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PROSPECTS FOR AN INTERNATIONAL ECONOMY

Benjamin Higgins

A review of Gunnar Myrdal, An International Economy; Problems and Prospects. Prepared for World Politics.

Center for International Studies  
Massachusetts Institute of Technology  
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## PROSPECTS FOR AN INTERNATIONAL ECONOMY

It is always a pleasant event when Gunnar Myrdal publishes a book, and considering his onerous duties as Director-General of the Economic Commission for Europe, so comprehensive a work as An International Economy was an event we had no right to expect. It is therefore a doubly welcome addition to the growing postwar literature on international economics. This literature is quite different in scope from the prewar literature in the same field. One of the striking features of Professor Myrdal's newest work--considering that he wrote it when plunged up to his eyebrows in European problems--is that so much of it is directed towards problems of underdeveloped areas.

The book is encyclopaedic in scope, but has a connecting theme: the disintegration of the world economy since 1913 and the need to do something about it. Myrdal frankly states at the outset that his analysis rests on a value judgment: that economic integration is a "good thing", and that equality of opportunity is the keystone of economic integration. A second value judgment is "that the attainment and preservation of a democratic form of government is desirable" (p.15). The countries in the Soviet orbit are far from being free according to our standards, Professor Myrdal adds, and for the most part the book is concerned only with countries outside this orbit.

Myrdal recognizes that international integration must be based on

national integration. In his view traditional internationalism, seeking a short-cut to international integration by abolishing national economic policy, is both reactionary and ineffective (p. 52). National integration has already been realized in large measure in advanced countries. Unfortunately, Myrdal argues, the form of nationalism has been such as to impede internationalism. The one major effort at international integration since the war--the program for West European Cooperation--was essentially a failure. The system of international payments that prevailed before World War I has broken down, and neither labor nor capital now moves with the same freedom as it did in the early twentieth century. The cold war has retarded internationalization of foreign aid, has destabilized international commodity markets by encouraging an erratic stock-piling policy, and has undermined the liberal foundations of Western culture. In this gloomy picture the "drive for independence and development" of underdeveloped countries, and the efforts of the West to help them do it, is a relatively bright spot. Even here, however, there are flaws in the canvas.

It is not possible to deal adequately in a single article with the whole range of ideas in this stimulating book; it is necessary to select a few. The reviewer has decided to concentrate on those international relationships which interest him most--especially since he knows that they also represent Professor Myrdal's major interest--viz., the relationship between advanced countries (especially the United States) and the underdeveloped ones. This field is itself broad enough. Within it, the reviewer has limited himself to four topics: foreign aid policy; trade versus aid; commercial policy of underdeveloped countries; and the special role of the United States.

### Foreign Aid Policy

Myrdal is critical of the "to him who hath shall be given" principle which has guided foreign aid during the first postwar decade. The United States has been the chief donor, but the greater part of its donations, including most of the Marshall aid, has not gone to the underdeveloped regions. The point is well taken. From the end of the war to the end of fiscal 1954 net loans and grants from the United States reached a total of \$46,847,000. Of this amount, \$12,181,000 went for straight military grants. Something under \$1,000 million of the total represents contributions to international agencies, leaving some \$34 billion as clear cut bilateral capital assistance for economic reconstruction and development.

Thirty-four billion dollars is a substantial sum; but most of this amount consists of Marshall Aid to Europe. Some \$25 billion of the total went to Western Europe, mainly for reconstruction purposes. This region includes some countries, such as Greece, Italy, Turkey and Yugoslavia, that could properly be considered underdeveloped; but these countries received together less than \$5,000 million, or less than 5 per cent of the total aid to Western countries, and of this fraction the largest share went to Italy, whose claim to be "underdeveloped" is least strong among countries in this group. The biggest sums went to such advanced countries as the United Kingdom, France, and Western Germany.<sup>1/</sup> The Near East and Africa received less than 1.5 per cent of the total, and some three-fifths of this sum went to Israel, the country with the highest per capita income in the region. Asia and the Pacific were accorded some 13 per cent of the total, but over half of this portion went to Japan and Formosa; defense considerations seem to have guided the distribution of funds in

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<sup>1/</sup>A small fraction of aid to the Netherlands was used for the Netherlands East Indies (now Indonesia).

this region. Latin America obtained less than 2 per cent of the total, of which half went to Brazil and Mexico--one relatively advanced country and one neighbor. Thus while the United States has spent considerable sums on foreign aid, it has spent rather little on economic development of underdeveloped areas.

