DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

COMMUNITY DEVELOPMENT
FINANCIAL INSTITUTIONS FUND

R

& Run file
CDFI

To: Melanne Verveer

From: Kirsten Moy, Director

Date: February 12, 1997

Re: Louisville Community Development Bank

In an effort to keep you informed about the CDFI Fund and its activities, starting with this memo I will occasionally be sending important and newsworthy information such as the attached.

On January 23rd, the Louisville Community Development Bank opened its doors. The bank will serve Louisville's most distressed neighborhoods and is located in Louisville's Empowerment Zone. I joined Mayor Abramson, whose initiative launched the bank, Kentucky Lieutenant Governor Henry, and representatives of private sector investors such as Fannie Mae for the opening ceremony. The CDFI Fund is providing a $2 million equity investment as well as $336,500 for technical assistance. Per our program requirements, this investment will leverage over $30 million in equity and pledged deposits provided by almost 300 corporations, financial institutions, individuals, and other public and private entities.

Louisville
Development Bancorp, Inc.

P.O. Box 11700
2901 West Broadway
Louisville, Kentucky 40251-1700
502-778-4000
502-775-5232 fax

February 4, 1997

Ms. Kirsten Moy, Director
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1500 Pennsylvania Ave., N.W.
Washington, D.C. 20220

Dear Kirsten:

Thank you so much for joining us at our Opening Ceremony for the Louisville Community Development Bank. We were so pleased that our negotiations worked out so that CDFI could be a featured part of our program, and we especially appreciated the endorsement from Secretary Rubin.

We appreciate the help you have given us in developing and successfully opening the Louisville Community Development Bank.

Sincerely,

Kim Burse
President and CEO
Louisville Development Bancorp, Inc.

Kelly Downard
President
Louisville Community Development Bank

Louisville
Community Development Bank
It's more than a bank.

P.O. Box 11700
2901 West Broadway
Louisville, Kentucky
40251-1700

FOR IMMEDIATE RELEASE
January 23, 1997

CONTACT:
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LOUISVILLE COMMUNITY DEVELOPMENT BANK OPENS WITH RECORD FUNDS AVAILABLE FOR INNER-CITY NEIGHBORHOODS

The Louisville Community Development Bank celebrated its Grand Opening today with congratulations from U.S. Treasury Secretary Robert Rubin, Kentucky Lt. Gov. Stephen Henry, U.S. Rep. Anne Northup and other dignitaries, plus a dramatic announcement.

The Bank has garnered more than $31 million in stock investments and pledged deposits from almost 300 corporations, individuals, government, public and civic agencies. This achievement is a first in the country for any known bank, and it translates into funds usable for business and development projects in Louisville's inner-city neighborhoods.

The 10 a.m. ceremony at the Bank's headquarters, 2901 W. Broadway, featured presentations by:

* Louisville Mayor Jerry E. Abramson, who first launched the idea for the development bank more than four years ago and secured a $4 million federal investment to help capitalize the Bank;
* representatives of local banks and other investors who purchased $10 million in stock to start the Bank;
* representatives of hundreds of agencies, corporations and individuals who pledged purchases of $21 million in Certificates of Deposit before the Bank opened, to give it a running start on its loan funds;
* representatives of the 100-member citizen Empowerment Zone Board, which called for creation of the Bank and helped insure neighborhood involvement;
* and national partners from Washington and ShoreBank in Chicago who played key roles in developing the Bank.

The Louisville Community Development Bank is a keystone of Louisville's Empowerment Zone. The Bank will focus its lending and banking services exclusively in 11 inner-city neighborhoods including the West End, Shelby Park, Phoenix Hill, and Smoketown.

Lisa Richter, Managing Director of Shorebank Advisory Services in Chicago, which provided early consulting to the Bank, cited these "firsts" for the Louisville Community Development Bank:
* It is the first Bank of its kind to have equity investments from virtually all of the commercial banks in its city.
* It is one of the first banks known anywhere to open with more than $20 million in deposits already pledged and soon to be available for lending.

Others who brought congratulations at the ceremony were Kirsten Moy, Director of the Community Development Financial Institutions Fund of the U.S. Treasury Department; and Suzanne Parker, Director of Housing Investments for Fannie Mae.

Fannie Mae's agreement to invest in the Bank was its first selection of a Community Partner in its plan to increase homeownership and affordable rental opportunities across the U.S.

The U.S. Treasury Department is close to making a $2 million investment in the Bank through its Community Development Financial Institutions Fund. Ms. Moy quoted U.S. Treasury Secretary Robert Rubin as saying that "The launching of the Louisville Community Development Bank represents a landmark in private sector-driven approaches to neighborhood revitalization."

Also in attendance were officials from the U.S. Department of Housing and Urban Development. The City of Louisville in 1995 won a $4 million Economic Development Initiative grant from HUD -- the largest such grant awarded that year, and the first in the country used as a non-voting stock investment in a private bank. The arrangement has since become a HUD model for similar grants in other communities.

Dignitaries participated in a ceremony of planting seeds, to represent the Bank's intended role in "growing the seeds of opportunity" for its target investment area. The seeds sprouted "flowers" labeled with benefits such as expanded businesses, improved home ownership, and other benefits the Bank is striving to provide for the inner-city.

COMMUNITY DEVELOPMENT BANK

OPENING REMARKS

Thank you, Kim.

On Monday, I was privileged to be invited to attend President Clinton's second inauguration in Washington.

Shivering there in the cold, perhaps I was more struck by the President risking pneumonia by taking his coat off then I was by the speech, but when I heard these lines, they struck a chord.

The President said, "As times change, so government must change. We need a new government for a new century, humble enough not to try to solve all our problems for us, but strong enough to give us the tools to solve our problems for ourselves."

And I believe that is the essence of what we are trying to do here today in opening this new Community Development Bank.

With help from the Clinton Administration, city government has been the catalyst in creating---not a government program---but this private sector, for-profit financial institution which--- by seeking to create wealth, new businesses and new jobs in disinvested areas of our city--- is aimed at giving people the tools to help themselves.

I look around this room and I am amazed that we are here today, celebrating the founding of an institution that I believe holds the potential to be the most powerful vehicle for economic revitalization that western Louisville and our other inner-city neighborhoods have ever known.

And I must add that it is an extraordinary accomplishment -- something of a miracle, really -- that we have come to this day, after five long, difficult and challenging years of work. Creating a bank from scratch is not for the faint of heart. And it's definitely not in the job description for Mayor.

I look around here today, and I see so many partners who made such an enormous contribution to getting us here...Kim and Kelly, of course, Barry Alberts and Carolyn Gatz from my staff, Morton Boyd, who began as a skeptic and ended up as Chairman of the Board. Our investor partners from the private sector, HUD officials, representatives from our mentor SouthShore Bank and Kirsten Moy from the CDFI.

And the law firms of Wyatt, Tarrant and Combs, Brown, Todd and Heyburn, and Stites and Harbison, who had no idea what they were getting into when I called them up and asked if they could do a little pro bono work for us.

It all started with the LA riots in 1992, when I convened a group of African-American business and religious leaders and asked them to help us figure out how to make sure that nothing like that ever happened in our community.

Their answer was simple and straightforward: Create opportunity. Give people a way to better themselves, to move up the ladder of success, to build wealth and build up their community and they won't want to tear it down.

We put together a task force of some of our best banking partners and people involved with business development and housing development and government programs that support small business, and we asked them to take inventory of what existed and figure out what was missing.

And their answer, again, was simple and straightforward: For the short term, we need summer jobs for kids. For the long term, we need to create a powerful vehicle that has the capacity to begin to reverse the decades of disinvestment that has sent our inner city neighborhoods into a spiral of decline.

We need a new institution that is well-capitalized, self-sustaining and entrepreneurial -- driven by the same hard-headed rigor that drives banks -- but is focused on bringing about economic development in western Louisville and other inner city neighborhoods.

At about the same time, a candidate for President named Bill Clinton started talking about the South Shore Bank in Chicago and its 20+ year track record as a catalyst for economic revitalization in South Shore Chicago. And that's when we started figuring out the answer: It isn't a government program like a bank that we were after.

It is a bank.

For five years, we were driven by the logic of it -- by how much sense it made -- The power of a bank to help build community -- what banks did on the frontier, what they did when most of America's cities were small towns, what they do today:

They take deposits from people all over the community and leverage those dollars into good, solid loans that earn a profit for the bank and keep it going to make more loans tomorrow and the next day and the next.

Banks don't ask for charity and they don't ask you to give your money away.

They take deposits, they safeguard your deposits for you, they meet all the regulators' requirements for safety and soundness, they invest their deposits and have them insured by the FDIC and make loans to your neighbors to build wealth, create jobs, and keep the lifeblood flowing through the community.

I believed in that idea. I believed that this initiative offered us the best hope yet for creating a new vehicle that could really make a difference in the long run that I put the full weight of my administration behind it.

Then, in 1994, when we were developing our Empowerment Zone strategy for the inner city, I went looking for investors, and I found some skepticism.

But I also found a significant group of private sector leaders and partners who were willing to sign on -- to give this bold new strategy a chance -- and to put their money into it. So we obtained initial commitments for $6 million in private investments and grants to the non-profit that will work hand-in-glove with the Development Bank.

And over the next two years, we found major federal and national partners at HUD, Fannie May and the new Community Development Financial Institutions Fund -- federal partners willing to undertake the difficult challenge of tailoring their investments to make them work as equity capital invested in a bank.

Those were difficult and complex negotiations -- and their success is proof that President Clinton means it when he talks about inventing a new form of government that supports the efforts of communities to help themselves.

Of particular note among those investors, as you've already heard were Louisville's banks. We have a great banking community in Louisville -- an outstanding banking community, committed to serving all quarters of this community and extraordinary in their ability to work together to make things happen.

We've seen that in affordable housing, in the Housing Partnership, in many projects on which we have joined forces. And virtually all of them are represented here today as investors in this bank, this special bank that will forge the way for a new banking relationship between the community it serves and the broader banking sector.

Why would these outstanding banks in Louisville invest in a "competitor?" Because the Louisville Community Development Bank is born of one simple business strategy: Carve out your niche and Focus, Focus, Focus.

After careful analysis beginning with those first meetings five years ago, the partners working on this project -- both from government, from the community and from the banking community -- came to believe that there are latent markets for specialized community development loans that a bank focused ruthlessly on finding those loans can uncover.

Focused ruthlessly and working with a non-profit affiliate whose mission is to generate new small businesses and make them bankable.

This bank's mission -- its very survival -- will depend on finding or generating new markets for good, solid loans in its target areas -- loans that all its banking partners will help it make through participation in which they will spread the risk -- and leverage the resources.

Proving that concept is the challenge that confronts Kelly Downard and Kim Burse. And I must tell you that nothing that we did over all those five years was more critical to the prospects for success for this new institution than the day we landed Kim Burse as the CEO of the Bank Holding Company and Kelly Downard as the President of the Bank.

Together, they combine top executive management experience, with deep roots in the community, solid banking background, with plenty of experience at the hard work of actually making things happen.

Lisa read of the record of "firsts" that this bank represents, and I will add another, crucial First: We are the first Community Development Financial Institution in the country that has been able to attract top-flight LOCAL talent to lead the institution -- a feat that means that this bank should hit the ground running.

And judging from the tremendous success of the pre-opening campaign for deposits, I'd say they've already proven the tremendous advantage that their personal credibility and know-how offers this fledgling bank.

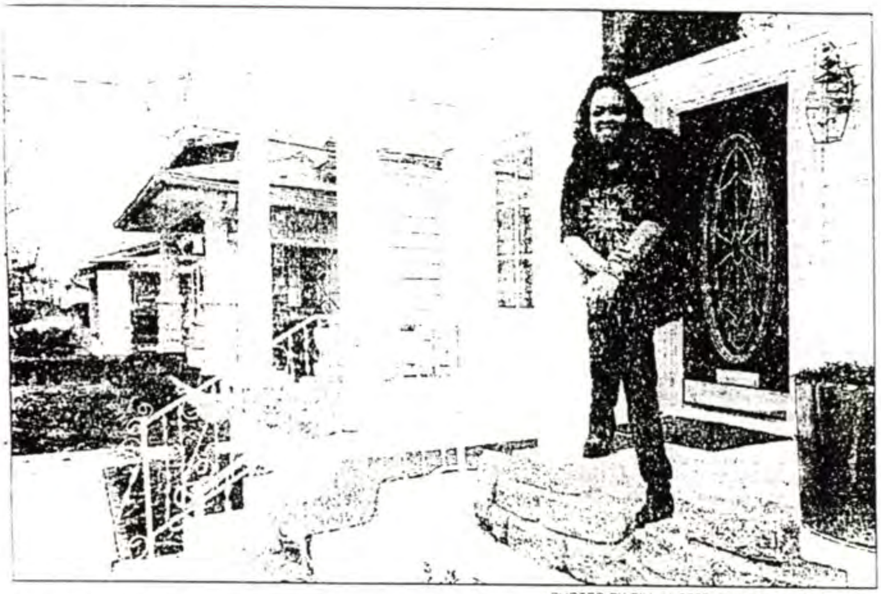
Now we -- Kelly and Kim and all of us who are now their partners -- have to build on this remarkable record of accomplishments leading up to today's Grand Opening. This Community Development Bank is a place where all of us who care about Louisville and the future of our community can come together in a new way.

Black and white, rich and poor, this bank offers us a platform to do more than wish we could help change the poverty and despair that leads to violence and decay in our inner cities.

This bank is a platform for working together to bring new life into our most difficult neighborhoods -- through the same hard-headed, hard-charging, entrepreneurial energy that helped make this community a great place to live and work..

Not with a handout, but with a hand up -- and a small business loan.

New bank reinvests in Louisville



PHOTOS BY BILL LUSTER, THE COURIER-JOURNAL

Saa Hurt said fixing up her house on Virginia Avenue was "reinvesting in the neighborhood."

Loans help add dollars, life to low-income neighborhoods

By KAREN MERK
The Courier-Journal

When Saa J. Hurt wanted to invest $88,000 in the house her grandmother left her in Parkland, here's what she said a banker told her:

"He said I could take that money and go to the suburbs and get something really nice," she said.

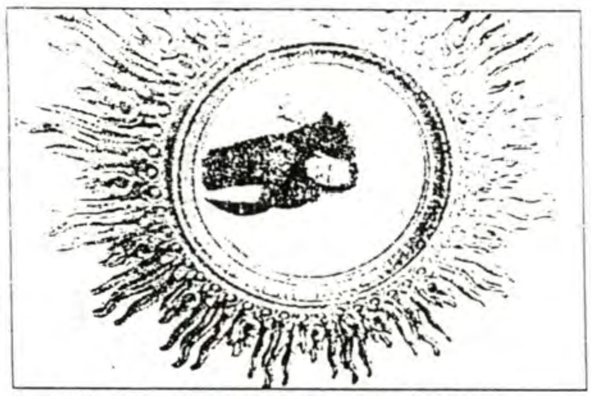
But Hurt didn't want to move to the suburbs. Her mother lives just across Virginia Avenue, and the house holds fond memories. What's more, she said, "I looked on it as reinvesting in the neighborhood."

It's that sort of commitment and reinvestment that's a major goal of the Louisville Community Development Bank, which will have its grand opening today.

The bank, a for-profit institution modeled on a similar venture in Chicago, is a cornerstone of Louisville's multimillion-dollar "empowerment zone" effort to increase job opportunities as well as business and home ownership in 10 of the city's lowest-income, highest-crime neighborhoods, including Parkland.

It's not a traditional bank — you won't be able to open a checking or savings account, and it won't offer consumer loans, said Kim Burse, president of the bank's holding company.

What it will do is offer certificates of deposit at competitive rates — and turn that money around as loans to entrepreneurs, small businesses and homeowners — to promote economic growth and job creation in the target neighborhoods.



Hurt, reflected in a bedroom mirror, invested $88,000 in renovating the house left to her by her grandmother.

SHOWPLACE: Builder James Morrow erects his home in Park DuValle neighborhood. **B4**

The bank and its holding company are designed to support additional small businesses there and elsewhere.

"We want to focus people on saving in the community, where it does you some good, as well as your community," Burse said.

She said people who would like to see a bakery or a dry cleaner open near their home should make an effort to invest their savings in an entity that would support such ventures, rather than in a conventional bank, which might or might not do so. "That would be something that would help them from two different angles."

Improving housing stock will be one of the bank's priorities. At least for now it won't offer traditional mortgages, except as a partner with other banks.

But the bank will offer home-improvement loans, as well as combination loans for people who

See NEW
Page 4, col. 1, this section

New bank committed to helping low-income areas

Continued from Page B 1

want to buy a house and improve it.

One benefit is that these customers will have as a resource the bank's experience in dealing with contractors.

"If a person by themselves is trying to handle that whole massive scenario, then it becomes somewhat overwhelming if you've never done it before," Burse said. Sometimes people fear angering the contractor and "are not as stern as sometimes maybe they should be about things getting done the way they want them."

Elderly people, for example, might want to make their homes more accessible but fear being cheated by unscrupulous contractors, she said. The bank, as an intermediary with an interest in protecting its investment, can give them guidance.

"Our role is to actually have some long-term impact on the change of landscape," Burse said. "We don't want to have people just renovating homes and the quality of that renovation not be what they want, because that doesn't achieve anything either."

Hurt's ambitious renovation included adding a second floor with bedroom, walk-in closet and luxury bath; and three decks — one with a hot tub. She financed much of the work through savings.

She said she's had her share of trouble with contractors, though she's not sure that the Community Development Bank's expertise, had it been available then, would have helped her.

She said she'd already paid $35,000 to one of the contractors when he went bankrupt and didn't finish the work. A series of contractor errors meant she paid three times the budgeted amount for her new bathroom. She even suffered carbon-monoxide poisoning when a furnace vent was covered with a plank. She has consulted a lawyer and is considering filing suit.

With some work still undone, she said she has already spent substantially more than she planned.

But she's not sorry. While Hurt readily admits she'll never recoup her investment if she sells the house, she feels she's getting her money's worth by enjoying it "while I live."

Conventional wisdom is that investing too much in a remodeling job might not pay off in lower-income neighborhoods like Parkland.

"It's like a glass ceiling on appreciation," said LaQuita Washington, a real-estate agent and member of the community board that's helping direct the empowerment-zone efforts. "It's discouraging."

But one of the goals of the Community Development Bank is to encourage more home-improvement efforts, so everyone's property values rise.

Hurt, a former federal employee who retired a few years ago from the Louisville-Jefferson County Office for Economic Development, is optimistic about the bank and other empowerment-zone efforts.

She said in the past couple of years she's seen more people in her neighborhood taking pride in their property. Across the street, two houses have been remodeled recently and a new one was built on a vacant lot.

Burse said she wasn't surprised at Hurt's experience with the banker who urged her to leave Parkland.

As the Community Development Bank — and the other business-boosting entities that are part of the holding company — get rolling and start achieving their goals, "People won't have the question, 'Why are you wanting to stay there?' We hope to change that response over time — that's what we're all about."

Hurt said she's glad she stayed.

"If I had moved to the East End, the traffic would have gotten me," she said. With its tall trees and interesting architecture, Parkland "is a beautiful part of town."

BANK OPENING FESTIVITIES

■ **Today:** Grand opening celebration for charter investors, who have pledged more than $12 million so far, and key people who had a role in the bank's creation.

