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in this direction. The interruption of the business recovery in the USA which the strike had caused is likely to go on having a restricting effect on the demand for raw materials for some time yet, and not until the recession in the USA is seen to be truly past and the recovery has gone some way, is there any likelihood that the downward pressure on raw material prices that has been emanating from Western Europe will be equalised and the fall in prices halted. A strong recovery in the USA and a stop in time of the unfavourable developments in Western Europe would create the conditions in which raw material prices may yet recover before the end of 1971, especially as in such circumstances manufacturers may be more inclined to increase their stocks.

Raw materials should be in ample supply in 1971 barring exceptional interruptions in output and deliveries. But producers are likely to do their best to prevent prices from falling. It is difficult to forecast what the American stock-piling policy will be in the new year. On the one hand, the American authorities will want to lighten their financial burden by disposing of surplus raw

materials; on the other hand, their policy will have to continue taking into account the interests of the raw material producing developing countries.

If the above assumptions turn out to be correct, it is likely that 1971 will end up with raw material prices that are on average about 3 p.c. up on the year. This forecast already allows for the probability of further price rises for crude oil and its derivatives. Average prices for 1971 should however be between 3 and 3.5 p.c. lower than those of 1970.

As for the food markets, the latest revised crop estimates point to possibly still higher prices for sugar, coffee and grain. These may more than compensate for the slight price reductions that are expected for some other foodstuffs, and in the end the over-all price-level may well be 1 to 2 p.c. higher than it is at present. Should this be so, the average price level for 1971 may well be about 5 p.c. up on the 1970 average, for by the end of 1970 prices had already risen to such an extent that if the year-end level is merely maintained, 1971 is starting with prices that are already 3.5 p.c. above the average for 1970.

Peterson's Recommendations Inadequate

by Dr M. A. Hussein Mullick, Bonn

Press and other media of communication are not always the best judge. This is at least true in case of the Peterson Report, which unlike the world-publicised Pearson Report did not receive the attention it rightly deserved. The Report is a good document and on many accounts, perhaps, better in quality and forcefulness than the Pearson Report. The Commission appointed by the US-President was led by Rudolf A. Peterson, former President of the Bank of America, and included 15 other prominent figures, among them David Rockefeller, Edward S. Mason and Gottfried Haberler. It was given the task to examine the efficiency of US development policy and to give practical recommendations for the future.

Cumbersome Administration

In the views of the Commission, the present "...administration of US foreign assistance is excessively cumbersome... the equivalent of 700

full-time officials now is required to see that the regulations are followed." The Report further reveals that general aid figures are often misleading since in 1968/69 alone, as much as 52 p.c. of all American official foreign aid was given as "security assistance", including items such as military equipment and supplies and military or purely political assistance grants. International development received only 42 p.c., including sales of agricultural commodities which are still classified, questionably, as "development". The too expensive feature of the present aid programmes handled by the Agency for International Development (AID) which has its missions in almost all the beneficiary countries is also another point invoking criticism of the Commission.

In order both to improve the efficiency and at the same time the quality of the US aid programme, the Commission suggests a number of changes in the existing aid-organisational structure. US

international development programmes should be independent of US military and economic programmes that provide assistance for security purposes. Both types of programmes are essential, but serve completely different purposes. All types of security assistance should be covered in one legislative act. The State Department should exercise firm policy guidance over these programmes.

Reorganisation of AID

Instead of the present Agency for International Development, four new institutions should be set up to take over the development assistance programme. These institutions should look after the various activities allotted to them: capital lending, technical assistance, private foreign investment or over-all control. These institutions are:

☐ The International Development Bank: It should be made responsible for carrying through capital and related technical assistance programmes in selected countries—particularly in agriculture and education. The Bank should emphasise loans in support of the local private sector and promote broad popular participation in development. It is to be founded with an initial capital of \$2 bn and should be authorised to borrow another \$2 bn from the public as and when needed. "As in the case of the Export-Import Bank, resources authorised should be available for the life of the Development Bank. . . . The Bank should be in a position to go back to the Congress for additional resources when needed."

☐ The International Development Institute: It should concentrate on research, training, population problems, and social and civil development. Organisations, such as co-operatives, labour groups, trade associations, and civil associations would be entitled to get the Institute's assistance. The most important feature recommended for the Institute is the operation of its programmes "more than a private foundation's" would. The following of this approach, it seems, has been taken from the highly inexpensive and at the same time successful working of private foundations, such as the Rockefeller and Ford, both of which played a key role in igniting the "green revolution" in India, Pakistan and the Philippines. Like the private foundations, the Institute is recommended to rely heavily on scientific assignments, rather than on permanent employees. The Report recommends authorisation of \$1 bn for the Institute. In 1969, US technical assistance programmes, including contributions to international technical assistance programmes, amounted to about \$400 mn.

☐ The Overseas Private Investment Corporation (OPIC): It should mobilise and facilitate the

participation of US private capital and business skills in international development.

☐ The International Development Council: This organisation would have the aim to coordinate US development activities and to relate them "to US foreign policy". The Secretaries of State, Treasury, and Agriculture, the President's Special Trade Representative, and heads of various development associated agencies and banks should be represented in this Council. It should prepare an annual report on international development activities to the President.

