A more developed country would probably have had a  $\phi$  during 5 years of from .10 to .5. It might also have had a larger  $\% \Delta K$ .<sup>5/</sup>

The main point, however, is that a 12% increase in population and employed labor force resulted in a 6% increase in output attributable to them. Thus, for all age brackets together, extra population means proportionately less increase in output than increase in consumers. Mouths are increasing more rapidly than food and other output. This consideration of birth reduction policies is still too crude though, because age structure is ignored.

Adult males and females in the most procreative ages -- say from 20 to 40 years in backward countries -- produce more than they consume. This is especially true of the men, and could also be true of the women if they had fewer babies. It is mostly the under 15 year olds who subtract from the economy as consumers while adding nothing as producers.<sup>6/</sup>

Thus a reduction of births from 4% of population to 3% during 1965 - 1980 would reduce consumption by dependents without reducing production during the next decade and a half. All those who can enter the labor force at 15 years of age during the next 15 years are already born. Birth reductions must increase the future consumption and/or investment per head of those alive in 1965.

#### High birth rates and excessive infant dependency

It is not sufficiently realized that high birth rates, even in the absence of "overpopulation", impose a severe economic burden on any nation.

The fraction of population under 15 years of age, comprising those too young to be anything but consumers, is primarily a function of the birth rate. The demographic explanation of this relation is somewhat involved. Significant here is that a country with a crude birth rate over 40 per thousand a year is likely to have about 40% of its population too young to work. And a country with a birth rate of 20 might have roughly 20% under 15 years of age. It is the poor countries with high birth rates that have the most onerous dependency ratios.

The cost of these dependents in an LDC is serious in the aggregate. Very young children in really poor and tropical countries may not cost much for food and shelter. But they must and do eat after weaning. As they

approach 15 years they approach the consumption patterns of adults. In the future it is expected that children will increasingly occasion costs to government for social services such as schooling. And the almost universal trend towards urbanization ordinarily raises costs of housing and utilities for parents and municipalities alike.

In a country where per capita income is \$100 yearly, and the savings rate is 8 per cent in total, per capita consumption is \$92 a year. In such a country the undiscounted value of consumption of 0-15 year olds in any single year, averaged after allowing for age distribution, probably approximates \$60 a year per head. But it would give a false impression for these purposes to state that the consumption cost over the next 15 years, of a child born today, is 15 times \$60 or \$900.<sup>7/</sup>

The present discounted value of such a child's consumption, which is alone significant for determining what it is worth to prevent a birth, must take three other considerations into account. First, typical consumption rates by age increase slowly year by year, from almost zero at birth to almost the consumption rates of adulthood by 15 years. Second, not all infants survive to the higher consumption of 10 and 15 years of age. Third, the higher consumption of older children must be discounted by appropriate rates, because such consumption is further in the future for infants born or not born this year. In countries suffering capital scarcities and urgent time preferences, present values of events are far less than their future values, and no less so in the case of dependents' consumption.

Table 1, taking these factors into account, gives present value estimates of released consumption per typical infant not born this year for a \$100 income per head per year nation. These are presented for discount rates of .10, .15, and .20 per annum. Details of calculation are given in Annex I. The main outcome is that a prevented birth this year releases consumption having a present value at .15 discount of \$279. The "average" yearly consumption, allowing for discounting and deaths, is \$19 . The "average" daily consumption has a present value of 5¢ a day.

These estimates are for a country with a per capita income of \$100. They would be about twice as great for a country with a \$200 per capita annual income. Scaling is roughly proportionate so long as yearly aggregate savings remain within 5 to 15 per cent of GNP.

Table 1 also gives ~~e values of~~ postponing (temporarily) and preventing (permanently), an infant birth. The worth of male sterilization (vasectomy) for instance, relates to the value of permanently preventing another birth. But the worth of many forms of contraception -- condoms, for instance -- may relate more to the value of postponing a birth by one or more years.

The simplest approach, and the one perhaps most valid for high birth rate countries and couples that do not practice family planning, is to set the value of postponing a birth by one year at the present value of 15 years consumption times the age-specific fertility rate of the exposed woman. Thus, if 15 years consumption is worth \$279 now and the appropriate fertility rate is .20 a year, postponing one year is worth \$ 70 . (Logically this

estimate should be set against the estimated cost of postponing a birth one year by some particular contraceptive measure.)

Another possible approach, most relevant however to more developed countries where "spacing" is under some control by emancipated couples, is to compare the present values of 15 years consumption if the infant was definitely to be born either this year or next year. The probabilities of birth in any year are then either 1 or 0 and are not the age specific fertility rate. In the "spacing" method of estimation, the discounted 15 year consumption stream is conceptually shifted one more year into the future and then compared with the present value of the consumption of an infant born this year. Calculations are tedious. For a \$100 annual per capita income country, and using a .15 discount rate compounded, postponing a birth by one year is worth \$ 36 now.

These economic savings from permanently preventing or temporarily postponing a birth result from high birth rates and not from overpopulation as defined. The argument for reducing births as an economic development measure is not vitiated if a particular backward country has abundant and fertile land as yet uncultivated. It is the high birth rates common to all LDCs that are one common cause of their poverty.<sup>8/</sup>

#### Calculating the present discounted value of infants

More elegant but difficult calculations of the worth to an economy of birth reductions would combine the two approaches described above. These more refined estimates should take account of both the consumption of dependent children and the low marginal productivity of today's infants

when they eventually join the labor force. This means that the incidence of both high birth rates and of the degree of overpopulation should be gauged so far as possible.

Ideally, in forming birth reduction policies, officials should have estimates of the present discounted value of a newly born infant to the national economy it is entering. This involves discounting to the present the future consumption and production streams attributable to a "typical" infant.<sup>9/</sup> In most, if not all LDCs, the present discounted value of the negative consumption stream will exceed the present discounted value of the positive production stream.

That infants should have a minus value to their country's economy is due to three elements:

- (1) consumption starts now, but production through labor does not begin significantly for 15 years or so, and values in the distant future are compound discounted to the present;
- (2) not all babies survive to enter the labor force, especially in poor and backward countries where death rates for children are relatively high; and
- (3) the marginal product of labor (i.e., extra output per extra worker) in any country suffering from some degree of overpopulation will be less than the average product of labor (i.e., output per worker).

Imagine a group of 1,000 infants born early this year, having typical fractions of boys and girls, intelligent and stupid, strong and weak, etc. After one year as sucklings, and after customary infant mortality, perhaps 825 survive to become more normal consumers. Apart from a few chores around



the family dwelling and land holding, they remain unimportant as producers for 15 years or so, by which time perhaps 800 survive.

These new members of the adult labor force add to output. However, if there are already many adults working with very little land and capital, the extra output of these extra workers will be less than output per worker in the country as a whole. Thus output per worker may be around \$250 a year in a country with a yearly income per head of \$100. But the extra output of the 800 new adult workers may be only \$80,000 or \$100 each.

Their individual remuneration -- in subsistence or money -- will be comparable though to that of other adults of the same sex, age, experience, etc. Thus in effect, wherever there is a degree of population pressure, any increment in population and labor force subsequently will add less to output than that increment subtracts in "wages" and consumption. And this disparity between marginal and average product, when combined with deaths in childhood and discounting the future, makes for negative value infants.

Depending on assumptions regarding diminishing returns, death rates, consumption, productivity, and proper discount rates, hopefully appropriate to each LDC, the value of permanently preventing a birth can logically be estimated for it. Obviously a great deal of empirical research to determine these parameters by country needs to be undertaken. At present these calculations are not being made by development planners.

As an order of magnitude, in populated countries with high birth rates, infants probably have a negative value between once and twice the annual per capita income. Hence, in a country with a serious population problem

and an output per head of about \$100, it is "worth" from \$100 to \$200 to prevent a birth permanently.<sup>10/</sup>

Perhaps more importantly, if several births can be prevented by a couple adopting some contraceptive method that is ordinarily lasting (e.g., vasectomy), the "worth" of this act is several times as large again (perhaps equal to five times per capita income in the case of a young couple with few children already.)<sup>11/</sup>

#### Return on Investments in Labor

There is another but related way of viewing the degree of overpopulation and overfertility in a country. National economies in effect are investing resources to provide real capital goods and to provide labor. Productive members of the labor force must have been supported through childhood and be provided at least sustenance in adult life. The planners of even a semi-socialist economy should pay some attention to the rate of return being earned on resources invested in providing a labor force. And "ideally" they might well seek to allocate resources so that the rate of return on those invested in supplying labor was the same as on those resources supplying capital goods.<sup>12/</sup>

Mathematically, if the future marginal product and average consumption streams are known for a representative 1000 infants, year by year, there will be some discount rate that will attribute the same present values to these two streams. We know that this indifferent discount rate is markedly less than the 15 per cent assumed to be the typical ex ante earnings of capital. And if the undiscounted sum of marginal product values is less than the undiscounted sum of average consumption values -- which is conceivable in

a seriously overpopulated country -- the discount rate that would equate their present values will be negative.

In any event, in most LDCs there is an imbalance. Only about one-tenth of annually available resources are being invested in capital projects earning say 15 per cent a year. Yet roughly one-quarter of available resources are earning close to a zero or negative return as they are inadvertently "invested" each year in providing a labor force. Economically at least, fewer resources should be "invested" in providing labor and more in providing real capital goods and equipment. Moreover, if there were fewer births and hence children to support, it might be possible for government through extra taxation to divert a more substantial fraction of released dependents' consumption into real capital accumulation than will otherwise be the case. <sup>13/</sup>

#### C. Comparative Effectiveness of Resources Invested in Birth Reductions

A reduction of births in LDCs will not necessarily occur merely because it would advance them economically. Clearly a program is needed that will augment the ability and willingness of couples to have fewer babies. And any such birth control program will require the use of varied resources, some of which are scarce and costly.

