

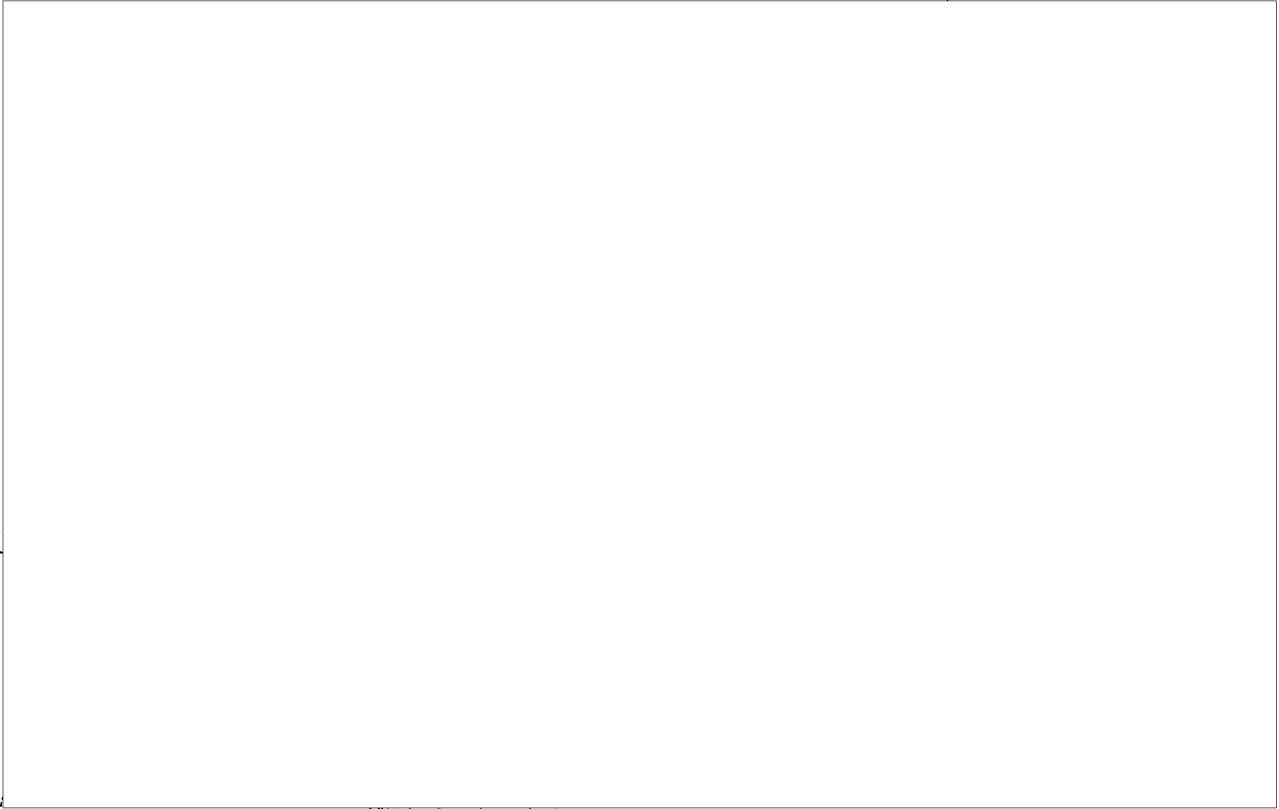
SENDER WILL CHECK CLASSIFICATION TOP AND BOTTOM			
UNCLASSIFIED	CONFIDENTIAL	SECRET	
OFFICIAL ROUTING SLIP			
TO	NAME AND ADDRESS	DATE	INITIALS
1	Mr. Halpern		✓
2			
3			
4			
5			
6			
	ACTION	DIRECT REPLY	PREPARE REPLY
	APPROVAL	DISPATCH	RECOMMENDATION
	COMMENT	FILE	RETURN
	CONCURRENCE	INFORMATION	SIGNATURE
Remarks:			
<p style="margin-left: 40px;">Sam:</p> <p style="margin-left: 40px;">Attached are the following:</p> <ul style="list-style-type: none"> 1-background paper on TIC #7 2-comments on facts and statistics 3-comments on AID by Mr. Schlesinger 1963 (which Mr. Colby might find of interest) <p style="text-align: right; font-size: 1.2em; margin-top: 20px;">00595</p>			
FOLD HERE TO RETURN TO SENDER			
FROM: NAME, ADDRESS AND PHONE NO.			DATE
			25/4/73
UNCLASSIFIED	✓ CONFIDENTIAL	SECRET	