Further Suggestions

The Report also recommends a reversal of the present downward trend in US development assistance appropriations "...to help build an equitable political and economic order in which the world's people, their governments, and other institutions can effectively share resources and knowledge", in order "... to make development a truly international effort" and the need to grant "temporary tariff preferences to developing countries on a non-discriminating basis, with no quantitative limits and minimum of exceptions", to double the present rate of lending, from \$2.5 bn to 5 bn a year. The last suggestion is made to strengthen the multilateral character of international aid, as already strongly recommended by the Pearson Commission.

Some of the suggestions in the Peterson Report must be welcomed. But there are also a number of weak points in the Report. For one thing, the Peterson Report is silent about the future rate of US contribution to aid efforts. On the demand that industrial nations should increase development aid up to 1 p.c. of their national income, which was recommended first by UNCTAD in 1964 and recently endorsed by the Pearson Commission (on GNP basis, however) the Report comments: "We do not believe that it is possible to forecast with any accuracy what volume of external resources will be needed 5 to 10 years hence." This is correct. But then again development policy experts all agree that today's aid efforts are not sufficient and must be increased. The members of the Peterson Committee, therefore, would not have made a mistake if they had recommended to the US Government the acceptance of the 1 p.c. target.

The Peterson Report is also to be criticised because of its insistence to align aid programmes with US foreign policy. Aid programmes are obviously difficult to separate from foreign policy in any donor country—but efforts must be made if the qualitative and efficient use of aid funds

is to be improved. The financing of the Aswan Dam and other projects have shown that intermingling of foreign policy with aid often leads to a sharp criticism from amongst the beneficiary countries. Well-known personalities in the USA allege that foreign aid very often hurts pride and normal functioning of the governments in the poor countries and that therefore aid programmes should not be mingled with foreign aid. Among others, Ambassador M. Korry remarked in his report to the US Secretary of State: "Economic development efforts should be divorced completely from the State Department and vested in one or more semi-autonomous agencies that would supervise economic development loans and technical assistance grants"¹. George C. Lodge recently gave an explanation for this demand: "While our assistance may have caused a marginal improvement in the standard of life for some, it has also, equally importantly, provided a source of patronage and political strength for the status quo"². And Willard L. Thorp, former Chairman of the Development Assistance Committee (DAC) in Paris, expressed that "... assistance should be primarily devoted at development and not at short-run political or economic objectives"³.

While the Report recognised the alarming situation arising from the developing countries' rapidly growing debt-mountain—already close to \$ 50 bn — and their consequential debt service (about \$ 5 bn in one year), it did not offer any suitable "way-out" for the heavily indebted nations. Many developing countries, such as India, Pakistan, Tunisia and many more in Latin America have already reached the dangerous creditability limit and unless new ways are found to remedy the situation, these countries will be simply precluded from making any fresh commitment. Mere debt rescheduling is not going to help them at all!

Exploitative Role of Private Capital

The Report does not deal with the exploitative role of the US private capital in the Third World. It is no secret that many large US companies engaged in extracting or processing raw materials earn fabulous sums of money which they regularly remit to their headquarters in the home country. The return on private investment is often 3 to 4 times the return obtained within the United States. According to one source the United States firms were able to retransfer as much as \$ 11.3 bn as against an investment flow of \$ 3.8 bn during

1950/1965 in Latin America⁴. The Report also ignores the crucial issue of "reverse-flows" of funds, which are so high that they almost offset the total flows from the industrial into the developing countries. According to Jalée, the reverse flow of resources in 1968 was a few billion more than the total aid flow. The transfer of profit alone from the Third World into industrial countries stood at about \$ 6 bn (in 1965 \$ 5 bn: a United Nations estimate), i. e. more than the total flow of private investment of \$ 4,246 mn (this also included reinvested earnings)⁵.

No Large-scale Reform

The members of the Commission know very well that even the somewhat higher injections of aid recommended in the Report are not going to be enough to reduce the overall poverty or even to narrow the ever widening gap in per capita income between the rich and the poor countries. But they do not dare to propose any large-scale aid reform. The utmost they do is to emphasise, time and again, the need for aid in words such as: "The United States has a profound national interest in co-operating with developing countries in their efforts to improve conditions of life in their societies", or "as the world's largest industrial power, the United States should participate fully with all other industrial countries in such efforts." The reluctance to recommend a large-scale aid reform is probably a result of the growing domestic claims for development at home and the little prospects of reducing outlays in war efforts in Vietnam. In a Louis Harris poll taken for LIFE last year, 69 p.c. nominated foreign aid as the prime candidate for federal spending cuts.

True, the Peterson Report contains some useful recommendations. Measured in terms of West European absence of initiative on the aid front, this and other United States' reports, in fact, deserve appreciation. But will it be enough to cope with the magnitude of the task? Even when new institutions are set up and they work much more efficiently to aid the developing countries, there is not much hope of a real break-through on the aid front. Problems such as the growing gap in per capita income between the rich and poor countries, emerging large-scale unemployment, rising debt-obligations and growing disappointment with income-inequality oriented development policies—all are too big a task to be tackled by a "mini-package" of reforms such as suggested by the Peterson Report.

¹ The New York Times, March 8, 1970 (Report to Rogers Terms/Aid Policy Self-Defeating).

² Foreign Affairs, July 1969, p. 138.

³ Foreign Affairs, April 1970, p. 563 (Foreign Aid: A Report on the Reports).

⁴ Magdoff, Harry, Das Zeitalter des Imperialismus, Verlag Neue Politik, Frankfurt/Main, 1970, p. 172.

⁵ Dyke, Stuart H. van, Who is Aiding Whom?, in Columbia Journal of World Business, Vol. V, No. 2, March-April 1970.