Hence, a valid question concerns the comparative effectiveness of resources used in reducing births rather than educating children, aiding farmers, or even building factories. Obviously, in a short run of five years or so, factories cannot be substituted for family clinics or engineers for doctors. But over longer periods a nation does have a choice between more output or fewer children than there would otherwise be.

Specifically, if an LDC's goal is to maximize aggregate gross output per head of population in each and every of the next 15 years, should it marginally divert some of its development budget and national resources from investment for extra output to investment for fewer consumers?

Output per head is a ratio of course. It can be raised by increasing the output numerator or decreasing the population denominator from what they would otherwise be at some future date. Resources can be used for either purpose. For example, after 15 years, some given millions of dollars worth of resources invested in real industrial capital might increase national annual output by .004 times. Different resources of equal value, employed in a birth control program, might after 15 years result in a population .100 smaller than it would otherwise be. Such a birth control program would be 250 times more effective a means of raising per capita income per unit of resources so employed.

There are many contraceptive methods that could and should be made more available in LDCs. Any comprehensive program would probably include IUD's condoms, diaphragms, foam tablets, etc. Simply for illustrative purposes in this section, the comparative effectiveness of resources invested in vasectomies and IUDs only will be demonstrated. <sup>14/</sup>

How much can vasectomies for instance, contribute to a reduction in population ( $\Delta P/P$ ) over 15 years?

Let  $V$  be the number of vasectomies a year and  $f$  the otherwise expected annual fertility of the volunteers' wives, averaged over the next 7.5 years, say. Then, ignoring gestation lags, the first year's vasectomies will

reduce births after N years by V.f.N. The second year's operations will reduce births by V.f (N - 1) from start of the program. So, after N years, the absolute change ( $\Delta P$ ) in births is approximately  $V.f.N^2/2$ . <sup>15/</sup>

The proportionate change is  $\Delta P$  divided by P.

How can the proportionate change in output ( $\Delta Y/Y$ ), related to this  $\Delta P/P$ , be estimated after N years? If the resource cost of a single vasectomy is \$c, then the resource cost of a constant scale vasectomy program is V. c dollars each year. Different resources of equal value, if invested in factories and the like, would earn a rate of return of i, say a year. So the absolute change in national annual output ( $\Delta Y$ ) at the end of N years is about V. c. i. N. The proportionate change is  $\Delta Y$  divided by Y.

Thus the comparative effectiveness ratio, of resources invested in reducing births rather than increasing output, is

$$\frac{\Delta P/P}{\Delta Y/Y} = \frac{V. f. N^2. Y}{2. V. c. i. N. P} = \frac{f. N. (Y/P)}{2 c. i}$$

Some not wholly unreasonable values can be ascribed these parameters. Suppose f is 0.2 a year, N is 15, (Y/P) is \$100, c is \$4, and i is .15 a year. This makes the ratio

$$\frac{\Delta P/P}{\Delta Y/Y} = \frac{\$300.00}{\$1.20} = 250.$$

A 250 times superior effectiveness is a staggering ratio to encounter in socio-economic affairs. It therefore needs stressing that the values attributed to f, c, and i are approximate at best. But even if each of these three parameters was adversely wrong by a factor of 2, so that f was .1, c was \$8, and i was .3, the revised superiority ratio would still be over 30. If

the period considered was 10 years rather than 15 years, the effectiveness ratio would be only  $\frac{2}{3}$  as great.<sup>16/</sup> (Contrarily, in many Latin American countries typical Y/P values are more like \$250 a year than \$100, thus raising these ratios 2.5 times again.)

Noteworthy is the adaptability of this comparative effectiveness formula to certain other birth reduction methods than vasectomy. Suppose IUDs were evaluated instead. The only values that might be changed in the final expression are \$c (which might be \$2 rather than \$4) and N (which might be 5 rather than 15 years if IUDs are used to postpone rather than permanently prevent a birth.) The effective ratio is then almost 170.

The main conclusion must be that resources used effectively in birth reduction programs can make an extraordinary contribution to income per capita in LDCs.

This does not mean, of course, that conventional development projects should be cancelled and all resources devoted to birth reduction programs. Practically, available resources that can be used for vasectomies and IUDs are limited by the number of volunteers, and they may continue so far to be few. But these and other birth control methods, some of them only moderately less effective according to this criterion, are likely to become far more acceptable.<sup>17/</sup>



## PART II - HOW REDUCE BIRTHS?

The fact that birth reductions may be a necessary condition of economic development in many LDCs is not unfortunately a sufficient condition to ensure ameliorating action. Not all governments fully recognize even yet the need to lower birth rates if their development aspirations are to be realized. Not all governments have the political courage to promote family planning campaigns that run counter to traditional cultures. And there is uncertainty as to the extent that the peoples in these countries are behind or ahead of their governments in supporting lower birth rates as a national policy. Nevertheless, throughout Part II it will be assumed that governments are serious and cooperating in this regard, and do request U.S. assistance. How **governments can overcome the possibility of very limited public acceptance of family planning will be considered in the final section of this part.**

### A. Probable Magnitude and Cost of Major Programs

How large a birth reduction program is needed to be effective in some sense? How costly will it accordingly be? What sorts of programs make medical and economic sense?

#### Magnitude of Program

Exact birth reduction goals are a matter for a host government to decide. Japan halved its birth rate since World War II, from 34 to 17 per thousand a year in ten years, abortion being widely and openly used, but that nation cannot be considered typical of underdeveloped countries in Asia

or elsewhere. Any realistic goal might have to be more modest, although this only experience can reveal.

Suppose several LDCs wished in one decade to reduce their natural increase rate from 2 to 1 per cent a year. Typically, present crude birth rates could be 42 per thousand a year and death rates 22. But crude death rates will presumably continue to decline -- unless deaths from malnutrition increase significantly -- to perhaps 18 per thousand annually by 1975. The crude birth rate would then have to be cut to 28 to meet the stated goal. This would constitute a one-third cut of 14 points in the birth rate.

A one third reduction in the crude birth rate unfortunately requires a greater contraceptive program than is superficially apparent. It certainly does not mean for example that all exposed couples should practice effective contraception one third of the time during which the women are pregnable. Nor does it mean that it is enough for one third of fertile and exposed couples successfully to use contraception during the number of months that the wife is now typically pregnable.

A reduction in birth rates over say 10 to 15 years, decreases the fraction of population too young to procreate and increases the fraction of child-bearing age. Hence, for the crude birth rate to remain even constant, age specific fertility rates must fall. Perhaps these fertility rates have to fall by something approaching one-half.

As birth and conception rates fall, the number of months that a woman is pregnable from birth to birth increases absolutely, and also relatively to the length of the birth cycle itself. This is because a woman who

conceives may be "safe" for the 10 to 20 months she is pregnant and lactating. The fewer conceptions, the more "unsafe" months in a 5 year period, and the more contraceptive devices will be needed if traditional methods (e.g. condoms) are used.<sup>18/</sup>

A typical LDC's population comprises over 35 per cent of procreative age. But some of these men and women are not fertile or not cohabiting. Thus perhaps 32 per cent are fecund and exposed. And about 16 of these are women and another 16 men of course.

During any month a substantial fraction of these 16 women (or their spouses) will not be eligible, because of pregnancies or post partem amenorrhea, as explained above. Another substantial fraction will be young wives who perhaps want their first children now. If these women who cannot or want to conceive are deducted, perhaps 8 women per 100 national population are eligible in any one month.

However, over even a five year period, substantial turnover is inevitable. If the 8 participating women are ordinarily older women with several children already, perhaps 2 will experience menopause. If the 8 participating women are representative of all fertile ages, 3 or 4 may drop out for 1 to 2 years during this period because they are deliberately having a child.

A policy issue ~~for governments is whether to limit the "target" group to all older women who have had say 3 surviving births. In this case, assuming~~ aggregate crude births are to be almost halved, these participants must have no more children. Is it reasonable to expect that participants' motivation and contraceptive effectiveness are together such that half the

fertile and exposed women, comprising all the women above say 30, will almost never conceive again?

With modern methods -- e.g., IUDs and vasectomies--this goal is not very likely to be achieved. With artificial and traditional methods -- e.g., condoms, diaphragms, and foam tablets -- it is probably not achievable. This is not only because these latter methods have higher failure rates in the contexts within which they are employed. But in addition they require sustained motivation, repeated acts, and continual supplies. For these reasons the drop out rate with traditional methods could presumably be as high as 40 per cent after 5 years.

A really inclusive program directed at "older" and high parity ("many children") women cannot be sustained with such turnover rates. For every 100 such participants, assuming half use traditional methods, about 20 might drop out and another 20 at least might cease to be fertile (menopause or death) during each five year period. These 40 must be replaced. But they cannot be replaced from other women who were over 30 say at the start of the 5 years, because the program had to be practically all-inclusive to attain its goals. Replacements must come from those who were 25 to 30 years old and are now 30 to 35 years of age. Given typical national age distributions, there will not be 40 of such women for every 100 between age 30 and menopause.