■ **Saturday:** A neighborhood open house from 1 to 5 p.m. at the bank, 2901 W. Broadway. The public is invited.

file

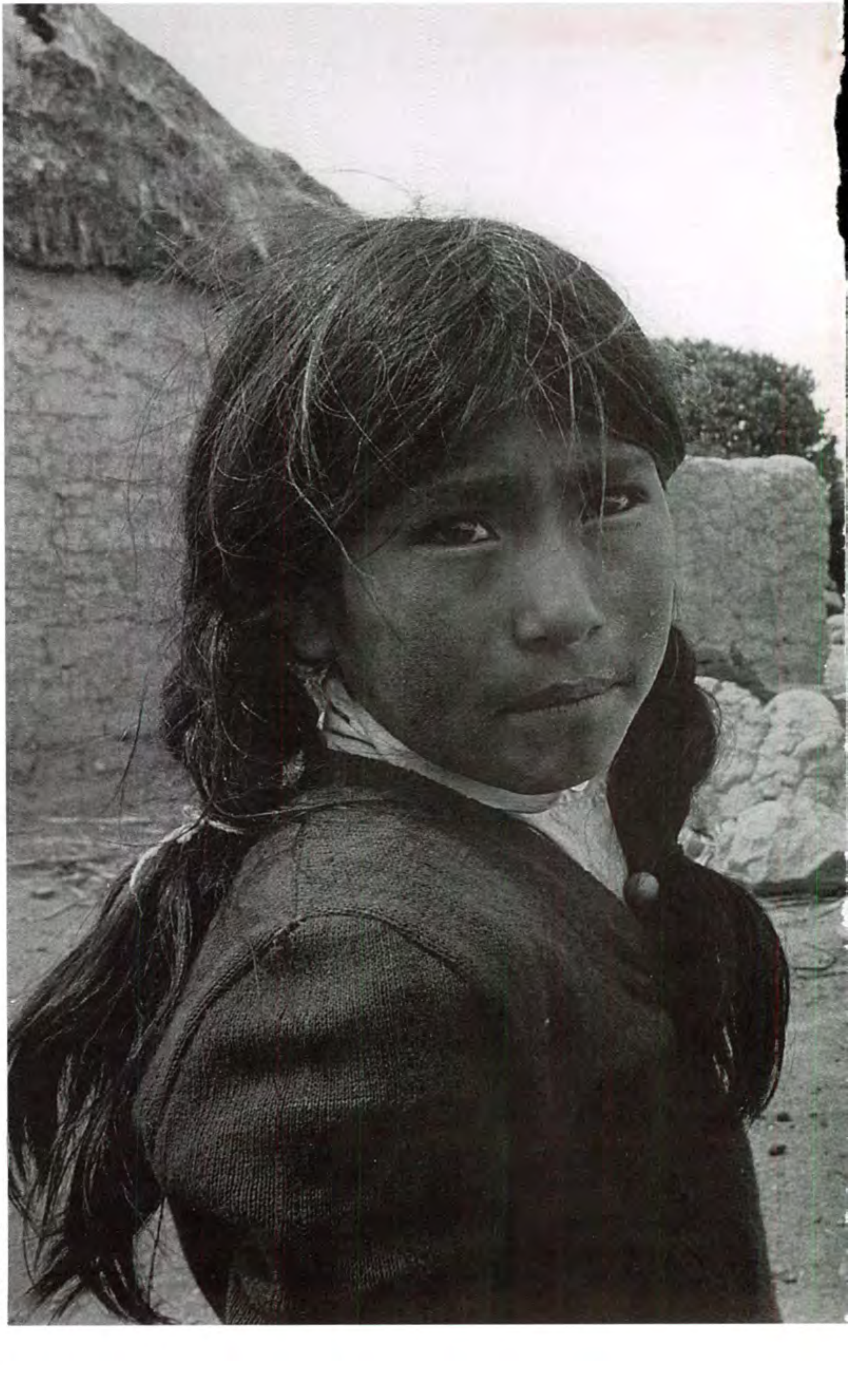
development

The Quiet Revolution

Diane B. Bendahmane

On the wall over my desk hang two multicolored maps portraying the advance of a quiet revolution that is altering the human condition without much notice in the popular media. During the past 30 years, programs to reduce infant and child mortality have made inroads in virtually every region of the world. The 1960 map is predominantly yellow and orange, the colors signifying mortality rates of 125 per 1,000 or higher for children under the age of five. In the 1992 map, many countries have graduated to purple, green, or gray—colors indicating much lower mortality rates (74 per 1,000 or fewer). With the exception of a number of countries in sub-Saharan Africa and a few in Asia and the Near East, most of the world has escaped the yellow range, and even regions that would have been considered "developed" in 1960 have progressed. The United States, Canada, and most of Europe, for example, moved up from green (25-49 deaths per 1,000) to gray (fewer than 25 deaths per 1,000).

The maps were published by the U.S. Agency for International Development (USAID) as part of its Eighth Report to Congress on Child Survival, which celebrates through vivid charts, graphs, and photographs the agency's many successes in this area. USAID's Child Survival Program was launched in 1985. Its hallmark was a "package" of health interventions aimed at reducing child mortality: oral rehydration therapy, immunization, improved nutrition, treatment of acute respiratory infections, and promotion of child spacing. According to USAID Administrator J. Brian Atwood, infant mortality has declined about 10 percent since the program was unveiled in countries his agency assists. Certain high-mortality countries were designated for "emphasis," including Bolivia, the Dominican Republic, Ecuador, El Salvador, Guatemala,



Mitchell Denburg

grassroots development

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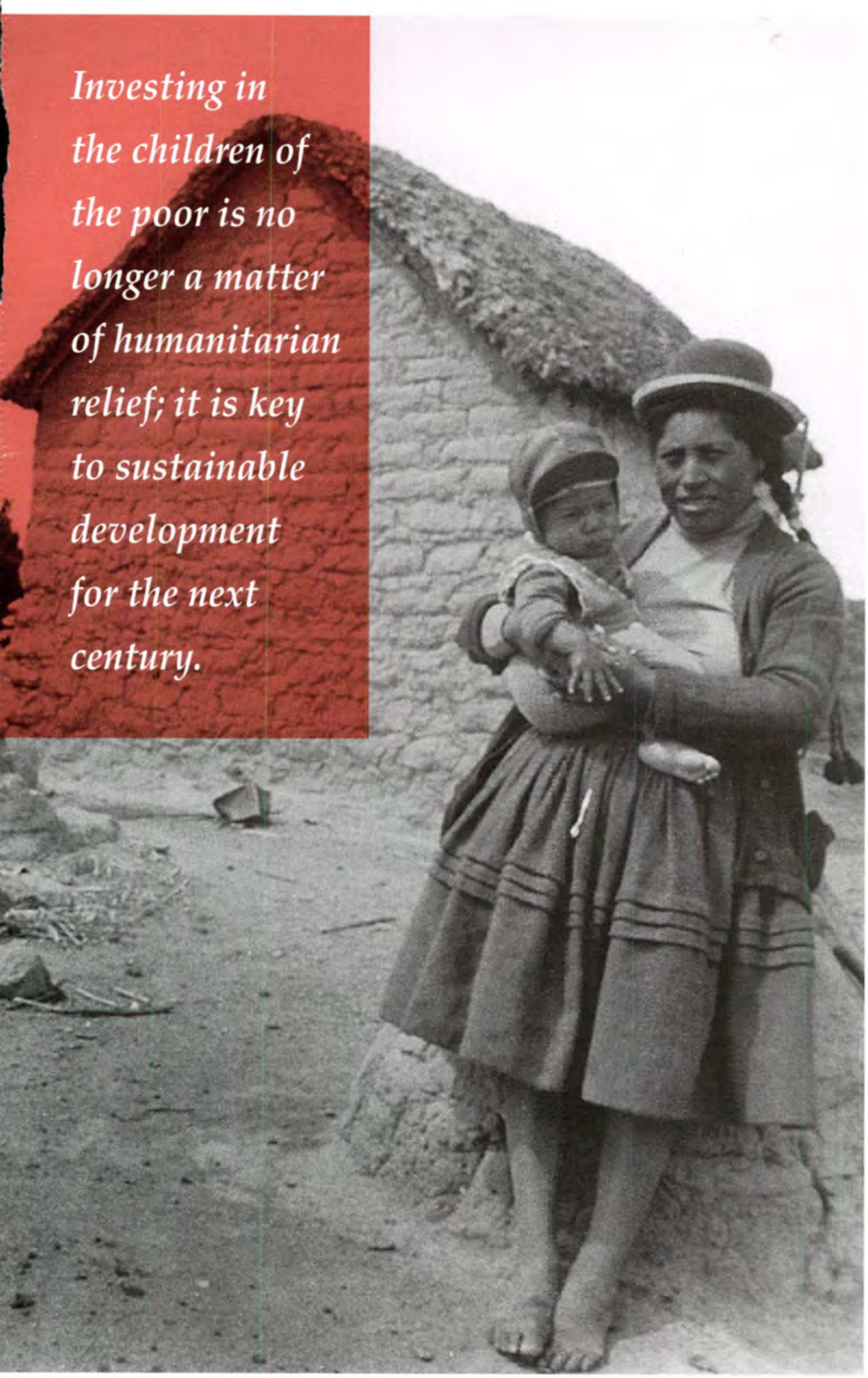
JOURNAL of the INTER-AMERICAN FOUNDATION

FOCUS: Youth in Development

Child Survival Comes of Age



Investing in the children of the poor is no longer a matter of humanitarian relief; it is key to sustainable development for the next century.

Haiti, Honduras, Nicaragua, and Peru in Latin America and the Caribbean. Infant mortality has decreased in all nine countries (see figure 1).

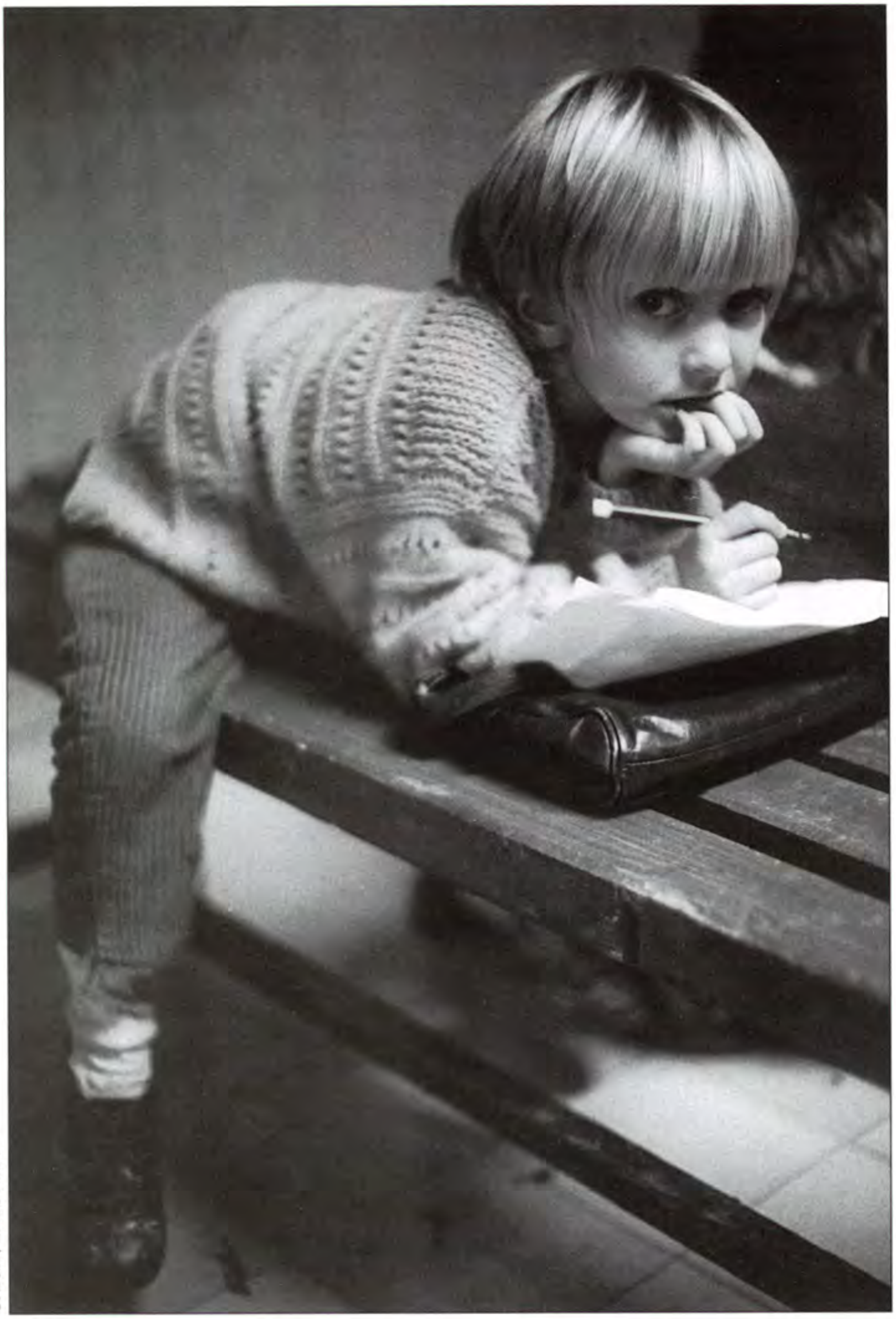
Throughout the developing world, infants and children who would have died 20 or 30 years ago from readily preventable diseases, such as diarrhea and measles, survive the vulnerable first five years of life because of improved health care. Between 1965 and 1986 in developing countries overall, there was a 5 percent increase in the number of infants surviving the first year of life. Coupled with improvements in survival for children aged one to five, this has pushed up life expectancy in developing countries from 50 years in 1965 to over 60 years in 1986 (World Bank, 1988).

The Cruel Paradox

What is happening to these children who are "surviving" today thanks to the efforts of USAID, the World Health Organization, UNICEF, governments, and the other development organizations that marshaled their forces to wage this campaign? Is it true, as Federico Mayor, director general of the U.N. Educational, Scientific, and Cultural Organization (UNESCO), has said, that the survivors have become victims of a "cruel paradox" which condemns them to a world in which their "prospects for self-betterment are diminishing?"

If we could somehow "map" the status of the beneficiaries of child survival programs, as child mortality has been mapped, it would be apparent that Mayor is correct. Today's

Too many children, like this girl from Pilcuyo, Peru, live in communities coming apart from the pressures of increased poverty, population, and environmental degradation. Reversing the trend means rethinking structural adjustment policies that preclude investments in the human capital of tomorrow.



UNICEF/Danilo Balaban

Modern war increasingly victimizes civilians, including young children. This girl from Croatia is participating in one of the psychosocial trauma exercises developed by UNICEF to educate those working with children caught in the crossfire.

youth are likely to be poor, and poorly educated. Many live in inhospitable urban environments and grow up in dysfunctional families. The young are often targets of violence from civil strife or crime. And, to complete the picture, they must compete for a place in the world with huge cohorts and little in the way of support from the often beleaguered governments of their countries.

Let us flesh out these general statements with facts and figures, starting with the most unassailable. By virtue of the fact that most live in developing countries, victims of the cruel paradox are poor. Per capita income is just $370 per year or less (in 1991 dollars) for 23 developing countries, including Haiti, the only Western Hemisphere country falling in this group. Close to 2.5 billion people live in those countries, and a high percentage of them are children or youth (World Bank, 1993). Latin American countries fall mainly in the middle-income group, with per capita gross national products (GNPs) in the $1,300 to $2,500 range, but some join Haiti in the very-low category, including Nicaragua, Honduras, and Bolivia (see table 1). These statistics are somewhat deceptive, of course, because incomes are highly skewed in the region. Large pockets of poverty exist even in the more affluent countries, and the numbers of the poor are growing. Children and youth bear the brunt of this poverty. Some experts estimate that by the year 2020 there will be 300 million urban minors in Latin America, 30 percent of them very poor.

In recent years, conditions have been slipping. Poverty has deepened in developing countries unable to grow during a worldwide recession, and unable to stay upright with heavy debt burdens weighing them down. World Bank figures estimate that the percentage of people in extreme poverty in Latin America and the Caribbean has grown from 22.4 percent in 1985 to 25.5 percent in 1990. Other indicators, shown in table 1, depict a region in decline throughout the 1980s. While family incomes have dropped during the worldwide recession, states have been forced by international lending banks to undertake structural readjustment policies that slash public services in health, education, and food. A draconian regimen has been imposed that more-developed countries would not stand for. There is now some interest by big lenders to soften the impact on the poor, but it has been late in coming.

While poverty was once largely a rural phenomenon in developing countries, today it has moved to the city. During the past three decades, millions of children and youth have been swept along with their parents in a massive tidal flow of population from the countryside. In Latin America the pace of urbanization is especially rapid; the region was 71.9 percent urban in 1990 and will be 83.4 percent urban by 2020 (USAID, 1992). The barrios, *favelas*, *pueblos jóvenes*, *villas miserias*, and *poblaciones* that girdle most large cities are teeming with youth. In these makeshift settlements, overcrowding, polluted drinking water, substandard or nonexistent sanitation, indiscriminate dumping of trash, and other conditions threaten basic health, as the cholera pandemic of recent years sadly demonstrates.

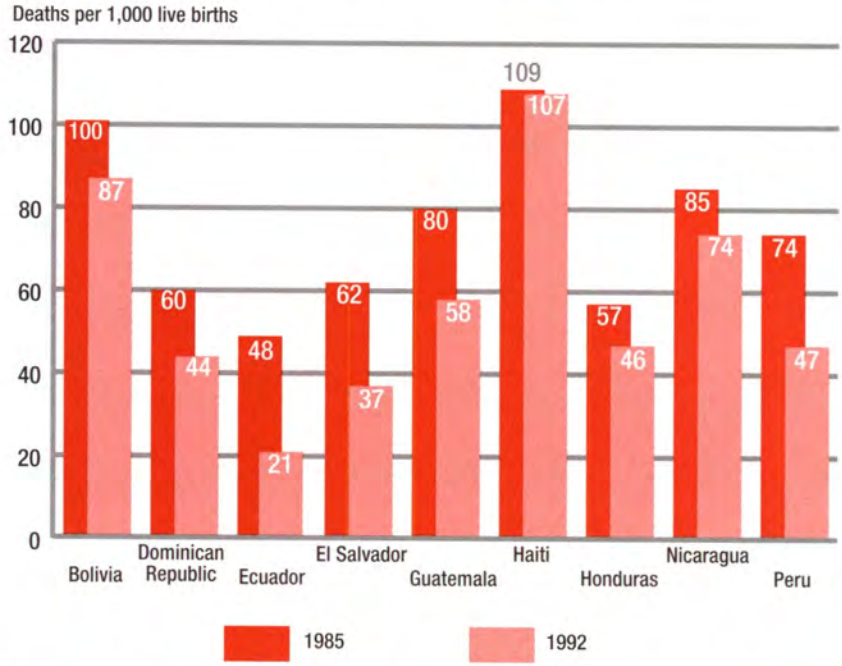
Life in these settings is also inimical to the emotional and spiritual nurturing of the young. Children often do not attend school because they are needed as workers in the informal economy where their parents or guardians patch together a living. The mutual support of village life and extended family begins to break apart, leaving young, poorly educated, unskilled women with sole responsibility for raising a family. In the urban jungle, it is as if the social contract described by sixteenth-century philosopher Thomas Hobbes has come unraveled. The combined stresses of poverty and city life lead some parents to abandon their children to the streets, while some children flee there from abusive parents or from a future that offers no exit from poverty. Estimates of the number of street children worldwide vary, depending on how the term is defined. UNICEF counts 100 million, 40 million of whom live in Latin America—a number equal to the entire population of Spain.

A study by UNICEF and WHO describes succinctly the "hostility" of the urban environment to children of the poor:

Formal education systems are often inadequate, and family and community structures in the urban environment provide little opportunity for informal education, such as through peers, grandparents, and so on. . . . The proportion of unattended or abandoned children is high and there are limited facilities at the community level to provide them with care and protection. Under these conditions, children easily fall prey to the enticements and promises of unscrupulous people. Abuse and exploitation of children in a variety of different ways, down to the extremes of their involvement in prostitution and crime, are becoming common features of the cities.

Many children and youth survive these "ills" only to be caught up in civil strife, much of it spawned by

Figure 1. Infant Mortality Trends in USAID-Assisted Child Survival Emphasis Countries in Latin America and the Caribbean



Source: USAID, *Eighth Report to Congress on Child Survival*

Table 1: Economic Conditions in Latin America and Expenditures in Education

Country	GNP per capita ($ 1991)	1980–91 average annual growth	External debt 1991 ($ millions)	Percent of central government expenditure on education 1980*	Percent of central government expenditure on education 1991*
Haiti	370	–2.4	747	6.6	—
Nicaragua	460	–4.4	10,446	11.6	—
Honduras	580	–0.5	3,177	—	—
Bolivia	650	–2.0	4,075	—	18.7
Guatemala	930	–1.8	2,704	—	19.5
Dominican Republic	940	–0.2	4,492	12.6	10.2
Ecuador	1,000	–0.6	12,469	34.7	18.2
Peru	1,070	2.4	20,709	15.6	21.1
El Salvador	1,080	–0.3	2,172	19.8	14.4
Colombia	1,260	1.2	17,369	19.1	—
Paraguay	1,270	–0.8	2,177	12.9	12.7
Jamaica	1,380	0.0	4,456	—	—
Costa Rica	1,850	0.7	4,043	24.6	19.1
Panama	2,130	–1.8	6,791	13.4	17.1
Chile	2,160	1.6	17,902	14.5	—
Venezuela	2,730	–1.3	34,372	19.9	—
Argentina	2,790	–1.5	63,707	—	9.9
Uruguay	2,840	–0.4	4,189	8.8	7.4
Brazil	2,940	0.5	116,514	0.0	3.1
Mexico	3,030	–0.5	101,737	18.0	13.9
Trinidad & Tobago	3,670	–5.2	2,332	11.6	—

* Some figures are for the most recent year.
Source: World Bank, *World Development Report 1993*

economic inequalities and population pressure. In the past, the violence of war was not purposefully directed at children, but this taboo seems to be breaking down, as the world watches television footage roll in from the former Yugoslavia, Sudan, El Salvador, Somalia, Rwanda, and other countries. According to UNICEF, 1.5 million children have been killed and 6 million disabled in armed conflict during the past 10 years.