Among agencies making loans for reconstruction and development, the United States Export-Import Bank has operated on much the biggest scale. In the allocation of its loans, however, the Eximbank has followed exactly the same pattern revealed in American grants and loans as a whole. Much the biggest share of total loans has gone to the relatively advanced countries in Western Europe. Latin America has received a beggar's portion in comparison, and even within Latin America it has been the relatively prosperous countries that have benefited most from Eximbank activities. The Middle and Far East, most in need of capital assistance, have received least of it from the Eximbank.

However, much the same criticism applies to the major United Nations agency for provision of capital assistance, the International Bank for Reconstruction and Development. At the meetings of the Bank and Fund in Washington in September 1954, representatives of underdeveloped nations were virtually unanimous in complaining that their requirements were not being given sufficient consideration by these agencies. If policies of these institutions could not be changed, they contended, new institutions such as the Special United Nations Fund for Economic Development should be established.

In one sense these complaints were justified. It is not the underdeveloped

countries that have received most help from the Bank. Of the total loans outstanding on June 30, 1954, only about 12.5 per cent had gone to Asia and the Middle East, and a bit over 10 per cent to Africa. For both areas electric power and transport constituted the purpose for the bulk of the loans. Latin America accounted for nearly one-quarter of the loans outstanding, but these went mainly to such relatively highly developed Latin American countries as Brazil and Chile. The capital requirements of the underdeveloped countries will obviously not be met if ordinary banking principles are applied.

Myrdal, quoting R. N. Bissell, makes an intriguing suggestion: ways should be found of inducing the international capital market to play its proper role in channelling capital from countries where it is relatively abundant to those where it is scarce. He believes that practical proposals, based on careful research, would not fall on deaf ears. Professor Myrdal has elaborated on this idea in conversation. He has pointed out that financial institutions are no longer permitted to pursue shortsighted and selfish profit-maximizing policies so far as their domestic operations are concerned. On the contrary, they have been compelled to serve the interests of national policy, including improvements in income distribution, maintenance of full employment without inflation, and the like. The problem now is to make these institutions play a similar role internationally, promoting the aims of agreed international policy.

To the reviewer, two things seem essential to any such policy. First, capital must be provided in bigger lumps than private organizations have hitherto found feasible. In underdeveloped countries it often happens that

each of a series of one hundred \$1,000,000 loans would be rejected on banking principles, while a single investment of \$100,000,000 may be very worthwhile indeed. Some means must be found to persuade private institutions to make loans of this order. However, institutional rearrangements would be necessary on the marketing side as well. For very often the major benefits derived from such large scale investments are in the form of "external economies", rather than direct returns through sale of the immediate product. Consequently, if such large units of investment are to be made attractive to private enterprise, some means must be found of permitting either the borrower or the lender to cash in on the external economies as well as on the direct returns. These two requirements probably involve collective action by groups of financial institutions, and we may need to recast our thinking about the merits and demerits of "combination" in the field of finance.

The problem of inducing a larger volume of international capital movements, however, is not merely one of increasing the supply of international capital; in some of the countries that need it most, it is also a matter of increasing the demand. Nationalist revolutions and the recent emergence from colonialism, especially in the neutralist countries that count most in this context, have left an aftermath of suspicion of foreign enterprise. In some of these countries there is a firm resolve not to allow "foreign-monopoly-capitalist-imperialists" to gain access to the country's "rich natural resources". Yet direct investment in resource development is often the most attractive form of investment to foreigners.