Consequently, although a national birth reduction program might initially recruit high parity couples, a program almost to halve crude birth rates must rapidly and increasingly include younger couples with few

children. In other words, because young couples naturally want some surviving children, this means that an effective national program must move from being only a birth prevention campaign for older couples to being also a birth postponement ("spacing") program for younger couples. This transition will be even more necessary to the extent that traditional and high drop out methods are retained in a national program.

The magnitude of a program that can almost halve crude birth rates over 10 years is likely to involve about 8 women per head of total population at any one time. These women may be older and have a low turnover due to aging. Or these 8 equivalent women may be 10 to 14 different women depending on their ages, contraceptive methods used, and drop outs.

#### Cost of Program

What a program of the magnitude described above would cost depends upon many uncertain variables.

One such variable, as explained above, is turnover. Costs will be higher over 5 years if the number of women participating during this period is 14 or 10 for every 8 women participating during any month. This ratio of period participants to monthly participants is likely to have a definite but less than proportionate influence on total program costs.

Another variable is length of program under evaluation. The annual cost of a 10 year period per unit effectiveness will be lower than the annual cost of a 3 year program for instance. There is a "start-up" cost associated with every participant and irrespective of method that can then be "amortized" longer.

The most important variable though is the mix of methods used to postpone or prevent births. A great variety of methods will always have to be offered because personal tastes and circumstances often limit acceptance by each couple to one or two. However, if a program is to achieve some stated birth reduction as economically as possible, the program directors cannot be indifferent to the mix of methods used.

Table 2 illustrates this point. Three different "Method Mixes" are compared, with varying stress on traditional methods such as condoms and foam tablets as compared with new methods such as IUDs and vasectomies. The annual cost per acceptor varies from \$1.94 to \$0.87 with changes in the mix. If Mix #3 were to prevail, the cost is almost exactly a dollar.

Per head of population this would mean an annual cost of 8 cents if 8 per 100 people are participants, 10 cents if 10 per 100 are, etc.

How substantial a fraction of current development budgets a 10 cents per capita annual cost would be is shown in Table 3. Column 2 gives the estimated annual cost for birth reduction programs for selected countries. The penultimate column gives this annual budget as a percentage of current U.S. economic assistance. The last column gives this budget as a percentage of that country's total expenditures for development, including its own contribution and all foreign economic assistance.

The countries selected for Table 3 include several that well recognize their serious demographic situation and are attempting to provide family planning assistance. A full scale program would in most cases cost roughly from 1 to 2 percent of their present development budgets. Such



a birth reduction program costs a higher per cent of total U.S. economic assistance of course (e.g. 5.6% for India).

It can hardly be argued that these countries cannot afford birth reduction programs. And it has been shown that resources so employed are several hundred times more effective in raising per capita incomes than if traditionally employed in expanding output. So there would appear to be a serious gap between what is needed and what is being done.

#### Possible Specific Constraints

It is possible of course that, although local currency requirements of a major population campaign may not be limiting, other more specific constraints may exist.

##### Doctors.

If the more effective and recent methods are used, such as IUDs and vasectomy, the number of doctors or "paramedics" that will be needed should be estimated.

Under ideal conditions a doctor can probably insert 50 IUDs a working day or 12,500 a year. This assumes the patient comes to the doctor and various ancillary services are completed by his assistants. However each woman should be examined after her next period to check on expulsion. And some mothers who are "spacing" may occasionally wish the IUD removed and then reinserted after she has delivered. So each doctor can perhaps annually care for 6,250 women using IUDs. Similarly, a doctor can probably perform about 6,250 vasectomies a year, including removal of stitches and post operative checks.

Assuming Mix #3, and 100,000 acceptors per million head of population, 8 doctors would be needed for IUDs and 3 for vasectomies per million population.

At first glance doctors would therefore not appear a likely shortage. For example, in India which has over 80,000 doctors registered, the birth reduction program envisaged here would require under 5,000. Some other countries are not comparatively so well endowed with licensed physicians. Relative to the rural-urban distribution of people, doctors tend to be located in cities, out of reach of poor and common villagers. Moreover, a fully qualified physician will not wish to limit himself to IUD insertions and vasectomies. He will want a more varied practice, devoting perhaps no more than one day a week to providing these services.

Accordingly, unless the doctors' organizations prevent it, a new class of paramedic could be trained to supplement the services of regular doctors. These paramedics would be qualified only to provide these family planning services. In some cases their specific training would take no more than a month. They would first need a basic education however. Some of the younger and better educated midwives might be so trained.

#### Buildings and Equipment

The number of clinic buildings required, and their size, will depend upon how dispersed operations of the birth reduction program are. Either operations may be intensive and concentrated, beginning in the cities, in which case fewer and larger buildings are needed. Or the program can be

extensive, using many small buildings in numerous small towns, in which case costs per participant are likely to be much higher unless the birth control clinics are associated with other medical services such as Maternal Health and Child Care.

Transportation equipment is within limits a substitute for clinic buildings. Official jeeps and buses can bring paramedics and their equipment to the villages, or villagers to towns where clinics are located. However, while the program is still far from being socially acceptable in general, "acceptors" may not favor the publicity afforded them by official transport and prefer money for a bus ticket home.

One uncertainty is the extent to which mass media equipment will be needed to explain and popularize the goals and methods of the birth reduction program. Mobile sound trucks and film projection units are examples. But all this presupposes that governments are willing to urge family planning on their countries.

#### Foreign Exchange

The foreign exchange component of a birth reduction program is likely to be a small fraction of its total expenditures, perhaps not more than a fifth, and less in the case of high population countries.

Coils and inserters can be domestically and economically produced for any country that will need more than several hundred thousand. Vasectomies require only imported surgical instruments and sometimes imported anesthetics. Thus the two most effective methods, which eventually might be used by over

half of all participants, occasion relatively small foreign exchange needs.

Economical production volume on condoms is somewhat greater but not impossible. Thus, if a man using a condom requires 50 a year, and 30,000 do use condoms per million of population, there is a requirement of 15 million condoms a year in a country with 10 million population. It will then be as cheap to produce at home as to import.<sup>19/</sup> But importation is to be preferred if the demand falls below 5 million a year, unless impossible for political reasons. Countries that do not produce domestically should remove existing duties on private imports of contraceptive devices.

Foreign exchange will be needed in larger proportions if and when the program uses mass media, transports many people, and keeps extensive records. The costs of justifiable office equipment may be not inconsiderable. But it is important that birth reduction officials do more than equip themselves with prestige items of furniture and transport.

## B. Preferences Among Methods

There are two kinds of preferences among methods of birth reduction to be considered. There are the government's preferences. Then there are the public's preferences. Governments may prefer to concentrate on a few methods having high effectiveness per unit cost -- always assuming that the methods it selects are more or less equally acceptable to the public. Governments may also wish to offer free choice of methods to as large a segment of their population as is possible. Participating couples may have even more varied preferences than what governments find it possible or desirable to offer, and some of these popular choices may be quite uneconomic.

### Government Determination of "Best" Method

What criterion should be applied by government to recognize the "best" birth reduction method?

Assuming alternative methods are equally acceptable, something can be said about the trade-off between biological effectiveness and resource economy. Except by coincidence, the "best" method is not that which during some period:

- (1) minimizes pregnancies by a given group of fertile and exposed women (i.e., has the lowest "failure rate");
- (2) minimizes the cost of assisting a given group of fertile and exposed women to reduce pregnancies;
- (3) minimizes pregnancies from a given group of fertile and exposed women, all of whom must be assisted, from a given budget; and
- (4) minimizes pregnancies from a given budget.

Criterion 1 and 2 are grossly inappropriate. Criterion 3 is a suboptimization of Criterion 4. And Criterion 4 in turn is a less invalid suboptimization of the true economic criterion described below as Criterion 5.

Hypothetical, but not wholly unrepresentative data, are presented in Table 4 to explain the logic. Nine kinds of contraception -- including zero control -- are listed. These are: 1) withdrawal, 2) rhythm, 3) condom, 4) foam tablets, 5) diaphragms, 6) pills, 7) IUD's and 8) vasectomy. It cannot be emphasized unduly that both the effectiveness and cost "guestimates" in this table need to be known for particular countries with far greater reliability, and should be obtained where lacking as soon as possible through sample surveys, etc.

Table 4. Nevertheless, Table 4 purports in Column 1 to show "starting" cost. This is a "fixed" or "once for all" cost per couple assisted. It covers initial contact of an exposed and fertile couple, their contraceptive education, and perhaps the supply or insertion of some "permanent" means that is biologically effective through many acts of sexual intercourse (e.g., vasectomy or IUD). Both withdrawal and rhythm are here assumed to involve some "starting" cost for contact and education.

Column 2 gives annual costs per couple. These annual costs are "variable" -- i.e., dependent on frequency -- in the case of condoms, foam tablets and contraceptive pills.<sup>20/</sup> If an IUD has to be removed periodically, for inspection, drainage, etc., a time-dependent cost is occasioned, which has an annual rate.

Column 3 gives a supposed 5 year cost per 100 couples. It is assumed that these 100 couples become participants in the program at a steady rate throughout the 5 years. Hence, Column 3 equals 100 times the sum of Column 1 and 2.5 times Column 2, because on an average each couple only has 2.5 years of variable cost.

Column 4 gives expected number of conceptions, per couple over 5 years of practicing birth control. Some of these rates are based on studies.<sup>21/</sup> The assumed conception rate of 2.0 per 5 years when no control is exercised is a guess.<sup>22/</sup> Column 5 gives conceptions prevented for 100 couples over a phased 5 year period, in which 20 couples become participants in the program each year, and none terminate. Pregnancies prevented is obtained by multiplying the difference between expected pregnancies with contraception and expected pregnancies with zero control by 100. Hence, the guess about no control conceptions determines in part the absolute magnitudes of Column 5 but not the ranking of alternative methods.