Land mines are often a primary cause. In El Salvador, 300,000 children and adolescents were disabled in 12 years of civil strife. Seventy-five percent of the victims of land-mine accidents in El Salvador have been children. Worldwide, some 100 million land mines remain hidden, threatening people indiscriminately in over 60 countries.

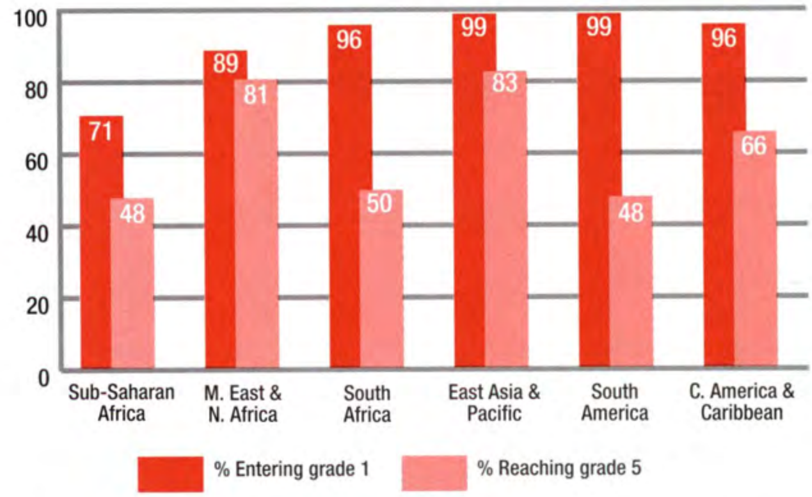
Education can provide an escape-hatch from poverty and the dislocation and violence that sometimes accompany it, particularly in large cities with too many drugs and too few opportunities. But the report card for schooling is poor. Gains in education have not matched gains in child survival. Ninety percent of children in developing countries now start school—a noteworthy achievement—but the percentage who reach grade five is far lower. In South America, 99 percent enter primary school but only 48 percent complete the fourth grade. In Central America and the Caribbean, 96 percent enter; 66 percent make the fifth grade. Throughout the developing world, the big push to enroll students ends with a seeming inability to retain them (see figure 2).

Currently an estimated 100 million children worldwide drop out of school by the fifth grade, and the number will climb to 118 million by the year 2000 (Pezzullo, 1992). Without at least a rudimentary education, what chance will these young survivors have to escape their poverty?

Table 2 shows male and female literacy and primary-school completion rates for 22 Latin American and Caribbean countries. Of the 22, more than one-third graduate 50 percent or less of their primary school populations. Only three have achieved the 1990 U.N. Summit for Children goal of 80 percent graduation. Literacy rates, while higher on average in Latin

Figure 2. Primary Schooling

Percentages of the developing world's children in the appropriate age range starting primary school and reaching grade 5.

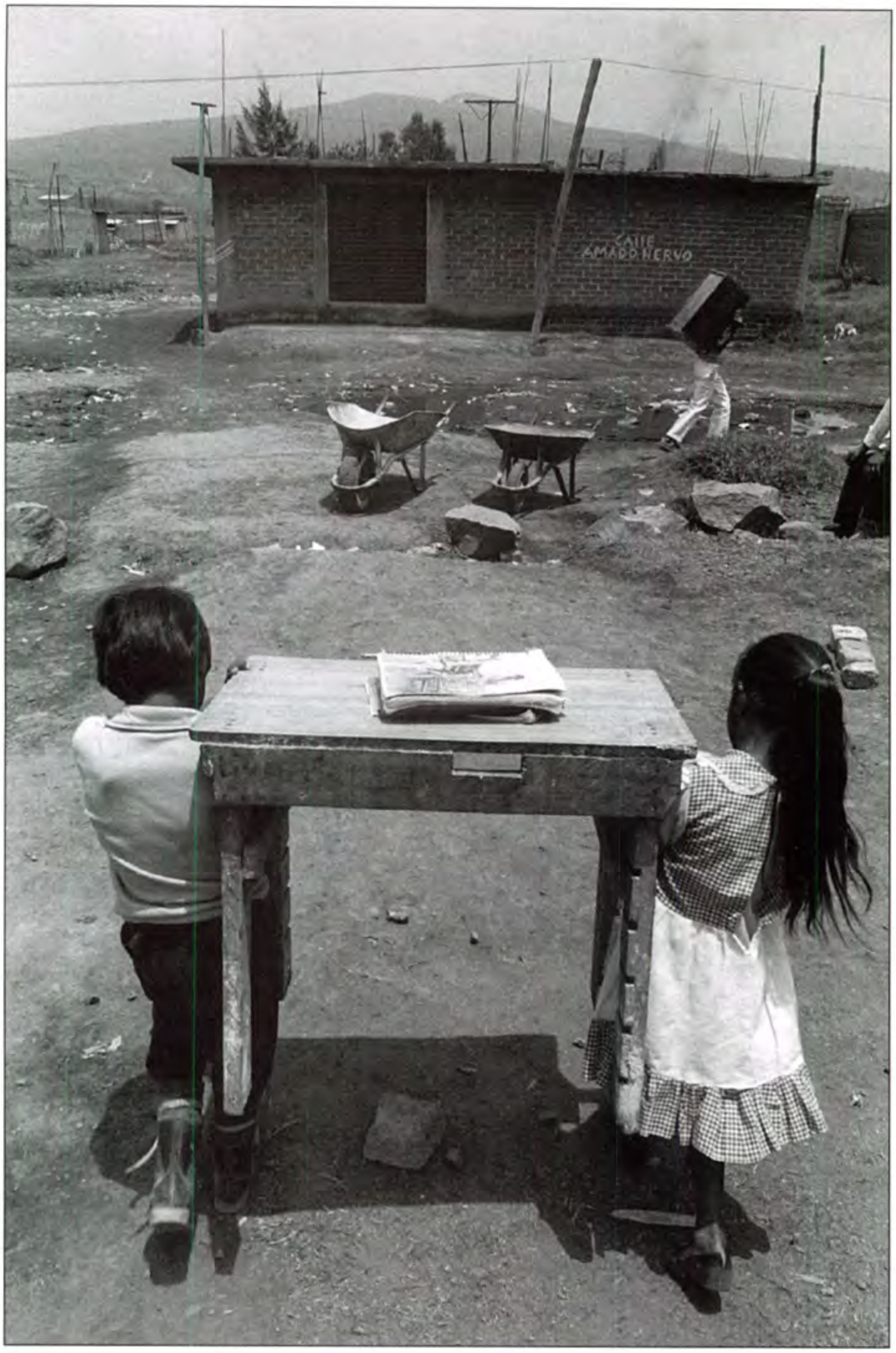


Source: UNICEF, *The State of the World's Children 1994*

Table 2: Basic Education in Latin America

Country	Male literacy 1990 or most recent year	Female literacy 1990 or most recent year	% reaching final grade of primary school, 1988 or most recent year
Haiti	59	47	9
Bolivia	85	71	50
Guatemala	63	47	36
Nicaragua	—	—	29
Brazil	83	80	22
Peru	91	79	70
El Salvador	76	70	27
Ecuador	88	84	63
Honduras	75	71	43
Dominican Republic	85	82	33
Paraguay	92	88	57
Mexico	90	85	70
Argentina	95	95	—
Venezuela	87	90	70
Trinidad and Tobago	97	93	89
Uruguay	97	96	93
Colombia	87	86	56
Panama	88	88	79
Chile	93	93	77
Costa Rica	93	93	77
Jamaica	98	99	85
Cuba	95	93	88

Source: UNICEF, *The State of the World's Children 1994*



David Melody

Although the most important factor in breaking the cycle of poverty is education, many urban and rural poor are denied equal access. Because their school is not state funded and lacks basic supplies, these children from a shantytown just east of Mexico City must carry their own desks and chairs to and from class daily.

Table 3: Population Distribution by Age, 1985–2000
(in thousands)

	1985	2000 (Estimated)
Latin America		
Under 5	53,942	60,359
5–14	95,242	114,202
15–24	80,704	100,081
25–44	100,069	152,621
45–64	49,003	75,670
Caribbean		
Under 5	829	781
5–14	1,527	1,622
15–24	1,574	1,495
25–44	1,687	2,774
45–64	858	1,190

Source: PAHO, *Health Conditions in the Americas*

America than in other regions, could be improved, especially for females, which as we will see later, is crucial for breaking the cycle of poverty.

One final detail remains in this portrait of the prospects facing child survivors: Most live in countries where the majority of people are young. Although developing countries will experience a larger growth proportionally in older age groups in the coming decades, the absolute number of young people in child-bearing years will remain large and will keep governments under extreme pressure to meet the needs and aspirations of the young. Table 3 provides the figures behind the population pyramid for Latin America and the Caribbean. The aging of the population is more evident in the Caribbean than in Latin America, but if the forecasts are accurate, there will be 278.5 million persons under the age of 24 in the region at the turn of the century.

When that moment arrives, if present trends hold, the sharp lines of demarcation between youth in developing and developed countries will have blurred. In the United States, for example, children as a group are worse off economically than they were 25 years ago. Today 20 percent of children live below the poverty line, many in urban ghettos where violence has become a way of life. High-school dropout rates are increasing. Jobs are harder to land. Increasing numbers of children are being born into fatherless households.

The developed world is not immune to the problems of youth, and successful programs, wherever they surface, have lessons of relevance to all.

Negative and Positive Circles

The struggle to enhance child survival must not cease until all regions of the map are colored green or gray. At the same time, the world must face up to the fact that children whose lives were saved are now in danger of being "lost" through neglect of their human environment. We must concentrate on providing the nurturing, education, and socialization that will make it possible for them to live fully, to realize their potential. What is at stake is the condition of the world we will all live in.

The crossroads at which we stand can be described in terms of two development "circles"—a positive one spiraling upward, or a negative one spiraling downward. As the following sections will show, investments in the human capital of children and youth will help determine if the circle will be "vicious" or "virtuous."

The Vicious Circle: From the outset, the USAID Child Survival Program was motivated by more than humanitarianism. USAID officials believed this program would help developing countries break free of the vicious circle in which they found themselves. This vicious circle—described by UNICEF in its 1994 report, *The State of the World's Children*, is a chain of reciprocal cause-and-effect links that keep countries from developing and generate political and economic instability. UNICEF calls it the "PPE spiral" because the three most important links in the chain are population, poverty, and environment.

The spiral may be described from the perspective of any of the three links, but this brief and necessarily oversimplified explanation will begin with population. Prolonged and rapid population growth outstrips society's ability to generate employment; it strains the capacity of a family to provide for itself and the capacity of a country's social services to meet human needs. Ironically, this poverty fuels accelerated population growth. In poor families, where child morbidity is likely to be high, parents do not feel confident that they will be taken care of in their old age unless they have many children. They may also need more hands to gather firewood and water, tend cattle, and earn income in the informal sector to make do in the present. Because education levels are low in poor families, awareness of family-planning methods is also low. For these and other reasons, fertility rates stay high.

The interaction of overpopulation and poverty contributes to environmental degradation. More people mean more sewage and garbage to dispose of properly. More mouths to

Sean Sprague

Access to basic health care helps reverse the downward spiral of the vicious circle. The Movimiento Guatemalteco de Reconstrucción Rural in Río Dulce, Guatemala, provides a wide range of medical services in the Kekchí Indian community. Improved health services lower infant mortality and *fertility rates, as parents realize that their children will live to care for them in their old age.*

feed lead to overfishing, overgrazing, and overuse of pesticides and fertilizers—all of which can threaten the resource base for future production. People whose very survival is at risk today do not have the luxury of planning how to conserve tomorrow's environment. And there is little margin for error since the poorest of the poor likely occupy land that is the most environmentally fragile.

The consequences are predictable. People get less for their effort, and their health and well-being suffer because their soil is depleted, their aquifers and rivers are polluted, their forests have disappeared. This situation is particularly alarming in Latin America and the Caribbean. According to UNICEF (1994), in the "environmental disaster areas" of the Andes, Haiti, the Dominican Republic, and the central highlands of Central America, over 50 percent of agricultural land is "significantly eroded." In Latin America, 35 million or 74 percent of the poorest rural people live where agricultural potential is low and "threatened by environmental deterioration." In sub-Saharan Africa and Asia, the percentages are much lower: 51 and 57 percent, respectively.

Thus, the vicious circle closes: poverty → population → environmental degradation → poverty → and so on, spiraling downward.

In many countries, the PPE spiral has led to political and social instability, which makes it even more difficult to break any link in the causal chain. For example, instability can spur military budgets, draining resources from primary health care, education, family planning, or environmental protection.

Child survival programs have weakened the poverty → population link in the PPE spiral by saving infants' and children's lives. As mortality rates have gone down, fertility rates have followed, after a slight lag, apparently for couples to adjust to the idea that they do not have to bring five children into the world to count on two or three growing up. Figure 3 shows the "matching" rate of decreases in infant mortality and total fertility.

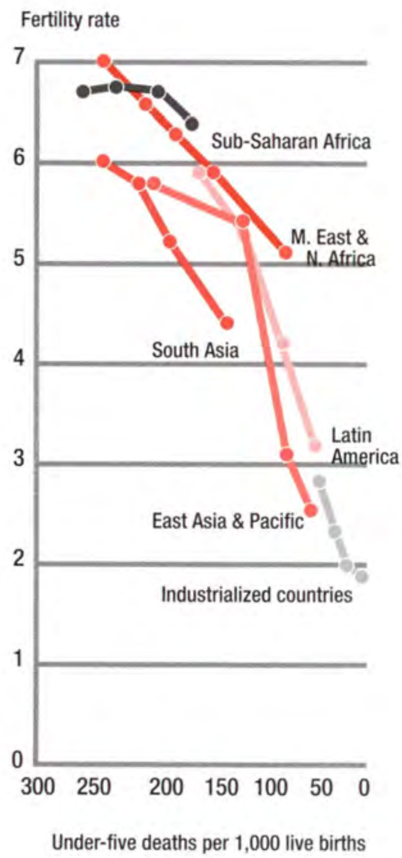
Weakening the population → poverty link has a beneficial effect on the whole downward spiral. As USAID's Seventh Report to Congress (1992) on child survival expressed it:

If development is fundamentally about improving the lives of people, there can be no better investment than in the health and well-being of today's generation of children. If they enter school healthy, they have a better opportunity to learn. Moreover, as children survive and thrive, parents have fewer children; they themselves begin to have more time and energy for productive activities and are better able to invest in their children's education. Better-educated individuals earn more and can contribute more to society.

In making its case for more investment in interventions that break into the PPE spiral, UNICEF points out that, based on the experience of 108 countries, infant mortality rates must fall to somewhere around 100 or less per 1,000 before fertility begins its corresponding downward trend. Because many countries are now poised at this threshold, child survival activities *must not* slacken. They benefit not just today's children but future generations as well.

Education, like health, has a powerful positive effect on the vicious circle. UNICEF (1994) argues that better-educated people, like healthier people, "can participate more fully in the process of modernization and development, and are better able to raise their own incomes and contribute to the economic development of their nations." Better-educated people can more readily understand and make the adjustments and basic changes needed in agricultural, industrial, and resource management practices. Better-

Figure 3. Relationship Between Under-five Mortality and Fertility in 108 Countries



Source: UNICEF, *The State of the World's Children 1994*

Miguel Sayago

Polluted water bred the recent cholera pandemic in Latin America. Many, like this girl in Lima, Peru, must walk miles and wait hours for clean water.

educated women are more likely to control their fertility and to postpone their first pregnancy.

The salutary effects of education are especially pronounced among females. USAID's Congressional presentation for fiscal year 1994 stated, "Typically, investments in basic education for girls yield returns of over 20 percent, a higher rate of return than most other investments in developing countries." Jessica Mathews, senior fellow at the Council on Foreign Relations, in a recent *Washington Post* op-ed article about the September 1994 U.N. Conference on Population and Development in Cairo, points out that of all the social and economic factors "studied for their connection to lowered fertility... education of women has proved the most consistent," showing up with even a year or two of primary school. Colleagues in the water and sanitation field report that when mothers know how to read, water and sanitation improvements have a much larger effect on reducing the infant mortality rate.

Yet UNESCO figures show that many developing countries still invest minimally in the education of females. Only 15 percent of girls are enrolled in secondary school in Africa, compared with 33 percent of boys; in Arab countries the percentage for girls is 41 and for boys 57; for East Asia 39 versus 50; for South Asia 25 versus 44. In Latin America, the record is much better—the percentages are nearly equal. (However, UNESCO reports that nearly half of all youth of secondary school age in the region are not enrolled.)

The U.N. Summit for Children in 1990 set the goal of basic education for all children and completion of primary education by at least 80 percent, a halving of the adult illiteracy rate, and the achievement of equal educational opportunity for males and females. To meet these goals, developing countries and international donors will have to increase their investments in education. According to UNICEF, only about 2 percent of all aid for development is targeted at primary education. Donor funding in this area might be increased, or as Susan Pezzullo suggests (see page 13), money could be spent more judiciously. Articles by Ron Weber on Servol (see page 19) and Kevin Healy on CEMSE (see page 32) show how this might be done by nongovernmental organizations (NGOs) that function as "laboratories" in which ideas can be tried out and developed, and then mainstreamed through other public and private agencies.

UNICEF/Lauren Goodsmith

A young girl attending the Moulay el-Hassan primary school in Taza, Morocco. According to Birdsall and Sabot, the correlation between girls' education and decreased fertility rates is critical in breaking the "poverty → population → environmental degradation" cycle.

The Virtuous Circle: UNICEF argues, as we have seen, that the downward PPE spiral can become an "upward spiral" through the synergistic effects of health and nutrition, education, and family planning. Economists Nancy Birdsall and Richard Sabot (1994) also use the circle metaphor in their analysis of how education promotes development. Their "virtuous circle" is close kin to UNICEF's upward spiral.

Birdsall and Sabot looked at the economic performance of all major countries over the 1965–1985 period and noted that eight East Asian countries (Japan, Hong Kong, the Republic of Korea, Singapore, Taiwan, Indonesia, Malaysia, and Thailand) led the list both in terms of growth in gross domestic product (GDP) and equity of income distribution (as measured by the ratio of income shares between the richest 20 percent and the poorest 20 percent of the population). Brazil was the lone Latin American country to place in the top 20 for GDP. The rest ranked either in the middle or below, and what growth they experienced was accompanied by increasing income inequality (see figure 4).

When countries are compared on the basis of GDP growth and income inequality, Brazil, Colombia, Mexico, Venezuela, Chile, Bolivia, Argentina, and Peru mark among those in which the top fifth of their populations receive 10 times or more income than the lowest fifth. Only Brazil and Colombia had GDP growth rates above 2 percent. None of the Latin American countries achieved high growth and distributed the benefits widely, while seven of the eight high performers in East Asia did.

According to Birdsall's and Sabot's analysis, state policies of "shared growth" pursued by the East Asian "tigers" ignited a virtuous circle of sustainable economic growth and development. These policies, in combination with aggressive management of labor relations and a push for exports, spelled success. All eight countries strongly supported public education; other shared-growth policies, which included land reform, housing programs, investment in rural infrastructure, and credit and export guarantee programs for small- and medium-sized enterprises, were common but differed in degree from country to country. Birdsall and Sabot note that "by 1987, all of the [high performers] except Thailand (with 95 percent enrollment) had achieved universal primary education, and all had secondary enrollment rates that were above international norms given their incomes (again, except Thailand)."

The percent of GDP that the eight high performers allocated to education was not higher than average for developing countries. The difference is that in East Asia less money was spent on university-level education: 15 percent, for instance, versus 24 percent for Latin America. Primary and then secondary schools received the lion's share of support, with the emphasis on reaching all segments of the population. Birdsall and Sabot note:

Korea and Venezuela provide an extreme example of the contrast. In 1985, though public expenditure on education was higher in Venezuela as a percent of GDP (at 4.3 percent) than in Korea (at 3 percent), 43 percent of public education spending went to higher education in Venezuela compared to 10 percent in Korea.

In Latin America the pattern has been to expand higher education prematurely—before universalization is achieved at the lower levels. It is mostly elites who have been able to take advantage of such expansion. If the money had been spent instead on primary education, many now not receiving benefits from the educational system would begin to have a greater share in their countries' growth through increased opportunities.

Other characteristics of the school system that have contributed to the success of the shared-growth policy in East Asia are as follows:

- Higher education has focused on training in fields to make countries more competitive internationally, such as engineering, science, and public administration;
- Quality of primary and secondary education has risen, as measured by primary-completion rates and test scores;
- And education of girls has been emphasized—paying off some years later in reduced fertility, accompanied by large benefits in children's health and nutrition.

The virtuous circle follows this approximate path: Investments in education lead to lower fertility, better health, and increases in GDP and income equality; thus, there are fewer children to educate and more money to invest in them, resulting in an even wider distribution throughout the population of the benefits of economic development. Birdsall and Sabot call it the process of "human capital accumulation."

