ECONOMIC DEVELOPMENT ASSISTANCE AND WORLD STABILITY

30 October 1963

CONTENTS

Page

INTRODUCTION--Colonel Lewis S. Beall, USAF, Member of the Faculty, ICAF 1

SPEAKER--Mr. William J. Mazzocco, Faculty Member, Interdepartmental Seminar on Problems of Development and Internal Defense 1

GENERAL DISCUSSION 19

NOTICE

This is a transcript of material presented to the resident students at the Industrial College of the Armed Forces. As such it represents the views of the author and not necessarily those of the Industrial College or the Department of Defense. Members of the College may quote it only in student reports or publications for use within the College. Other persons may not quote or extract for publication, reproduce, or otherwise copy this material without specific permission from the author and from the Commandant, ICAF, in each case.

Publication No. L64-57

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D.C.

Mr. William J. Mazzocco, Faculty Member, Interdepartmental Seminar on Problems of Development and Internal Defense, was born in Canada on 9 December 1914. He received his B.A. from the University of Portland; M.A. from Catholic University, Washington, D.C.; and has done graduate work in the Graduate School of Economics, Georgetown University. He was District Manager, Morning Oregonian, Portland, Oregon, 1934-1937. He began his career with the United States Government when he joined the Department of Agriculture in 1939. From 1940-1948, Mr. Mazzocco was an Economist with the U.S. Tariff Commission, and from 1948-1949, he served with the Department of Defense, International Affairs. In 1949, he joined the Agency for International Development and has served in various capacities in Paris, Rome, Brazil, and the Entente States (Africa). Special assignments have included: Member, Inter-agency East-West Survey Team; Consultant, President's National Security Materials Policy Commission; Member, Common Market Study Group Council for Foreign Relations; Chief Special ICA Survey Team to Entente States. This is Mr. Mazzocco's first lecture at the Industrial College.

ECONOMIC DEVELOPMENT ASSISTANCE AND WORLD STABILITY

30 October 1963

COLONEL BEALL: Our subject this afternoon is very timely. As you have noted in the newspapers, the Foreign Aid Bill is undergoing a critical analysis by our Congress. In our study of economic policies for national strength it is important that we have a clear understanding of United States Policy and Programs for assisting economic growth in underdeveloped nations.

To discuss this subject with us this afternoon we have Mr. William Mazzocco. As you have noted in his biography Mr. Mazzocco has been associated with the Foreign Aid Program since 1949. He is currently serving with the Interdepartmental Seminar on problems of Development and Internal Defense.

It is my pleasure to present Mr. Mazzocco.

MR. MAZZOCCO: Thank you, Colonel. Admiral Rose; Students of the Industrial College: I was told that there would be 150 or more of you here, and I have a whole load to drop on you, because so many of you came. I was on the lecture circuit about a year ago and found myself in the middle of Kansas, at the appointed place and an hour with only one man in the audience. I had a 2-1/2 hour lecture, and so I decided to talk to the audience about making some adjustment. The audience told me, "Well, sir, I don't know much about nothin, but if I had a load of corn and I was told to go down the hill and feed the cattle, I sure as hell would do it." So, I held forth for 2-1/2 hours, and after my lecture I got down to test audience reaction. My audience told me, "Well, sir, like I told you in the beginning, I don't know much about nothin, but if I had a load of corn and I was told to go down the hill and feed the cattle, if only one showed up I sure as hell wouldn't have given it the whole load." So, I am afraid you are in for it; I am going to give you the whole load.

Well, my subject is "Economic Development Assistance and World Stability," and it is a timely subject, as Colonel Beall has mentioned. The United States has employed economic and technical power in assistance programs for a great many years, for the purpose of achieving world stability, and for political purposes overseas. We like to talk about our successes because they seem to be forgotten, if at all recognized, and I want to point out the fact that the Marshall plan--which is our most dramatic success--success from the point of view of economic rehabilitation and economic development, was also actually a huge political success. We tend to forget that a great many political goals were attached to the Marshall plan program.

Among these, of course, were our commercial policy objectives; that of achieving a world freer of trade restrictions, and particularly restrictions against American imports. Today, Europe, after a grand recovery, of course, and development, is importing American commodities at levels far above anything we might have anticipated a few years ago.

And, of course, there was the goal of political supranationality, a breaking down of the rivalries of nation-states in Europe, particularly between France and Germany. Well, this, after 15 years, has produced three supranational organizations in Europe; not perfect, I agree, but I don't think any political scientist in the late 1930's would have predicted the appearance on the European scene of even one supranational organization.

Well, these successes and others have not stopped the increasing challenge to the political utility of using economic and technical assistance overseas. This challenge has grown more vociferous, more blatant of late, and of course, our aid bill is going through its most critical time in the Congress right at the moment. There are some reasons for this and I would like to just mention a few of the presumed failures resulting from aid programs, or associated with aid programs, that have much to do with the problems we face, not only in the Congress, but in the public mind as well.

There is Brazil, which is coming into the limelight more and mo where people will point out to us economic development based on certain parameters of measurement, have taken place. Gross national product has increased as much as 10 percent in a year. And per capita income is up. Literacy rates are higher. Yet, you have

neither political nor economic stability in Brazil today. Indeed, the conditions of instability are much greater today than they were when Brazil was a much poorer nation.

And then, let me move on to Indonesia. There the people remind us that in the first general elections held in Indonesia, the Communists came out fourth in the amount of votes. Then a massive aid program was begun. By the time it had gotten underway--it had been implemented for a couple of years--another election took place, and in this election the Communists had the top number of votes among the electorate. We were asked to explain how this association had taken place.

Then there is the question of Italy which had an election recently. And the people with long memories will point out that in 1948 before the Marshall plan got started in Italy the Christian Democratic Party had a clear majority at the polls. In the 1948 election it had more than 51 percent of the vote. Fifteen years later, and as some of our harshest critics say, "$5 billion later," the 1963 elections showed the Communists (with uninterrupted increases in every election at the polls) polling more than a quarter of the vote as opposed to about 15 percent 15 years ago, with the Christian Democratic Party down to about 37 percent from 51 percent.

So, we are asked to explain, although Italy, with an aid program, has been experiencing a true economic miracle; (production is at record heights; per capita income is up; the material opulence of the country is unquestioned, compared to what it had been 15 years ago;) and yet we see the Communists making uninterrupted gains and the center parties dropping.

