

mental objective of the AFL-CIO. It is the foundation on which our policies and our objectives are built.

For example, we are pressing hard to bring about a more vigorous drive against unemployment. We are advocating a whole series of measures, including a shorter work-week. Obviously, jobs are a primary issue to the labor movement, because our members are directly affected. Yet even while we are carrying on this campaign, we are also conscious of the broader implications.

Full employment is not only important to assure every American of a decent standard of living, a decent way of life. Full employment must be attained in order to bring the nation to full strength; to make use of all the country's resources in the struggle against the forces of tyranny.

The same attitude prevails on other questions. Full and equal educational opportunities have special meaning to the children of wage-earners, because insurmountable financial barriers now prevent many of them from fully developing

their talents. But the development of these talents is also necessary to the nation's future.

Equal opportunities and equal rights for Negroes go beyond morality. For while this equality is denied, America is losing a tremendous potential source of strength.

To sum up, let us hope that the test-ban treaty is a success; that it is observed by the signatories, including the Soviet Union; and that a world of peace in freedom can be achieved in our time.

But even as we cherish these hopes, let us realize that any progress along these lines depends upon the strength of the United States—military, economic and moral strength. The nature of the Soviet Union has not changed. The aims of the communist world remain the same. But freedom can and will prevail as long as free Americans continue their unending quest for a stronger and better society. On Labor Day, 1963, the trade union movement of the United States resolves to continue that quest.

Economic Development

LESSONS OF A COMMON EXPERIENCE

By W. W. ROSTOW, *Counselor and Chairman of The Policy Planning Council, Department of State*

Delivered at the Annual Meeting of The American Chamber of Commerce, Mexico City, August 19, 1963

THE PROBLEM of economic development is sometimes discussed in the modern world as a question of the relationship between rich and poor nations. It is true that there is an enormous gap between average levels of income among the nations which share life on this small planet—a gap ranging from \$50 per head per year to almost \$3,000 measured in terms of gross national product. It is also true that the richer nations have a duty of enlightened self-interest, combined with basic impulses of religion, ethics, and humanity, to help the less-advanced peoples. But there are three things wrong with posing the question of economic development as a matter of the rich and the poor.

First, the most critical difference among nations is not whether they are rich or poor but whether they are regularly growing or stagnant. The critical phase in the life of a nation which wishes to modernize its society, is the stage in which it so adjusts its system of education, its social organization, political life, and commonly accepted aspirations as to develop the capacity to produce each year at a substantially higher rate than its increase in population. Regular growth is the first and critical operational objective. Historically, once regular growth begins, it has taken about three generations for a nation to absorb and diffuse to the bulk of its people what modern science and technology could provide. Compound interest—that is, a steady geometric increase in output per head—is a mighty force. Compared with the centuries of fluctuating but essentially stagnant levels of life in traditional societies, sixty years is not long; and, in any case, the relatively rich in the world are not so rich and so numerous as to be able to elevate significantly the level of life of the poor simply by income redistribution. The task of development for us all—whatever our citizenship—is to help aspiring nations to learn how to grow and then to make growth as regular a phenomenon as possible.

The second thing wrong with posing the question as a matter of the rich and the poor is that within most of the major nations, whatever their average level of income, there are rich and poor areas. One of the reasons that we in the United States of this generation have a reasonably good

understanding of the economic development process is that we have seen an important part of the American South move into what I would call the take-off during the last thirty years. It was not so long ago, you will recall, that Franklin Roosevelt referred to this problem (one-third of the nation, as he called it) as the greatest single problem in the domestic life of the United States. What is true of the United States is true of most of what we regard as the more advanced nations. Italy and France, for example, still have special problems of underdevelopment in their southern regions. And in Latin America, as I shall have occasion to suggest later, many of the most critical problems of development cannot be perceived by looking at the over-all statistics of growth but are, in their essence, regional; for example, the problem of the northeast in Brazil. In short, the critical problems of difference in level of income and of growth rate may not lie as between different nations but within developing nations themselves.

My third objection to the rich-poor nation formula is that there are rich citizens and poor citizens in all our societies, including societies with low average levels of income; and one of the critical problems for all of those who enjoy the benefits of high levels of income is to play a part appropriate to their advantages in the common development of their societies. This is a problem of equity and social responsibility in all nations—rich and poor alike. One of the most interesting and promising aspects of our Peace Corps, for example, is that it is inducing the organization of counterpart units in some of the developing nations, within which the educated and technically trained youth can go out to work in the villages to help lift the standard of life of their less advantaged fellow citizens. Similarly, those American firms abroad, which carry out the same kinds of welfare programs as they do at home, are not merely strengthening their ties to the society of which they are a part, they are also teaching one of the major lessons of our own private enterprise system: that, in the long run, good profits and good citizenship go together.