Column 6 gives phased 5 year cost per conception prevented, and is obtained by dividing Column 5 into Column 3. Some of these prevented conceptions may be only postponed. However, in the case of vasectomy (and to a lesser extent IUDs and other devices), contraception once learned may be extended into future years beyond this period.

Column 7 shows the number of thousands of possible "customers" -- or couples assisted -- from a given budget of \$1 million for the entire 5 year period.<sup>23/</sup>



Column 8 gives conceptions prevented in thousands, during the phased 5 year program, per million dollars, and is obtained by dividing Column 6 into one million dollars.

Column 9 gives the number of births prevented per million dollars. This equals Column 8 multiplied by 1 minus the probability of a conception resulting in a miscarriage, abortion, still birth, and infant death during first week of life. For present purposes this probability has been set arbitrarily at .33 so that three pregnancies equal two births.

Criterion 1: Minimizing pregnancies by a given group of fertile and exposed women is not necessarily a valid criterion because there is no resource or funding constraint. In the abstract, the most biologically effective contraceptive means might be unjustifiably expensive, although this is unlikely to be the case if the "group" comprises all women that might be assisted. However, if the "group" were 100 women out of a larger community of, say 2,500 women needing assistance, it would be wasteful to spend \$400 on vasectomies for their husbands (thereby preventing 98 pregnancies in 5 years), when this sum could explain withdrawal to 1,600 couples (preventing 1,072 pregnancies).

Criterion 2: Minimizing the cost of assisting a given group of women is not necessarily a valid criterion because the same budget might prevent more pregnancies if used to give fewer women a more effective method of contraception. This conflict does not occur in the hypothetical cases of Table 4.

There the cheapest way to assist 100 women is to instruct them and their partners in withdrawal. This costs \$25, it is supposed. No other method has a superior cost effectiveness apparently.

Criterion 3: Minimizing pregnancies for a given group of women with a given budget is not necessarily a valid criterion, if all the women must be assisted and all the budget must be spent, because the method that appears best will, except by accident, not have the highest cost effectiveness. Thus, if \$300 is to be spent on 100 fertile and exposed women, which means \$3.00 each, diaphragms would have to be used in these examples. Pregnancies prevented would be 71 over 5 years. But more pregnancies would have been prevented if the same \$300 could have been spent on either fewer or more women. Thus, \$300 could finance the insertion of 200 IUDs during a phased 5 year program and thereby prevent 190 pregnancies. In this case the program's task is over-specified. Either the number of women to be assisted or the available budget should be a variable.

Criterion 4: Minimizing pregnancies from a given budget is a tempting and sometimes valid suboptimization. The contraceptive method that satisfies this criterion will be the one having the highest effectiveness per unit cost. Such a method will also, of course, minimize the cost of reducing pregnancies by some stated number.

The more or less representative data of Table 4 indicate that withdrawal occasions the lowest cost of \$ .37 per birth prevented over the period. This method permits the assisting of 4 "customers" per dollar. Hence over 2

pregnancies are prevented -- always assuming 2.0 pregnancies per couple over 5 years with zero control.

It may seem paradoxical that one of the biologically least effective should appear to be one of the most financially effective. Part of the explanation is, of course, that withdrawal is here supposed to be so inexpensive. The rest of the explanation is that this criterion is valid only if the budget is irrevocably fixed at the time of selecting a method. Determining the budget then determines the method. But what should the budget be?

Criterion 5 -- The economic optimum: The fundamental economic optimization is not to maximize pregnancies reduced from a given budget (because the budget may be "wrong") or for a given size of group assisted (because it may be wasteful to assist no more or no less than such a group of fertile men and women). The basic criterion is neither cost effectiveness rating (Criterion 4) nor contraceptive performance (Criterion 1). The proper objective of a government birth control program is to use resources and increase the budget until the cost of preventing the "last" pregnancies is equal to the worth of doing so.

Figure 1 explains what is meant. The vertical axis represents number of pregnancies over five years from a given population of 100 fertile couples. The horizontal axis represents phased 5 year costs of using one method or another. The points on this scatter diagram are derived from Table 1. They indicate the pregnancy reduction effect -- measured horizontally downwards from Point 0, representing no contraceptive practices whatsoever -- and the total cost for each pregnancy control method.

An efficiency envelope can be fitted to the left and lower points of this set of points. Points on this envelope are efficient. Points lying within -- i.e., above or to the right of the envelope -- are inefficient.

Thus, accepting the assumptions of Table 4, withdrawal, IUDs, and vasectomies are efficient points. They dominate rhythm, condoms, foam tablets, and diaphragms. The pill is so inferior economically that, although reducing births more than all save two other methods, there is not enough horizontal (i.e., cost) scale to plot its point.

It remains to determine which of the efficient points is "best" by the basic economic criterion. This entails a comparison of ratios of incremental cost to incremental conceptions prevented as one "moves" along the efficiency envelope of Figure 1. These ratios must then be compared with the supposed economic worth of stopping a conception.

Consider the alternatives of withdrawal and IUD for example. Per 100 couples assisted, IUDs cost \$150 - \$25, or \$125 more, over 5 years. The incremental pregnancy reduction is 95-67, or 28. Thus the marginal cost to marginal effect ratio is  $\$125/28$  or \$4.50. The extra cost of an extra pregnancy reduction is then \$4.50 over this range of the envelope during a 5 year phased program.

A change from IUD to vasectomy similarly occasions a ratio of  $\$250/3$  or \$83 per extra conception prevented. <sup>24/</sup>

These ratios must be compared with the "worth" of postponing a conception for at least 2.5 years on an average. A typical value from Table 1 is \$56 per birth postponed 2.5 years. However, if the ratio of conceptions to births is 3 to 2, the value of preventing a pregnancy is two-thirds this sum or \$37 .

#### Cost Effectiveness "Rays"

The cost effectiveness of any method can be illustrated by a ray from Point O in the figure to the scatter point representing a particular method. The steeper such a ray, the greater the effectiveness per cost of the method. Thus, in cost effectiveness terms, rhythm is superior to condoms and IUD's to vasectomy.

So far it has been assumed that acceptors are homogeneous as regards frequency of exposure, fertility, conditions of living, etc.<sup>25/</sup> This supposition is unrealistic of course. Hence a practical birth postponement or prevention campaign must take into account these many differences.

#### Preferences of Acceptors

There is no reason to suppose that the few methods appearing "best" to government will be the preferences of most participants.

IUD. Although not many women in LDC's yet have experience of them, IUDs could well gain widespread acceptability. They can be used for "spacing" (postponing) childbirth. Cost and bother are not a function of frequency of intercourse. Hence they are well adapted to most young couples. Unfortunately, from 10 to 20 percent of women fitted with IUDs may not retain them, or may complain of unusual bleeding or pain. Some women may be too

bashful to attend a clinic for an insertion, or it may be too far away, Women travel less widely than men in some countries. Thus any program should probably assume that a substantial fraction of participants, perhaps a majority, will not adopt IUDs for years to come.

Condoms. The condom is often preferred by young men engaged in temporary affairs with women who have less ready access to contraceptive devices for their own use. And in most parts of the world premarital intercourse is not uncommon. Moreover, this preference for condoms sometimes carries over into marriage, although a married man often prefers to have his wife take precautions. The cost of condoms is proportional to frequency of intercourse. And, apart from expense, supplies have often not been available in villages.

Foam Tablets. For an established or married couple, where the woman is responsible for contraception and can obtain them, foam tablets have enjoyed reasonable popularity. Like condoms, cost per year depends on frequency of use. Unless well packaged, storage is a problem in a humid climate, for the tablet must be made so as to foam with the addition of little moisture.

Pills. At present costs of production, unless there are substantial government subsidies, contraceptive oral pills are too expensive for more than a very small fraction of families. Cost per coitus of contraception is especially high for low frequency couples. Determining the day in each monthly cycle to stop taking the daily pill is too much for some users.

Also tiresome is having to take the pill for 20 days each month at the same time each day. Ordinarily contraceptive pills are available only upon prescription from a doctor. Currently they are available only in a few major cities and special sources in most LDCs.

Diaphragm. The inconvenience of being fitted for a diaphragm is probably as great as having an IUD insertion. In addition a woman must keep on hand a supply of jelly or other spermicide to use with it. Also a problem for any village woman usually living in crowded dwellings, is care in privacy of her diaphragm. Cost is practically independent of frequency of use. Presumably acceptance of diaphragms will tend to be limited to better housed and urban wives. And even in their case a diaphragm and jelly in future may be the first choice only of those who cannot retain an IUD.

Rhythm. Determination of safe periods involves some record keeping at best. If monthly periods are irregular, complete safety can only be had by abstaining from intercourse for more successive days each month. Successful adoption of the rhythm method, therefore, requires exceptional motivation. It does have the advantage of privacy however (see below). It is costless. And for some couples, because of religious doctrine, it is the only permissible method.

Withdrawal. One of the oldest methods of preventing conception, withdrawal requires self-discipline by the man, and possible frustration for the woman. It is a method that costs the couple nothing for devices. No supplies or records are necessary. Hence withdrawal is a method



especially suited to uneducated couples remote from stores or clinics. Moreover, like rhythm method, withdrawal can be utilized with only the sexual partners knowing. There is no need to purchase materials from a storekeeper who might gossip, or visit a clinic where one might be recognized, both of which can be important considerations for couples living in cultures placing a high value on fertility.