If this is not enough we start getting stories about what is happening in Vietnam. Our harshest critics agree that we have gotten increases in economic performance. Certainly, we cannot point to economic or political instability there.

And last but not least, the most dramatic of all these presumed failures, Cuba. And here we are not the only ones to be asked, "What's the answer?" Because, beside having an economic aid program we had a military aid program there. We had a U.S. Information Agency (USIA); we had a Chief of CAS. We even had a Preferential Trade Agreement that gave the Cubans privileged access to our market for their sugar. And we had large doses of

private American capital in the economy of Cuba, which we regarded to be a good thing. Despite all of this we not only cannot talk about political or economic stability in Cuba, but we are asked how come there is, 90 miles from our shores after all of these events, a country which is, in all effects, a part of the Soviet bloc.

Well, when I am asked a question like this I usually go up to the Personnel Officer at the USIA and ask him if he hasn't got a small job for me in Florence, Italy. These are hard to answer.

However, despite these rather difficult questions I will still contend that economic development assistance is essential to the achievement of our overseas political goals. Although, I will agree that in this decade, given the situation in the world, economic development by itself will not automatically bring about the political and economic goals we are seeking. This is the new role in which the AID agency has been thrust in the last 2 or 3 years; the role of utilizing economic and technical assistance programs with a view toward counteracting the situations in the global political configuration of the world, which inherently lead toward instability in the national economies and in the world.

Before I go on to discussing this environment, which is the basis for the new aid strategy in policy and operations, I want to allude to what can be regarded as a total indictment of the proposition that economic development assistance can achieve world stability. This comes from our most venerable critic, the Honorable Passman, in Congress, who, about 2 or 3 months ago, during one of the closed hearings interrupted one of the AID witnesses by saying, "There is a direct relationship between successful foreign aid programs and assassination or government overthrow." He did not say there was a relationship between aid programs and assassinations or instability, he said, "Successful aid programs and subversive insurgencies and insurrections."

Then he went on to say that he challenged anyone to prove to him that the economic development that had taken place in countries in which we have economic aid programs would not have taken place anyway. And finally, he said he wished we would stop talking about the aid program in any way shoring up communism.

So, on three counts we have an indictment of the proposition that economic development assistance will support programs for

world stability. First of all, on political grounds. Now, this is a very crucial statement that the Honorable Passman made; that there is a relationship between successful foreign aid programs and insurrection in the world. Then, of course, on economic grounds, and finally on the grounds of shoring up communism.

Well, I am going to contend that there is a relationship between a successfully-implemented foreign aid program and world stability. But before I do that I must discuss briefly the two major doctrinal premises which are the basis for the AID in this decade. The first is that we do accept the notion that economic development in this decade is essentially going to be destabilizing. More harshly put, the essence of economic development and the assistance thereto in this decade will be political instability.

The next proposition is that there exists in the world an international Communist force which has made as one of the major elements of its strategy, to exploit the vulnerability of developing nations as the basis for winning in the confrontations between East and West.

Now, let us examine that first proposition. I said that economic development and assistance thereto will be essentially destabilizing in the next decade. During the Marshall plan period we were not bothered by a statement like that. Our economic premise then was that if we did the economic job well, somehow or other, automatically, the political payoff would be there. We contended that this was a correct assumption under those conditions. It is not a correct assumption under the conditions of today. And what are those conditions?

Well, first of all, we are not dealing with developed countries as we were in the Marshall plan, we are going to be dealing with underdeveloped countries--and there are over a hundred of them in the world at this time--all of them aspiring to modernize. There are 46 of these countries that have become independent since World War II. And particularly, in the new countries there have been about 75 to 80 insurgencies since World War II. And the frequency with which these insurgencies seem to be taking place is increasing. Now, why is this? Well, not to oversimplify, but I think it is important to point out that transitional societies are, in essence, tending always toward instability. Traditional societies are societies undergoing change. But more important, the traditional society is one that has inherited from its traditional state a social structure which is

basically unjust; which state caused no great apprehension or concern while the society was in its traditional stage because there was securit for every inhabitant in that traditional state through the status that each inhabitant had. It was a socially unjust situation viewed objectively, but one that was accepted and understood by every inhabitant of that feudal or traditional society. There was no change, or, if any, no perceptible change in this traditional society.

Now, if there had only been a couple of these that moved out of the traditional cocoon and into the transitional stage and would have been tending, always, toward some instability, this would not have given us great cause for concern. Nor would it have been an element of danger to our national security. What I want to stress is that we have over 100 of these societies on the world scene at the same time, every one of them tending toward instability in their modernization aspirations. The forces of change in these societies are much too great during the period they are developing, and they do not have the attributes of a modern society which accommodate the internal conflicts induced by change with the institutions developed by the modern society to attenuate the tendencies of internal situations to create situations of violence.

So, we are dealing, now, with the aid program, with the whole half of the world--the Southern Hemisphere and more--and with about 75 percent of the world's population, in a situation unique to the world; a situation which, at this moment of the world's history, is one of potential turbulence throughout half of the world.

The aid program must take this into account, and this is one of the basis for the new strategy. I'd like to give just a very brief case example of a country that moved into the transitional stage and in its modernization achieved many economic gains, and has assumed some economic attributes which are very praiseworthy, but still, despite these economic gains did not achieve political or economic stability which we think the underdeveloped nations must have if there is to be world stability.

I speak of Argentina which began as a landed oligarchy and a livestock oligarchy--and when the modernization process took hold in Argentina a whole series of intrinsically sound economic measures were applied; measures which we would applaud as being the right kinds of measures for economic development. Among these were very low tariffs for imports. This is one of our commercial policy objectives. Another was seeking capital from abroad to develop the

utilities and other industries. Once again, we applaud this kind of economic policy. Another was the importation of productivity techniques to improve the quality, production and the strains in the agricultural component of society which was the predominant element.

I will mention what happened as the economic advances took place. Given the fact that the Argentine society was structurally skewed by virtue of the objectively unjust social situation that prevailed during the traditional period, these economic attributes applied to the traditional society further aggravated the social injustices, as the economic and technical power of the society grew in the aggregate. The low tariffs were decreed to encourage imports of industrial products, which delayed the emergence in Argentina of an industrial class that might have challenged the privileged position of the landed oligarchy.