II

What this comes to, then, is that we are all, whatever our nation's stage of growth and average level of per capita income, caught up in the development business.

The purpose of my talk to you here, in a country with a remarkable history of development, is to set down a few general lessons that I believe can be drawn from the record of the common experience, both during the postwar years and from the longer past.

Some limited generalization is possible—and some lessons can be drawn—because the development of nations is a little like the development of human beings. Each human being, in growing up, faces a fairly uniform sequence of problems. It is possible to specify in broad terms the kinds of problems which, inevitably, must be confronted by an infant of nine months; a child of five; an adolescent of fourteen; a young man of twenty-one. The study of economic development, to the extent that it can be a science, consists primarily in identifying the sequence of problems to be overcome and the kinds of efforts to solve them which have succeeded or failed at different times in different nations.

But there the science of economic development—like the science of human development—must stop short. For each nation—like each individual—is and must be unique. As I say, there is a common sequence of problems which had to be faced, at similar stages, by, for example, Great Britain and Japan; by the United States and Mexico; by Russia and Egypt and India. But the form in which those problems arose and the solutions which were tried, succeeded, or failed could only be determined by the peoples involved. Differences of history and culture, of resources and available technology, and of political and social aspirations which inevitably affect the contours of economic development have varied and will always vary. There is no single correct prescription for economic development: there are, as in all human enterprises, only problems; some limited guidance from the experience of others; and hard lonely choices to be made.

III

Against the background of these general observations, I should like to consider briefly with you today five lessons of the common experience of economic development which appear to me particularly appropriate as we look about us in the contemporary world and look forward over the next critical decade.

My first proposition—which flows directly from what I have just said—is that aid from outside a country can only be helpful to its development to the extent that the government and people of a nation organize their own resources. Economic growth is primarily a national enterprise. The amount of resources made available from outside can be a critically helpful margin; but it is a margin which will have its effect only to the extent that those receiving aid are effectively committed to the development process as they wish to see it and are effectively mobilizing their human and material resources to do the job.

It is sometimes said that the Alliance for Progress is an enterprise of the United States Government, and not a cooperative venture within the Hemisphere. For the simple and basic reason I have just cited, this cannot be so. The Alliance for Progress is a partnership or it will fail. It can only work if what we organize in the United States by way of aid—and what our friends in Western Europe and Japan contribute—is merged in an orderly way with massive efforts at self-help within the nations of Latin America.

And I might add that I am personally confident about the fate of the Alliance for Progress because I feel that the

forces within Latin America, looking towards economic development and social equity, are gathering strength. The Alliance for Progress is truly an alliance, not because we are contributing money to Latin America, but because the policy of the United States is committed to work with those in Latin America who would develop their economic and social life along lines of their own choice and make of their nations the kind of modern states they wish their children to enjoy in the light of their culture, values, and aspirations.

The Alliance for Progress is, therefore, a partnership in both resources and in political commitment.

IV

My second proposition concerns national planning or, perhaps better, national programming. We believe national programming of the development process is required as a basis both for the domestic mobilization of resources and effective foreign aid. National programs are needed because, as Adam Smith noted long ago—when prescribing for underdeveloped Britain of the eighteenth century—governments must help create the basic framework within which a modern economy can develop. It is the government which must organize and finance the educational system and reshape it to the nation's changing needs. It is the government which must lay out and, in most cases, finance the fundamental social overhead projects—highways, irrigation projects, and the like—on which private agricultural and industrial development depends. It is the government which must solve problems of land tenure and create the framework within which agricultural productivity can be improved by the individual peasant. It is the government which must assure that the savings of the community are effectively mobilized by equitable taxation, so that social overhead projects can be financed without inflation and on terms the people will regard as fair. It is the government which must devise policies which insure that the foreign accounts are kept in balance and that the development effort is not frustrated by a foreign exchange crisis.

These minimal functions were performed by governments even in nations most deeply committed to private enterprise, blessed with ample land and an old tradition of private entrepreneurship—like Canada and the United States.