What are the lessons for Latin America? Making social investments to break the cruel paradox of child survival can make sound economic sense. Stressing primary and secondary education for all broadens the base of growth and leads, like UNICEF's upward spiral, to long-run political stability.

Figure 4. Income Inequality and Growth of GDP, 1965–1989

Note: Income Inequality is measured by the ratio of the income shares of the richest 20 percent and the poorest 20 percent of the population.

Source: World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (1993), cited by Birdsall and Sabot

Child Survival Comes of Age

This issue of *Grassroots Development* examines how innovative youth programs started by groups throughout the hemisphere are working to lay the foundation for a better tomorrow by freeing the potential of the young people who are that tomorrow. Such efforts may seem little more than noble gestures given the magnitude of the problem, but the dynamic of the PPE spiral and the virtuous circle suggest otherwise. The child survival campaign has taught us that humanitarian actions can have a long-term impact if the political will exists to follow them through.

As Carol Michaels O'Laughlin of the International Youth Foundation (IYF) suggests (see Forum, page 43), governments, donors, NGOs, and the private sector will have to pool energies to make it happen. The programs developed by Servol in the Eastern Caribbean and CEMSE in Bolivia show how that can happen. Both efforts originate in multicultural societies and are being scaled up nationally and internationally. They work not because they represent uniform blueprints for success but because their methodologies involve local communities in the education of their children. Servol has also shown that new financing mechanisms are possible. It has used matching grants from the Bernard Van Leer Foundation and the IYF and "covenants of agreement" with local businesses to create an endowment fund for its youth programs. By brokering a partnership with the state, which pays teachers' salaries, and local communities, which maintain school facilities, Servol is bringing into being national networks of preschools and adolescent skills-training centers.

In the early 1980s, the haunting photographic images of wasted, dying children preyed on the world's conscience and brought about the child survival revolution. As the child survival movement comes of age, I hope the world will find the resolve to build on what we already know works. The choice is ours. Investments in human capital can set the virtuous circle spinning and help prevent the PPE downward spiral from being the dominant mode of "underdevelopment" in the twenty-first century. ✣

Sean Sprague

Children in Nairobi play during a school recess. Improvements in child survival during the last three decades show action for a better future is possible. Investments today in education and health care will decide if the future of tomorrow's children will be full or hollow.

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88.

George C. Marshall: The Marshall Plan

The policy known as the Truman Doctrine successfully checked the spread of Soviet expansion in the Mediterranean and the Middle East, but the future of Western Europe remained in jeopardy. The war had devastated its economy and widespread popular discontent was fomented by Communist propaganda, both from within and without. Of the four great European powers before the war, only the Soviet Union remained a power in Europe. As the economic and political situation deteriorated, the United States deemed it necessary to bolster the economic recovery of Europe in order to check the further spread of Communism. In a commencement speech at Harvard University on June 5, 1947, Secretary of State George C. Marshall outlined the principles of what was to become the European Recovery Program, popularly known as the Marshall Plan.

Source: *Record, App.*, 80 Cong., 1 Sess., p. A3248.

I need not tell you gentlemen that the world situation is very serious. That must be apparent to all intelligent people. I think one difficulty is that the problem is one of such enormous complexity that the very mass of facts presented to the public by press and radio make it exceedingly difficult for the man in the street to reach a clear appraisement of the situation. Furthermore, the people of this country are distant from the troubled areas of the earth and it is hard for them to comprehend the plight and consequent reactions of the long-suffering peoples, and the effect of those reactions on their governments in connection with our efforts to promote peace in the world.

In considering the requirements for the rehabilitation of Europe, the physical loss of life, the visible destruction of cities, factories, mines, and railroads was correctly estimated; but it has become obvious during recent months that this visible destruction was probably less serious than the dislocation of the entire fabric of European economy. For the past ten years conditions have been highly abnormal. The feverish preparation for war and the more feverish maintenance of the war effort engulfed all aspects of national economies. Machinery has fallen into disrepair or is entirely obsolete. Under the arbitrary and destructive Nazi rule, virtually every possible enterprise was geared into the German war machine. Long-standing commercial ties, private institutions, banks, insurance companies, and shipping companies disappeared through loss of capital, absorption through nationalization, or by simple destruction. In many countries, confidence in the local currency has been severely shaken.

The breakdown of the business structure of Europe during the war was complete. Recovery has been seriously retarded by the fact that two years after the close of hostilities a peace settlement with Germany and Austria has not been agreed upon. But even given a more prompt solution of these difficult problems, the rehabilitation of the economic structure of Europe quite evidently will require a much longer time and greater effort than had been foreseen.

There is a phase of this matter which is both interesting and serious. The farmer has always produced the foodstuffs to exchange with the city dweller for the other necessities of life. This division of labor is the basis of modern civilization. At the present time it is threatened with breakdown. The town and city industries are not producing adequate goods to exchange with the food-producing farmer. Raw materials and fuel are in short supply. Machinery is lacking or worn out. The farmer or the peasant cannot find the goods for sale which he desires to purchase. So the sale of his farm produce for money which he cannot use seems to him an unprofitable transaction. He, therefore, has withdrawn many fields from crop cultivation and is using them for grazing. He feeds more grain to stock and finds for himself and his family an ample supply of food, however short he may be on clothing and the other ordinary gadgets of civilization.

Meanwhile people in the cities are short of food and fuel. So the governments are forced to use their foreign money and credits to procure these necessities abroad. This process exhausts funds which are urgently needed for reconstruction. Thus a very serious situation is rapidly developing which bodes no good for the world. The modern system of the division of labor upon which the exchange of products is based is in danger of breaking down.

The truth of the matter is that Europe's requirements for the next three or four years of foreign food and other essential products — principally from America — are so much greater than her present ability to pay that she must have substantial additional help or face economic, social, and political deterioration of a very grave character.

The remedy lies in breaking the vicious circle and restoring the confidence of the European people in the economic future of their own countries and of Europe as a whole. The manufacturer and the farmer throughout wide areas must be able and willing to exchange their products for currencies the continuing value of which is not open to question.

Aside from the demoralizing effect on the world at large and the possibilities of disturbances arising as a result of the desperation of the people concerned, the consequences to the economy of the United States should be apparent to all. It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace. Our policy is directed not against any country or doctrine but against hunger, poverty, desperation, and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist.

Such assistance, I am convinced, must not be on a piecemeal basis as various crises develop. Any assistance that this government may render in the future should provide a cure rather than a mere palliative. Any government that is willing to assist in the task of recovery will find full cooperation, I am sure, on the part of the United States government. Any government which maneuvers to block the recovery of other countries cannot expect help from us. Furthermore, governments, political parties, or groups which seek to perpetuate human misery in order to profit therefrom politically or otherwise will encounter the opposition of the United States.

It is already evident that, before the United States government can proceed much further in its efforts to alleviate the situation and help start the European world on its way to recovery, there must be some agreement among the countries of Europe as to the requirements of the situation and the part those countries themselves will take in order to give proper effect to whatever action might be undertaken by this government. It would be neither fitting nor efficacious for this government to undertake to draw up unilaterally a program designed to place Europe on its feet economically. This is the business of the Europeans. The initiative, I think, must come from Europe. The role of this country should consist of friendly aid in the drafting of a European program and of later support of such a program so far as it may be practical for us to do so. The program should be a joint one, agreed to by a number [of], if not all, European nations.

An essential part of any successful action on the part of the United States is an understanding on the part of the people of America of the character of the problem and the remedies to be applied. Political passion and prejudice should have no part. With foresight, and a willingness on the part of our people to face up to the vast responsibility which history has clearly placed upon our country, the difficulties I have outlined can and will be overcome.

89.

George F. Kennan: Sources of Soviet Conduct

The forward thrust of Soviet power in the immediate postwar period led to a shift in American foreign policy from one of promoting cooperation with Soviet Russia to one of "containment" of Soviet Communist expansion. The "containment" policy was first formulated by George F. Kennan, counselor of the American Embassy in Moscow in 1945 and later director of the Policy Planning Committee of the State Department. The Truman Doctrine was the first public expression of the "containment" policy, a position that shortly after was elaborated and defined in an unsigned article in Foreign Affairs. *It was soon learned that the article had been written by Kennan, and it attracted widespread attention as a more or less official statement of American policy toward the Soviet Union. "The Sources of Soviet Conduct" is reprinted here in part.*

Source: Reprinted by special permission from *Foreign Affairs*, July 1947. Copyright by the Council on Foreign Relations, Inc., New York.

The political personality of Soviet power as we know it today is the product of ideology and circumstances: ideology inherited by the present Soviet leaders from the movement in which they had their political origin, and circumstances of the power which they now have exercised for nearly three decades in Russia. There can be few tasks of psychological analysis more difficult than to try to trace the interaction of these two forces and the relative role of each in the determination of official Soviet conduct. Yet the attempt must be made if that conduct is to be understood and effectively countered.

It is difficult to summarize the set of ideological concepts with which the Soviet leaders came into power. Marxian ideology, in its Russian-Communist projection, has always been in process of subtle evolution.

The materials on which it bases itself are extensive and complex. But the outstanding features of Communist thought as it existed in 1916 may perhaps be summarized as follows: *(a)* that the central factor in the life of man, the factor which determines the character of public life and the "physiognomy of society," is the system by which material goods are produced and exchanged; *(b)* that the capitalist system of production is a nefarious one which inevitably leads to the exploitation of the working class by the capital-owning class and is incapable of developing adequately the economic resources of society or of distributing fairly the material goods produced by human labor; *(c)* that capitalism contains the seeds of its own destruction and must, in view of the inability of the capital-owning class to adjust itself to economic change, result eventually and inescapably in a revolutionary transfer of power to the working class; and *(d)* that imperialism, the final phase of capitalism, leads directly to war and revolution. . . .

Now it lies in the nature of the mental world of the Soviet leaders, as well as in the character of their ideology, that no opposition to them can be officially recognized as having any merit or justification whatsoever. Such opposition can flow, in theory, only from the hostile and incorrigible forces of dying capitalism. As long as remnants of capitalism were officially recognized as existing in Russia, it was possible to place on them, as an internal element, part of the blame for the maintenance of a dictatorial form of society. But as these remnants were liquidated, little by little, this justification fell away; and when it was indicated officially that they had been finally destroyed, it disappeared altogether. And this fact created one of the most basic of the compulsions which came to act upon the Soviet regime: since capitalism no longer existed in Russia and since it could not be admitted that there could be serious or widespread opposition to the Kremlin springing spontaneously from the liberated masses under its authority, it became necessary to justify the retention of the dictatorship by stressing the menace of capitalism abroad. . . .

Now the maintenance of this pattern of Soviet power, namely, the pursuit of unlimited authority domestically, accompanied by the cultivation of the semi-myth of implacable foreign hostility, has gone far to shape the actual machinery of Soviet power as we know it today. Internal organs of administration which did not serve this purpose withered on the vine. Organs which did serve this purpose became vastly swollen. The security of Soviet power came to rest on the iron discipline of the Party, on the severity and ubiquity of the secret police, and on the uncompromising economic monopolism of the state. The "organs of suppression," in which the Soviet leaders had sought security from rival forces, became in large measure the masters of those whom they were designed to serve.

Today the major part of the structure of Soviet power is committed to the perfection of the dictatorship and to the maintenance of the concept of Russia as in a state of siege, with the enemy lowering beyond the walls. And the millions of human beings who form that part of the structure of power must defend at all costs this concept of Russia's position, for without it they are themselves superfluous.

As things stand today, the rulers can no longer dream of parting with these organs of suppression. The quest for absolute power, pursued now for nearly three decades with a ruthlessness unparalleled (in scope at least) in modern times, has again produced internally, as it did externally, its own reaction. The excesses of the police apparatus have fanned the potential opposition to the regime into something far greater and more dangerous than it could have been before those excesses began.

But least of all can the rulers dispense with the fiction by which the maintenance of dictatorial power has been defended. For are calling for a lower budget deficit, more saving, increased productivity, investment in education and research, and longer-term economic planning. They all want America to be No. 1 again, and the wise ones understand that we will have to get there by our own efforts, and not by dragging down and freezing out No. 2. Between No. 1 and No. 2 there does have to be some tough negotiating, but in every case it ought to be to open up world trade and not to form U.S.-Japan cartels. It ought to be to adjust the burdens of a changed partnership, in which the United States still has the dominant role in keeping the world militarily at peace, but in which the Japanese employ economic power (preferably through multinational channels) to keep the world growing and politically safe. Inevitably, in any partnership, the richer one is likely to be the more influential. If we don't want Japan telling us what to do, we had best stop whining and start producing.

NOTEBOOK

□ ACQUIRED JOURNALISTIC DEFICIENCY SYNDROME:

AIDS cases may be on the decline

"... And the finding doesn't mean AIDS cases will decline."

—*USA Today*, weekend edition, May 16-18

□ MEGABLURBS: Our "Nothing Succeeds Like Excess" contest announced in the May 4 issue has produced a worthy winner. The contest was inspired by *Hammer*, the biography of Dr. Armand Hammer that was so heavily laden with blurbs from famous celebrities we thought it worth honoring. We asked for book jackets or advertisements bursting with fulsome praise. Bruce Klein of Forest Hills, New York, sent our way the 1984 paperback edition of John Naisbitt's *Megatrends*. The ten pages of tribute from 47 people makes *Hammer* look positively self-effacing. "Super-researched," gushed *European Regional Magazine*. "Insightful and Inciteful," said Kirk Hanson of Stanford Graduate School of Business, and the ever discerning Hugh Sidey called *Megatrends* "first-rate." Dick Gephardt weighed in with a plug, as did Gary Hart. Former Virginia Governor Charles Robb was so inspired by the book that he promised to appoint a committee to study the future. Mr. Klein will be rewarded with a complimentary copy of *Hammer*.

□ PEACE AND LIFE... AND SHUT UP: Salvadoran president José Napoleón Duarte was supposed to make a speech before the World Affairs Council of Northern California on May 1, but it was canceled when a group called the Coalition for Peace and Life in El Salvador promised to send 1,000 demonstrators to protest his appearance. The coalition, made up of the Committee in Solidarity with the People of El Salvador (CISPES), Pledge of Resistance, and other groups opposing U.S. policy in Central America, claimed afterward to the radical newspaper the *Guardian* that the cancellation was "a real victory for the solidarity movement in this country. It's a clear indication that we are effective." The issue here isn't whether President Reagan's Central America policies are right or wrong, but whether they can be openly discussed. If the Coalition for Peace and Life in El Salvador is serious about its name, it should recognize that free debate is prerequisite for peace and life in the United States as well as El Salvador.

Could yuppies save Europe?

MARSHALL ARTS

"I NEED NOT tell you, gentlemen, that the world situation is very serious." With this characteristically laconic observation, George C. Marshall began his commencement address at Harvard on June 5, 1947, in which he made the offer to the devastated countries of Europe that quickly took shape as the Marshall Plan, perhaps the single greatest triumph of American foreign policy in this century. The 40th anniversary of this initiative is being observed in celebrations from Washington to various European capitals; June has already been proclaimed George Catlett Marshall Month. It is doubtful that America could find such vision today, or implement it so effectively and promptly.

When Dean Acheson, who was undersecretary of state at the time, called his memoirs *Present at the Creation*, he was referring to the creative years of American foreign policy under Harry S Truman. In the late 1940s the foundations were laid for a prosperous and democratic Western Europe; America's allies in Europe were secured against Russian invasion, encroachment, and subversion; and the first explorative but enduring structure of a united European community was put in place. The three main stepping-stones were the announcement of the Truman Doctrine in 1947; the institution of the Marshall Plan in 1948; and the formation of NATO in 1949. What was created, in short, was the world order that by and large still exists, and has so far prevented an annihilating war between the two superpowers.

The Truman Doctrine and NATO were more or less conventional initiatives. But the Marshall Plan was an inspired invention. It offered massive economic aid to Europe in novel ways for imaginative and far-reaching ends. Marshall's brief speech galvanized Europe into action, offering a desperately needed economic lifeline *if* the European nations agreed to come together to plan, cooperate, and work toward their own recovery.

In the speech there was no reference to the Soviet Union, its satellite countries, or any Communist threat. "Our policy," Marshall explicitly said, "is directed not against any country or doctrine," and he added: "The program should be a joint one, agreed to by a number of, *if not all*, European

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nations." So when Ernest Bevin, the British foreign secretary, and Georges Bidault, his opposite number in France, responded to the speech, they invited 22 nations to send representatives to Paris to draw up a cooperative recovery plan—including the Soviet Union and the nations of the Communist bloc. Czechoslovakia accepted, but within a few days Russia had forced it to reverse its decision. Nothing was more dismaying at the time than this evidence that Russia intended the Iron Curtain to be so impenetrable that its satellites could not cooperate with the rest of Europe in a plan for rebuilding the continent. They were no longer to be part of the European community.

THE INVITATIONS were issued on July 3. Only nine days later the representatives of 16 nations assembled in Paris. The Marshall Plan began officially when Congress approved the Economic Cooperation Act on April 3, 1948, and it was successfully ended on December 31, 1951. In that brief time, Western Europe was transformed. Those who were not there may read, look at photographs, watch documentaries. But when they gaze on Western Europe today, how can they believe that in 1947 it was on the verge not only of economic collapse, but of complete social and political disintegration?

If anything, the situation had deteriorated since 1945. Even after two years of peace, Europe did not have the bare necessities, especially food and fuel, with which to start on the road to recovery. The cities had not been rebuilt; industries had not been revived. There wasn't the coal to produce the steel needed for reconstruction; there wasn't the steel to rebuild the mines to produce the coal. Beyond the physical destruction, the institutions of a complex modern international economy had in many cases disappeared.

In the cities were millions of homeless, their houses and apartments in ruins, and the threat of starvation was growing. And there were millions of displaced persons, who seemed to have lost their identities with their homelands. Apart from these dire cases, one got used to seeing on the streets all over Europe whole populations who were undernourished, threadbare, hollow-eyed. We watched fearfully every election, especially in France and Italy, with their then-strong Communist parties. Even calm observers talked of the possibility of revolution.

Then came the Marshall Plan, and by 1951 it was as if a wand had been waved over the Continent. In place of the devastation Western Europe looked almost spruce. New homes had risen from the ruins. The new modern factories were busy. Agriculture had dramatically increased its product beyond even the pre-war level. The general standard of living was relatively high and improving. The food and clothing stores were well stocked and thronged. The Continent, except for the Russian satellites, was bustling. Even the "economic miracles" of West Germany and France had begun. The network of an international economy had been restored. The Federal Republic of Germany was created, and so re-entered the European community. The later merging of basic elements of the French and German economies heralded an enduring peace between the two historic nations; and the foundations of the European Common Market were laid.

All of these and other steps toward greater unity and cooperation in Western Europe, in place of the national rivalries that had torn the Continent for centuries, were the direct result of the fundamental stipulation by Marshall that the European nations should make their recovery a joint enterprise. The Plan was far more than a supreme act of American generosity. It was statesmanship.

The program was administered from America by the Economic Cooperation Administration, headed by a businessman and Republican, Paul Hoffman, the president of Studebaker. In Europe the ECA's special representative was W. Averell Harriman. The Western European countries were under tremendous pressure from the Americans to abandon the restrictive trade barriers of centuries. The aid went to individual countries, but only insofar as their plans had been approved by the ECA and fit into the greater plan for the general recovery of the Continent.

To this end, American missions of economic advisers, labor representatives, and technical experts were established in the capitals of all the Marshall Plan countries. They were not the kinds of men who sought a high profile, and yet one was very aware of their presence and their activity. They seemed to be ambassadors of a civilization that was not only technically progressive and efficient, but that, more unexpectedly to Europeans, had developed a class of men of political intelligence and diplomatic skills, including a necessary sensitivity to the feelings of Europeans in their dependence on the Americans.

At the same time, dozens of teams of European managers, technicians, and workers toured American steel mills, automobile plants, textile mills, and other industries to study American technical and management methods. American businesses freely passed on detailed knowledge of their technology, and even opened their books to the European visitors. Yet the emphasis was on Europe's own effort. American aid funds met the critical needs, while the Europeans conducted their own huge investment program to increase production. It was estimated that every dollar of aid generated six dollars of capital formation.

HOW DID it come about? There is no need to emphasize the contribution of Marshall, the soldier-statesman, with his erect, impassive bearing, who seems never to have conceived his position in terms of personal interest, but only of his duty to serve the civilian authority of his country, unfailingly loyal to his presidents, and, it should be emphasized, obedient to the will of Congress. Marshall never took shortcuts, and it is the example of men like him that makes one despair at the decline of public honor in America, and its acceleration under the present administration.

The leadership of Truman also needs little emphasis: his commitment to the Plan from the start; his resolve in getting it through a Republican Congress (he asked for \$17 billion, and got \$13.3 billion); his active part in the efforts of the Committee for the Marshall Plan to educate the leaders of public opinion around the country; and his readiness to ask the people for sacrifices, as in a personal broadcast plea to them to reduce their consumption of food so that more grains and meat could be sent to Europe.