The introduction of private and public foreign capital did the same. Many of the industries and utilities in Argentina were developed with Belgian, French, and British capital, but these being foreign to the society did not represent a challenge to the oligarchy. The productivity techniques which improved the situation in agriculture, because of the skewed distributive situation, caused a disproportionate amount of the new wealth--the new income--to be channeled into few hands. It also created a labor surplus in the agricultural areas and the surplus started to migrate toward the cities.

Then you had another process, the process of urbanization, which is destabilizing in a transitional society. And there was another effect of this process; groups started to merge in the society groups, that did not exist before: labor groups, student groups, bureaucratic groups, political parties. And, we had another effect. Orginally, the Army in Argentina was officered by the sons of the landed and livestock oligarchy. As the economy and the society grew, this could not continue to be the case. And, eventually many of the younger officers of the military were not elements of those families that had a vested interest in maintaining this privileged position in their society.

There were successful attempts to suppress labor legislation. There were attempts to suppress educational reforms. But eventually, as these groups grew in numbers and in strength they began to protest against what they considered to be a denial of opportunity to participate in the economic and political growth and direction of the country.

This situation developed so that one man, coming along at the right time, appealing to all the dissident groups, amalgamated them into a single force to back him, and he took over the country. This was Juan Peron. Juan Peron offered these groups the opportunity to correct the social injustices that existed in this growing Argentine society. Instead he introduced injustices of his own; he overcorrected in some cases; he had no intention of creating the kinds of things that were really wanted basically by the people, and he eventually had to leave the scene. But the important point is that Peronismo is still a very turbulent force in the political and economic life of this relatively modern Argentine society. And Argentina has the highest literacy rate in Latin America and one of the highest in the world; an excellent agricultural environment, industrial complex, utilities--a whole series of economic attributes, which are the goals we seek, economically, for most of the underdeveloped countries. But despite this fact, it does not have economic stability, and up until most recent elections did not even have a constitutional government.

The important point here is that the modernization process in transitional societies if not consciously influenced can breed leaderships which are hostile to the United States, which are not Communist. They might even be anti-Communist. And this is probably just as much a threat to our security as having a Communist leadership in some of the underdeveloped countries.

So, the first conclusion that we have arrived at in fashioning a new aid strategy is that the aid program must, at the same time it promotes economic and technical development, also guide and favorably influence the process by which that modernization takes place. It must deal successfully to install within the country those forces which are basically hostile to our overseas objectives, hostile to the development of a democratic environment; which will capitalize on sources of disaffection and incite internal warfare. This is also known as the "Internal Defense Theory of the Aid Strategy." We have now chucked the old premise we used in the Marshall plan, that if we can manage and implement the economic aid program expertly and superbly, automatically there will be a political payoff. We now say that economic development is necessary. But in the underdeveloped countries, unless there is at the same time a set of programs which bring about a tendency on the part of the country to attenuate the inherently destablizing forces which are produced by the modernization process, economic development by itself will not attain our overseas goals.

Now, I will spend just a minute or two on the Communist strategy and tactics which also have caused us to revise our aid strategy. I do not have to go into a great deal of this because much of it is already known. However, I would like to point out that the Communist strategy of infiltrating the economies of countries has several purposes; some political, some financial. The one thing that we are trying to avoid is the Communist presence whether it is visible or invisible, in a country, which will have the effect of aggravating the destabilizing tendencies of the modernization process, and have, of course, the objective of influencing if not taking over the control of the government of those countries.

So, we have these two propositions, then, that have fashioned our aid strategy in this decade. The modernization process is essentially destabilizing. And, there must be something else beside economic development taking place if economic development is to contribute to world stability. A major element of Communist strategy will be to exploit the vulnerabilities of the underdeveloped world as they move along the spectrum of the modernization process, with a view towards subverting the underdeveloped world and winning in the East-West confrontation on that basis.

So, what is the AID response? Its new strategy is now to promote economic development consistent with our internal defense objectives, consistent with creating a capability in the underdeveloped world to resist the tendencies of the process to destabilize the society, and to resist the pretensions of communism or other hostile forces to subvert the societies?

Well, the AID response is lumped into six broad categories. I will briefly discuss each one of these.

The first one comes under the category of reforms. That is quite a big word. One thing we are now certain of is that economic and technical power applied to a social system which is basically unjust will aggravate the injustices in the system. However, as I said before, economic and technical power are necessary if world stability is to be achieved. Therefore, we are seeking, through programs of supporting reforms of that structure, a manner of adding to economic development the power to promote social or political development. In this category I would like to point out that the reformation of the social structure through these reforms is a highly complicated problem and there are several things that must be taken into account, not the least of which is the timing of the reforms.

A reform which is conceded by a government after there have been political disturbances or massive protests is in many cases not regarded by the society as a concession by the government, but something wrested from it. And the situation very rapidly deteriorates to the point where it is felt by the society that if it is to hold onto the reforms it has already gained, and to get other reforms, it must maintain its protest posture toward the government.

There are political scientists who contend that this is one of the reasons why the Communists continue to pile up votes in Italy despite great economic advance. The electorate in general, in Italy, apparently feels that the concessions which have been made and which have resulted in a greater affluence in the Italian society have been made only because through the polls there has been an opportunity to protest; that if they stop voting Communist or extreme right there is a chance that the government will not make further concessions, and might even start to roll back the ones they have made. The Communist agitator goes around before election day and says, "Have you ever had it so good since we have been voting Communist? No. And you have only had it so good because we did vote Communist. Well you and your friends vote Communist so that you not only will maintain the gains that you have made, but so you will get new ones." This is a very telling argument.

Another point about reforms is that they are so technically complicated that unless the country has the technical capability of implementing sound reforms they can also backfire politically. In this connection the AID offers technical assistance, development grants--in some cases development loans where these are appropriate--for the implementation of sound reforms.