It may seem strange that we in the United States, who are so deeply attached to the virtues of private enterprise, should be the advocates of national programming in the underdeveloped areas. There is, in fact, no incompatibility between a belief that national programming is essential in the early stages of development and a belief in the wisdom of relying on private enterprise to conduct a wide and expanding range of economic activities. How wide that range is each country will, of course, decide for itself in the light of its own problems and possibilities. But the framework within which a modern private enterprise system can develop must, in large part, be created initially by the effort and initiative of governments. It is this perception which has drained away much of the fervor from the argument about government versus private enterprise in the development process—an argument which, even a few years ago, seemed to be central to the whole business. As nations have acquired practical experience in economic development—as they have assumed responsibility for the real tasks of growth—it is becoming increasingly clear that each of the two sectors has a job to do and that the jobs are supplementary and mutually reinforcing.

V

Third, I should like to say something quite directly about our view of the role of private enterprise in the development process. What I am about to say not only conforms to the

policy of my government, but fits what I have been able to learn, as an historian and social scientist, about the development business.

It is clear that, especially in the very early stages of development, different nations, out of their history, differ in their capacity to mount effective private enterprise systems. We in the United States, for example, had a lively private enterprise system in commerce and small scale manufactures long before our first major surge of industrialization. The transition into a competitive private enterprise industrial system was relatively easy for us, although some of our first ventures failed. But some other nations—for example, Japan—began their industrialization with no one about to assume initial responsibility for industrial development but civil servants and military men. The first industrial plants were managed by the government; and the first generation of private businessmen emerging in the 1880's was drawn largely from the old warrior class—the samurai.

And so it has been with many other nations in first stages of development.

But when self-sustained and regular growth was attained—and even in the process of attaining that stage—the natural course of events appeared to be for the private sector to expand rapidly. The development of private enterprise over the past decade in India and Pakistan is, for example, illuminating. The most immediate reason for this evolution is that efficiency in producing many diverse products is hard for a government bureaucracy to attain; and besides there are not all that many competent bureaucratic managers.

The lesson of history is that the interests of an advancing society are best served when the bulk of industry and agriculture is managed by individuals or firms forced by competition to maximum efficiency, their accounts reflecting true costs, and their output responsive to the changing tastes of the people. We have learned, both in the less-developed and more-developed nations, when such competitive private sectors have emerged, that their emergence in no way need divert resources away from the objectives laid down in a national plan. In India, for example, the vitality of the private enterprise sector and the direction of its development are essential ingredients in current national planning.

In the United States, Western Europe, and Japan we have found that there are ample indirect means for insuring that a massive private enterprise sector can keep within the bounds of the common interest and, in fact, be an essential reinforcement to it.

It is interesting to observe within the Soviet Union and the countries of Eastern Europe how the difficulties compound in attempting to manage by central state ownership and control an increasingly complex industrial system. The disciplines of competition, of honest prices and interest rates, and of the consumer's right of choice are beginning to be recognized as missing; and the gap is being discussed in the technical literature; this quite aside from the gross inefficiency of collectivized agriculture.

Let me emphasize that it is not the policy of the United States to attempt to tell other nations what the appropriate relative role of private and public enterprise should be. This is, evidently, one of the most sensitive matters for national decision. But we are convinced, from the evidence of both history and the contemporary world, that the natural, if not inevitable, evolution of developing societies is to permit a large part of the process to go forward by competitive private means; and we are certain, from our own experience and that of others, that the existence of a substantial private enterprise sector is consistent with and can greatly reinforce the large objectives of a national development program.

Put another way, we are convinced that the old debate, which focused on government versus private enterprise, is an old-fashioned, out-of-date way to put the problem in the contemporary world. In both developing societies and in more advanced societies the most natural and fruitful relationship between public and private enterprise is one of partnership towards larger national purposes.

VI

A fourth lesson I would draw, with particular reference to the decade ahead, concerns the role of agricultural and rural development in the growth process. In the course of our review for the presentation of the Foreign Aid bill to the Congress this year we discovered, somewhat to our surprise, this interesting fact: that something like 70 percent of the population of the developing areas is already living in societies which have either demonstrated quite definitely a capacity to grow regularly or, with some political stability and luck, they ought to be emerging into that category in the years ahead. While many nations are further back down the line in terms of stages of growth—notably the new African nation—the fact is that growth itself, in the form of a demonstrated capacity to produce a rate of increase in total output substantially greater than the rate of increase of population, is becoming the normal condition of a good part of the developing world.

In Latin America, for example, the statistics show that the over-all rate of growth in GNP for 1961 was over 5 percent. This is within shooting distance of the Alliance for Progress goal of an annual increase in per capita income of two and one-half percent. Although there were special difficulties in Brazil and Argentina in 1962, the figure for that year is not likely to prove substantially lower, due to acceleration in Mexico and Venezuela.