One solution to this dilemma is the "management contract". Where

there is a large domestic market for an existing product, a contract can sometimes be arranged whereby a national company is set up, with management hired from a foreign company producing the product. The new national company is granted licences to import from the foreign "managing" concern in certain amounts and for certain periods. During this time the new company, with technical and managerial advice from the foreign firm, builds a local plant to produce the same commodity. The foreign firm might continue to operate the new plant until it is possible for the host country to take over the operation entirely. In the case of exports for which there is no significant domestic market, the foreign managing firm must set up a plant immediately, which is not quite such an attractive proposition as a rule. However, the arrangement can involve handsome profits for the foreign concern even if they are disguised as management fees. Some management contracts between Latin American countries and foreign oil companies have actually proved more profitable to the companies than the usual "fifty-fifty" arrangement. At the same time, the arrangement has the great advantage that the ownership is national from start to finish.

But it is not only foreign investment that is suspect in these countries; foreign aid is equally carefully examined for possible threats to sovereignty and independence. For this reason foreign aid with strings attached is likely to fail in the very purposes for which the strings were designed. Professor Myrdal quotes ex-Ambassador Chester Bowles (p. 127): "Anyone who knows South Asia also knows that if Point Four aid seems to be in any way tied to our military and alliance system it will be rejected by most of the nations which are in greatest need of help". In short, exacting a promise to fight on our side as a basis for aid may result in



these countries refusing aid and not fighting on our side.

Similarly, failure to provide aid to governments which are slightly to the left of American taste may result in the United States having to choose between an extreme right-wing or an extreme left-wing regime. On the point Myrdal quotes E. J. Staley: "If we do not give vigorous support to governments that are trying to move in progressive democratic directions when they need it and want it we are likely to be forced into the position later of having to back a government that is bad by our standards for the sole reason that it is the only available alternative to a Communist regime". Some observers have contended that this sequence is exactly what happened in China. It might be argued that the Egyptian crisis arose out of similar attitudes; it is possible that wholehearted aid to Nasser's program for economic development would have prevented the whole Suez affair. There is danger that failure to assist the Indian Government without reservations may have this result. Even in the Philippines, with their increasing disparities in income and wealth, and rising unemployment combined with rising national income, failure to provide assistance for the policies and regimes that might be able to overcome these problems may someday face the United States with the unpleasant choice between a fascist and a communist regime. There is no denying the risk involved in providing economic aid to governments whose future international relations and domestic policies are uncertain; but the risk attached to the alternative approach is even greater.

Myrdal also contends that the burden of foreign aid should be more widely distributed. The United States is bearing more than its share, even when world income and population are taken into account. He suggests that the Scandinavian countries, for example, should accept a fuller share of

the responsibility. Some of the Scandinavian countries, Switzerland, and France have launched small programs of technical assistance; but it is true that these relatively prosperous countries are doing very little in the way of capital assistance. Myrdal might have added that countries like Canada and the United Kingdom are doing far less than their share on a per capita income basis in comparison to the United States.

On the other hand, Myrdal admits that "the awkward fact of United States bigness" makes truly international aid difficult (p. 130). "Under any system of fair shares", he points out, "the material contribution of the United States must be by far the largest of any country". Such being the case, the United States is likely to choose to "go it alone" whenever it really matters, to the detriment of development of international aid.

Unfortunately, there is another awkward fact to be considered; that the Soviet type of economic organization "presents itself as fundamentally a system for the development of underdeveloped countries" (p. 144). Moreover, in Asian and African countries there does not exist the "high degree of immunity against a spurt of sympathy for the Soviet system" that is found in Western Europe. While the resistance to Communism provided by Islam and village democracy in Asia should not be underestimated, there can be no doubt that the Asian and African countries have relatively little admiration for the economic system of the West. Islam is on balance a Westernizing force in Asia, but the tendency to cling to the form of village society is a barrier to development along Western lines. The trouble is that we must sell our economic and political system along with our aid. Here we are severely handicapped because we no longer know exactly what our system is. Certainly it is not Manchester liberalism that we want to sell to underdeveloped

countries; and an articulate and integrated exposition of the economics and politics of a managed society has yet to be written. Meanwhile, the cold war makes us eager to attach strings--in the form of military agreements or insistence on congenial regimes--with the effect of reducing the amount of aid actually accepted and given, and opening the door for economic aid from the Soviet bloc, with all that aid entails in influencing the future course of the uncommitted countries.