I would like to mention one more thing about reforms, that I think to be highly important, particularly at this time. That is, that the word is being used a great deal to cover certain actions which might in a superficial way be classified as reforms, but do not really respond to the felt needs of a society. The reform, to be an effective instrument, in these transitional societies must give the people the feeling not so much that they are improving their material lot; this is important; it must give them the feeling that somehow or other they are being provided the opportunity of participating in the economic advance, even in the political direction of the society. This I contend, is one of the main reasons why the Portuguese cannot get together with the Africans on their problems in Angola and Mozambique.

The Portuguese have offered reforms, and intrinsically these are not bad reforms; reduction in some of the tariffs; improvement in some of the labor practices. But, basically when these reforms are reviewed the conclusion is inescapable that they will increase the opportunities not so much for the Africans, but mostly for the Portuguese in Angola and Mozambique. This the Africans cannot accept, because these are not reforms as they convey the meaning of reforms.

So, this is one of the important things that the AID program must take into consideration in supporting reforms; supporting a change in the social structure of a society to improve the distribution of wealth and income. More important, as important as is an improvement in the distribution of wealth and income, is the distribution in the new opportunities created by the advancement of that society. This is the quality that must be developed to replace the security which is lost when that society leaves the traditional or feudal bases. In that society, you remember, I said there was security through status. In the transitional societies, economic and technical development must support the attainment of security by the citizens through opportunity. This is much more important than even material gain. And I hark back to our Cuban example. People keep telling us--critics--that the statistics show that the Cubans were better off than most of the Latin American countries; higher rates of literacy, higher per capita income; the material well-being of the Cuban people in general was much higher than it was 7 or 8 years ago.

But what was not better in 1957 or 1958 was the opportunity for the rank and file to participate in the benefits of the society. And this, I think, was the biggest element of the explosion that triggered the revolt. If the Cubans only revolted because of the system of land tenure or on the basis of the level of their per capita income, then most of Latin America should be in active revolt, not to mention other parts of the world.

This is what the AID program is trying to do in support of reforms; create the psychological framework through economic and technical assistance to reform the structure of the society so that opportunities will not be denied to the citizens to participate in the advance of the society.

That is the first one. The second category comes under the heading of public safety. This has received priority in our new AID strategy. In the old days we sort of felt that the internal disturbances in a country that was developing were an accident of the system. Now

we accept the proposition that the internal disturbances will be an essence of the development process. In transitional societies there is real need, for economic as well as political reasons, to assist countries who need to create a capability to maintain law, order, and stability throughout the society, and to do this in a scientific rather than a repressive way. This calls for even greater amounts of technical assistance. The economic aspects are many; I will mention one:

Economic development will be successful in a country if the kinds of investment which are made are those which in general lead to the growth of a nation and the building of a national environment, if not the investment expenditures are speculative in nature and expect to reap their returns within a very short period. But, developmental investment expenditures are, by definition, long-term. They will not be apt to take place in a society in which there is a general feeling that one cannot count on internal stability and law and order prevailing over a long sweep of history.

So, public safety is getting a great deal of attention. We have maybe, now, public safety programs in possibly 25 countries and we will examine all requests that come in. Incidentally, this program has received the priority of the White House as well. And it is one of the major components of programs in countries which are regarded as critical from the internal defense point of view.

Now, my third point comes under the heading of providing support to an internal defense military doctrine. By this I mean in countries where many of the attributes needed for leadership and development will be found in the military; sometimes almost exclusively. The contribution that the military establishment in that society can make for national development and nation-building are immense. However, if the exclusive mission of that military establishment is to safeguard the nation from external threats there will be first of all the economic cost to the budget, of such a mission, and secondly there will be the loss of economic, technical, and social attributes of that establishment to the nation-building process. There is another element involved here too. That is, too often and for understandable reasons, in the new societies particularly, the military establishment is regarded by the countryside in particular, as a repressive and privileged arm of the central government, to be mistrusted and avoided at all costs.

This does not create the correct psychological image of the central government, let alone of the military establishment. So, we are supporting programs such as military-civic action in which the United States military has the primary role and in which AID has a supporting role for encouraging the creation of this kind of a military doctrine in the underdeveloped world.

I will agree with you that it is rather difficult, in general, to convince the Generals in Latin America for example, that the bulldozer is mightier than the supersonic jet. But we do feel, in the period of time over which we have engaged in this activity, that there have been definite payoffs which are rewarding and will be increasingly so in the near future.

Fourth; preclusive or preemptive programing. Here we examine situations in which we consider Communists or other hostile forces are attempting to gain an entry in the economy of a certain country, and that these particular situations are inimical to U.S. security. In these cases we rely to some extent on our economic and technical power, offering assistance to preempt the presence of Soviet or other hostile force in a critical situation. In some cases this has been eminently successful. I don't want to give the impression that we scurry around trying to find out where the Soviets, the Soviet bloc, the Chinese Communists or others, might be sneaking in, and rush in with millions of dollars.

In Ethiopia, an intelligence estimate we received seemed reliable, and it indicated that the Soviets were making headway in connection with the offer of assistance to the civilian police establishment within the country. We responded with an offer--obviously through diplomatic channels there were certain understandings--and as a result the Soviets did not get into the public safety sector. We have the program there.

Another example was in the field of civil aeronautics. During the height of the Congo crisis the Soviet Union offered the Government of Sudan civil aviation assistance at the Khartoum Airport in exchange for onward flight rights to the Eastern Congo. It was obviously inimical to U.S. interests and we responded with an offer of aid from the United States, in the civil aviation-navigation field. I believe that the offer still stands, and the Sudanese Government did deny the Soviets the request they made.

I indicate that this preclusive programming is not confined only to the Soviet bloc. We have cases where we regard the establishment by an Italian State Firm--E.N.I. (Ente Nazionale Idrocarburi--a petroleum organization)--of a refinery in some parts of the world not to be in our highest interests. The refinery would process Soviet crude, and the products of the refinery would be used as a basis for creating an internal distribution network which could, and in many cases would, have political ramifications we prefer to avoid. We have used this in a couple of instances, to my knowledge, with success. In one case--the Ivory Coast--the government decided it was in its interests to deny the E.N.I. request and they got together with the Western oil companies to establish the refinery. We were not so successful in the Congo, although the issue is still not completely decided. But this is another example of preclusive programming, as a basis for taking into account the political as well as the economic objectives of our Government overseas.