On the other hand, we all know that there are many enormously difficult problems still to be confronted and solved in Latin America and in other developing nations. The great tasks of the Alliance for Progress still lie ahead. What, then, is wrong? Why is it that the measurement of growth in terms of increases in average national income per capita does not identify what our problems really are.

I would suggest that the central problem that we confront and shall confront increasingly in the developing nations is not merely the problem of developing and sustaining a sufficient over-all rate of investment to produce a regular rise in average income per capita; it is the lack of regional and sectoral balance in the growth process. With a very few exceptions, what we see in the developing nations is that growth has taken hold in certain regions and certain sectors with a marked lag in the development of the rural areas.

The take-off has begun in many parts of the world; but it is concentrated excessively in the cities. Our common task is to diffuse this narrowly channeled momentum out over the face of the developing nations.

It is not accidental that rural development should have been generally slighted in the first phase of growth, even when development began, as it did in Mexico, with an agrarian revolution designed to give the peasant a piece of land he could call his own.

There are two basic reasons for this phenomenon. First, serious modernization of rural life depends on the prior existence of an initial industrial base and an urban administrative apparatus of some competence. Second, typically—but not universally—the modernizing governments are urban coalitions of professional men, soldiers, politicians, civil servants. This has been the case in many parts of the Middle East, Asia, Africa, and Latin America. As urban men, re-

acting against the traditional rural society—or removed from its old orbit—motivated strongly by a desire to see their nations assume a dignified, modern stance on the world scene, their first thoughts have turned to the more glamorous symbols of industrialization, whether they be modern weapons or steel mills.

Moreover, as politicians, it is natural that their minds should turn in the first instance to their constituency which has been primarily urban; and from this loyalty has tended to come subsidized services of various kinds, beyond the capacity of their economies and their national budgets easily to bear, and a certain neglect of rural development. I emphasize again that the story of Mexico has special features due, in part, to the rural origins of its revolutionary thrust towards modernization.

But if one attempts to generalize the situation in most of the developing countries, one can see quite remarkable enclaves of industrial and modern urban activity coincident with stagnation or very slow progress in the countryside.

Rural development is proving, however, not merely a social duty to the less advantaged portions of the population, but a fundamental condition for the maintenance of a high rate of development for the society as a whole, including especially its industrial development.

There are, in fact, three distinct major roles that agriculture must play in the early stages of the development process.

First, obviously, agriculture must supply the food necessary to meet the inevitable rise in population, without yielding either starvation or a depletion of foreign exchange to buy food at the expense of purposes essential to industrial growth. This requirement is heightened by the typically disproportionate rise in urban populations which demand either an increased transfer of food from the countryside or the acquisition of food from abroad. Second, agricultural expansion is required as working capital for non-agricultural development: to generate raw materials for industry or to earn foreign exchange. Finally, a rise in agricultural incomes can provide important direct stimulus to other aspects of development: it can provide expanded markets for chemical fertilizers, agricultural equipment, and manufactured consumer goods, and it can provide a critically important source of increased tax revenues.

The world about us offers a number of illustrations of what happens to societies when these dynamic interactions between industrial and agricultural development are ignored or inadequately respected.

The most remarkable example is, of course, the situation inside Communist China. There a regime committed itself to a program of heavy industrialization, linked explicitly to the modernization of its military establishment. It was prepared to substitute for peasant incentives the massive power of its control system and substitute for an adequate level of agricultural investment—notably investment in chemical fertilizers—only labor intensive investment, carried out substantially by forced labor. The upshot, carried to a rare extreme by a purposeful and unified group of wrong-headed men was this: first, a breakdown in agricultural supplies, such that the whole vast Chinese nation is living at a substandard diet and half of its foreign exchange—about \$500 million—must now be allocated to buy food for the coastal cities; second, a breakdown in its capacity to supply industrial materials from agriculture to its industry and in its capacity to earn foreign exchange from its agricultural sector; third, a reduction in total resources available for the industrialization process itself. Industrial output in Communist China radically declined between 1959 and 1962, by at least 30 percent, and its heavy industry program is now virtually abandoned.

The measures taken to correct this gross distortion in the

Chinese Communist development process have not succeeded in producing anything like a sustained industrial revival, although disintegration has been halted. Many plants are idle or working under capacity; and millions of men and women have been thrust out of the cities to fend, as best they can, back in rural areas where, with private incentives only partially and uncertainly restored, the Chinese peasantry are struggling to keep their heads barely above water.