FORM NO. 1-67 **237** Use previous editions

(40)

(b)(3)

□



(b)(1)
(b)(3)

~~SECRET~~

(b)(1)
(b)(3)

~~SECRET~~

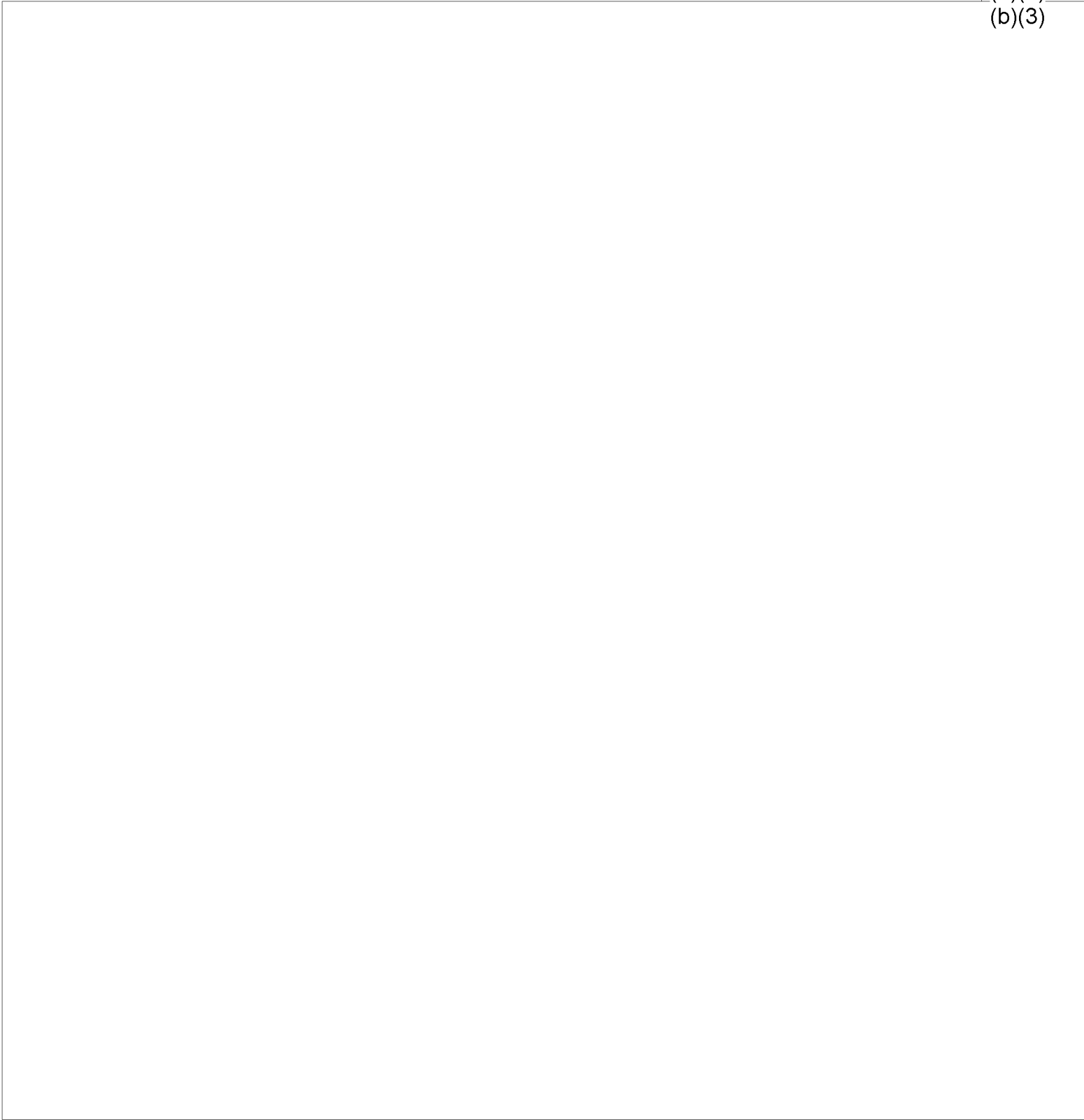
(b)(1)
(b)(3)



~~SECRET~~

00598

(b)(1)
(b)(3)