Now No. 5. This is an important element. It goes under the head of "Social Cohesion Projects." This is where the AID program or the AID agency has its major responsibility. By social cohesion projects I mean those kinds of projects which have as their objective not only economic development, but more so social and political development. This means that the nature of projects in most cases will be radically different than would be the case if we were only concerned with economic development per se.

An example would be in the field of industry. An analysis might indicate very well--it probably would--that by erecting a steel mill in a major city of an underdeveloped country the addition to the gross national product would be very large. The creation of a network throughout the country, of small industries would be much less. But the analysis might also indicate that for purposes of countering the internal instabilities that arise out of the modernization process, it would be far more advantageous politically to industrialize by creating small processing plants throughout the entire country. This would provide opportunities for the society on a national basis to participate in the industrialization process. This may seem farfetched, and it may be, in some cases. But it has been used to advantage in more than one instance.

In the field of agriculture we are often told in foreign countries where we have AID missions, that most of the underdeveloped world is engaged predominantly in agricultural pursuits. The United States

Government has demonstrated, if it has demonstrated anything at all, its superiority in the field of agricultural productivity. Therefore it seems to follow as a logical conclusion that the most natural AID program of the United States should be one of offering to raise the productivity of the underdeveloped world's agriculture to the highest possible levels. From a superficial, narrow economic point of view this may have considerable merit. From a political point of view it could, and probably would, be very, very dangerous. Because, what would take place if that agricultural productivity program were to be eminently successful, would be what happened in Argentina. There would be large amounts of agricultural labor with nothing to do in the countryside. And they could only float in one direction, if they started floating at all, and that is, the cities.

Very frequently, the cities are only "the city"--one large city in a small country. The city is not usually prepared to accommodate this large influx of usually unskilled, sometimes semiliterate labor from the countryside. This has its political ramifications as well. When the people stream in from the countryside where they have been scattered over a large area of real estate, into a city, they become elements within groups like labor, student, youth and otherwise. They also become the handsome targets, concentrated in one area, for hostile forces and particularly by well-trained Communist cadres.

The same might be true for a steel mill in a single-city country. There has been many attempts made in the past 2 or 3 years, by our people, to reduce the fervor with which agricultural technicians on both sides of the fence--in foreign countries and our own--try to formulate programs for massive productivity gains in the countryside. This is another instance in which the new AID strategy tries to harmonize social-political development with economic, getting less, maybe, of an increase in GNP, at least in the initial instance, in order to get a bigger payoff on the social and political side.

Now, here I think I can indicate two areas of the world in which I think this proposition has worked rather well. There is an area in the backlands of Peru known as Vicos, an Indian settlement. The environment has been almost semifeudal. Civilization has trickled through to this place in the last 20 years, and as a result there have been some stirrings. People began leaving Vicos and going to the major cities of Peru. And near the Vicos area there have been Communist inroads.

About 10 years ago Cornell University undertook a project in Vicos and sent some of their people down there; Professor Allen Holmberg is the better-known of these. Over a 10-year period a program was formulated which had the objective of gradually increasing the agricultural and economic welfare of the inhabitants. But it was trying to create opportunities for all the Vicos citizenry to participate in that project. Ten-years' time really is not so long measured against the sweep of history. This Vicos project is now being hailed as a model which our Government now is undertaking to study for purposes of applying it elsewhere. Because, in Vicos you have economic stability and political stability, and it has been immune from the Communist inroads in the neighboring areas.

More recent developments indicate that word has trickled into the cities, and the former inhabitants of Vicos who left have started to come back. And the lesson that Professor Holmberg gives in a few words is, "Develop the economy slowly and in place to the extent that it's feasible in the agricultural field. Try particularly to get an agricultural program going which makes room for everybody, or almost everybody, who is on the land. Your chances of political stability are greatly enhanced."

I have even a better demonstration--Japan. At the end of World War II Japan had a rather serious problem in agriculture. It had a series of very small landholdings, and from the point of view of economics this was highly uneconomic. There were a lot of people on the land and they had a lot more in the cities. They did not have room for everybody in the cities. There was a compulsion to modernize agriculture. But there was also in the minds of the Japanese planners--and I commend them for this--the need to make certain that internal warfare implications would not rise out of the reformation programs.

It was necessary to improve the well-being of the people on the land. But it was necessary to do so, in the minds of the Japanese, with a view to keeping as many as possible on the land. And they were successful. They had heard of the mechanization progress in the United States. And obviously, some of them must have pined over the possibility of creating a land tenure system of large commercial plots which would have just spewed agricultural products out of the ground. This would also have created a large surplus of agricultural labor. So, this plan was not adopted. From a purely economic point of view, this might have been the one to be pushed, under other circumstances.

Instead, they mechanized with very small equipment which I call "microminiaturized agricultural mechanization." Some of the equipment is about the size of our powered lawnmowers. This had the effect of increasing the yields, but it also had the effect of keeping a lot more Japanese farmers on the land. This is one of the more successful agricultural reform programs. And yet, from the point of view of strict economics, the GNP could have been increased maybe two or three times as much by purely economic productivity programs.

Well, now we have one more in the category--one more of the AID responses. This goes under the vague title of the "country team approach." I know this causes a little difficulty, even by those who have worked on country teams. It is not an approach which requires that the AID director be present at the meetings of the Ambassadors once a week or whenever they are held. By the country team approach we mean, not only in the field but in Washington, the harmonization of all of the assets and resources that we have, with those of the other agencies engaged in overseas operations. It is really sort of an integration of our resources with those of the other agencies and vice versa not only from the point of view of operational efficiency, but also for purposes of maximizing the research and development potentials of our programing. For instance, without going into too much detail, we rely more on political and intelligence assessments than otherwise might have been the case. We did not have to do so when our theory and doctrine was; if we managed our mission well and we actually got economic development going, automatically there would be a political payoff.

Now that we have bought the opposite doctrine we do have to coordinate, harmonize, integrate--they have even used the word "orchestrate" a few times to dramatize this.

But this country team approach is the response that we make to the question asked about Cuba, where we did have a "country team" and a whole series of operational assets, and the country went down the drain.