Vasectomy. This operation should ordinarily be considered irrevocable. Therefore it can only appeal to men who are reasonably convinced that they want no more children. Such a man, especially if still having frequent intercourse, might prefer a single vasectomy at low, zero, or negative price, to repeated outlays for condoms, etc. This factor could be strongest in the case of established couples where the wife cannot retain an IUD.

These bases for preference are summarized in Figure 2. Briefly, some methods do or do not have a recurrent money or bother "cost", do or do not involve clinic visits or device purchases that prevent "privacy", and do or do not depend primarily upon the women. That some methods have far lower failure rates than others should rationally be an even more powerful element of preference, but such comparative rates are often unknown, and among the ignorant and uneducated there is probably a tendency to suppose that all artificial devices are sufficiently effective.

#### Reconciling the Preferences of Government and Public

The preferences of government and public may fortunately overlap to a degree, IUDs may prove to be a case in point, being economical for

government and convenient for acceptors. But there are also many ways in which presently disparate preferences can be rendered more coincident.

One way is to inform. Differences in failure rates are not generally known, sometimes because these have never been ascertained for developing countries, but even information about accidental experience would be better than nothing. Many methods of contraception are still not known by name, let alone understood, and little information about the newest methods has yet reached a majority of doctors in less developed countries.

Another way for governments to shape preferences is through differential subsidies, some methods justifying more assistance than others. Consider Table 4 estimates again. There is an advantage to government if 100 couples using foam tablets would switch to IUDs instead, for example. In "output" terms, there is the advantage of 37 more pregnancies prevented during a phased 5 year program. The advantage in resource cost savings is \$500, or \$5 per couple over an average of 2.5 years each. Government could well afford to grant financial subsidies of at least this amount to make IUD insertions more attractive.

Any government program must also take into account reasonable sequences of contraceptive practice by men and women before marriage, during marriage while "spacing" births, and in later years when no more children are wanted. Successive use of the condom, IUD, and vasectomy is one such sequence. Often it is easiest to introduce a couple to birth control by means of an occasional method requiring a minimum of involvement with clinics or officialdom.

In countries with populations too numerous and dispersed to be reached immediately save through mass media, and pending such time that more biologically effective methods can be explained and provided them, governments could well consider widespread "education" about withdrawal. Its effectiveness per unit cost is probably among the highest. For many rural families it could also serve as an introduction to better methods later.

#### C. Resource Costs and Bonuses to Increase Acceptance

Perhaps the most important policy dilemma facing governments anxious to reduce births is whether or not actively to encourage family planning within their countries. It is of little significance that \$X worth of resource may be several hundred times more effective in raising per capita incomes if used to reduce births, rather than to increase output, if couples of procreative age will not cooperate. Resources can only be used in this much more effective role of reducing births to the extent that these men and women come to want family planning. So an important question is whether to use extra resources for "education".

The present fact that very few couples in LDCs practise birth control must largely be due to a combination of unwillingness or inability. Many occidental observers suppose that the main explanation is inability, although occidental populations reduced their birth rates when none of today's more effective methods were available. Other analysts have suggested that unwillingness -- or at least ignorance of methods -- is a more frequent reason.

### Using Resources for Popularizing Reductions

It may be shown eventually that knowledge and acceptance of family planning methods in LDCs will spread by word of mouth and force of example. Some reliance must be placed on this happening. But it is questionable whether there is time in some of these countries not in addition to use resources to popularize family planning in general and superior methods in particular.

Certain kinds of couples are easier to persuade than others. Couples who have four surviving children already are more susceptible to persuasion as a rule. But to fit the woman of such couple with an IUD, or perform a vasectomy on the man, is to achieve a limited success. Here is another policy question of some importance. Should government give prior birth reduction assistance to those who want and are likely to have fewer additional children, or should it urge the more permanent kinds of contraception upon those who are still relatively young and have small families.<sup>26/</sup>

There are many media for changing public attitudes, all the way from films to personal discussion. In many contexts the impersonal approach through mass media may be more effective than direct face to face "persuasion". The latter could have adverse effects until such time that a couple is more or less "ready" psychologically. Most programs will have to use a variety of "educational" means. All these efforts to encourage couples to practice contraception must use valuable resources and are hence expensive.

In making cost effectiveness comparisons among different contraceptive methods, and in applying the economic criterion to determine what kind of methods government can properly afford to press, it is total resource cost that matters. Thus it is the costs of creating ability plus willingness to reduce births that must together be compared with the worth of preventing a birth. Resources are resources, however employed.

#### Financial incentives for program workers

Not all the doctors, paramedics, nurses, midwives, samplers, clerks, etc., who work in LDC birth reduction programs will be highly motivated. Many of them will be poorly paid, partly because their basic wages must be compatible with general civil service wage structures. Moreover, fear of dismissal from government jobs is usually remote in developing countries, where employment often depends on nepotism or politics.

Thus payment of a "finder's" fee to staff workers and others who "introduce" birth control participants to the program might be tried.

For many reasons it is important that village midwives do not spread adverse rumors or otherwise work against the program. As a successful birth reduction program would impair their livelihood, this could well happen. Some way should be found to train the more intelligent, educated, and reliable of these to assist in gathering information, introducing women to the program, and perhaps even inserting IUDs, all for a unit fee.

Financial incentives might also stimulate the distribution of condoms, foam tablets, etc. These could be supplied free by clinics as "wholesalers"

to midwives, country general stores, and travelling paramedics. These agents would be encouraged to "retail" these devices at a moderate stated price - printed on the wrapper possibly. The profit margin would encourage retail storekeepers, midwives, etc., to explain the advantages of contraception.

Financial incentives to attract participants

There is another way of inducing couples to practice birth reduction that should be effective in some circumstances and which involves few resource costs for administration. That way is to offer bonuses to participants. Ordinarily bonuses involve a transfer payment without resource costs. <sup>27/</sup>

Equity of bonuses

Taxpayers, who contribute to government the bonus that it pays, lose the purchasing power transferred through government to birth reduction volunteers. Why volunteers may have to receive a bonus needs no explanation. But is it equitable that taxpayers in general should be forced indirectly to pay the bonus?

In a society in which each married couple and their young children were exactly self-sufficient financially, on balance being neither a net contributor nor net recipient of aid from the State, levying taxes for bonus payments would well be considered inequitable. If such a family wants to have many children, and is prepared subsequently to consume less per head within the family, that might be considered its affair. And one would suppose that enlightened self-interest would be a sufficient inducement, without any bonus, to limit its progeny.

This is not, however, the case in truly emerging countries. It is other taxpayers than the parents who finance the education of the children of a large family. It is taxpayers who often pay for subsidized food grains available at low price on ration to families that have too many mouths to feed. Although each working class family may not realize it, every extra child that another family bears and rears will reduce the productivity and earnings eventually of the first family's children. The more other people have children the more expensive one's own food becomes. In over populated countries, it is anti-social of a couple to have more than three living children.<sup>28/</sup>

It is in the libertarian tradition that private parties who act against the public interest should be induced by taxes or subsidies - rather than be compelled by police - to behave more in accord with society's interests. Thus industrial communities suffering from air pollution have taxed themselves to subsidize neighboring factories that install smoke abatement equipment. There is no obvious reason in equity why the people of a nation should not protect themselves, by transfer payments through their government, against families that threaten them economically by overbreeding.

#### Specific bonus plans

Can such bonuses be large enough to persuade, and yet be economical, however? How large such bonuses can be depends upon the "worth" of preventing a birth, as described above. Bonuses would presumably be larger in the case of young married couples who already have no more than one or two



children than in the case of older couples possessed of numerous children.

Payments for vasectomy <sup>29/</sup>

Of all contraceptive methods available vasectomy can most obviously be rewarded with a bonus. If more detailed information were available regarding family formation, it should be possible to estimate the additional children that couples would be expected to have depending on their age, number of children, occupation, religion, etc. A vasectomy bonus could then be the "worth" of preventing a birth (say \$150), times the additional children otherwise expected (say 3), minus discounting for probable spacing of births (maybe 3 years apart). All this might indicate a bonus approaching \$325 for a vasectomy now. Such a sum, in terms of per capita income, would be analogous to around \$10,000 in the United States. Such a bonus would guarantee that most adult males would soon try to learn about this operation. And the more who know, the more will be inclined to volunteer.<sup>30/</sup>

Non-pregnancy payments

Bonuses can also be paid economically to married women who remain non-pregnant.

If a woman were of an age group having a .25 annual fertility rate, and the value of permanently preventing a pregnancy were \$120, she could earn \$30 a year by remaining non-pregnant. To do so she would have to visit a clinic every 17 weeks (i.e., 4 months), plus or minus a few days, for an examination taking a few minutes of a doctor's time to "prove" non-pregnancy. Each 4 month successful examination would earn the participant \$10. This would be credited to an account in her and/or her husband's name. When

this account, with interest, reaches the supposed value of permanently preventing a birth, subsequent payments would be made in cash. As the woman graduates to older age groups with lower fertility rates, the bonus would decrease. Accumulated credits would be paid-out as soon as completion of menopause, or age of 50, or her demise. Should a woman not appear for examination, or prove pregnant on reporting, a varying fraction of her credits would be cancelled.