00599

~~SECRET~~

(b)(1)
(b)(3)

~~SECRET~~



(b)(1)
(b)(3)

00601

~~SECRET~~



(b)(1)
(b)(3)

00602

~~SECRET~~

(b)(1)
(b)(3)



00603

NATIONAL SECURITY
Political, Military, and Economic
Strategies in the Decade Ahead

Edited by

David M. Abshire *and* Richard V. Allen

Introduction by

Admiral Arleigh Burke, *Director*

THE CENTER FOR STRATEGIC STUDIES
GEORGETOWN UNIVERSITY

Published for the
HOOVER INSTITUTION ON WAR, REVOLUTION
AND PEACE

by
FREDERICK A. PRAEGER, *Publisher*
New York • London

1963

00604

Strategic Leverage from Aid and Trade

—JAMES R. SCHLESINGER

Summary

The analysis of this paper rests on the assumption that American policy-makers should not be so concerned with the pursuit of hard-to-obtain ideological objectives that they exhaust the power potential implicit in trade and aid relationships. Rather the trade and aid programs should be managed so as to preserve an environment in which pressures can be brought to bear to serve the national interest at a later, and perhaps more critical, date. This emphasis on power considerations implies both (a) that the assistance program cannot be based primarily on humanitarian or idealistic goals, and (b) that economic ties with other nations should not be severed simply because of our disapproval of other social systems, including those based on communism. Though typically public opinion vastly overstates the strategic leverage that can be gained through economic weapons, this leverage is still not negligible. One can argue that in the past the United States has failed to take advantage of the power potential implicit in aid and trade through its failure to develop concepts and mechanisms of deterrence in ways akin to what has been done in the military field. Much of the difficulty may be ascribed to a failure to develop sanctions, which discourage actions unfavorable to our interests, as well as incentives, which encourage cooperation. No system of deterrence can exclusively stress the carrot and ignore the stick.

More is being demanded of the aid program than it can reasonably achieve. Assuming that the primary emphasis of the aid program is to encourage social and economic development rather than to elicit direct support for American foreign policy

687

00605

688

JAMES R. SCHLESINGER

objectives, it is argued that we should attempt to develop stable social and political conditions by strengthening the "legitimacy" of the developing social order in the eyes of the respective publics—rather than attempting to export the trappings of American democracy.

Technological change, the easy availability of substitutes, and the lengthy period for adjustment in a prolonged struggle have all reduced the impact of the "supply effect" which was at one time the main weapon of economic warfare. If the economic weapons of strategy are to be at all effective under today's conditions, the "influence effect" must rise correspondingly in importance. This implies that we should be in a position to threaten to do damage to other economies through the curtailment of access to Western markets. In order to keep this threat an ever-present one, we must, however, continue to trade in volume with other countries, including Communist ones. Particularly in dealing with the underdeveloped nations the potential effectiveness of such threats may prove to be considerable.

00606

696

JAMES R. SCHLESINGER

One final consideration—it would be unwise to use potential weapons of this sort for niggling purposes. The balance of payments has been troublesome and is properly an object of concern in Washington, but surely it is not a first-order consideration in our relations with the underdeveloped nations. Suggestions have been bruited about that we should make use of the aid program to force recipients to buy from us in ways that go beyond tied aid. Under the best of circumstances, our bargaining power is limited, and shooting away strategic ammunition for so paltry an economic goal would seem to reflect a poor sense of proportion.

Aid

Within an over-all framework designed to discourage hostile or predatory attitudes toward the West, the aid program may seek to foster the maximum rate of economic and social progress. In the basic policy of AID, the Kennedy Administration has explicitly adopted this goal. As has been indicated there are costs to this decision. Outsiders are not likely to be much liked even under the best of circumstances, which hardly apply to the underdeveloped countries, and their intervention in whatever direction will in the long run excite antagonism based on real or fancied wrongs. Nevertheless, the basic decision has been made. Let us examine in what way we may proceed so that the good effects clearly outweigh the ill effects.

There are two initial postulates: (1) our bargaining power will be limited, and (2) American notions of social reform and of equity are neither necessarily applicable in the underdeveloped lands, nor need we assume that those whose cooperation we must win will find them appealing. These postulates are inter-related. Jointly they imply that we cannot press forward on all fronts to create a society in which a good American democrat will feel at home, but must instead concentrate our energies on those social changes which will spur economic growth even if the immediate results are more consistent with the cultural genius of the peoples involved rather than our own tastes. We ought not expect them to make the same choices as we would, or, if they make the same choices, to achieve in a ten-year period what it took us eighty years to achieve. Finally, in reaching judgments on social processes in other lands, we cannot apply what are our own—or, in reality, higher—standards of purity.