Now, I have time for a conclusion or two. I have a lot of them, really, but I think the most important one I can make is that one is more apt to find economic development proceeding in an underdeveloped society, in a framework of relative political stability, where the economic advance is proceeding at a minimal rate--but in which society there is a more equitable distribution not only of the wealth

and income, but more importantly, of the opportunities for the citizens to participate in the economic advance, than in a society which is demonstrating formidable economic gains (measured in terms of gross national product, per capita income, literacy rates, or what-have-you) but in which society the feeling is rather widespread that the privileged classes are solidly and permanently entrenched.

In such circumstances the modernization process will breed not only instabilities, but also the resolution at violence. Of course, we know this is one of the elements the Soviets strive for. That is, to exploit these kinds of stresses and strains produced by the modernization process to foment the wars of national liberation, and to create a wide swath of instability in the world.

I will end by quoting President Kennedy's preface 2 years ago--(April of 1961)--to the Program for a Decade of Development. In this preface the President said, "For too long we have focused our eyes on conventional military needs; on armies prepared to cross borders; on missiles poised for flight. Now it should be clear that this is no longer enough; that our national security can be lost piece by piece, country by country, without the firing of a single missile; without the crossing of a single border." Then he went on to say that we are engaged in a struggle; a struggle which, in many ways, is more complicated than war. And this is the struggle into which AID has been thrust as a combatant along with the other agencies of the Government.

And, if I may close with a little story, the thing we are looking for most in AID, is people who can adapt themselves to this kind of a struggle. I am told that way back in the Ming Dynasty 5,000 years ago, insurgency was a major problem. There were no schools under the Ming Dynasty, to teach the officers of the government, how to put down these insurgencies, and so the Emperor found it necessary on occasion to go out and put them down himself. On one occasion he tidied things up around the palace, took off for the north, was gone several months, won the insurgency and returned to the palace. Much to his dismay he found that the Empress was pregnant.

It was a very deplorable state of affairs and so he called his head Eunoch over and asked for an explanation. The head Eunoch responded by saying, "Well, sire, it seems that the No. 2 Eunoch hasn't been cut out for his job."

So, whereas I threw the whole load on you, from AID's point of view we are looking for very masculine, virile people who are cut out for the job.

QUESTION: I understand that the Peace Corps has been part of the AID program. Could you tell us how it is making out, and if it is carrying its weight?

MR. MAZZOCCO: Well, I think the best service I can do here for the Peace Corps is to say that it is not a part of the AID program. The Peace Corps intends, for very good reasons, to be aloof from any other operational agency of the U.S. Government. However, be that as it may, there have been a number of instances in which the Peace Corps has been very helpful to the AID agency, and more so to our posture in the particular countries involved. I will give the examples.

The AID agency can only act in an advisory capacity overseas. We cannot put operators in jobs. The Peace Corps on the other hand, consists of operators; teachers, farmers, technicians. And in some places the advice that we could give would not be worth a darn. It is better if you have somebody doing the job. Until the Peace Corps came along we did not have an arm of the Government that might do this. The only other approach to this was to work out a project with the Government to implement a contract to a private company to do the job.

But more important politically is a situation that I ran into in Africa. As you are probably aware, in the former French areas it is not only difficult, but highly desirable for us to stay out of education, because the French consider first of all, this to be the biggest link that binds the former French colonies with France. And secondly, they are not so sure that our educational system is as good as theirs.

Well, there are certain Ministers of Education, however, in these African countries, who want an association wider than just with the French. And some of these would rather have it with us than with the bloc. But we would find it very, very difficult--in fact, impossible to please them. I have had experience in four countries on this. To get a formal request from the government (even though the Minister through his own channel would let me know that he sought

our aid) was impossible. Well, until the Peace Corps came in we could not respond in a manner which was satisfactory to these Ministers.

With the arrival of the Peace Corps (and at least up to the moment no indication that the French are concerned about our having Peace Corps people, for instance, teaching English in schools) we have been able to say, "We haven't gotten a request from your government through the official channel for aid to education, but we do have Peace Corps people who would be willing to come and teach English in your schools, as a starter." And in two instances, this happened before I left Africa. It created a situation in the Ministry with the Minister and with other Africans who want an association with us, that was a lot more satisfactory than the one that existed up until then, when our only answer had to be shutting the door.

Now, there are some developments that I have heard about recently, having to do with studying some further uses of the Peace Corps where they can still be aloof and not be associated with the AID agency in an overseas country, but still performing a service that would in many ways still be supporting an AID objective as well as U.S. Government objectives.

But the main thing is to remember not to tell anybody that the Peace Corps is part of the Agency for International Development.

QUESTION: Mr. Mazzocco, I noticed in the paper that Senator Morse is kicking up his heels about the AID program, and one of his recommendations, of course, is, to take the lending part away and give it to the IDA. On the surface, from the layman's point of view so to speak, it looks pretty good. I mean, the ordinary citizen would think so. Would you comment on this, please?

MR. MAZZOCCO: Yes. Well, Senator Morse comes from my home state and he has an attitude of being very unhorsemanlike on occasion. You said he kicked up his heels. I am going to have to give a personal opinion here; I have not looked into what, really, Morse is after. I think what is involved, is this; there may be, and there usually are, instances in which the only way we are going to be certain that we can achieve, or have a chance of achieving, the overall objectives we are seeking, is for the AID relationship being bilateral. This is true in many cases.

However, where this is not the case, then I not only perceive no objection to the IDA lending, but I would rather be very much in favor of it. I tend to believe, however, that after 3, 4 or 5 years of experience, if this should go through, Senator Morse would kick up his heels again. Because, if this is U.S. money going into another organization we will not have the control over it that otherwise would be the case.

However, under the 1960 Congo situation there was a policy decision, which I think was correct, that it was much better to put our resources in a multilateral organization like the U.N. to handle that kind of situation, rather than to open up a big U.S. AID mission there.

But frankly, one of the main problems would be that the AID would have to really make the kind of study necessary to determine the terms under which they would make, or could make loans. Because, at the present time, as you know, the AID loans are extremely generous. They are loans, practically, only 20 percent of the face value, with the nonrepayment conditions, the moratorium extending up to 10 years on payment of principal; and the very low rates of interest--in fact, 3/4 of 1 percent. In some cases it is nothing more than a credit fee, and up to 40 years for amortization.

If the AID terms were to become, let us say, excessively hard, then they would not do the development trick. So, there are a lot of problems here. But I would put it on the first proposition. Where do we really have to have bilateral control to achieve what we are seeking? Under such circumstances we had better keep it under our own jurisdiction and administration. If it is not necessary I would be in favor of considering other avenues.