The main defect of such a non-pregnancy bonus plan is that it would occasion resource costs amounting to a substantial fraction of total bonus payments. But it has the advantage of not being as irrevocable, and probably far less repugnant, than bonuses for vasectomy. Also, to qualify for a bonus, each woman and her spouse can practice any method of contraception that their religion, culture, or other preferences dictate.<sup>31/</sup>

How persuasive are bonus payments in attracting participants?

One question to which there can be no answer without experience is the degree to which bonuses will evoke voluntary participants in birth control programs.

The supply schedule of vasectomy volunteers, or of women seeking non-pregnancy payments by submitting to periodic examinations at a clinic, is quite uncertain. The only possible government policy is to experiment, beginning with bonuses almost as high as it can economically afford to pay, so that practically the entire worth of preventing a birth goes to the volunteer. Subsequently, as public acceptance and understanding increase, there could well be an increasing number of people seeking

contraceptive assistance. At such a time the government might lower its scale of bonus payments. This would give a larger fraction of the benefits of birth reductions to the economy at large. Moreover, if government clinics and medical personnel prove too few to meet the demand, the volunteer supply would have to be reduced in the market sense through lower "prices". And it is even possible that a policy of slowly reducing bonuses might stimulate a small speculative supply.<sup>32/</sup>

In any event, although bonuses for participation will never substitute for "educational" campaigns, they would seem to have a role at some stage in any large birth reduction program. The great merit of such bonuses is that they are transfer payments and not resource costs. Hence, the evolving operating pattern for a national program may prove to be (1) extensive mass media offering impersonal explanations of "why", (2) subsequent offers of bonuses to those who "do", and (3) clinics, mobile units, and midwives, etc., directly to provide the "how".

#### CONCLUSIONS

1. Resources devoted to reducing the number of births that would otherwise occur can contribute many times more - perhaps several hundred times more - to raising per capita income than other resources of equivalent value invested in conventional development projects that increase output.
2. In the poorest LDCs the present discounted value to its economy and inhabitants of permanently preventing a birth may be once to twice times more than annual per capita income. The value of postponing a birth by one year may be from half income per head in such countries. These values

are based mostly on the consumption costs that dependent and unproductive children ordinarily incur.

3. Preventing conceptions requires that fertile couples are or become able and willing to procreate less. A government can provide ability only through using resources. But part of the financial cost of promoting willingness can constitute resource-free bonuses that are transfer payments.

4. The costs of preventing conception during a phased five year program depend on contraceptive method used and are uncertain. Any cost estimates are most sensitive to a variety of assumptions. Perhaps the more economical methods involve a cost of about \$3 per prevented birth over five years.

5. There are two valid economic criteria for selecting the "best" contraceptive method. A cost effectiveness ratio, relating births prevented to necessary resource costs, determines the most efficient method given a budget. A higher optimization, treating the budget as a variable, would select among "efficient" methods that which yields a marginal birth reduction to marginal resource cost ratio approaching the value of preventing a birth. A method having moderate biological effectiveness -- such as withdrawal -- may have the best cost effectiveness ratio. But the higher optimization would reject withdrawal and might select IUDs. In practice, several methods must be offered. And what is "best" in terms of cost and acceptability for one couple may not be for another.

6. The extent to which resources can be invested in improving the ability of fertile couples to have fewer children is limited by the willingness of such couples to participate in a birth reduction program. Hence, because of

the fantastically high returns on resources invested in reducing births to raise per capita incomes (#1 above), it is economical to incur costs to make birth control more acceptable. Some of these costs may also be resource costs - for mass media, lecture, etc.

7. Other costs may be bonuses that are resource free. Bonuses can be given to women who remain non-pregnant - by whatever means they prefer. Bonuses amounting to several hundred dollars can be paid in cash or kind to certain men volunteering for a vasectomy. And other financial incentives can be accorded doctors, midwives, etc.

8. For a "typical" LDC, halving the natural increase rate from 2 to 1 per cent a year could require a one-third reduction in fertility rates. A birth control program to this end would have to include about one-half of the fertile women as participants - or their sexual partners. Thus roughly 8 per cent of the population would have to become involved in any month or 12 per cent over a 5 to 10 year period.

9. For a phased 5 year program of this scope, the annual resource cost of providing the ability to reduce birth rates by a third could very roughly be about \$1.00 for each participant depending on the mix of methods used. This approximates 10 cents per head of population a year. Other resource and financial costs to popularize family planning might increase these very rough estimates by two, three, or more times. The cost per capita of a really large program, implemented within 5 to 10 years and involving millions of people now largely apathetic, ignorant, and occasionally hostile, can only be intelligent guesswork.

10. A cost of 10 cents per head of population annually would constitute a very low percentage of total development expenditures in many LDCs with population problems. Examples are India 1.2 per cent, Nigeria 2 per cent and Taiwan 0.4 per cent. A national program of this scope, in terms of U.S. assistance only, would constitute small percentages also: examples are Brazil 5 per cent, Pakistan 3 per cent, and Turkey 2 per cent.

N.B. All estimates in this paper could be wrong by a factor of two. They will be refined so far as possible during coming months. The object of this paper is not to furnish parameter values but to establish a sound method or viewpoint for future use by others.

### FOOTNOTES

1. Historically, given special circumstances, a rapidly increasing population can be advantageous economically. Thus, Canada's population at the turn of the century was growing at a rapid rate. This was not a disaster because birth rates were low, death rates were even lower, much of the population increase comprised immigrants reared and trained at the expense of other countries, capital inflows accompanied this labor inflow, and natural resources abounded.
2. This approximation is more likely to be true the more closely factors of production are rewarded according to their marginal productivity.
3. This would be consistent with a savings rate from gross income ( $\Delta K/V$ ) of 9 per cent and a not atypical  $K/V$  ratio of 1.5 for one year.
4. The true rate of return on capital in this example -- not the ICOR -- accordingly about 14 per cent a year.
5. Thus some MDCs have savings to income rates of over .2. But they typically also have higher  $K/V$  ratios. So  $\% \Delta K$  for an MDC is not necessarily greater than for an LDC.
6. Old age dependency used to be of little significance when life expectancies at birth were only 30 odd years in some of the Less Developed Countries. Today these expectancies are more like 50 and 60 years. And in most poor countries something like 5 per cent of the male population are 60 and over.
7. In such a country, for every sample 100 persons, there is an aggregate output worth \$10,000. Suppose 8 per cent or \$800 of this is saved. If roughly 40 persons are children under 15, consuming \$60 worth a year on an average, this leaves \$113 annual consumption per head for the 60 adults over 15 years. This is comparable with Professor Hoover's estimate that children under 10 consume .50 and .45 respectively of adult women and men.
8. A further benefit from reducing the number of dependents, but of second order importance, is that some small fraction of the consumption so "released" may be invested in capital assets. If 8 per cent of say \$60 released is invested, and this investment of \$4.80 each year in turn earns 15 per cent a year compounded, additional assets worth \$268 will have been accumulated at the end of 15 years. At 15 per cent rate of return, this would provide extra income from capital worth \$40 after 15 years, and having a present discounted value of about \$4.80.



9. Of course there is no "typical" infant. It is either male or female for example. So estimates have to be made in terms of a representative sample of, say a thousand infants (as described below).
10. This method of estimating the negative economic value of infants at birth was first developed for India and published in the Review of Economics and Statistics ("The Gains to India from Population Control", May, 1960.)
11. A more precise statement of what is meant by "worth", and especially "worth to whom", is included below (pp. 41,42).
12. This argument was first presented by the author in Economic Development and Cultural Change ("The Economics of Government Payments to Limit Population", June 1960.)
13. This implicit misallocation of resources compares investment in capital with accidental "investments" in population quantity and not quality. The rate of return on education and health in improving population quality may be very great. In many instances they are undoubtedly higher than the usual returns on industrial and agricultural capital investments.
14. A vasectomy sterilizes the male by cutting the vas ducts. This operation can be performed quickly under a local anesthetic and does not require hospitalization. IUDs or intra-uterine devices, can be fitted in ten minutes or so: unless expelled involuntarily, they are the almost perfect contraceptive for couples who want to "space" their children.
15. An average value for  $f$  over 7.5 years is taken because in this example  $N$  is 15 years. In a more accurate formulation the average survival rate to 7.5 years of age should be multiplied with  $f$ . Second generation effects are ignored.
16. Because  $\Delta P/P$  is a stock, and  $\Delta Y/Y$  a flow, this ratio increases proportionately with the length of the assessment period,  $N$ .
17. This comparative effectiveness ratio was advanced by the author in "Government Bonuses for Smaller Families", Population Review, July 1960.
18. In translating failure rates of contraceptive devices into numbers of pregnancies the concept of "ovulatory ratio", that is the ratio of the pregnable period to the interval between births, is most useful and indeed necessary.