Immediately after Marshall's speech the administration brought Senator Arthur H. Vandenberg, the Republican chairman of the Senate Foreign Relations Committee, into its councils. For months Vandenberg labored to persuade his colleagues on the Hill to support not only the Plan, but the emergency appropriations to enable Europe to hold on until the Plan had been passed. Few administrations have been more brashly Democratic than Truman's—and 1948 was an election year—yet it sought and found this collaboration with Vandenberg and other Republican leaders, such as Everett Dirksen and Karl Mundt.

Then there were the permanent officials of the State Department. However much credit must be given to Marshall, Acheson, and the "wise men," behind them, and vitally engaged at every step, was a State Department and foreign service that had not yet been disrupted by two influences. The first was Joe McCarthy, whose accusation of treason destroyed much of the experienced talent and confidence of the men in the State Department and foreign service. The second was the rise of the National Security Council, which began during Eisenhower's administration, to replace the State Department as the proper adviser of the president on foreign affairs. The consequences were predictable, and now dismally obvious.

The business community and their representatives in Congress often tried to turn the Marshall Plan to their own advantage, by insisting, for example, that 50 percent of all commodities should be carried in American shipping; or, to appease the flour millers, that 25 percent of all wheat shipments should be in flour. But partly through the Plan's administrator, Paul Hoffman, the business community on the whole came round to a more enlightened view of the program.

LASTLY, and perhaps above all, there was the mood of the American people. Confident after the war, generous, even idealistic, aware of their good fortune, and believing they had the responsibility to extend it to other peoples, they eventually aligned themselves behind the Marshall Plan with remarkable certainty. The Marshall Plan took 11 cents of every federal dollar. Today the total budget for foreign affairs takes only five cents. In the Second World War and its aftermath was the evidence that you cannot incite a people to be selfish in their lives at home, and then expect them to make sacrifices for their country abroad. The Marshall Plan was not founded on sentimental idealism; the stipulation that Europeans should cooperate and work for their own recovery was always there. But the countless Americans who worked at home and abroad to make the Marshall Plan a success, of which the stability of Western Europe now is the monument, would today be in law firms and corporation headquarters.

HENRY FAIRLIE

The Third World debt can be paid.

ACCOUNTS RECEIVABLE

THE REALITIES of the so-called debt crisis are often ignored, possibly because powerful political and commercial interests both in the West and in the Third World have a stake in overlooking them. Third World debtors could readily meet their obligations, but they would be foolish to do so as long as they are not being pressed. The decision by Citicorp bank to write off $3 billion in foreign loans relieves the pressure further.

Third World debt is sovereign debt, owed or guaranteed by governments. The debtors can always pay, since governments can tax their citizens. They also generally have substantial marketable assets, and they can requisition the assets of their citizens. The sovereign debtor cannot be taken to courts. Payment depends on the government's willingness, which depends on the political and economic consequences of the decision. Governments try to avoid the political and economic costs until the consequences of default outweigh them. The most important adverse consequence would be the failure to secure further external finance, which could result in economic breakdown. In the current climate, such an outcome is improbable. Debtors feel little incentive to pay.

The statistics bandied about on Third World debt sound frightening. But the figures of hundreds of billions of dollars are misleading. It is rarely made clear whether the figures are gross or net—that is, whether they allow for the financial assets of the debtors, let alone for other marketable assets. And it is often left unspecified what debts are being discussed. Some statistics refer to debt to the banks; others include debts to Western governments and international organizations such as the International Development Association (IDA). These are unindexed loans of 50-year maturity with ten-year grace periods at zero interest. Although termed loans, they are effectively grants. Yet they are included in Third World debt. Debts owed to Western governments are usually subsidized loans under foreign aid programs. They are often scaled down or written off by the creditors cum donors.

The assets of the debtors are rarely mentioned in polite international society—even large liquid assets that in many cases run into billions of dollars. Petroleos de Venezuela, the Venezuelan state oil monopoly, was recently reported to have billions of dollars in financial assets held in the United States. The government of Peru, an intransigent debtor, recently refused to pay a few million dollars of interest on its external debts. Its foreign reserves are about $1.2 billion.

Liquid reserves aside, the major debtors also have large marketable assets. In 1983 Pemex, the state-owned Mexican oil monopoly, earned $5.3 billion. It is widely believed that if it were managed privately the earnings would have been much larger. But even at $5.3 billion the capital value

—SEPTEMBER, 1947

After World War II ended in 1945, the United States resolved to avoid the suffering imposed on Europe after the first world war and to work for "a sane economic construction of Europe"—a policy against hunger, poverty and chaos. In our September, 1947, issue, Sidney B. Fay discussed this philosophy, embodied in the Marshall Plan.

The Marshall Plan

BY SIDNEY B. FAY

Professor Emeritus of History at Harvard University (1876-1967)

On June 5, 1947, upon receiving an honorary degree before a distinguished gathering at Harvard's Commencement, Secretary of State George C. Marshall made a very noteworthy proposal which has come to be known as "The Marshall Plan."

In many respects it was the most important pronouncement made by any statesman since the active fighting ceased two years ago. It held forth the possibility of a sane economic reconstruction of Europe and a gradual restoration of normal world trade and production that is so much needed. But the discussion it received soon revealed the hates, fears and national selfishness by which Europe is torn apart, and especially the deep cleavage between the totalitarian communistic and the democratic capitalist countries. It revealed a situation which already existed but which statesmen had hesitated to acknowledge publicly—the fact that the optimistic idea of "One World" had already been shattered by the "Iron Curtain" which stretches from the Elbe to Trieste.

Secretary Marshall began: "The world situation is very serious;" more serious than Americans realize, because "the people of this country are distant from the troubled areas of the earth, and it is hard for them to comprehend the plight and consequent reactions of the long-suffering peoples, and the effect of those reactions on their governments." He pointed out that the physical loss of life, the visible destruction of cities, factories, mines and railroads "was probably less serious than the dislocation of the entire fabric of European economy." After analyzing the causes of this he said: "It is logical that the United States should do whatever it is able to do to assist in the return of normal health in the world, without which there can be no political stability and no assured peace. Our policy is directed not against any country or doctrine, but against hunger, poverty, desperation and chaos."

In essence, the Marshall Plan called on Europe (1) to draw up a balance sheet of European resources and needs; (2) to work out a blueprint for self-help; and (3) to submit to the United States a program under which United States dollars may be best used to help Europe help itself.

A few persons protested that Secretary Marshall was bypassing the United Nations Organization and thus weakening it; that the recovery program should have been handed over to the United Nations Economic and Social Council. But many of its 18 members do not represent European states and are not primarily acquainted with Europe's special problems.

Aside from this and some other minor objections by selfish American isolationists, the Marshall Plan was generally greeted with enthusiasm everywhere in the world except in Soviet Russia. It was regarded as a statesman-like step toward overall and long-time planning instead of piecemeal and haphazard aid which we had given in special emergencies, such as President Truman's $400,000,000 aid to threatened Greece and Turkey.

It has also revived morale in Europe by encouraging countries to think that they could help themselves instead of continuing to be mere helpless recipients of American aid.

It recognized that it is usually easier to work for economic than political cooperation and unity. The former often makes possible the latter; the Prussian economic union (*Zollverein*), for instance, paved the way for Bismarck's unification of Germany. Some enthusiasts hoped that Secretary Marshall's proposal for common economic action might eventually lead to some kind of politically united Europe, such as has been urged by Aristide Briand, Winston Churchill and so many others.

The Marshall Plan was especially welcomed by Foreign Secretary Ernest Bevin in Britain and by Foreign Minister Georges Bidault in France because these two countries were having to spend more rapidly than anticipated the dollar credits already granted to them by the United States. Britain and France would therefore soon be faced with the dire prospect of inability to buy the food, raw materials, and machinery vitally needed to keep up even their already low standard of living.

Mr. Bevin flew to Paris on June 17 to consult with Mr. Bidault on the practical steps to give effect as soon as possible to Secretary Marshall's proposal. Two days later, in order to secure Russia's cooperation, they invited Soviet Foreign Minister V. M. Molotov to join them in Paris.

After four days of hesitation, Molotov accepted their invitation, and on June 27 flew to Paris. He brought with him such a large delegation of experts—more than 80—that the Western Powers were encouraged to think that he might seriously cooperate with them. Hopes for One World again revived. But these hopes soon proved vain. After five days of heated discussion at Paris between Bevin, Bidault and Molotov, the latter flatly rejected on July 2 the steps proposed by Britain and France, and at 4 A.M. [Molotov] abruptly flew back to Moscow.

The Marshall Plan caught Russian diplomacy off balance. Suddenly confronted with a proposal for European cooperation, backed by American food, machinery and dollar credits, the Russians were uncertain what attitude to take. They wanted to share in any aid offered by the United States, but they were shy of any cooperative action which would revive Europe and increase America's prestige and influence. For a brief period there was a curious lack of coordination between the Press and the Government. The Russian Press had sharply attacked Marshall's Harvard address as "a plan for political pressure with dollars" and denounced it as meaning "interference in the internal affairs of other countries." But just before Molotov announced that he would go to Paris, the Russian Press suddenly reversed itself for a few days, and the official news agency, *Tass,* stated that the Soviet Government was "considering" the Marshall Plan and was "interested" in receiving more information about it.

WHY THE CHANGE?

Poland and Czechoslovakia, also desperately in need of American aid and anxious for a renewal of their normal economic ties with the West, had enthusiastically endorsed the Marshall Plan. The Kremlin evidently feared these states, and possibly also Hungary, Bulgaria and Rumania, might break away from Soviet economic control, and that it would therefore be wise to gain time and, at least, send Molotov to Paris to look into or to thwart the proposals.

This fear of losing economic control over Poland and Czechoslovakia seems confirmed by one of the arguments used by Molotov at Paris against the Marshall Plan:

> Today pressure might be put on Poland to produce more coal even though it be at the expense of the other branches of Polish industry because that is in the interests of certain European countries; tomorrow it will be said that Czechoslovakia must be required to increase her agricultural production and to reduce her engineering industry, and it will be said that Czechoslovakia should receive machinery from other European countries wishing to sell goods at higher prices.

Doubtless Mr. Molotov had also other motives for going to Paris. He may have feared that otherwise there might be formed a European bloc against Russia. He may have feared that Western Germany would become more closely consolidated against her. And he may have hoped to modify the Marshall Plan so that American aid should be doled out directly to all countries, including Russia, and that each should be left to use the aid as it saw fit without regard to the interests of Europe as a whole. That, at any rate, is what he proposed at Paris. The way the Marshall Plan was handled could have been used to illustrate the way *Tass* and the Russian press misrepresent facts and try to inculcate Soviet ideology.

One Russian paper in reporting Marshall's Harvard address represented him as saying that one purpose of his proposal was to promote American exports and thus prevent the threatening economic crisis in the United States. There was not a word in Marshall's address justifying this false statement. Yet it was repeated in the *Tass* broadcast from Moscow on June 29:

> Quite obviously . . . the U.S.A., for its part, is also interested in making use of its credit possibilities for expanding its external markets, especially in view of the approaching crisis. When, in connection with Mr. Marshall's speech, the French and British Governments suggested a conference of the three Ministers, the Soviet Government received this proposal favorably, despite the fact that the system of planning on which the Socialist national economy in the U.S.S.R. is based precludes the possibility of the various crises and economic shake-ups mentioned.

This Russian press misrepresentation of the Marshall Plan as a proposal motivated to promote American export trade and prevent a capitalist collapse in the United States was soon parroted in the Soviet-dominated countries, and even by Pierre Cot in the French Assembly. It contained a danger

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Sidney B. Fay was a contributing editor of *Current History* for many years. His two-volume book *Origins of the World War,* written in 1928, is considered a classic in its field.

the three Punic Wars; but if mortal catastrophe should overtake the British Nation and the British Empire, historians a thousand years hence will still be baffled by the mystery of our affairs. They will never understand how it was that a victorious nation, with everything in hand, suffered themselves to be brought low, and to cast away all that they had gained by measureless sacrifice and absolute victory — gone with the wind!

Now the victors are the vanquished, and those who threw down their arms in the field and sued for an armistice are striding on to world mastery. That is the position — that is the terrible transformation that has taken place bit by bit. Now is the time at last to rouse the nation. Perhaps it is the last time it can be roused with a chance of preventing war, or with a chance of coming through to victory should our efforts to prevent war fail. We should lay aside every hindrance and endeavor by uniting the whole force and spirit of our people to raise again a great British nation standing up before all the world; for such a nation, rising in its ancient vigor, can even at this hour save civilization. ■

THE MARSHALL PLAN

(Continued from page 31)

for the Marshall Plan. It might lead Europeans to believe that they did not have to do anything to help themselves — that, if they merely sat back with folded hands, American loans to finance our export trade would be forthcoming anyway. This, would certainly not be the view of Congress.

The Russian press also denounced the Marshall Plan on many other grounds: (1) It was an attempt to split Europe apart and destroy its unity. This, however, was the very thing which Russian policy had been bringing about ever since the end of the war. (2) It was another example of American imperialism, like the Truman Doctrine for dominating the Middle East. But, in fact, Truman's aid to Greece and Turkey aimed to protect those countries from communist aggression and intrigue. Russia's true attitude was revealed a little later when Mr. Gromyko vetoed the American proposal in the United Nations Security Council for setting up a border commission to see that Yugoslavia and Bulgaria did not aid Communist guerrilla forces in Greece. (3) It would mean interference in the internal affairs of other countries. But Bevin and Bidault had made clear that there would be no compulsion — that all agreements would be voluntary and there would be no infringement of any country's sovereignty. There would be nothing like the Soviet Union's flagrant interference in the internal affairs of Rumania, Hungary, and the other Communist-controlled satellites. This was another instance of the familiar Russian propagandist trick of accusing others of what she herself was doing. Soviet interference was soon strikingly manifest when the Kremlin prevented Poland and Czechoslovakia from joining the Marshall Plan.

THE MOLOTOV PLAN

After Mr. Molotov left Paris on July 3, Britain and France at once issued invitations to 22 other European countries to join in a conference at Paris to consider drawing up a blueprint of Europe's needs and resources for presentation to the United States.

In order to thwart as far as possible this move toward the Marshall Plan, the Kremlin and Soviet press emphasized another line of attack. It was argued that the United States had not stated definitely how much it would give and that it was unlikely that Congress would carry out even Secretary Marshall's indefinite promises; countries which counted on it would be building on false hopes; it would be better for them to follow the Russian lead. They were warned that otherwise they ran the risk of suffering Soviet resentment some day in the future when the Soviet Union would be economically much stronger than the United States.

Most of the Russian arguments noted above either sprang from Marxian ideology or were propaganda intended to confuse and mislead the people of Russia and the discontented masses of Europe. The Soviet Union's basic opposition to the Marshall Plan was three-fold: it would increase the influence and prestige of the United States and the capitalist countries by lessening poverty, hunger and chaos; it would tend to unite Europe and make it less adapted to Soviet propaganda; and it would weaken what now was beginning to be called the "Molotov Plan."

The Molotov Plan was nothing new. Russia had been working toward it ever since the end of the war. It aimed to bring as many states as possible under Soviet economic and political control by the presence of Russian troops, by the infiltration and appointment of Communist officials, and by trade agreements which would bind countries to the Soviet system of planned economy. Thus, Russia would be steadily strengthened, just as Hitler had steadily strengthened Germany. Eventually, the day would come when the Soviet system would be strong enough to give the final push to bring about the inevitable overthrow of the capitalist system as laid down in Marxian dogma.

COOPERATION FOR THE MARSHALL PLAN

Twenty-two states were invited by France and Britain on July 3 to send delegates to Paris by July 12 to join in putting the Marshall Plan into operation. How many would accept? Molotov had banged the door on it, but it was opened again for him if he should change his mind. Polish and Czechoslovak officials at first stated that their countries would be represented. *Tass* announced that they would not be represented. The Russian ambassador in Warsaw was reported to have forbidden Poland's acceptance. The Czech Premier, Klement Gottwald, flew to Moscow, conferred with Stalin and Molotov, was inveigled into signing a new trade agreement with the Soviet Union, and then telephoned to his Cabinet in Prague that the Paris invitation must not be accepted. So both countries were forced to reverse their attitude and abandon a policy undoubtedly favored by a majority of their peoples. What about Russia's noble protests about "interference in the internal affairs of other countries?"

Russia's six other satellite states, more abjectly under Moscow's thumb, declined the invitation in terms that echoed the Soviet press objections to the Marshall Plan. The other 14 states quickly accepted and sent delegates to Paris, and thus, with Britain and France, made up the 16-power "Conference for European Cooperation" which began its sessions on July 12. These states were: Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, and the United Kingdom.

Absent from the Paris Conference were the states east of the Stettin-Trieste line: Albania, Bulgaria, Czechoslovakia, Finland, Hungary, Poland, Rumania, the Soviet Union, and Yugoslavia.

Absent also were Germany, which had no government to speak for its 66 million people, and Spain, which was not invited because its dictator, General Franco, was disapproved of.

The larger area and population of the Eastern European bloc (Molotov Plan) does not at all mean that it is stronger than the Western bloc (Marshall Plan). Russia and her satellites suffered far greater physical and industrial destruction in the war than Western Europe. Even before the war they were far inferior in industry, means of communication and technology, and are so today, in spite of Russia's considerable achievements. The three western Military Zones of Germany, which include that country's greatest industrial resources, will probably be integrated with the Marshall Plan bloc. Finally, the most important, behind the latter stand the immense power of the United States. ■

THE UNITED STATES AND RUSSIA IN WORLD WAR II

(Continued from page 29)

any replies from them.

For its China policy the Roosevelt administration ever kept ready its rose-tinted glasses. If the fatal weakness of the National Government was not visible at the time of the Cairo meeting, it began to be demonstrated by the spring of 1944. A violent altercation between Chiang and the peppery General Joseph Stilwell, who had promoted the idea of a Burma campaign, uncovered the gravity of Chiang's war with the Chinese Communists.

Roosevelt made an effort to compose the struggle. The American Embassy in Chungking argued with Chiang the possibilities of sharing his power with the Communist leaders. A special mission headed by Henry A. Wallace presented the same case to the Generalissimo, but got for an answer the advice to the United States to "show aloofness" toward the Chinese Communists. Wallace was followed immediately by a second mission headed by Brigadier General [Patrick] Hurley, chosen at the instance of Stimson and Marshall. In both of these cases the President ignored the Department of State. Hurley paid a visit to Moscow in September, 1944, and got from Stalin's own lips an expression of indifference toward the Chinese Communists. Hurley then ranged himself violently against the latter; and when the two Communist leaders, Mao Tse-tung and Chou En-lai, secretly approached General [Albert] Wedemeyer, who had succeeded Stilwell, to arrange for them a personal interview with the President in Washington, Hurley intervened to foil the attempt. What might have come of this we cannot say. But the President, who was by now out of touch with the Department of State, was deprived of his last opportunity to hear the case of Chiang's opponents. Roosevelt stuck by Chiang to the last. Meanwhile, the Soviet government continued to assert its lack of interest in the Chinese Communists and to express its readiness to recognize the National Government. At Yalta, Stalin, having made provision for the restoration of Russia's right in Manchuria, raised no objection to concluding a treaty with Nationalist China. This in fact he did on August 14, 1945, as we remember, six days after his army had started into Manchuria.

We shall probably never know the full story of how the Roosevelt administration was inveigled into binding itself irrevocably to the falling fortunes of Chiang Kai-shek. Behind the scenes in Washington, Chiang's two brothers-in-law, H.H. Kung and T.V. Soong, labored incessantly to get the ears of officials in the Treasury, War, and Navy Departments. Chiang himself sent numerous cables to various persons within the administration. If the head of any other foreign state had behaved in this manner, verily he would have been given a stinging rebuke. But there was no limit to which the American government was willing to indulge the politicians of Nationalist China. On his part, Secretary [Cordell] Hull, while willing to stand by Chiang, Cypriot side has adhered to the Secretary General's March 1986 draft framework agreement. We have actively sought to use our influence, as in the past, in support of the UN Secretary General's good offices mission. He has made clear that he would not allow his mission to be stalled. We agree and are continuing to urge the two Cypriot sides to work with the Secretary General to develop a mutually acceptable process leading toward a negotiated Cyprus settlement.

Romania

On June 2, the President decided to renew Romania's most-favored-nation (MFN) tariff status for another year. The decision was exceptionally difficult. The President carefully weighed the strong criticisms that have been made of Romania's human rights record. The Administration shares the concerns expressed in the Congress and by private citizens about violations of basic human rights in Romania, despite the Romanian Government's freely undertaken commitments under the Helsinki Final Act and other international instruments.