There has been no failure in the Free World quite as dramatic as that of Communist China, but one can see a pattern of severe structural distortion in a good many countries. In parts of Latin America, for example, industrialization is damped because of a lack of a sufficiently wide popular market. An excessive amount of industry is producing goods for the relatively small urban middle class; consequently industry works with idle capacity, prices and tariffs are excessively high, profits are not ploughed back into industry, and they are sometimes even withdrawn and sent abroad to the society's cost. At the same time, the potentialities of modern technology in agriculture are not being rapidly diffused, and many rural regions have not moved away from the fatalism and low productivity methods of traditional life.

With a melodramatic gap between rural and urban life, the more enterprising flock from the countryside to the bright lights and cinemas of the cities where the rate of industrial growth is not sufficient to absorb them fully in regular employment, while they impose on the public authorities heavy claims for social overhead capital (housing, schools, etc.) which inadequate budgets cannot fully meet—in part, because tax systems are ineffective, in part because income is not rising fast enough.

Further, since the potentialities of modern agriculture are not being applied, some of these countries are unnecessarily sliding into dependence on imported food and they are not exploiting the possibilities of agricultural products as a source of commercial crops for industry or for export.

Finally, the lack of industry working to a mass market limits industrial productivity and prevents the development of manufactured or processed export products which can compete in international markets and relieve the dependence on exports of traditional products with a limited future in world trade.

It is no accident that the classic initial manufactured product of a developing area, capable of marketing abroad, has been cotton textiles, where generally a mass domestic market can be developed and industrial efficiency attained at an early stage.

In the broadest sense, what I am asserting is that the present state of a good part of the underdeveloped world requires that we take seriously two of the oldest propositions in economics. One of these propositions is that agricultural output is, in the widest sense, the basic working capital of a nation in its early stages of growth. The other proposition is that industrialization depends for its momentum on a progressive widening of the market, with the specialization and efficiency that widening permits.

There is an important impulse in Latin America and in other parts of the world to widen the market by bringing nations into closer economic cooperation and reducing or eliminating the tariff barriers between them. This makes good sense; and my Government has encouraged the development of common market arrangements in Europe, Latin America, and elsewhere. It is essential, if industry is to become efficient, that it face the winds of international, as well as domestic, competition. But what I would suggest is that the most critical market to be developed in most modernizing nations is the domestic market.

It struck me some time ago that in certain of the develop-

ing areas it might be helpful to encourage a purposeful effort to manufacture locally and to market in the rural areas on a more effective basis both cheap agricultural equipment and the kinds of consumers goods likely to constitute, at rural levels of income, an incentive to accept and to apply modern methods of agricultural productivity.

This kind of effort could make a contribution to all four of the structural weaknesses to be found in many developing nations which I have described.

It could put the private industrial sector into the production and marketing of goods on a mass market basis, even in poor countries. I have in mind not merely textiles but canvas shoes, flashlights, household equipment, transistor radios, and the classic first phase durable consumers goods—bicycles and sewing machines, as well as pails, hand tools, fertilizers, and other basic agricultural equipment.

Second, these goods, if cheaply and effectively brought into the rural areas, could provide an important incentive to rural families to increase output as well as a part of the means to do so. (The revolutionary public-private partnership in the rural life of the United States was the partnership between the knowledge imparted to the farmer by the Department of Agriculture county agent and the stimulus to effort imparted by the mail order catalogue.)

Third, by bringing something of modern life to the countryside and permitting rural areas to share at least some of the fruits of the more modern sectors of a developing society, we might help damp the excessive flow from the countryside to the urban slums.

And, finally, by developing efficient production on the basis of mass markets of goods of this kind, additional items for export could be generated.

My basic point is, then, that the time is past, if it ever existed, when we can afford to regard industrial and agricultural development as simply competing for scarce capital resources. In many parts of the developing world the initial basis for take-off has been established in industry and in urban areas, but the maintenance of that momentum requires that the diffusion of modern technology, with all that it carries with it, be extended on a national basis and especially to the lagging rural areas which are, at once, a relatively untapped source of food, industrial working capital, foreign exchange earning capacity, industrial markets, and taxes.

VII

My final point about the development process concerns this question: Is it possible, given the tremendous revolutionary changes required for modernization and the effort demanded of a relatively poor country in mobilizing a high rate of investment, to combine human freedom with the development process itself?