19. A more serious question than cost may be whether high enough quality control can be maintained in production.
20. In estimating variable costs for Table 4, an annual coitus frequency of 50 has been assumed.
21. The rates for withdrawal, condom, diaphragm (cap), rhythm, and IUD are based on data published by the Population Council and the International Planned Parenthood Federation, but for groups of women whose experience may not be very pertinent to LDCs.
22. A five year conception rate of 2.00 involves lower exposure frequencies and higher pregnancy wastage than often assumed.
23. This is assumed to be a phased 5 year program, with the same number of participants being added each year, with no terminations. Thus the annual "variable" expense will increase each successive year. The 5 year budget is not expended at a uniform rate.
24. Application of the economic criterion to IUDs and vasectomies is not affected by uncertainties regarding the number of conceptions there would be if no controls are practiced.
25. This discussion of economic criteria is essentially a consideration of a three dimensional surface. The vertical axis can represent numbers of pregnancies (or births). One horizontal axis represents cost. The other horizontal axis represents number of women (or their spouses) who are participating. In other words, graphically the problems include Figure 1, with an additional dimension (numbers of women). The economic optimum has three attributes. The total budget must be right, the number of women (or their spouses) participating must be right, and the method must be right. This optimum point on the three dimensional surface is determined by applying to it a plane representing the worth of a pregnancy (or birth) prevented.
26. Greater effectiveness per dollar of resources may in time come from concentrating on the "harder" cases of acceptance.
27. A transfer payment is a payment for something other than productive services and does not ordinarily affect output of goods and services.
28. Within extended families so typical of many LDCs there is an artificial economic incentive to have excessive children that can best be countered by a bonus perhaps. In these families young married couples live within

the household of either the husband's or the wife's parents. In that household there will be other young married couples. All contribute labor and outside earnings to the older head of the extended family. Under these circumstances each extra child that a young couple has affects their consumption, and that of their own children, only a little. All their children's cousins and aunts and uncles then eat less too. However, when the youthful parents have become old, their children will be grown and mature enough to support them in their last years. Hence, to the couples having them, infants are not much of an immediate liability and potentially are an asset. A counter-vailing bonus, especially if held in trust, bearing interest meanwhile, and denominated in real terms as a safeguard against inflation (e.g., sacks of grain), might prove effective if generous enough.

29. There is a strong atavistic repugnance attached to the idea of reproductive powers being "sold". It is generally considered proper to spend resources to persuade a man but not to give him money directly. Thus bonuses might have to be paid in kind rather than in cash - examples being so many extra years of schooling for the eldest boy, equipment for agriculture of equal value, etc.
30. In India modest compensation is paid to vasectomy volunteers who have the consent of their spouse and some living children. This payment is ostensibly to compensate for loss of work following the operation. But sick leave is not necessary and the payment is in a reality a bonus.
31. Credits are temporarily blocked to ensure that a bonus based on permanently preventing a birth is not paid out in cash to a woman who it later proves has only postponed a birth (see "The Gains to India from Population Control: Some Money Measures and Incentive Schemes", Review of Economics and Statistics, May 1960).
32. It is to be hoped that favorable reactions to the program will over time increase the number of exposed women and their men who wish to participate in birth reduction programs. If the supply schedule of volunteers shifts to the right, the bonus can be cut. The elasticity of supply is most important because, if bonuses are offered to anyone, they must be available on equal terms to everyone.

### SOME USEFUL REFERENCES

Berelson, B., "National Family Planning Programs: A Guide", Studies in Family Planning, No. 5, December 1964.

Calderone, Mary S., Manual of Contraceptive Practice, Williams & Wilkins, Baltimore, 1964.

Cox, Peter R., Demography, Cambridge University Press, 1950.

Enke, S., Economics for Development, Prentice Hall, New York, 1963, Part IV.

International Planned Parenthood Federation, Medical Handbook, 1964.

Perrin, E. B. and Sheps, M.C., "Human Reproduction: A Stochastic Process", International Statistical Institute, August 1963.

Studies in Planning, published about monthly by the Population Council, New York.

Taeuber, Irene B., "Asian Populations: The Critical Decades", World Academy of Arts and Sciences, Den Haag, 1964.

Tietze, C., "Pregnancy Rates and Birth Rates", Population Studies, July 1962.

## ANNEX I

### DETERMINING PRESENT VALUE OF RELEASED CONSUMPTION BY REDUCING CHILD DEPENDENCY

For any given discount rate, the present value of the consumption "released" by having 100 fewer infants born, is the sum of values estimated for each year of age from 0 to 15.

Each annual value is the product of the number of children surviving from 100 born, times its assumed consumption for that year of age, times one minus the discount factor compounded by age in years. Survival rates are tabulated below and are considered representative.

Consumption rates were adjusted so that children under 15 on an average would consume .6 of what an adult male does and .67 of what an adult female does: they are also tabulated below.

The calculations are given in the attached table for a country in which it is assumed the annual income per head is \$100 of which \$8 is saved.

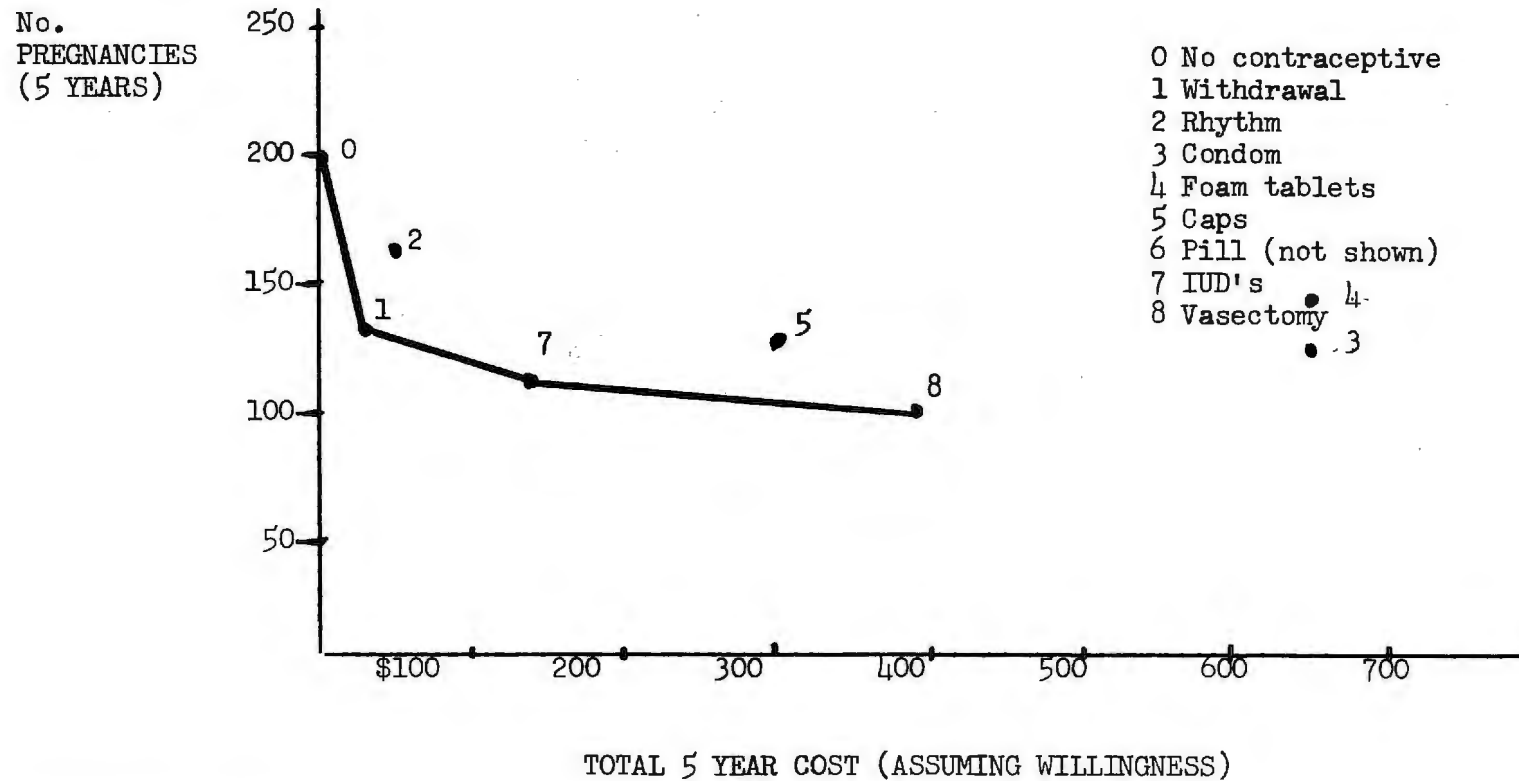
PRESENT VALUES OF RELEASED CONSUMPTION 0-15 YEARS OF 100 BIRTHS PREVENTED,  
AT DIFFERENT DISCOUNT RATES

(1) Age	(2) Survivors per 100	(3) Consumption Per Head	(4)      (5)      (6) Discount Rates Compounded			(7)      (8)      (9) Present Value of Consumption Released		
			10%	15%	20%	10%	15%	20%
						(00)	(00)	(00)
0-1	90	\$11.3	.909	.870	.833	\$ 9.2	\$ 8.8	\$ 8.4
1-2	88	45.0	.826	.756	.694	32.7	29.9	27.5
2-3	87	51.8	.751	.658	.579	33.8	29.6	26.1
3-4	87	56.3	.683	.572	.482	33.4	28.0	23.6
4-5	86.2	60.8	.621	.497	.402	32.5	26.0	21.1
5-6	85.4	65.3	.564	.432	.335	31.4	24.1	18.7
6-7	84.6	68.6	.513	.376	.279	29.8	21.8	16.2
7-8	83.8	72.0	.467	.327	.233	28.2	19.7	14.1
8-9	83	75.4	.424	.284	.194	26.5	17.8	12.1
9-10	82.5	78.8	.386	.247	.162	25.1	16.0	10.5
10-11	82	81.0	.350	.215	.135	23.2	14.3	9.0
11-12	81.5	83.3	.319	.187	.112	21.6	12.7	7.6
12-13	81	85.5	.290	.163	.093	20.1	11.3	6.4
13-14	80.5	87.8	.263	.141	.078	18.6	10.0	5.5
14-15	80	90.0	.239	.123	.065	17.2	8.9	4.7
TOTAL PRESENT VALUES						383.3	278.9	211.5