#### Trade versus Aid

In the face of these difficulties in formulating an effective and acceptable foreign aid program, it is not surprising that "trade not aid" is a recurrent cry. Myrdal chooses to quote Professor Vinar in this regard: "We should not use foreign aid as conscience-money payments for our tariff... a reduction of our trade barriers, which after fifteen years of being whittled away still remain formidable, can be of greater benefit to other countries than all the much advertized grants, loans, and technical aid" (p. 290). Myrdal gives qualified support for this view: "Indeed, one of the substantial aids advanced countries could give underdeveloped countries would be to use their bargaining power against them with greater consideration".

But trade in what? Here we encounter one more awkward fact: advanced countries are generally superior in production of foods and raw materials as well as in manufacturing. One of the most distressing experiences of the foreign economic adviser in underdeveloped countries is the discovery that indigenous agricultural products are produced at very high cost, and cannot compete in a free market with imports from more advanced countries.

Thus one finds Louisiana rice competing with native rice in the Philippines, imported dates competing with home-grown dates in Libya, and California oranges out-selling the native product in the Riau archipelago of Indonesia. The simple truth is--as Myrdal contends by quoting Galbraith--that "a purely agricultural country is likely to be unprogressive even in its agriculture". Myrdal adds, "Industrialization creates technology which can then be applied to agriculture but not vice versa" (p. 227).

Moreover, Myrdal argues, the present pattern of production and foreign trade in underdeveloped countries is by no means a reflection of comparative advantage, in terms of factor proportions and cost-price relationships. On the contrary, there is "cumulative process away from equilibrium in factor proportions and factor prices, engendered by international trade" because of the imbalance in the economies of underdeveloped areas. This imbalance is not the result of market forces, but a reflection of colonial policy. "The governments of the metropolitan powers", Myrdal reminds us, "were unable to undertake any great sacrifice in order to promote a general and balanced industrial development of their dependencies. However, they did conceive a clear interest in building up economic enclaves there... and in treating their dependencies as protected extensions of their home markets for their industries." The drive for industrialization in underdeveloped countries must be examined against this background.

In the reviewer's opinion this argument could be made in even stronger terms. In most of the underdeveloped countries there is just no hope of achieving high living standards through agricultural improvement alone. Sheer arithmetic forbids any such possibility in many of them. In India, for

example, where soil and climate are not suitable for a highly productive agriculture, it is likely that an output in excess of \$200 per capita (not per worker) in peasant agriculture is a technical impossibility so long as the present size of peasant holdings continues, no matter how much is done in introducing fertilizer, seed selection, improved irrigation, and the like. And if 70 per cent of the labor force remains in agriculture, the achievement of a per capita national income of \$400 per year then becomes extremely difficult, and is clearly impossible without developing an extremely efficient industrial sector employing the other 30 per cent of the labor force. Even within single countries, the terms of trade tend to move against agriculture and in favor of the industrial sector; this theorem is even more true of trade between agricultural and industrial nations.

Strict application of the comparative advantage principle might well lead to exactly the opposite policy. Soil and climate are not transferable, and populations are hard to move in large numbers. Techniques, however, are easily moved, and become increasingly transferable with technological progress. Thus while India may never have a highly efficient agriculture, some observers maintain that it already has the most efficient iron and steel industry in the world. On the basis of comparative advantage, India should probably be an importer of foodstuffs and an exporter of products of heavy industry. Similarly, it is virtually impossible to design an agricultural program that would achieve high per capita income on the island of Java, with its thousand people per square mile. But it is not at all impossible to imagine an industrialization program that would achieve relatively high per capita income for Indonesia, through the use of her

mineral resources and her hydroelectric power potential. Indonesia could well become an exporter of aluminium, tin, copper and the like.