After weighing all the factors and options, the President decided that we should continue the MFN relationship with Romania as long as it enables us to help substantial numbers of people. Over the years since Romania has had MFN, 170,000 people have emigrated, including 30,000 to this country. MFN has also enabled us to have some impact on Romania's other human rights practices and to help strengthen the conditions for religious observances there. I believe that were MFN suspended or allowed to expire, these benefits, which are more modest than we would like but, nonetheless, important in human terms, would be lost.

For the Administration, therefore, humanitarian considerations were most compelling, indeed decisive, in putting forward the request to renew Romania's MFN status. We have taken the position that it is better to direct our efforts to improving conditions that arouse our concern than to abandon the principal means of influence we now have and walk away.

Poland

In the last 6 months, we made progress in expanding U.S.-Polish dialogue through a step-by-step approach. We have engaged the Polish Government on a wide range of issues, including arms control; human rights; scientific, commercial, and cultural relations; and increased our political dialogue as they have responded on specfic concerns.

We have also witnessed a series of high-level official exchanges. Chairman Fascell and Senators Kennedy, Nunn, Specter, and Warner visited Poland. Ways and Means Chairman Rostenkowski hosted a *Sejm* delegation in Washington and Chicago June 1–5 and is visiting Poland this week as the President's personal representative to the Poznan Trade Fair. After two rounds of talks, we have initialed a science and technology agreement. After trade talks in April, we have agreed to a U.S.-Polish Joint Trade Commission session here in the fall.

We hope to effect an exchange of Ambassadors. The Poles have told us they are prepared to move ahead here, and we have reassured them we will reciprocate.

[1]The complete transcript of the hearings will be published by the committee and will be available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. ■

40th Anniversary of the Marshall Plan

Addresses by Secretary Shultz on May 26, 1987, in celebration of the 40th anniversary of the Marshall Plan and President Reagan on June 1 during a signing ceremony declaring George C. Marshall Month.

SECRETARY SHULTZ, MAY 26, 1987[1]

I appreciate your presence here, and I appreciate the occasion because it marks something important that has happened, and it gives me an opportunity to reflect on that in terms of problems that, at least as I see it, we face today. So we're here this evening to mark the 40th anniversary of one of this nation's most splendid accomplishments, the Marshall Plan, and to honor its creator, George C. Marshall. It's humbling to reflect that this plan was only a part of Marshall's distinguished record in the office I'm now privileged to hold and that his term as Secretary was only part of the services he rendered this nation and the world.

The Marshall Plan has a special meaning for many of you who were present at the creation. For all of us, the Marshall Plan is one of the turning points of history. The term has passed into our language, shorthand for an international program of short-term sacrifice for long-term benefit.

The United States and Europe have come to enjoy unprecedented levels of prosperity since the days of the Marshall Plan, in no small measure because of the plan. The per capita GNP [gross national product] of the European recipients increased overall by one-third during the years of the plan. Their GNP continued to expand after the plan ended, increasing by about 160% by 1986, a yearly average of 4.6%—oh, for a 4.6% growth these days.

The United States started from a stronger base but still nearly doubled per capita GNP from 1947 to 1986. The Marshall Plan is only one of the factors in both of these performances, but it is certainly one of the most substantial.

Our contemporary well-being, in fact, may make it difficult for us to recall the bleakness of postwar European prospects. Memories fade. Most of today's adults have few, if any, personal recollections of those days. It is essential that we do not forget: Europe came close to economic collapse, which may well have been followed by political chaos. There had been mass destruction—on a scale never before seen—of people, infrastructure, and institutions.

A brief postwar recovery was followed by runaway inflation, black markets, and corruption, undermining public confidence in economic and social institutions. Venerable political institutions showed cracks. The unthinkable, the end of the British Empire, suddenly became imaginable, and imagination became reality. Nature herself dealt Europe a fierce blow in the dreadful winter of 1946–47. A heavy air of malaise hung over the continent. There was clearly much worse to come if help did not arrive.

The momentous events of early 1947 set the stage for that help:

First, the decision by the United Kingdom that it could no longer continue its aid to Greece, then fighting a communist-backed insurgency, and to Turkey; and

Second, the U.S. response of stepping in to replace the British, deliberately taking up a new role in the world. Underlying this initiative was the Truman Doctrine that the United States would support "free peoples who are resisting attempted subjugation by armed minorities or by outside pressures."

Only in hindsight does this new role seem inevitable. The country's mood was inward looking, somewhat isolationist. Demobilization was underway. Truman and Marshall effectively had to bring the American people into world affairs against their natural inclinations. It is one measure of the greatness of these men that they succeeded so well.

Once the Truman Doctrine had been accepted, the new U.S. role expanded quickly. Under Secretary Acheson had already created a committee to examine the problems of European recovery. And he had at hand someone who, today, I am privileged to have working very closely with me, Paul Nitze [special adviser to the President and the Secretary of State on arms control matters], who is around here somewhere.

Its conclusions, Dean Acheson's study, buttressed Secretary Marshall's own reflections. Only 2 months were needed to reach the decision Marshall announced at Harvard on June 5: the United States would do whatever it could to "help start the European world on its way to recovery."

American prosperity in the early postwar years made us the obvious, indeed the only, candidate to undertake assistance to Europe on the scale required. This is not to say that the Marshall Plan was easy for the United States. The idea did not meet instant approval. It was clear there was sacrifice involved and far from clear that sacrifices would produce success. Nonetheless, Marshall and his colleagues knew we must make the effort.

The foreign policy community acted swiftly and decisively. Congressional leaders, headed by Senator Vandenberg, committed themselves to Marshall's idea and helped mobilize public opinion. The private sector lent powerful support. Less than a year after Marshall's speech, the plan was in effect.

This took parallel speed and decisiveness in Europe. From the outset, Marshall had insisted on an integrated European program. After the emerging Eastern bloc—under Soviet pressure—declined, 16 countries were left to put together such a plan. Their work was arduous but well rewarded. Once united, Europe was able to use American aid to get on the road to recovery. And cooperation led to other initiatives for European renewal.

European statesmen such as Schuman and Monnet had long dreamed of a united Europe—Churchill's "United States of Europe"—and they went to work with gusto. They built on the success of the organization created by the Marshall Plan itself, the Organization for European Economic Cooperation (OEEC).

In less than a decade, there was an impressive array of other organizations for cooperation: the Council of Europe, the European Coal and Steel Community, the Atomic Energy Community, and the European Economic Community. The institution-building reached beyond Europe with the formation of NATO in April 1949. And the Marshall Plan or OEEC countries joined with the United States and Canada in 1960 to create the OECD [Organization for Economic Cooperation and Development], today the major institution for economic coordination among the industrialized democracies. I might say the OECD had a meeting—a very important meeting—just a couple of weeks ago, focusing people's attention on a problem of very serious moment today, namely, the agriculture problem.

The benefits of Marshall's vision have been mutual: what strengthened Europe strengthened us. Our investment of some $13.3 billion over 4 years was returned many times over in increased exports. And from the Marshall Plan came the infrastructure that has been for 40 years the bedrock of European and Atlantic political, economic, and security affairs. There is no finer example of enlightened diplomacy.

This success not withstanding, it is still true, and necessary to say, that the world situation remains serious. The context has changed. The challenges are different, but they are equally grave. We have a new, perhaps dangerously exciting, political era. We face a Soviet bloc under new leadership, whose motives and dynamics are only partially understood.

We are also beset by an enduring and powerful adversary—protectionism. There are disturbing levels of national debt across the globe. World agricultural production is seriously out of kilter. The great colonial systems of Europe have largely been disbanded, making world affairs infinitely more complex. The collapse of the bright expectations fostered by independence is yet another threat to world stability.

The Marshall Plan is still relevant in the solution of these problems. Among its many lessons, I believe, are the demonstrated linkage of economic prosperity and political stability and, in particular, the linkage of European and U.S. well-being. We must join together as partners to advance our common interests or we shall diminish our mutual fortune.

This means, among other things, working together to open markets, not close them. It means taking joint action, in the Uruguay Round, to dismantle the subsidies and trade barriers that are distorting agricultural markets. Without a firm commitment to these actions, we are in for very bad times.

Similarly, in our relations with the Third World, economic solidarity in the West is the key to success—not in the sense of offering a united front, an implacable North confronting a South beset by debt burdens and intractable problems of development; rather, in the sense of a partnership marked by global vision and, if I may be so old fashioned, a sense of altruism in pursuing the common good. If we all decide to let the other fellow do it and simply reap the gains, we will soon discover that collectively there is no other fellow. The whole debt and development conundrum is a collective problem that requires a collective response. We are capable of such a response if we return to the spirit of the Marshall Plan and make a commitment to work together.

It is natural that we seek to advance our individual interests. But we must remember that we have mutual interests and obligations. The United States, for example, would do well to reflect on the history of the Marshall Plan. In those days, we committed a tenth of our Federal budget to international affairs. That figure has steadily declined, falling now below 1.5%. That's counting everything—security assistance, economic assistance, Voice of America, contributions to international organizations of all kinds, operating the State Department, operating the Voice of America, Export-Import Bank—all in 1.5% of the Federal budget.

This is shocking and simply unacceptable. No country can expect to continue as a major actor in world affairs at this level of financial commitment. We must do better. The challenge to our leadership today is to mobilize political support for the resources necessary to carry out an effective foreign policy. Secretary Marshall called for a willingness on the part of our people to face up to the vast responsibilities which history has clearly placed upon our country, and the American public responded.

Marshall did not call only for the best in the United States. He also challenged Europe. So, too, today's challenges are not just for the United States but for the alliance as a whole. We have the opportunity to reshape the structure of our mutual defense. The United States has consulted fully, and will continue to do so, with our allies. We do not intend to act in isolation. We expect, in turn, that our allies will also work with us in shaping a response to the new proposals and to the different security policies that they portend.

Another challenge lies in the need for the allies to note and act on the reality that the United States can no longer carry the largest share of the burden. We have devoted a much larger proportion of our national budget to defense than have our allies. At one time we could do this without much strain. But today the U.S. economy no longer dominates the Western world, as it did 40 or even 20 years ago. The Marshall Plan helped to create economic equality between the two halves of the Atlantic alliance. We must share responsibilities equally.

I have spoken of the alliance. By this I mean, of course, NATO. But there is a larger alliance, a partnership which goes far beyond any one organization. The OECD is perhaps the most representative of the interests I have in mind, the protection and expansion of political democracy and market economies.

We must recast this worldwide partnership to make it adequate to the demands of a new century. Such rebuilding calls for creative leadership. We cannot do better than remember the vision that sustained Secretary Marshall and his counterparts in Europe. If we work in that spirit, we will not fail.

PRESIDENT REAGAN, JUNE 1, 1987[2]

It's a pleasant coincidence that George C. Marshall Month, which we will proclaim today, coincides with the upcoming economic summit. I'm certain that General Marshall would approve of my taking advantage of this opportunity to speak with you also about some of our expectations, our goals, for that important gathering.

First and foremost, today we gather to honor George C. Marshall, a gallant soldier, a visionary statesman, and an American who set a standard of honor and accomplishment for all who have followed.

George Marshall is the only professional soldier ever to win the Nobel Prize for Peace. It was a fitting tribute. Even in time of war, Marshall was a champion of peace. During his tenure as Chief of Staff of the U.S. Army, a war—the greatest conflagration in human history—was won. And that victory was not a triumph of conquerors in a struggle for power and domination but a desperate fight of free peoples for the preservation of the humane values and democratic institutions they held dear.

What made the Second World War different from all those that had preceded it was that Western civilization, by its outcome, was left in the hands of leaders like George Marshall—individuals dedicated to ideals which were not forgotten after the enemy was vanquished.

It's difficult in this time of plenty to imagine the destitution, devastation, and hopelessness that pervaded Europe after the close of the Second World War. The conflict had taken the lives of millions of Europeans, many of them the young leaders who are the greatest asset of any society.

Resources used to fuel the war machines were gone. Great destruction had been brought upon the face of Europe. Germany lay in almost total ruin. Throughout the rest of the continent, cities and factories were in disrepair; the whole economic infrastructure had been devastated. The monumental job of rebuilding seemed overwhelming.

It was at this time of despair when, under the leadership of wise and decent individuals like George C. Marshall, by then Secretary of State, our country stepped forward with a program Winston Churchill referred to as the "most unsordid act in history."

Forty years ago June 5th, Secretary of State George Marshall gave the commencement address at Harvard University. In it, he laid out a proposal for the reconstruction of Europe, the foundation for what has been the most remarkable period of peace and prosperity in the history of that continent.

In today's money, the Marshall Plan was a commitment of extraordinary proportions, about $60 billion. And with that, industry, large and small, was provided capital; harbors, canals, roads, electric systems were rebuilt; and the production lines began to roll as Europe went back to work.

The Marshall Plan was an investment America made in its friends and in the future. If it had simply been a gift of resources, it would likely have been a colossal failure. The success of this greatest of undertakings, the rebuilding of a battle-scarred continent, can be traced to goals that are easily distinguished from the mere transfer of money.

First, it was designed to generate hope where there was none. George Marshall, as a soldier, well understood the role of motivation. "It is the spirit which we bring to the fight that decides the issue," he once wrote. "It is morale that wins the victory."

George Marshall's speech was viewed by many Europeans as a lifeline thrown to them at a time when they were foundering. It gave them reason to work, to build, to invest. And in short order, purpose replaced aimlessness. Enterprise replaced inertia.

The second and most important goal of the Marshall Plan was to provide incentives for Europeans to find common ground, to bring down the political barriers which stifle economic activity and growth. Our leadership helped officials overcome local interest groups and work with other governments to beat back the pressures for protectionism and isolation; to free the flow of commerce, materials, and resources across international frontiers; to integrate transport and power systems; and to develop economic and political ties that would serve as an engine for progress.

The Marshall Plan led to the creation of institutions that today are pillars of the free world's economy—the European Economic Community, the General Agreement on Tariffs and Trade, the OECD [Organization for Economic Cooperation and Development]—and created the environment where the World Bank and the IMF [International Monetary Fund] could function. The Marshall Plan was an act of generosity, but it was not a give-away program. Instead, it was the beginning of a process of cooperation and enterprise that has carried the peoples of the Western democracies to new heights.

But there was one most important achievement, too much overlooked. A reading of history reveals that in past wars, the peace settlement laid the foundation for the next war. Hatreds and enmity remained. And today, we have known 40 or more years of peace, and one-time enemies are the closest of friends and allies as a result of the Marshall Plan.

With us today is an individual who, at President Truman's direction, took a central role in polling the leadership, gathering the ideas, and putting together a comprehensive overview of foreign policy strategy. This effort was the genesis of the Marshall Plan. His dedication, creativity, and resourcefulness were of great service to his president and his country at that pivotal moment. And, Clark Clifford, we are proud to have you with us today.

Trade and Economic Concerns

Now, in a few days, I will leave for the economic summit in Venice. It will be the 13th time the seven major industrial democracies have so met, and the seventh time I've been privileged to represent the United States. While our country is still looked to for leadership, the free world is now undeniably a partnership among democracies, to a large degree because of initiatives we set in motion four decades ago.

Today free world efforts—economic, political, and security—depend on genuine cooperation. Self-determination, as we've recognized since the time of Woodrow Wilson, is consistent with the interaction of free peoples. We sought it, and, brother, we've got it.

The governments of Western Europe, North America, and Japan face the future together, and meetings like the economic summit build unity and sense of purpose. And that unity is increasingly important. The velocity of economic change reshaping our world is making greater demands on our governments, individually and collectively. This change flows naturally from the open economic system we've established in the West. Our peoples and countries are now operating in a global market. Instantaneous communications, multinational corporations, the flow of international investment, widespread computer technology, and the integration of financial markets are facts of life.

The progress of mankind, however, remains dependent on political as well as economic and technological momentum. Today we face challenges comparable to those that confronted struggling democracies four decades ago. We sought to achieve prosperity; now we seek to preserve it and ensure that our standard of living continues to improve. Nothing can be taken for granted.

We must be active and vigorous to be successful. And we must work together. And that is what freedom is all about. And that's why we call the portion of the planet on which we live the free world. People here are not told what we must do. We talk things over and decide what to do for ourselves.

There's a story about an American and a Russian. As is often the case, the American was bragging about how in the United States everyone was free to speak. Well, the Russian replied, "In Russia we're just as free to speak; the difference is in your country you're free after you speak."

The greatest challenge for those of us who live in freedom is to recognize the ties of common interest that bind us, to prove wrong those cynics who would suggest that free enterprise and democracy lead to short-sighted policies and undisciplined self-interest.

Today—and we can't say this too often—it is in the common interest of all of us, in every free land, to work against parochialism and protectionism, to keep markets open and commerce flowing. By definition, protecting domestic producers from competition erodes national competitiveness, slows down economic activity, and raises prices. It also threatens the stability of the entire free world trading system.

Some countries, which have taken full advantage of America's past openness, must realize that times have changed. Today any country selling heavily in the United States, whose markets are not substantially open to American goods, risks a backlash from the American people. No country that closes its own markets, or unfairly subsidizes its exports, can expect the markets of its trading partners to remain open. This point will be driven home in Venice. It was the central theme of our agreement at last year's Tokyo summit to launch the Uruguay trade round.

While the vibrancy of the U.S. economy has contributed enormously to the world expansion, preserving a growing world economy is the business of every member of the world trading community. It is the special responsibility of the larger economic powers. It will be made clear, especially to our friends in Japan and the Federal Republic of Germany, that growth-oriented domestic policies are needed to bolster the world trading system upon which they depend.

We and our allies must always fulfill our agreements concerning exchange rate stability. Economic policy decisions made last year in Tokyo, and at this year's meetings of the Group of Seven finance ministers in Paris and in Washington, cannot be ignored or forgotten. The commitments made at these meetings need to be translated into action.

Talks continue to flow about the necessity of a coordinated attack on market-distorting agricultural policies—policies which are found in almost every Western country. The time to act is fast approaching.

One concern shared by the industrialized powers is what to do about the Third World countries which are not developing, not progressing—countries that, if something doesn't happen, will be left behind.

Japan has made admirable strides in this direction by offering to share some of its wealth—some of its trade surplus—with lesser developed nations. I hope that during the course of this summit, Japan will clarify what form this aid will take. I also hope that other countries will consider following Japan's good example.

However, as I noted about the European example of four decades ago, the transfer of cash alone is not the solution. If tax rates are too high, if markets are not free, if government is big, corrupt, or abusive, a country cannot expect to attract the expertise and private investment needed to advance, nor will its own people have the incentives needed to push their economy forward.

After the war, German industry was little more than a shell. If Ludwig Erhard and Konrad Adenauer, courageous democratic postwar leaders of that country, had not dramatically, in one fell swoop, eliminated most of the intrusive controls on the West German economy in 1948, Marshall Plan aid might not have had the miraculous impact that it did. If we're serious about changing the plight of less fortunate nations, we must, at the very least, be candid with them about these economic realities—open their eyes to the secret of Germany's restoration and the secret of the amazing growth taking place on the Pacific rim. That secret is a Marshall Plan of ideas. It is simply that freedom of enterprise, competition, and the profit motive work. They work so well that the United States now must maneuver with economically powerful competitors, friendly competitors.

And, yes, let us admit the recognizable friction among the great democracies about trade and economic policy. Our heated debates and maneuverings—and the fact they're front-page news—are a healthy sign. First, during economic movement, close friends disagree, but no one should lose sight of the impressive strides taking place. Second, the attention paid to complex economic issues, which decades ago were subject matter only for specialists, suggests the wide degree of consensus our nations have reached on the vital issues of war and peace, human rights, and democracy.

Security Issues

Today the unity of the West on security issues is something which George Marshall and his contemporaries would look on with a deep and abiding pride. Marshall led America through war and out of isolationism. Like protectionism, isolationism is a tempting illusion. Four decades of European peace and the greatest economic expansion in history stand as evidence that isolationism and protectionism are not the way. We must work with like-minded friends to direct the course of history, or history will be determined by others who do not share our values, and we will not escape the consequences of the decisions they make.

Nowhere is this burden heavier than in the Middle East, a region that has been plagued with turmoil and death. If we retreat from the challenge, if we sail to a distance and wait passively on the sidelines, forces hostile to the free world will eventually have their way.

Two weeks ago, we lost 37 of our sons in the Persian Gulf. They were the pride and joy of their families, fine young men who volunteered to wear the uniform and serve their country. We have none better than these. They died while guarding a chokepoint of freedom, deterring aggression, and reaffirming America's willingness to protect its vital interests.

Yet, the American people are aware that it is not our interests alone that are being protected. The dependence of our allies on the flow of oil from that area is no secret. During the upcoming summit in Venice, we will be discussing the common security interests shared by the Western democracies in the Persian Gulf. The future belongs to the brave. Free men should not cower before such challenges, and they should not expect to stand alone.

And we are working together in a number of critical areas. Our friends and allies have been cooperating ever more closely to combat the scourge of terrorism. Democracies are peculiarly vulnerable to this form of international criminality, and, at the upcoming Venice summit, we will give renewed impetus to the momentum which has developed in the past year.