FIGURE 1

HYPOTHETICAL PREGNANCY REDUCTIONS AND COSTS ASSOCIATED  
WITH DIFFERENT CONTRACEPTIVE METHODS  
PER 100 ACCEPTORS

(Phased 5 Year Program with Average Participation 2.5 Years)



Source: Table 1



FIGURE 2

FACTORS DETERMINING PREFERENCES OF ACCEPTORS

	<u>IUD</u>	<u>Condoms</u>	<u>Foams</u>	<u>Pills</u>	<u>Diaphragm</u>	<u>Rhythm</u>	<u>Withdrawal</u>	<u>Vasectomy</u>
Requires Regular Supplies		X	X	X	X			
Must Visit Doctor	X			X	X			X
Record Keeping Needed				X		X		
Costs: Zero						X	X	
"once for all"	X							X
Frequency Dependent		X	X					
Time Dependent				X	X			
"Private"						X	X	
Has Catholic Approval						X		
Irrevocable								X
Responsibility: Male		X					X	X
Female	X		X	X	X			
Both						X		

TABLE 1

ILLUSTRATIVE EXAMPLES OF THE ECONOMIC WORTH  
OF PREVENTING OR POSTPONING A BIRTH

(Income Per Head \$100 Yearly)

<u>Annual Discount Rate</u>	<u>Permanently Preventing A Birth</u>	<u>Postponing A Birth One Year* (Per- haps Forever)</u>	<u>Postponing A Birth Exactly One Year Only ("Spacing")</u>
	(1)	(2)	(3)
.10	383	77	--
.15	279	56	36
.20	212	42	--

\* Col. 2 = Col. 1 x fertility rate (.20 assumed here)

TABLE 2

COST PER ACCEPTOR AS FUNCTION OF CHOICE OF METHOD

<u>Method</u>	5 year* Cost per Acceptor	Method Mix # 1		Method Mix # 2		Method Mix # 3	
		<u>Number</u>	<u>Cost</u>	<u>Number</u>	<u>Cost</u>	<u>Number</u>	<u>Cost</u>
IUD	\$ 2.00	20	\$40	70	\$140	50	\$100
Vasectomy	\$ 4.00	10	40	10	40	20	80
Condoms/Tablets	<u>12.75</u>	70	<u>892.5</u>	20	<u>255</u>	30	<u>382.5</u>
5 year cost			\$972.5		\$435		\$490.5
5 year cost per acceptor			9.72		4.35		4.90
Annual Acceptor cost			1.94		.87		.98

\* Source: Table 4

TABLE 3

ESTIMATED COST OF MAJOR FAMILY PLANNING PROGRAMS RELATIVE TO  
U.S. ASSISTANCE AND NATIONAL DEVELOPMENT  
BUDGETS FOR SELECTED COUNTRIES IN 1964

Country	Population (000,000) (1)	Est. Cost Family Planning Program (000,000 yr.) (2)	Economic Development Program			Estimated Family Planning Program Cost Relative to:	
			U.S. Assistance (000,000) (3)	Coop. Country's Contribution (000,000) (4)	Total Developmental Expenditure (000,000) (5)	U.S. Assistance (6)	Total Develop. Exp. (7)
Brazil	80	\$ 8.0	\$152	\$1,675	\$2,043	.052	.004
Colombia	16	\$ 1.6	\$ 80	\$ 178	\$ 334	.020	.005
India	470	\$47.0	\$837	\$2,300	\$3,921	.056	.012
Korea	28	\$ 2.8	\$ 34	\$ 66	\$ 105	.083	.027
Mexico	40	\$ 4.0	\$ 23	\$ 398	\$ 412	.170	.010
Nigeria	42	\$ 4.2	\$ 46	\$ 139	\$ 227	.090	.019
Pakistan	107	\$10.7	\$392	\$ 612	\$1,064	.027	.010
Taiwan	13	\$ 1.3	\$ 15	\$ 129	\$ 149	.084	.009
Tunisia	5	.5	\$ 38	\$ 142	\$ 200	.013	.002
Turkey	30	\$ 3.0	\$177	\$ 301	\$ 538	.017	.004

Col. 1, 1964 estimates.

Col. 2, population x10 cents.

Col. 3, U.S. owned local currency expenditures during FY 64 plus U.S. dollar obligations for the same period.

Col. 4, obtained from C 3 Revenue and Expenditure tables in the Country Assistance Program books.

Col. 5, includes U.S. assistance, coop. country's contribution, and expenditures from other external aid sources.

Col. 6, Col. 2 divided by Col. 3.

Col. 7, Col. 2 divided by Col. 5

TABLE 4

HYPOTHETICAL COSTS AND EFFECTIVENESS OF ALTERNATIVE CONTRACEPTIVE  
MEASURES DURING A PHASED FIVE YEAR PROGRAM

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Fixed Starting Cost per Couple	Variable Annual Cost per Couple	Phased 5 Year Cost per 100 Couples	Expected 5 Year Pregnancies per Couple	Phased 5yr. Prevention of Pregnan- cies per 100 Couples	Cost per Prevented Pregnancy	Number Customers Assisted per \$1 m (000)	Pregnan- cies pre- vented per \$1 m (000)	Births prevent- ed per \$1 m (000)
0. Zero Birth Control	\$ .0	\$0	\$0	2.00	0	0	0	0	
1. Withdrawal	.25	0	25	.75	67	.37	4,000	2,700	1800
2. Rhythm	.50	0	50	1.3	35	1.4	2,000	715	477
3. Condom	.25	2.5	650	.58	71	9.2	154	109	73
4. Foam Tablets	.25	2.5	650	.84	58	11	154	91	61
5. Diaphragms	2.50	.2	300	.58	71	4.2	333	238	160
6. Pills	.50	8.0	2050	.20	90	23	49	43	29
7. IUD	1.0	.20	150	.10	95	1.6	667	625	417
8. Vasectomy	4.0	.0	400	.05	98	4.1	250	244	163

N.B. These magnitudes are good at best to one significant digit. The variable costs assume about 50 exposures a year. Fiscal starting costs include "education" of the subject plus cost of supplying and perhaps inserting any "permanent" device good for many exposures. No account is taken of possible deaths or recondorning during the year. Two-thirds of all conceptions are assumed to result in early miscarriages, abortions, or neo-natal deaths. No allowance is made for drop-outs. Practically, because of uncertainties regarding costs and performance, these assumptions have limited significance.

1549

18

DEPARTMENT OF STATE

Counselor and Chairman  
Policy Planning Council  
Washington

*✓ Mr McGeorge Bundy*

~~CONFIDENTIAL~~

April 16, 1965

TO: Planning Group Members

SUBJECT: Planning Group Meeting  
Thursday, April 22, 1965, 12:00 noon.

At the Planning Group meeting next Thursday,  
April 22, 1965, we will have with us Mr. C. G. Woodard,  
External Affairs Policy Planning Officer of Australia,  
to discuss long-term problems of security in Laos,  
Viet Nam, and Thailand.

*W. W. Rostow*  
W. W. Rostow

~~CONFIDENTIAL~~

DECLASSIFIED  
E.O. 13292, Sec. 3.4  
By *jp/clm*, NARA, Date 1-9-08

DEPARTMENT OF STATE  
Counselor and Chairman  
Policy Planning Council  
Washington

1481

✓  
Cy No. 12

20

Bundy

SECRET

April 12, 1965

TO: Planning Group Members  
SUBJECT: Planning Group Meeting  
Thursday, April 15, 1965, 12:00 noon.

At our Planning Group meeting this Thursday we will discuss the attached paper, "Pakistan and Communist China, April 1965," prepared by David Linebaugh of the Policy Planning Council.

 W. Rostow

Attachment

SECRET

This memorandum may be downgraded to Limited Official Use when attachment is removed.



21

✓

DEPARTMENT OF STATE  
Counselor and Chairman  
Policy Planning Council  
Washington

✓

April 3, 1965

TO: The Under Secretary

THROUGH: S/S

FROM: S/P - W. W. Rostow

SUBJECT: Your Speech Before the Advertising Council.

At dinner last night Ted Repplier had this advice to pass on concerning your presentation and Secretary McNamara's on April 5-6 to the Advertising Council.

1. Within the highly influential group of men represented in the Advertising Council, there is the most profound uneasiness about U.S. policy in Viet Nam. These are essentially conservative men, not inclined to question a President on national security matters.

2. The source of their uneasiness is the fear that policy is exclusively "military" and that we do not have lucid and attainable political objectives. They fear, therefore, that we will move towards a full-scale war.

3. Specifically, it appears important to nail down the following:

a. That the form of aggression we face is just as real as the crossing of the 38th parallel in Korea;

b. That our objectives are limited, lucid, legal, and moral;

c. That we are, of course, prepared to face any level of escalation they may mount, but, as of the moment, there is reasonable hope that neither Russia nor Communist China will intervene massively; and

d. We are, of course, open to negotiation, but we cannot negotiate on the basis of a prior withdrawal of U.S. forces. Nevertheless, the political dimension of this problem is being given sustained and serious thought.

In addition, it might be worth discussing the sequence of coups in Saigon as representing part of the political development process in a developing country rather than the existence of any substantial groups in the political life of the country, who wish to turn South Viet Nam over to Hanoi.

cc: FE - Mr. William Bundy