In the past, arguments for diversification of economies have been put just the wrong way around. It is not primarily in order to stabilize an economy--as Myrdal suggests. The argument for diversification as a means of reducing instability arose during a period when the extreme instability of the American economy tended to spread outwards to other countries, particularly producers of raw materials and foodstuffs. But let us imagine that the United States succeeds in its brave hopes for steady growth. Let us also imagine that underdeveloped countries diversify to the point of becoming self-sufficient, in investment as well as in production. The main determinant of income and employment in these countries would then be domestic investment. Since some of this investment would be in risky enterprises, domestic investment could be very unstable indeed, and consequently the economy as a whole might be subject to severe fluctuations. If these economies were relatively open, while the American economy was stable, international trade would tend to damp economic fluctuations. Rising national income (inflation) would lead to diminished exports and increased imports, thus checking the boom. Conversely, deflation would lead to rising exports and reduced imports, damping the downswing. This whole question is one which needs re-examination when the assumption that the dominant economy is unstable is replaced by the assumption that it is stable.

The main purpose of diversification is not stabilization but to permit economic growth. If a country wants to increase its output at a faster rate than the world market is expanding, it cannot be content with

retaining its share in world markets. Industrialization is then a virtual necessity. Even plantation products, where soil and climate advantages are most clear cut, face doubtful futures because of increasing competition from synthetics. At best, plantation products can expect a gradual decline in their share of the world markets. Such a development is not incompatible with absolute growth of plantation production, but it does imply a falling share of plantation production in national production, if the country is to raise its income at a faster rate than world markets expand. If productivity in plantations keeps pace with productivity in industry--and if it does not, it is likely to lose out even more rapidly to competing synthetics--the share of plantations in national employment will also fall. Industrialization appears to be the only solution.

In short, it is not simply that balanced growth is better than unbalanced growth; it is rather that these countries must have balanced growth in order to have growth at all. These countries must have an agricultural revolution as well as an industrial one. Myrdal quotes Tarlok Singh, "Industrial expansion without agricultural reorganization will leave the bulk of the people in a state of poverty. In other words, we can plan against mass poverty only if we set out to create the conditions of a rapidly expanding and efficient economy both in agriculture and in industry" (p. 206). Myrdal adds, "In most underdeveloped countries improvement of productivity in agriculture is, furthermore, an essential pre-condition for industrialization."

This point is one worth emphasizing. As knowledge of agriculture in underdeveloped countries has grown, the early easy optimism about transferring "disguised unemployed" from agriculture to industry has disappeared.

It is recognized that in many underdeveloped countries static disguised unemployment in agriculture is at a very low level. That is, with present size of holdings and present techniques, the entire labor force in the rural sector is needed at planting and harvesting time. Substantial numbers could not be released from agriculture without a drop in agricultural production, unless the average size of holdings is increased and some degree of mechanization introduced. Cumulative improvement in agricultural productivity on the basis of private initiative will not take place until this initial jump to a more highly mechanized and larger-scale agriculture has been made through government policy. Myrdal is more cautious: "Even if the degree of mechanization in agriculture remains low until the far off day when labor begins to be scarce, there will from the very beginning of this process be a rising demand for tools." My own view is that we can not await that far off day when labor becomes scarce, if we want early improvement in per capita output; policy must be designed to make labor relatively scarce in agriculture, by simultaneously shifting to a more mechanized and larger-scale agriculture and encouraging a rapid rate of industrialization. Stabilization is not entirely unimportant for underdeveloped countries, and Myrdal makes a bow to international commodity stabilization schemes (pp. 246-247). He fears (pp. 251-252) that representatives of advanced countries will suspect the underdeveloped countries of trying to get higher prices under the cloak of price stabilization. The reviewer has put the point slightly differently:

It is true that some underdeveloped countries have suffered substantially in the past from violent fluctuations in prices of raw materials and foodstuffs. It is also true that if prices of their exports were maintained at the levels reached, let us say, at the peak of the Korean War boom, they would finance their own



development programs--if they would. But here is the rub; people in underdeveloped countries, no less than in advanced ones, tend to think of the "fair" price as the highest price in the memory of living man. Yet if prices were maintained at peak levels, the danger is that the International Stabilization Authority would find itself accumulating continually increasing stockpiles. Distinguishing cyclical reductions in demand, which will be compensated before long by a cyclical increase, from long run downward trends, is difficult enough for any group of objective experts. How much more difficult such a distinction will be if deepseated political considerations are also involved! Imagine, for example, that careful study shows clearly that the cost of production of synthetic rubber has a downward trend, while its range of use is expanding. Will an International Stabilization Authority have the courage to insist that in the light of this trend the fixed price of natural rubber must be gradually reduced? If it has not, the result will be that countries producing natural rubber will go on producing it for the Authority's stockpile, instead of undertaking the structural reorganization of their economies that the situation demands. <sup>1</sup>

### Commercial Policy

The unbalanced economies of underdeveloped countries call for special policies; Myrdal speaks of a "double standard" with regard to foreign trade policies, one standard being applicable to advanced countries and the other to underdeveloped ones. With this point the reviewer heartily agrees. The classical dicta with regard to free trade were based on a kind of marginal analysis which is quite inappropriate where the problem is one of inducing large discontinuous jumps to a completely new structure and level of employment and output. Indeed, given the degree of misallocation of resources already existing in underdeveloped countries, relative to what could be achieved through such a "big push", it may well be that any "distortion" of the price-cost structure through government intervention would bring an improvement. Certainly a properly planned intervention will improve rather than worsen the resource allocation of underdeveloped countries.

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<sup>1</sup> Benjamin Higgins, Financing Development of Underdeveloped Areas, Center for International Studies, M.I.T., March 1955, Doc. Control #a/55-1.

Myrdal is lukewarm with regard to cooperation among underdeveloped countries with respect to foreign trade. He does not deny that such cooperation may have its uses, but he says that "the scope for such a cooperation is naturally limited, as almost by definition partnership is more natural between underdeveloped and developed countries than between underdeveloped countries by themselves". This statement seems somewhat inconsistent with Myrdal's insistence that underdeveloped countries be permitted--and indeed urged--to industrialize and shift to a more extensive and mechanized agriculture. If this were done, it is by no means clear that cooperation among underdeveloped countries is less natural than with advanced ones. It is the reviewer's opinion that regional planning among countries in Asian and Africa is long overdue. Industrialization is not tantamount to every country endeavoring to produce everything, and some integration of national plans to avoid costly overlapping is surely desirable. For example, it may be advantageous for both countries for Indonesia to leave iron and steel production to the Philippines, while the Philippines stays out of rubber and aluminium, and does not expand its petroleum refining capacity. Such questions require careful study, but if the Economic Commission for Asia and the Far East could be made an effective agency for international planning, this kind of question is one that they might well tackle.

Meanwhile, import replacers are the most hopeful avenue for industrial development. Myrdal points out that both the price elasticity and income elasticity of demand for agricultural products is very low, while the marginal propensity to import of agricultural countries is high. Consequently, if underdeveloped countries are not to run into serious drains on their

foreign exchange balances through their efforts to develop, they must find either new exports or import replacers. The latter is clearly easier. In the case of Indonesia, for example, the two avenues of development which seem most promising, especially as regards the balances of payment, are processing one or more stages further of their own raw materials (petroleum, tin, bauxite, and the like) or the development of import replacing industries, especially in the island of Java with its concentrated market. The former is a more capital-intensive process than the latter. There is nothing unnatural about this sort of development; on the contrary, it is precisely the kind of development that was delayed by the colonial policy.

The "precarious balance" in which underdeveloped countries find themselves, with the danger that large-scale development investment will lead to both inflation and a drain on foreign exchange, is in Myrdal's view an added reason for import controls (p. 272). Of all kinds of possible import restrictions, multiple exchange rates come closest to being "a free trader's dream" Myrdal suggests. Recent Indonesian experience would seem to support this contention; in 1956, thanks to higher advance payments and import surcharges, it was possible to let the market govern foreign exchange allocations and grant virtually all applications for import licenses.<sup>1</sup>

Myrdal points out that if economic development plans are successful, import restrictions do not involve a decline in total imports of underdeveloped countries. They imply rather a shift in the composition of imports, while limiting the increase as national income goes up.