The Western alliance, with courage and unity of purpose, has time and again thwarted threats to our prosperity and security. During the last decade, as American military spending declined, the Soviets raced ahead to gain a strategic advantage, deploying a new generation of intermediate-range missiles aimed at our European allies. This hostile maneuver—part of a long-term strategy to separate Europe from the United States—was countered by a united alliance. Pershing and cruise missiles were deployed in Western Europe, even amidst the noise and clamor of sometimes violent opposition and an intensely hostile Soviet propaganda campaign.

Let no one forget, 6 years ago we offered to refrain from deploying our intermediate-range missiles, if the Soviets would agree to dismantle their own. It was called the "zero option." The other side refused. At that time, a vocal minority in Western countries, including the United States, suggested if we moved forward with deployment of our Pershing and cruise missiles, all hope of arms control agreements would be lost.

The pessimists, however, have been proven wrong, and Western resolve is paying off. In recent months, we've witnessed considerable progress in our talks with the Soviet Government. The Kremlin now, in principle, accepts the "zero option" formula in Europe, and our negotiators are busy seeing if the details can be worked out. In short, we may be on the edge of a historic reduction of the number of nuclear weapons threatening mankind. If this great first step is taken, if nuclear arms reduction is achieved, it will be due to the strength and determination of allied leaders across Western Europe who refused to accept the Soviet nuclear domination of Europe.

European leaders, and indeed most Europeans, have come to understand that peace comes only through strength. Strength and realism are the watchwords for real progress in dealing with our Soviet adversaries. As we view changes which seem to be happening in the Soviet Union with cautious optimism, let it be remembered that, four decades ago, the Kremlin rejected Soviet participation in the Marshall Plan.

If the current Soviet leadership seeks another path, if they reject the closed, isolated, and belligerent policies they inherited, if they wish their country to be a part of the free world economy, we welcome the change. Let there be no mistake: the Soviet Government is subject to the same rules as any other. Any government which is part of our deals with the West's major economic institutions must do so with good faith, open books, and the open government on which both depend. Economic transactions are not maneuvers for political gain or international leverage; such destructive tactics are not tolerated. Countries which are part of the system are expected to do their best to strengthen the process and institutions or be condemned to economic isolation.

The Soviet Union must also understand that the price of entry into the community of prosperous and productive nations is not just an economic price. There is a political price of even greater significance: respect for and support for the values of freedom that are, in the end, the true engines of material prosperity.

Time will tell if the signs emanating from the Soviet Union reflect real changes or illusion. The decisions made by the Soviet leaders themselves will determine if relations will bloom or wither. Any agreement to reduce nuclear weapons, for example, must be followed by reductions in conventional forces. We are looking closely for signs that tangible changes have been made in that country's respect for human rights, and that does not mean just letting out a few of the better known dissidents. We are waiting for signs of an end to their aggression in Afghanistan.

America's Commitment to Freedom

This year is also the 40th anniversary of the Truman Doctrine, which fully recognized the need for economic assistance but underscored the necessity of providing those under attack the weapons needed to defend themselves. On March 12, 1947, President Truman addressed a joint session of Congress and spelled out America's commitment: "[I]t must be the policy of the United States to support free peoples who are resisting attempted subjugation by armed minorities or by outside pressures. I believe that we must assist free peoples to work out their own destinies in their own way." So said Harry Truman.

Nineteen forty-seven was a volatile political year for our country. I was a Democrat back then. President Truman was under attack from both sides of his own party, and the opposition controlled both houses of Congress—and believe me, I know how frustrating that can be.

Even amidst the deep political divisions so evident in 1947, the Marshall Plan and Truman Doctrine were approved by Congress. In the end, it was our ability to overcome our own domestic political discord and forge a bipartisan approach that made the difference. Greece and Turkey were saved. Western Europe was put on the path to recovery. Human freedom was given a chance. Democracy has its weaknesses, but its strengths will prevail.

I leave for Europe with confidence. This generation of free men and women, too, will work together and succeed. We will pass on to our children a world as filled with hope and opportunity as the one we were handed. We owe this to those who went before us, to George C. Marshall and others who shaped the world we live in.

With this said, I will sign the order proclaiming George C. Marshall Month.

[1]Press release 117 of May 27, 1987.
[2]Text from Weekly Compilation of Presidential Documents of Jun. 8, 1987. ■

40th Anniversary of the Truman Doctrine

PRESIDENT'S STATEMENT, MAY 22, 1987[1]

Forty years ago today, President Truman signed Public Law 75 of the 80th Congress, which provided $400 million in U.S. military assistance to Greece and Turkey. This was the first postwar commitment of the United States to provide the resources and support necessary for free countries of the world to meet the threat of communist expansionism and brought into being the Truman Doctrine.

The Truman Doctrine was rooted in a fundamental assumption as true now as in 1947: a healthy democracy in the United States requires strong democratic partners in the world. Its purpose was to help the peoples of Greece and Turkey in their efforts to secure their freedom. It succeeded through the mutual efforts of the American, Greek, and Turkish people, who through their courage and perseverance met head-on and defeated the immediate postwar threat. Today Greece, Turkey, and the United States are linked together as members of the North Atlantic Treaty Organization, freedom's strongest shield.

Today we celebrate the wisdom and courage of President Truman and those who worked so hard to make this a cornerstone of American foreign policy. We also salute our Greek and Turkish allies. Our ties are built on a proud tradition of mutual respect and support, one that we are dedicated to preserving and nurturing in the years to come.

[1]Text from Weekly Compilation of Presidential Documents of May 25, 1987. ■

file development

March 1996

25 Years Promoting Pluralism

Pact

Amid galleries of Renoirs, Bonnards and Cezannes, with Dixieland piano jazz playing in the background, nearly 300 friends and associates of Pact gathered at the Phillips Collection in Washington, DC on March 26, 1996, to celebrate Pact's 25-year investment promoting pluralism in emerging democracies. Joining them were special honorees Dr. Carol Lancaster, former deputy administrator of the United States Agency for International Development (USAID) and five former Pact board and staff members. It was a time to renew old acquaintances and reconnect with a vital part of the history of development assistance that has touched nearly everyone in the U.S. PVO community.

A Clear and Evolving Purpose

Recalling Pact's humble beginnings, CEO Louis L. Mitchell recounted that when Pact began it had an annual budget of $23,000 and no programs in its portfolio. Today Pact has a presence in 13 countries, including the United States, and manages 20 projects with annual revenues of $24 million.

Founded in 1971 as a membership organization for PVOs and NGOs, Pact initially received direct funding from USAID to independently approve and monitor USAID grants to PVOs and NGOs. As part of its charter, Pact also provided training and technical assistance in organizational development to a broad spectrum of PVOs and NGOs outside its membership. Serving as a catalyst and intermediary in the field, Pact over the years demonstrated the value of strengthening the capacity of local leaders and organizations to meet the social, political and economic needs of their communities.

In late 1992, adapting to changes within the development community, Pact revised its bylaws, dissolved its membership, set up a broad-based board of directors and established Pact as an independent, nonprofit, international corporation headquartered in the U.S.

Pact CEO Louis L. Mitchell.

Pact's investment in capacity building has yielded returns around the world today. Thousands of local organizations devise strategies and implement programs based on local development priorities; countless NGO members exercise leadership roles in their communities and advocate views in public policy debate; and numerous new networks link NGOs within countries and across international frontiers.

$10,000 Grant to Georgetown University School of Foreign Service

Carol Lancaster reads Pact grant award letter. Standing next to her are Pact board chairman Richard Richter and former CEO Tom Byrne.

The highlight of the evening came when former USAID deputy administrator, Dr. Carol Lancaster was honored for her leadership in focussing the goals of USAID on the needs of women and the poorest of the poor. In recognition of her many significant contributions, Pact board chairman Richard Richter awarded Dr. Lancaster, now returned to her position as Assistant Professor at the School of Foreign Service, Georgetown University, a $10,000 grant to be used at her discretion on behalf of students pursuing special study or careers in foreign assistance at the school.

In making the award, Mitchell observed, "the genius of a good leader is to leave behind a situation in which people of common sense, without the grace of genius, can move forward successfully, and Carol has demonstrated that quality."

Pact honoree Rita Gibbons receives a certificate of appreciation from Lou Mitchell, as other honorees Tom Byrne, Roland Johnson, Jake Pfohl and Bob O'Brien look on.

Former Pact Leaders Honored

Five former Pact board and staff members, who sustained Pact from its beginning 25 years ago, also received recognition for their unwavering conviction and tireless efforts to strengthen and empower grassroots organizations. Receiving certificates of appreciation were—

- *Tom Byrne*, Pact's CEO from 1985 - 1989, who held Pact true to its calling during a period of great uncertainty.
- *Roland Johnson*, a member of Pact's board of directors for over 15 years and its chair for 10 of those years, who employed his distinctive skills as a mediator and negotiator within a changing U.S. PVO community.
- *Jake Pfohl*, a visionary in the field of strengthening local NGOs in Asia, who laid the foundation for all the successes garnered by Pact in Asia over the past six years.
- *Rita Gibbons*, recently associate director of the NGO Forum on Women in Beijing and known as the "mother of Pact" throughout the PVO community, who provided her wise counsel to Pact for nearly 17 years.
- *Bob O'Brien*, the "father" and founder of Pact, who gave shape to its ideology and mission of attaining sustainable development through empowering indigenous organizations.

The Next Twenty-five Years

In looking ahead, Mitchell described a future in which civil society will be recognized as the only culture in which democracies can flourish and capitalism be equitably sustained. Pact's achievements lay a strategic foundation for the next quarter century for Pact as a partner in participatory development and contributor to the growth of civil societies worldwide.

Pact honorees Roland Johnson, former Pact board chair; Bob O'Brien, Pact founder; and Tom Fox of World Resources Institute.

Photos by William Moravek.

Pact
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Washington, DC 20006

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Ms. Melanne Verveer
Deputy Asst. to the President & Dep. Chief of Staff to the First Lady
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USAID file Social Development

THE PARTICIPATION INITIATIVE

In November 1993, Administrator Brian Atwood issued a "Statement of Principles on Participatory Development," which outlines the key concepts of USAID's participation initiative:

- Decisions about development priorities and policies are to be reached in the host country by those who must sustain them;
- USAID assistance complements the "social energies" and commitments shown by the recipient society;
- USAID projects and programs are accountable to the end user or customer; and,
- USAID programs aim to strengthen the capacity of the host-country society--particularly the poor--to take the next steps in improving conditions and opportunities in a sustainable way.

The goal of the Participation Initiative is: **to make the Agency's programs and procedures more conducive to, and ourselves as USAID staff more skilled and committed to, broadening access of people to their country's economy and their society's decisionmaking processes.** "Participation" is "both the end and the means: both the results we seek, and the way that we, as providers of development and humanitarian assistance, must nurture those results."

The Participation Initiative is premised on two assumptions: 1) participation is not new to USAID (on the contrary, skilled and committed USAID practitioners have "written the book," both figuratively and literally, in applying many sorts of participatory approaches); and 2) we need to "fix our systems" to enable us to use participatory approaches more fully and effectively.

For this reason, the Participation Inititative is both a central rationale for the Agency's reform agenda, and a broad set of efforts undertaken in support of the reform agenda.

These efforts include:

-- The **Participation Working Group** (the Agency-wide reference group for the Participation Intitiative), which has since January 1994 ensured that Agency decisionmaking consider how to enhance participation and how to facilitate existing participatory practices; results of PWG efforts range from language in the 1994 directives on strategic planning and project design that mandate customer and partner participation, to greater awareness in AID/Washington of how sudden shifts in funding impact on participation in the field;

-- The **Participation Forum**, a monthly, noon-hour opportunity for USAID staff and some other development practitioners to learn from each other's experience in implementing participatory approaches; written summaries are prepared that include presentations and discussion, along with additional comments and ideas received by e-mail; they are sent electronically to the approximately 700 members of USAID's **Participation Network** and by hard copy to other interested development practitioners;

-- Collection and dissemination of **participatory practices** (for which an electronic conversation on Internet, **Global Participation Net, or GP-NET,** as well as other more traditional means, are used to identify and discuss the cases); and

-- Dissemination of **tools** and **technical assistance** in support of implementing participatory, customer-focused approaches.

For further information on the Participation Initiative, contact Diane La Voy, Senior Policy Advisor for Participatory Development (dlavoy@usaid.gov); or Wendy Kapustin, manager of GP-NET (wkapustin@usaid.gov).

USAID
U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

file development

November 7, 1995

The Administrator

SUBJECT: MESSAGE TO USAID EMPLOYEES FROM THE ADMINISTRATOR

Dear AID Colleagues:

This past Friday I met with our senior managers in a day-long retreat to consider the future of the Agency. All of us left that meeting with a feeling of confidence, sobered by the difficult task ahead of us, but convinced that we can make the changes necessary to accommodate to the needs of the post-Cold War world and to the drastic budget cuts we face. This meeting was the beginning of a quickly moving process to determine how the agency will prepare itself to meet these challenges. I want to outline for you what we decided at the retreat and how we plan to proceed.

We reached a very strong consensus on the key issues before us, particularly on our vision of USAID's vital role in American foreign policy and our three important missions: sustainable development; humanitarian response; and managing transition situations. We agreed at the outset that decisions about how the agency will face budget cuts will be driven by these missions, and by what we want to accomplish from a development and foreign policy perspective.

Today's world is not the world our leaders contemplated as they emerged from World War II. Those leaders were strongly influenced by the post-World War I period and their desire to manage the global economic system in such a way as to avoid the repetition of history. The global management system they created through the Bretton Woods institutions and bilateral assistance programs was thus heavily oriented first toward reconstruction and economic development and then toward the containment of communism.

Our contemporary challenges are more complex. We face, on the one hand, a vastly expanded global economy and its capital flows into emerging markets; on the other, a proliferation of

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highly costly complex crises. These crises are often stimulated by weak or corrupt governmental institutions, unsustainable population growth, deteriorating environmental conditions, food insecurity and abject poverty, all of which can spawn the most desperate types of human behavior. These conditions, when mixed with ethnic or religious differences, or a government's authoritarian or expansionist impulses, create volatile crises that directly impact on U.S. national interests.

We reviewed each of USAID's missions in the context of these global realities. Our conclusions will not surprise you:

1. We agreed that we must maintain and enhance our capacity to respond to crises with humanitarian relief and we must continue to view that relief as part of a continuum that will lead to a nation's recovery and to its long-term development.

2. We agreed that we must strengthen our capacity to work in classic post-crisis transition situations to support directly the processes of peace and reconciliation that follow negotiated settlements of disputes or the rejection of closed political systems and command economies. We are doing this job well in Haiti, Cambodia, the West Bank and Gaza, Mozambique, Ethiopia, South Africa, Central America and in Central and Eastern Europe and the former Soviet Union. And we need to prepare to do it well in places like Bosnia, Angola, Liberia and, one day soon, in a free Cuba.

3. Finally, we recognized that in a time of budgetary constraints, it is challenging indeed to make a case for long-term, sustainable development. But addressing the root causes of instability is the most cost effective approach to peace and prosperity. We were encouraged that this case has been strongly supported in recent studies showing a direct correlation between development indicators and the vulnerability of nations to implode and collapse. We also recognized that we must work to enhance the relevance of our work to crisis prevention, and we discussed ways that could be done. We acknowledged that further study is required in that current development theory, analysis and practice do not yet adequately factor in the need to counter or mitigate potential instability.

   Our sustainable development programs must focus on nations where U.S. political and economic interests are engaged, where need is apparent, where we can achieve results in a positive partnership with the host government and people and where we can contribute to the resolution of global development problems. Making choices as to where our reduced resources should be deployed will not be easy, but these guiding principles will facilitiate our efforts.

We agreed that we would set exit goals for all nations in which we work. And for nations where we expect graduation within five years, we will devise very specific exit strategies that will emphasize the interventions we can make that will both enhance the likelihood of graduation and create bridges to assure the long-term sustainability of our contributions.

We agreed with every serious external review of USAID that our field missions are our strength and that we should maintain our field presence to the extent that this is feasible given our budgetary constraints. We will clearly have to redeploy, reduce and regionalize our presence, but we believe our field presence gives us knowledge of the development sectors in which we work, the capacity to influence host governments and the sectoral insights we need to leverage resources from, and influence the strategies of, other donors.

Reengineering and reduced budgets will also cause us to re-examine AID/Washington. No bureau or office will be exempt from our ongoing effort to assure that our human and fiscal resources effectively serve our missions.

While the legislative process that will determine our FY-96 budget is not yet complete, we must begin now to plan for severe program and OE reductions because we are already into the second month of the fiscal year. The House and Senate have both agreed in conference on the Foreign Operations Appropriations bill and, while there is still an item in disagreement and a presidential veto is possible both because of this issue (the Mexico City policy question) and the low levels contained in the bill, we cannot responsibly anticipate that the levels assigned to our accounts will improve.

Faced with this reality, we agreed on a process that is as inclusive and transparent as possible to consider the FY-96 allocations and the operating expense reductions we will have to make. The process will be driven by: our desire to further define our mission and our structure in the second phase of Vice President Gore's reinventing government program; the pipeline obligations we carry and our so-called "mortgages"; earmarks and directives we have received from Congress; and the commitments and initiatives that are important to the Clinton Administration. It is obvious that with a $600 million reduction in DA and development-related ESF programs -- a reduction that is compounded by significant earmarks -- we will have to examine each of these areas. <u>None of them will survive intact</u>.

We will clearly have to look at program and OE funding together, since both accounts provide considerably less than requested. It will be particularly hard to live within OE constraints. As the GAO confirmed, $495 million was the minimum OE needed to avoid violating the Anti-Deficiency Act. Congress has appropriated $465 million and has given us authority to reprogram to acquire $25 million more. Even if all goes well as we implement our tough austerity program, we will still be short of our goal. Thus, we need to act now to reduce the monthly overhead we carry for salaries, rents and basic services.

We will be counting on the regional and functional bureaus and the field missions to suggest ways to accommodate both the OE and program cuts and still enable the Agency to carry out its programs. This process will be carried out with maximum collegiality and the involvement of each of the Assistant Administrators, their senior staffs and field missions, as appropriate. We have assigned some of the short term tasks associated with these decisions to small working groups of senior managers, but I will continue to meet at least once a week with the senior staff to finalize plans for the agency's restructuring.

The strict hiring freeze and systematic reductions in our work force will continue. This has enabled us to avert a RIF and/or furloughs, actions that other agencies have not been able to avoid. Of course, we must keep all options open but I continue to believe that RIFs and furloughs do not produce good solutions and that they normally result from a failure to anticipate. And anticipate we must. We expect that a serious and responsible effort to restructure and downsize the Agency over the next four years will both enable us to reduce OE costs and save us from extreme OE cuts as we work with OMB and the Congress on our FY-97 needs. If that proves not to be the case, then we will have to consider a RIF. Such a step would be costly and it would damage our institutional capacity to accomplish missions vital to the U.S. national interests.

Obviously, we are hopeful that our efforts to enhance USAID's capacity and restructure its operations to fit the new challenges we face internationally -- in the context of the need to balance our national budget -- will produce a positive response both from within the Administration and from the Congress. We believe sincerely that the humanitarian and development investments contained in our reduced budget contribute to America's economic growth, to our foreign policy and to our overall national interests. At the same time, they reflect the humanitarian values and generosity of the American people. The course we have set at this retreat we hope will not only enable our Agency to survive, but enable it to maintain its unique leadership role for many years to come.

As we have endured together the internal reforms and the external attacks, I have drawn strength from your creative energy and your support. The people of USAID, I have come to appreciate, are very special. I believe we draw our resilience and our staying power from the people with whom we work, the poor of the world who survive on the margins using their God-given ingenuity. We believe in our mission and in our capacity to provide international leadership that enhances development cooperation. This agency should never be underestimated in its resolve to do its job.

I am sure you agree that, for us, survival is not enough. We must continue to strengthen ourselves institutionally, to do more with less and to play the highly relevant role that the future requires of us. Many thanks to all of you for believing as you do that we can overcome any obstacle if we continue to work together.

Brian Atwood

J. Brian Atwood

USAID
U.S. Agency for
International
Development

The Deputy
Administrator

November 15, 1995

Ms. Melanne Verveer
Deputy Chief of Staff to the First Lady
Office of the First Lady
Old Executive Office Building
Washington, D.C. 20501

Dear Melanne,

I wanted to bring you up to date on the very disturbing turn of events that has occurred in Congress -- one that promises to affect my agency and its programs very deeply.

As the enclosed letter shows, Senator Kerry has agreed with Senator Helms that the "Helms Bill" on consolidating USAID, USIA and ACDA into the Department of State (and mandating a number of other policies affecting our relations abroad) will now be brought to the floor of the Senate with two major provisions: a cut of $1.7 billion over five years in the budgets of these agencies, 70% of which must come from operating expenses; and a ceiling of 15% on those cuts coming from the Department of State budget (which is the largest for operating expenses by far of the four agencies).