As outsiders, we will be unable to perceive the social function of behavior which is superficially corrupt, and will tend to lump

00607

STRA 3 LEVERAGE FROM AID AND TRADE 697

it together with that which is purely parasitical. With respect to our own history, retrospectively we have come to find merit in what once were regarded as the disreputable procedures of an organization like Tammany Hall in that it provided a kind of social security and a welcome for the newly arrived immigrant. We are accustomed to the daily dangling of new post offices, good committee assignments, and bridges over creeks in the outback before wavering Congressmen, and warm approval is given, for its fine sense of political realism, to whatever administration is doing the dangling by those who agree with its goals. Toward similar procedures abroad we are inclined to take a simple muckraking attitude. We look askance at the higgling of the political market—with a naïveté that would do credit both to missionaries and old-style political reformers. If we hope to achieve a fair measure of success, we shall have to sharpen our critical faculties and learn to distinguish between unappetizing social devices which are functional and those which are simple barriers to progress.

The statement of objectives by AID is a very ambitious one. The purposes of the assistance program include stimulation of self-help, encouragement of progressive forces, and achievement of governments based on consent, which recognize the dignity and worth of individuals who are expected to participate in determining the nation's goals. No doubt, a statement of aspirations is in large part window dressing, but the criteria by which self-help is moving toward social and political progress are more specific: a more equitable distribution of income, a more equitable tax system with increased yields, expanded welfare programs, increased political participation and civil liberties, and so on. Several points may be made regarding the objectives: first, there are too many; second, they are to some extent inconsistent; and third, they ignore the real resources available.

There is, in the first place, the long-perceived clash between economic progress, on the one hand, and the combined goals of equitable distribution of income, immediate improvement in living standards, and security on the other. This underlying conflict spills over into a tension between rapid economic progress and the introduction of democratic processes. On this issue there appears to have been a revolution in informed opinion in the United States during the past five years. During the late fifties, it had become almost an axiom that authoritarian, if not totalitarian, governments had innate advantages in guiding economies toward rapid growth. The prevailing view was

00608

based, no doubt, on an assessment of the record of the Soviet regime, and an exaggerated notion of how much the Chinese "Great Leap Forward" would accomplish. Perhaps the earlier "pessimism" regarding the relative performance potential of "free" and "controlled" economies was overdone, but have we not gone too far in the now prevailing "optimism" that any clash between economic progress and the democratic institutions which insure the dominance of the *vox populi* is minimal?

The average citizen—particularly when he is ill-housed, ill-clothed, ill-fed, and ill-educated—seems most likely to be interested in the here and now. A government which is responsive to the desires of the public will continually be tempted to mortgage the future for the present. The "abstinence" or "waiting" which classical and neoclassical economics state to be necessary ingredients in economic progress will be hard to require, as will be the incentive schemes (and the accompanying conspicuous consumption) which are likely to strike the average voter as inequitable. We may recall that the Perón regime was (and still may be?) the most popular regime in recent Latin American history. Or we may observe the economic consequences of Brazilian democracy, and have our doubts. The inflow of American resources may be able to make showpieces out of several small, recently-democratized nations like the Dominican Republic, but we ought not assume either that democracy assists in economic development, or that the Dominican example is widely applicable. This is not to say that some judicious prodding in the direction of democracy may not be a wise policy, but it must be *judicious*, and cannot be based on the assumption that democracy necessarily fosters the political stability essential to growth.

One of the criteria by which self-help can be judged as justifying additional aid is an improvement in the savings ratio. Some students of the aid program would put major emphasis on changes in the savings ratio in that it provides a relatively objective standard by which an improvement in economic performance can be judged.* If we apply an objective standard, complaints about the distribution of aid and subjectivity in the

* Charles Wolf, Jr. of RAND has been attempting to develop an economic model which will provide an objective measure of the performance of aid recipients in terms of self-help. The criterion is the savings ratio. In the model the attempt is made to eliminate the influence of other variables, such as per capita income, income distribution, and degree of urbanization, which account for a good deal of the observed variation in the savings ratio as between nations and between different periods of time.

00609