QUESTION: As the Latin American countries modernize and industrialize, the middle class has grown both in size and importance. I wonder if your AID program takes this into account, and if so, in what way do they reflect this new group in their support?

MR. MAZZOCCO: You remind me that the other night I was on a platform and there was a Latin American General, and he was asked a question from the audience. He responded by giving a very brief historic description of Latin America. He mentioned at one point that bullfighting was the most popular pastime down there. And the lady who asked the question said, "General, isn't it revolting?" And he said, "Oh no; that's our second most popular pastime."

Well, getting back to your question; actually, the new AID strategy does just that. It is to take cognizance of what the sociological groupings are. What are the vital sectors of the society? What are the strengths? What are the implications for their growth? And how are you going to be able to support the progressive element in the growing society with AID programs? I do not think I got this message across clear enough in my presentation.

The AID Program by itself, no matter how expertly managed or implemented, is not going to do the whole trick. It can be a supporting mechanism; sometimes may be the most influential. Now, here again, there are instances in which doses of economic and technical assistance directed toward certain elements of the society--sometimes without the knowledge of the government--conjoined with other programs of the U.S. Government; psychological, intelligence, political, cultural, military or what-have-you, will create the situations we want. I should have mentioned that those six categories which I gave to characterize the AID response are all embodied in the Alliance for Progress Program.

We have intentionally flouted the sovereignty of a government by negotiating agreements with Governors--I am talking about Brazil--and it was our intention to indicate very openly that we wanted to associate ourselves with these elements. And we refused, or ignored, the requests of other Governors whom we did not want to support. This was combined with psychological campaigns run by USIA and others, to indicate that our money and our power was on the side of these progressive elements in their society, and that the rank and file whom we thought were their following, could take hope and encouragement from this.

Another thing, Mr. Moscoso, who is the American Coordinator on the Alliance, is making lots and lots of speeches throughout the United States, all unclassified; all being reproduced and translated into Spanish and Portuguese, and distributed. In it he is taking a crack at the elements in these societies that he considers to be impediments to growth and political development, and he is supporting other elements; not by name, but he comes right out and talks about oligarchies and entrenched interests who do not want to give up positions of excessive privilege. So, we are taking into account, to the best of our ability at the moment, the need to associate ourselves with those elements in a society, which are the progressive forces and the hope for the building of the kind of nation that we think will serve our national security and our overseas interests.

QUESTION: There have been evidences of opportunism on the part of some nations; that is, playing the U.S. off against rivals. It has been suggested that we could make proper use of international organizations such as the U.N. who could take a tougher line with such nations because they do not carry the connotation of a rich, poor or paid cooperation from one nation to another. Could you comment on that?

MR. MAZZOCCO: Your question has to do, then, with utilizing the U.N. as a channel for aid in order to avoid the blackmail aspects of nations which play us off. Well, this admittedly, is a very difficult problem to get into, because each situation has elements sufficiently different from the other, that they influence a decision.

I personally do not feel that by using the U.N. organization in general, you will get away from what you are trying to get away from. In some cases I would probably recommend that we do not use the AID instrument at all; that we use something else. But, this requires quite a deep analysis. I remember in the case of Mali in 1960, when the Mali Federation broke up and the Government of Mali had the Soviet bloc right in the capital, and asked us for aid. We were faced with the decision on the spot whether to say yes or no. And if we had said yes, as we did, it would obviously look to all of the other nations, particularly those on the periphery, that the reason we were so rapid in our response--which is usually not the case--was because of the presence of the Soviet bloc in negotiating AID arrangements right then.

If we had said no, the consensus was that this would certainly not get rid of the Soviet bloc in the country, but it would indicate to other Africans nearby that we were placing this kind of condition on helping peoples; not governments--peoples. I happened to be in Africa when this was going on. I was negotiating with four governments on the possibility of starting such programs, at their request. And I asked each of the Presidents of these four governments, for their reaction. Their only answer was that they thought we ought to respond affirmatively, be selective in the amount and types of aid we gave, and then they added the caveat. We should treat their countries more generously because they had not done this to us. As a result, Mali got $2.5 million although asking for $25 million. And the other four countries got together and said that the minimum that they should get was something more than ten. That is no way to formulate an AID Program.

But I really have my doubts that as a general rule you can get away from what you are trying to get away from, by going through the U.N. After all, the Soviet Union is a member of the U.N. The bloc is also a member of the U.N. And the nation that is trying to play both sides is not going to worry too much about whether we use the U.N. or not. So, I really have my doubts that this would be a very effective gambit. But I would want to emphasize, having participated in some of the preparatory work for decisions, how difficult this kind of a situation is, particularly when you are sitting in Washington and talking about countries six or seven thousand miles away; some you have never seen, and if you had seen you would not understand because they are brand new. And you know that somehow or other if you come up with the wrong decision for the right reasons, the repercussions can be rather crucial.

QUESTION: How much of the AID dollars are spent in the American economy?

MR. MAZZOCCO: About 80 percent now. It has been moving up and it got to the figure the other day of about 80 percent of all goods and services purchased under the AID program are derived in the United States. And the push is on to keep increasing this all the time. This is, of course, for our balance of payments reasons. But there is also another reason.

When you get into areas where the French, for instance, have been before you, there will be a tendency on the part of both the French and sometimes some of the Africans, to get us to provide some of the things the French otherwise would have. We have very simply responded by saying, "Anything that comes from France the French Government is in the position to finance; anything that comes from the United States, we will certainly consider." But, 80 percent is about the answer now.

QUESTION: When AID underwrites private U.S. investment overseas under the foreign assistance package, what criteria do you apply in arriving at this decision?

MR. MAZZOCCO: By underwriting private foreign assistance contracts, do you mean contracts with private organizations?

QUESTION: Partially, yes.

MR. MAZZOCCO: Do you have any other in mind, so that I can get the whole thrust of your question?

QUESTION: Assuming there are defaults against the currency.