Senator Kerry apparently arrived at this deal with Senator Helms after consulting with the Secretary of State but not with other agency heads and without a common Administration position. This is a regrettable way of operating, to put it mildly, and it makes us all look undisciplined. If it succeeds (and Senator Kerry seems to think he has support from at least part of the Administration), it will force the President to reorganize the foreign affairs agencies (despite his stated opposition and his prerogatives) -- a point acknowledged in the letter from Senator Kerry to Senator Helms. This back door legislating of Executive

Branch reorganization through drastic budget cuts is particularly unfortunate as we move into an election year where the role of Congress and the President in foreign affairs is likely to be an issue.

Also regrettable will be the impact of the cuts in this agreement if it passes the Senate (which it may well do with Democratic support now) and the House and is signed into law. USAID will be forced to absorb most of cuts on top of what have been severe cuts in our operating expenses and program funds already this year. We are only now struggling to avoid firing a portion of our staff in the coming months. The cuts in this deal would force either a major RIF and/or our closing down completely as we run out of money before the end of this fiscal year and contravene the Anti-deficiency Act. The impact on our programs will be to deepen further the 20% to 40% cuts we already have to take. It promises to have a horrendous effect on our ability to achieve the goals abroad we all share.

I cannot tell you how discouraging this is to all of us trying to manage the agencies who feel like they are being sold out. Are our functions so unimportant to the United States and the rest of the world that we can be undercut in such a manner? I realize that this is truly an awful time. But if we were to stand firm together against irresponsible behavior on the part of Congress, we might prevail. However, it looks increasingly like we may have lost this one and with it, our ability to accomplish the missions we joined the Administration to fulfill. I hope I am wrong.

Sincerely,

Carol

Carol Lancaster

Enclosure:

JOHN KERRY
MASSACHUSETTS

United States Senate

WASHINGTON, DC 20510-2102

November 14, 1995

Dear Jesse:

I thought we had a productive meeting last week on consolidation and other issues in S. 908, the Foreign Relations Revitalization Act of 1995. For the sake of clarity, I would like to recapitulate the status of our discussions.

On the question of consolidation, I gave you a legislative proposal mandating that the Administration achieve savings of $1.7 billion from the FY 1995 appropriated level over five fiscal years. Not more than 30 percent of these savings may be realized through programmatic reductions, and not more than 15 percent may come from the administrative expenses of the State Department. The President would be authorized to send a reorganization plan to Congress within six months of enactment of the legislation. If he fails to do so, USIA, AID, and ACDA will be abolished automatically and their functions and responsibilities transferred to the State Department.

As I indicated, this is a good-faith proposal that enjoys the support of my Democratic colleagues on the committee. I am persuaded that the Administration will be able to achieve this level of savings, even permitting some program cuts to be counted toward this amount, only by engaging in significant reorganization and consolidation. I understand that you are considering that proposal.

I also gave you a finite list of other provisions in S. 908 which my colleagues and I believe must be changed in order for us to support action on the bill. Several of these items have been resolved in discussion between our respective staffs. We now have four outstanding issues: authorization levels for the operating expenses of the agencies and contributions to the United Nations, section 168 relating to confiscation of property, section 603 relating to coercive population control policies, and section 604 dealing with Iraq claims. We agreed that we would increase the authorization levels once we get to conference. Our staffs are currently working to see if we can resolve the remaining three issues.

The Honorable Jesse Helms
United States Senate

We also had a lengthy discussion about what might transpire in conference. As I explained there is concern among the Democratic members of the committee that the Senate's majority conferees might abandon or agree to alter the consolidation provisions contained in the managers' amendment, and to agree to include in the conference agreement foreign aid provisions, particularly those at variance with the Senate's position on funding for international population activities, including UNFPA and the so-called "Mexico City policy." Because the Senate has not passed a foreign aid authorization bill, we do not believe that the population provisions, or any other foreign aid provisions in H.R. 1561, the House companion to S. 908, should be conferenced with S. 908.

I know that we cannot bind ourselves with respect to all issues that may arise in conference. However, as I indicated, if my colleagues and I consent to move S. 908 through the Senate with one agreed upon managers' amendment embodying the changes you and I have discussed, we must have your commitment that changes in the Senate position on consolidation be made only by consensus among the Senate conferees.

Finally, on the critical question of the committee's business, I believe that we reached the following agreement: that the committee will act promptly on START II and the 18 pending nominations, that you will seek to expedite Senate floor action on the START II treaty and the nominations, and that you will establish a firm schedule for committee consideration of and action on the Chemical Weapons Convention this year, without any procedural delays.

Jesse, in order to bring our negotiations to a successful conclusion, it would be extremely helpful to me if you would affirm in writing that the Senate position on consolidation will be changed only by consensus among the Senate conferees and that you are prepared to handle the committee's business in the manner that I have outlined above. I appreciate the agreement we have reached on other issues.

I look forward to your response.

Sincerely,

John F. Kerry

féli - Development

Why the United Nations Is Essential To Successful Development Cooperation (and Vice Versa)

by

James Gustave Speth
Administrator
United Nations Development Programme

Should the United Nations be strengthened as an instrument for development cooperation?[1] The answer, so clearly "yes" to many, may not be obvious to all, particularly in a period of budgetary restraint in OECD countries and post-Cold War scepticism of international institutions and "foreign aid". The case for a stronger United Nations in development cooperation is indeed compelling. Not only is the United Nations needed for successful development cooperation, but development cooperation is needed for a successful United Nations.

A Record Second to None

Though one would hardly know it from the media coverage, most of the UN's financial resources and most of its personnel are dedicated to development. Through programmes in 173 countries and territories, the United Nations provides substantial resources to developing countries -- about $5 billion a year. Surprisingly, the UN's funds and specialized agencies provide slightly more official development assistance than the Bretton Woods institutions. Moreover, the UN's funds are providing grants, not credits, so that there is a substantial net transfer of resources to developing countries.

The fact that the United Nations is a major supporter of development is no accident. The relationship of peace and development is embodied in the UN Charter itself; the link was deeply rooted in the historical experience of a half-century of world war. Both politicians and political theorists concluded that an enduring peace was one that could only be built on a foundation of expanding prosperity and social justice. And so, in this spirit, the Charter undertook "to employ international machinery for the promotion of the economic and social advancement of all peoples..." Throughout the Cold War, when the Security Council was often deadlocked, another United Nations emerged and flourished -- a United Nations heavily engaged in operational activities with refugees and the internally displaced, with the poor and hungry, with child survival, with population and environmental initiatives, and with programmes to strengthen

[1] The rationale for continuing (and also reforming) development cooperation is discussed in the annex to this paper.

democratic governance and human rights and to promote successful economic transitions. The resources of the UN's programmes are heavily skewed towards those countries most in need and towards the most disadvantaged groups in societies, perhaps more so than any other development assistance entity.

The UN's programmes of development assistance therefore have a record almost as long as the United Nations itself. For millions in the poor countries, these concrete programmes of assistance are the United Nations. For people throughout the world, the United Nations is not merely an international forum but the bearer of tangible and concrete benefits. The blue flag has the respect it does because it is the symbol of people helping other people build a just and sustainable world.

The great goals for which the international community has worked -- peace, democratization, trade expansion, human rights, an end to poverty and hunger, environmental protection, population stabilization -- can only be realized in the context of development -- environmentally sustainable, equitable development. The United Nations has a track record second to none in promoting that kind of development. This record -- the balance sheet -- provides the most compelling case for strengthening the United Nations in the economic, social and environmental areas. As the Secretary-General has observed, "the fundamental reason for improving the UN's development assistance efforts is not because these efforts are failing but because they are succeeding. The demand for the services that the United Nations provides far outstrips its capacity".

Any cost-benefit ratio would conclude that the UN's successes represent an investment which the international community needs to strengthen. The history of the last half-century of international technical cooperation is a unique endeavour of the human spirit. Countless success stories over the last 50 years constitute the UN's greatest contribution to human security.

United Nations peacekeeping operations have been at the center of recent controversies. The exponential rise in UN peacekeeping over the past few years has sharply altered the public perceptions of the United Nations, and the UN's historical role in development has been eclipsed in the minds of many. It is appropriate to recall the UN's successes in human development of the last 50 years. We should remember this almost-forgotten United Nations before the years of leadership and patient effort are lost.

The UN's Special Assets

In addition to its track record, the United Nations also brings special strengths -- "comparative advantages" -- to development cooperation. One can identify eight such areas of special competence:

a) The United Nations provides a unique forum for raising public consciousness, providing salient information, defining the international development agenda, and building the consensus needed for action. Once forged, consensus is translated into international norms and agreements, integrated into national development priorities, and supported through the UN's operational activities. Only the United Nations can provide leadership over this span.

b) The neutrality of the United Nations means that it does not represent any particular national or commercial interest, or interests of "donors" generally. The United Nations can therefore develop special relationships of trust with countries and their people and can provide stable, long-term capacity-building assistance free of short-term political or economic objectives. This is very important, because trust facilitates some things essential to successful development cooperation, including candid policy dialogue, cooperation on sensitive matters such as political and economic transitions, and capacity-building for better and more open and transparent governance.

c) The UN's universal presence means that it has the largest network of country offices and does not overlook any country. Moreover, the UN's extensive "field presence" is not superficial; its country offices and the Regional Economic Commissions are not liaison offices but major centres. The United Nations thus has a unique delivery capability.

d) The United Nations emphasizes bottom-up, country-driven programming of development assistance resources, without conditionalities. These facts, plus developing country participation in UN's governance, ensures ownership of UN's development initiatives by the parties involved. Ownership, in turn, is essential to sustainability and success.

e) Because of its universal presence at country and regional levels and its grant-based assistance, the United Nations can operate effectively at the inter-country and regional levels.

f) The United Nations has a comprehensive mandate, spanning social, economic and political issues. It can thus support political and economic transitions linked to development. Moreover, the United Nations has expertise across virtually the full range of development interests. In addition to the extensive expertise represented by the specialized agencies, the UN's programmes address poverty, jobs, population, children, environment, governance, human rights, women's issues, drugs, shelter and other critical issues. This breadth is part of the UN's strong delivery capability.

g) The UN's programmes focus heavily on the neediest countries and on the neediest people within those countries. The United Nations has special strengths and experience in the social or human aspects of development, both with governments and with grassroots organizations.

h) The United Nations has a capability to mobilize, deliver and coordinate humanitarian assistance and to promote reconstruction and reintegration in post-emergency situations. It can link work in peacekeeping, refugees, relief, and development, and it provides an ideal base for support for early warning and preventive development initiatives.

No other development assistance institution can point to such an array of capabilities.

A Growing Need for Multilateral Action

As we consider these attributes of the UN's development work, we should recall that the enormous development challenges confronting mankind require large-scale international cooperation. Almost a third of the people in the developing world live in extreme poverty. Nearly a billion are illiterate. Some 800 million people do not get enough food. The global environment continues to deteriorate. These facts can give rise to cynicism and despair, or they can spur a new commitment to move beyond the inadequate efforts of the past.

These problems, and others, cannot be solved by countries acting alone or even in small groups. Poverty and hunger, population pressures, environmental degradation, the condition of children and women, the denial of fundamental freedoms -- all present complex and related challenges to the community of nations. The United Nations is the only complete embodiment of that community of nations. Operational support for sustainable human development by the United Nations is the concrete commitment of the community of nations to act in concert to meet these challenges.

The United Nations is also essential to help redefine the relationship between industrial and developing countries. Not welfare, but common interests and mutual needs ought to provide the basic rationale for new partnerships and global compacts. Whatever today's threats to national security, more pervasive are the threats to the human security of people in their daily lives. Problems do not need passports to travel around the globe -- and whether we like it or not, a problem in one part of the world can affect us all. International compacts and partnerships must therefore be forged to realize common goals, whether we are focusing on controlling the continuing devastation of the world's forests or eliminating the world aspects of world poverty.

The United Nations is uniquely situated to forge international agreements and understandings and to back these up with development support. The UN's impartiality and universality are key to forging international agreements (e.g. Children's Summit goals, Cairo Programme of Action, Agenda 21). It is natural and expected that the United Nations should be in the development cooperation business in order to help promote goals entered into under its auspices.

Peace and International Stability Require Development

The UN's work in development is also essential to the success of the United Nations in its various non-development missions. Most important are the links between development and peace.

Many critics of international assistance have not paused to think about the underlying causes of the conflicts in which the United Nations and others are becoming involved. Degrading poverty, diminishing natural resources, and increasing joblessness all feed ethnic and social tensions. It is from this cauldron that crises can boil over.

What a dramatic change we have witnessed in world affairs in recent decades, and how little we have understood it. Of 82 conflicts in the last three years -- each costing more than a thousand lives -- 79 are within nations, not between nations. Ninety percent of the casualties have been civilians, not soldiers. These conflicts require development upstream, not soldiers downstream. They needed a strengthening of the UN's role in development, not drastic cuts in UN's funding for fighting poverty merely because the global community did not have the foresight to move preventively and was left with the belated option of frustrating peacekeeping operations. The right lesson to draw is to move early, to act preventively, and to land development now instead of soldiers later. The United Nations can be an effective force for peace only if it is a strong force for development.[2]

The United Nations should be strengthened as a bulwark for preventive initiatives around the globe. It should be made into a stronger human development agency, so that there are fewer internal conflicts and less need for relief and peacekeeping operations. Unfortunately, while the images of retreating soldiers flashed across our TV screens, we did not see the images of thousands of UN-financed workers immunizing poor children, promoting agriculture and food security, providing safe drinking water or building capacity for countries to better manage their own affairs and participate in an expanding world market.

If we want a United Nations for peace, we need a United Nations for development. It is that "other United Nations" that gets so little mention, and too little support. And yet it is the United Nations that matters most in the decades ahead. As the United Nations Secretary-General remarked last August: "The United Nations can no longer fight the battles of tomorrow with the weapons of yesterday".

Development Is Also Essential To The United Nations

There are powerful ethical and political reasons why the United Nations must keep a balance between its peace-keeping and international security activities, on the one hand, and, on the other, its activities aimed at promoting human betterment and helping people realize their aspirations for decent lives. The moral authority of the United Nations is built in large part on real service to real people. This moral authority is more important to the United Nations than its military authority; in the long run and in the short run, moral authority can get more done. Also, the UN's moral authority legitimizes its use of military authority, when that becomes essential. Politically, unless the United Nations is involved in humanitarian work and

[2] The case for reforming the United Nations is as compelling as the case for strengthening it. Reform and strengthening must go hand-in-hand.

development work, it will come to be perceived as a global security force and an instrument of the North aimed at keeping the South pacified.

Finally, and fundamentally, the United Nations is based on the principle that the world body should reflect the widely shared priorities of nations. And the priority of the majority of countries and the majority of people is development. If that priority is not respected in the activities of the United Nations, the political compact that holds the world organization together will likely crumble. Almost no time passed between the issuance of the UN's <u>Agenda for Peace</u> and the developing world's call for a UN <u>Agenda for Development</u>.

<u>A Vision Renewed</u>

Fifty years ago, with the victory in World War II, the United Nations was launched by leaders with a vision of a broader victory - not only victory over aggression and war but also victory over want and despair. They knew that only victory on both fronts could assure the world of an enduring peace. Now, at the end of the Cold War surely it is time to implement fully this grand vision, and do so with renewed dedication to the goals of the Charter. Let us make the United Nations a strong and effective force for sustainable, people-centered development and build it as a bulwark for protecting the security of people as well as the security of nations.

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Wake Up, OECD: Concerted Development Assistance Isn't Optional

By James Gustave Speth

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NEW YORK — When the OECD Council of Ministers meets in Paris next week, the ministers should look beyond their own problems and consider how the rich can revitalize their commitment to the poor, before crises multiply around the world.

The poorer countries do not need more "foreign aid" of the Cold War variety, but they do need development assistance, and more of it. OECD development assistance has now declined for two years in a row.

Two widely believed myths need to be dispelled if this trend is to be reversed.

The first is that the developing world is doing rather well, on the whole. The second is that to the extent that some countries are not in good shape, and some are obviously not, it is basically their own fault. These countries should get their policies straight — including opening up to an expanding world market — and enjoy the ride, the argument goes.

As to the first myth, it is true that there have been remarkable successes in human development. Average life expectancy in the developing world has increased by more than a third in the last 30 years. Primary school enrollment has increased to over 80 percent.

And the economic performance of some countries has been impressive. The eight high-performing East Asian economies registered average annual per capita income growth of about 5.5 percent from 1965 to 1990.

But the world is still a big place — diverse, complicated and unfair. Desperation is still the lot of the majority of people.

Some 1.5 billion people live in extreme poverty. The conditions of life for twice that number are deplorable. Tomorrow, as on any given day, about 67,000 babies will be born into families earning less than $7 a week. That is almost 25 million people born into a prison of poverty each year.

Worst off are the 47 countries we call least developed. With 10 percent of the world's people, they have 0.1 percent of the world's income. For more than two decades their per capita income, on average, has declined, not grown. Today it stands at about $350. Their share of world trade declined from 0.6 percent in 1980 to 0.2 percent in 1992.

Meanwhile the world economy is expanding rapidly, and the share of the rich OECD countries in it has increased from 68 percent in 1960 to 72 percent in 1990. A vast increase in inequality has occurred. In the last three decades the gap between the richest and poorest 20 percent of the world's people has doubled, from 30-fold to 60-fold.

As we approach the turn of the century, the economic, environmental and political crises that many developing countries confront have taken on an urgency and a magnitude unparalleled in history. The list of countries in or near crisis is growing, spreading like a metastasized cancer.

No one would attribute today's problems solely to underdevelopment, but it is surely part of the disease. And development — sustainable, people-centered development — must always be part of the cure. Better to land development today than troops tomorrow.

But isn't trade, not aid, the answer? Can't private investment replace development assistance? Won't sufficient privatization and macroeconomic adjustment do the trick? Of course, each is important, indeed essential. But, while necessary, these measures by themselves are no panacea for the developing world.

Consider that 75 percent of direct foreign investment in the developing world goes to fewer than a dozen countries. Just 6 percent goes to Africa, and 2 percent to the least developed countries. There is no correlation between need and direct foreign investment.

The recent GATT agreements are expected to benefit much of the developing world to only a limited degree, and Africa not at all. (Preliminary projections indicate that the new trade agreements will not reduce African poverty.) Meanwhile, the debt burden facing the developing world continues to mount, now reaching $1.9 trillion. Sub-Saharan African debt payments are larger than that region's expenditures on health and education.

These and other challenges will not be met without continued international cooperation for development and without new and additional resources for development assistance — a fact recognized by essentially all governments at both the earth summit in 1992 and the social summit this year.

In many ways the past is a poor model. A new framework for development cooperation is needed in order to broaden cooperation — to look beyond financial aid and to include trade, debt management, private investment and capital flows, access to technology, reduced military expenditures. These elements must all be made supportive of a more equitable and sustainable world, not inimical to it.

Regarding military spending, it is worth noting that world military expenditures equal the income of half the world's people — both at about $800 billion.

The new framework must help redefine the relationship between industrial and developing countries. Common interests and mutual needs provide the basic rationale for a new partnership.

Whatever today's threats to national security, far more pervasive are threats to human security — the security of people in their daily lives — in countries poor and rich. Many of these threats stem from world poverty, global inequity, joblessness, environmental deterioration and social disintegration.

Economic, environmental and political problems do not need passports to travel around the globe. International compacts and partnerships should therefore be forged to realize common goals, whether focused on controlling the continuing devastation of the world's forests or eliminating the worst aspects of world poverty. Such compacts should be based on the realization that it is far better — more effective, more humane, cheaper — to act preventively to attack root causes than to cope with the tragic consequences of neglect.

Most fundamentally, a new development cooperation framework must consolidate the emerging concept of sustainable people-centered development. Development thinking has evolved from a one-dimensional concept with a near exclusive focus on aggregate economic performance to a richer, multidimensional concept with people at its center.

People have not been the predominant objectives of development policy in the past, or even of development assistance, and that is one reason the world today is in so much trouble.

Official development assistance is essential to launch, nourish and sustain this new framework for development cooperation. It is an essential part of the cost-sharing needed for global compacts addressing priority global objectives. It is an essential financial resource in capital-starved countries. And it is required to build the capacities needed to carry out adjustment programs and mitigate their often harsh effects.

It is essential as well to build the capacities of poorer countries to take advantage of international investment and trade opportunities. And it is essential to prevent crises and to cope with and then recover from them.

Make no mistake. The policies that the OECD countries adopt now with regard to official development assistance, the developing world and the United Nations are defining decisions.

None of the admirable goals that the international community has pursued around the world — not peace, not human rights and democratization, not environmental protection, not population stabilization, not an end to hunger and extreme deprivation — can be accomplished except in the context of equitable, sustainable development.

And that kind of development does not have a snowball's chance in hell of succeeding unless we forge a new framework for development cooperation, and back it up with real commitment and financial resources.

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