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<sup>1</sup>This experience is analyzed more fully in B. Higgins, Economic Stabilization and Development In Indonesia, New York (IPR), 1957.

Responsibility of the United States

Myrdal does not hesitate to place the major onus for development of an international economy upon the United States. The sheer size of the country's economy makes this position inevitable. A country with half the world's industrial capacity cannot escape assuming major responsibility for promotion of international economic integration. By the same token, the continuing protectionism of the United States is an international disaster. "The United States, with a gross national product now exceeding three hundred and fifty billion dollars a year,...having since Cordell Hull's time assumed the leadership in a virtual world crusade to break down the barriers to international trade, does not see its way to permit the few hundred million--or at most a few billion--dollars a year of additional imports of various commodities that would follow a lowering of its own trade barrier" (p. 40).

The United States also has the major responsibility for stabilization of international commodity markets. What are small fluctuations in American demand for imports are disastrously large fluctuations in demand for exports of other countries. Yet, Myrdal points out, the Randall Report hardly mentions the American responsibilities in this regard. International stabilization requires that the United States should increase the supply of dollars in periods of recession. Myrdal considers it unlikely that such a policy could be pursued. However, with the new commitment to maintenance of full employment, hopes that a recession at home would be followed by expansion of foreign aid and investment are more justified now than they might have been some decades ago.

Particularly unfortunate in Myrdal's view is the manner in which the United States Government acts as a destabilizing speculator, when it should act as a stabilizing speculator through its stock-piling policy. The American Government's behavior during the Korean War "greatly re-enforced the fluctuations of raw material prices and had far reaching un-stabilizing effects on the economies of European countries as well as of countries in Asia and Latin America" (p. 143).

Apart from fluctuations in the supply of dollars, there is the persistent dollar shortage, which is a major barrier to development of a truly international economy. The difficulty is simply that the foreign aid and investment of the United States is not commensurate to its importance in world markets. "The present dollar problem", Myrdal maintains, "is largely due to the fact that the economy of the United States is not like that of the Britain in the nineteenth century and that the United States does not follow today the commercial and financial policies that Britain then did." This point has been made in more graphic terms by Professor Cairncross. For the United States to play the same role today that Great Britain did in the nineteenth century, relative to resources, American foreign investment would have to reach \$600 billion and the entire Marshall Plan would have to be carried out twice every year!<sup>1</sup>

Given its trade position, Myrdal adds, the United States should be a debtor country. Yet investment conditions are such that the American economy is more attractive to lenders, even in underdeveloped countries. However, this situation need not be disturbing provided the scale of loans and grants from the United States for long-term development purposes is

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<sup>1</sup>A. K. Cairncross, Home and Foreign Investment, 1870-1913, Cambridge, 1953, p. 3.

sufficiently large. An influx of capital for short-term investment from underdeveloped countries in the United States increases to that degree the capacity of the United States for making foreign loans and grants for development purposes without current sacrifices on the part of the American people. The important thing is that any such reverse flow of capital should be more than offset by the loan and grant program.<sup>1</sup>

Myrdal also places on the United States the blame for the wave of restrictions on immigration following World War I. He quotes Gustav Cassel as looking upon the inauguration of the United States immigration bars after the First World War as "a most sinister cause of long-term world disequilibrium" (p. 80). The wave of immigration restrictions after the war are in his opinion the direct result of the American quota legislation of 1921 and 1924.

Myrdal, with his long standing interest in the American negro problem, also makes a telling observation about its impact on international relations. He reminds his readers that in Asian and African countries there is a feeling of identification with the negroes, and that maltreatment of American negroes undermines the relationships of the United States with the Asian and African countries. "Few Americans", he says, "even among the most internationally versatile, can really appreciate the tremendous positive effects in international relations of the recent Supreme Court decision outlawing educational segregation."