MR. MAZZOCCO: Oh. You are talking about the insurance program. Yes; I can explain that one. Obviously, this was one to create an environment for foreign private capital which would reduce the claims against the United States Government for assistance, particularly for capital projects. Well, first of all, there has to be an agreement between the United States Government and the government involved, that they will accommodate the guarantee program. And after agreement is achieved with the government, of course, we have to specify which of these--there are four different categories--they may take all four, or they may want to agree to only one, two or three kinds of these. In each case, where an American firm is interested in a guarantee, we have to receive the concurrence of the government before we can guarantee that arrangement.

Now, we have not used any real hard and fast criteria in the sense of trying to determine whether the company is going to make a go of it or not, because it has to pay for the insurance. And in the first 14 years of AID's history, this was the only program in AID that made money. So, we were writing off as fast as we could. We have had some difficulties. Of course, there have been some problems with a couple of countries in the last couple of years. The real test comes when the government sits down and says it is willing to accommodate the United States' underwriting with this kind of guarantees; this kind of insurance. This is in general, and then, of course, in each specific case. But obviously, there are some that we would not be particularly anxious to get into. All we have to do then is just reject the application on the part of the American company, for the insurance.

I cannot think of any offhand now. I just remember there was one case where it was just not considered that kind of a business proposition, that we would want to back and therefore to guarantee. I forget whether it was an oil exploration, or one of these; particularly be a company that had no reputation.

QUESTION: Sir, with respect to this public safety, in one of the Latin American countries there is the question of the central university

being a sanctuary. What is the feeling down there about that, and AID taking steps to remove the sanctuary? I am thinking particularly about Venezuela.

MR. MAZZOCCO: Well, I am afraid I will not be able to answer that one; I am not well up on it. I really have not heard of this one. I have been involved in a lot of Venezuela stuff recently, but I have not heard of this. However, I am sure there is nothing AID could do except if we had a project in the university we could cancel it. You are looking at it from the viewpoint of public safety.

Let me say this; that in some instances the relationships that have developed between our police technicians and the Central Police have been so good that they have transcended any technical or economic implications. And where there has been an opportunity for the local police to wield its influence to achieve certain objectives and actions, there have been instances in which our relationships have permitted that. But I do not expect that to be the case right now in Venezuela. Our public safety program down there is relatively new, and from what has been going on in that country, I am not sure that we trust all the police departments anyway.

But this is the only avenue, I think, we have; where a relationship exists between our technicians and theirs, if we do have a public safety project. We can gauge pretty well in our conversations with them, or even influence them, and it would be in their best interests to take certain actions. I cannot really answer your question on using the university as a sanctuary.

QUESTION: Would you discuss our position vis-a-vis countries where the standard of living varies slightly, where the mouths to feed are progressing more rapidly than the national income, specifically India, and are we going to be facing this problem in the Equatorial African nations before very long?

MR. MAZZOCCO: Well, you are getting into the population problem, which is a very crucial one. I do not know that there has been enough research done to come up with any scientific answers. A long time ago when I was a youngster and going to school the old theory was that industrialization somehow automatically brought down the birth rate, and you had a stabilization of population at certain levels. Ours was going to be 175 million, and I suppose this was supposed to be a very good thesis then. But it has been exploded.

I do not really know what the future portends, where the population increases faster than productivity gains. This is not happening, I understand, in too many places, but it threatens to happen in a few. In the case of India, I suppose this is the most crucial of all these problems.

There has been, on the basis of my readings, and in my association with some of the AID people who have been there, the feeling--it may be an uneasy feeling--but the feeling that there is enough hope for the takeoff--the economic takeoff--to take place in the near future; that they can outrun this problem. And also, they feel that there will be some attempts made which will be successful in leveling off the rate of population growth. But there has to be a lot of research done before you get really good answers on this.

In Equatorial Africa the population density is very low, except in Nigeria. Most of these countries do not have much in the way of population. The infant mortality rate is extremely high. The growth rates are, we think, fairly low. There are not any reliable data; even the census data are not reliable.

But you raised a question that gives me an opportunity to give you a very good example of some of the political implications of turning down health requests on the basis of this population problem, which has been proposed more than once by authorities, to AID: that we have no health programs, as a means of counteracting the tendency for the population of the world to continue to rise at a progressive rate.

Well, on June 1, 1961 we signed a bilateral agreement with the President of Upper Volta in that very famous capital of Ouagadougou. And President Maurice Yameogo turned to me and the Ambassador and said, "There's something I'd like to say. It has to do with what I think you can best do for all of us Africans in this part of the world. We would like the benefit of some of your techniques. Some of these techniques only you have, or yours are the best. They have to do with reducing the infant mortality rates in our countries. I myself am a young man. But I am not so young that I will see the day when my country will start moving out of this primitive state. But if I ever see it at all, I will only see it because we have people who are younger, who are going to be healthy, educated, and strong enough to provide the help that is needed to make a modern nation out of my country. The one thing that's militating against it most is that most of our people are dying before they reach the age of one."

"The biggest killer is measles, and my Health Minister has advised me that you are developing in the United States a vaccine that will eradicate measles."

Well, this was true. Now, what would have been the political implications not only in Upper Volta, but in most of the other underdeveloped world, if the news got out that the technique which we had developed successfully to eradicate measles, was being withheld from Upper Volta or any other nation that asked for it? I think that they would have decided that we had made a determination on who would be born and maybe it would have been a colored view. I just contend that this would have been an awful one to reject. There was quite a fight to get it approved, too. We got it approved, and so far the political payoff has been tremendous.

We have had an NIH team out there conducting a survey, and then another NIH team went out and innoculated about 700,000 youngsters, eradicating measles in Upper Volta. We are doing this in a couple of other countries now. The brother of the President happens to be in Washington, at the IMF. He came to see us for lunch about a month ago and one of the first things he talked about was how grateful he and his brother, and the people of Upper Volta and other Africans are that we did say yes. Because, apparently they had thought that possibly we might say no.

So, I think at least over the hump of this 10 years it was a correct decision. Maybe a hundred years from now it won't be. But neither the President nor I will have to face that.

COLONEL BEALL: Mr. Mazzocco, on that note I would like to say thanks for taking time from your busy schedule to give us an outstanding and excellent talk.

MR. MAZZOCCO: Well, I have enjoyed it very much.

(11 June 1964--7,600)H/syb:en

* U.S. GOVERNMENT PRINTING OFFICE : 1964 O—739-661