Finally, we come to the pattern and form of American aid. While Myrdal exonerates the United States from major responsibility for failure

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<sup>1</sup>This point was first suggested to me by Professor Eugene Grasberg.

of the OEEC, he does note a tendency for the United States to interfere in the internal policies of European countries towards the end of this experiment in economic integration. At the very least, he suggests that some lessons with regard to American policy in Asia and Africa might be learned from the failure of this experiment. The unfortunate geographic pattern of American aid up to the end of 1954 has already been noted. However, there seems to be hope now that this error at least will be rectified in the near future.

The present problem is a more subtle one. How can "dollar diplomacy" be carried out without being recognized as such? It is natural that the United States should wish to see countries in Asia and Africa develop in some directions and not in others. It is also natural that she should use her capital and technical assistance as one instrument for achieving these aims. Yet the blatant use of capital assistance as a reward for "good behavior" can boomerang in a quite disastrous fashion. "Dollar diplomacy" can be effective only if it is not recognized as such. Underdeveloped countries need both aid and advice; but whenever there is any suggestion that acceptance of advice is a prerequisite to obtaining aid, both are likely to fail in their objectives. As Myrdal puts it, "The world cannot be run as a company town."

In this respect the present mode of operation of ICA is unfortunate. The same American Government agency administers both capital and technical assistance, and the latter sometimes includes advice on policy questions. On the face of it, it is inappropriate for an employee of one government to advise another government on major policy issues. Such a relationship is

all the more likely to cause resentment if the advice-giving government is also the economically and militarily powerful one. Worse, with this organization the temptation to suggest that technical and capital assistance are linked is too strong to be resisted by all American advisers. Some of them have been quite open in suggesting that continued capital assistance depends on their advice being taken: "I do not know whether we can persuade Congress to continue aid to your country on the same scale next year if your government persists in its mistaken policy, etc." Such behavior is rightly regarded by the recipient country as an infringement on its sovereignty and independence.

Moreover, a common procedure is for ICA to have its own building where experts have their offices and report to the Director of the Mission. They advise the Director on his capital assistance program as well as advising the host government on its policy. With such an arrangement it is almost inevitable that people in the recipient countries will link aid to advice, even if ICA officials do everything in their power to keep them apart. The usual practice with United Nations, Colombo Plan, or ICA-contract advisers, on the contrary, is for them to have their desks in that department of the host government which they are assisting, and to advise no government other than the recipient one.

The danger of a "boomerang effect" from United States aid could be minimized by having an international agency review development programs as a whole as a basis for capital assistance, along the lines suggested by Professors Millikan and Rostow;<sup>1</sup> and where possible by having technical

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<sup>1</sup>Max F. Millikan and W. W. Rostow, A Proposal: Key to an Effective Foreign Policy, Harper and Brothers, New York, 1957.



assistance of a kind influencing policy (there is a lot of difference between an expert on rodent control and an economic adviser) provided through the United Nations or Colombo Plan. If this procedure is impossible for political or administrative reasons, at the very least American advisers should be ICA-contract personnel rather than ICA officials. They can then have their offices in the building of the host government, be independent of the ICA Director, and give advice only to the host government. This last alternative is less satisfactory than the first two because the danger of a "boomerang" increases with sheer numbers of American advisers in any country; but it is better than some present arrangements.

Although it may seem ungracious for a Canadian to say so, the reviewer cannot but agree with Professor Myrdal that the major responsibility for developing an integrated international economy lies with the United States. As a mitigating circumstance, the reviewer might plead that he has been openly critical of his own country for failing so dismally to perform its proper role in relations between the West and underdeveloped countries. But only the United States has the resources to assure successful development along non-Communist lines of the Asia-Africa and Latin America countries. Wider understanding of the nature of the problem is probably the major prerequisite to an effective United States foreign policy. It is to be hoped that Professor Myrdal's book, which is so clearly and simply written, will be widely read, particularly in this country.