In one sense, standing here in Mexico City, I need not argue the case very hard. Mexico has found its way through a set of revolutionary changes affecting every dimension of its society into sustained growth; and it has done so while maintaining and enlarging the basic elements of human freedom to which it was committed out of its history and culture. There are few developing nations which better demonstrate the harmony of economic growth and human freedom. But the question is still being asked in many parts of the world; and I think we are in a better position to answer it than we were even a few years ago.

As we look at the test cases presented by the Communist nations, it is perfectly clear that the attempt to grow food by police-state methods leads not merely to inhumanity but to gross inefficiency. There appears to be no way of developing

an efficient agriculture unless that effort is rooted in the incentives of the peasant and his family. There are simply not enough policemen in the world to follow the peasant around in his long and complex daily round of life to insure that he does the things that he must do to make things grow. In underdeveloped nations the proportion of the population in rural life is often 75 percent or more. And so it becomes a technical essential to leave large areas of human freedom to the farmer if economic development in an underdeveloped area is to proceed successfully or if development in more advanced countries is not to be dragged down—as it is in the Soviet Union and in those countries of Eastern Europe which still maintain collectivized agriculture.

But this is not all. Economic development depends on engaging the energies, the talents, and the personal commitments of millions of human beings. A friend of mine who holds a high post in a developing country of the Middle East, spoke recently of the major lesson he had learned from his period of responsibility: it was that, no matter how powerful a revolutionary government they created, the government could not do the job of development itself. Its major task was to provide the framework and then to stimulate and educate the people themselves to take the necessary initiatives.

It is true that a powerful police system, combined with a disciplined single party, can get many things done—especially things which relate directly to the maintenance and the extension of the system's power; but, as we watch the evolution of the developing nations of the Free World and the course of events in the nations run by Communist governments, and as we look back on the lessons of our own experience, there is increasing reason to believe that systems of society committed to the maintenance of individual freedom—and its essential counterpart, individual responsibility—have proved more efficient as well as more humane than those which seek by forced draft and the power of the state to drive development forward by totalitarian methods.

Only a few years back, it was common to believe that, whatever their demerits, Communist societies had the capacity to sustain much higher rates of growth than societies based on human freedom. This is a proposition which can no longer be scientifically maintained. Leaving aside Communist China which has gone through a radical decline in its economic fortunes, here are some current growth rate figures for recent years.

In 1962 the rate of growth in GNP for the nations under Communist governments was 3.6%. For the NATO nations the figure was 4.8%. The figure for the Soviet Union itself was somewhat under 4%; for the United States, recovering from recession, a higher than average 5.4%.

These data may vary over the years. But the fact is that the economic gap between the Free World and the Communist bloc widened, and the same is true, of course, in the grand historical competition between the development of Communist China and the two great nations of the Indian subcontinent, which, against great difficulties, continue to make regular progress with societies rooted in the principle of consent.

I cite these figures not because rates of growth are the decisive measures of a society's worth. Our values begin with the integrity of the individual and his equality under God and the law. They extend to the right of nations to shape their lives in the light of their own history, culture, and aspirations, protected by the principle of self-determination.

As we look about the world scene—and at the trends of the past several years—two things are clear. We face great prob-

lems ahead in the Alliance for Progress and other enterprises designed to demonstrate the compatibility of human freedom and economic development. But equally, we can go forward with the greatest underlying confidence. The underlying forces

of history are clearly on the side of the great humanistic tradition of which Mexico and the United States are both a part, if we have the wit and the will, the faith and the persistence to work with them.

Taxes And Prosperity

ESTABLISH A HIGHER RATE OF GROWTH

By HENRY FORD II, *Chairman of the Board, Ford Motor Company, Dearborn, Michigan*

Delivered before a meeting sponsored by the Arkansas State Chamber of Commerce and the Associated Industries of Arkansas, Little Rock, Arkansas, July 8, 1963

IT HAS always been a mystery to me why our schools have paid so little attention to teaching our young people the fundamentals of economics. Whether from the viewpoint of good citizenship or from the viewpoint of individual self-interest, ignorance of the basic facts and principles of economics is a grave handicap.

It is, therefore, good to know that the State of Arkansas is taking such vigorous steps to expand and improve the teaching of economics to its students. I am very pleased to have a part in this banquet in honor of those who have provided the leadership and accepted the responsibility for carrying on this important task.

Like every businessman, I have a deep, personal and continuing interest in the state of our national economy and in our national economic policies. This evening, I'd like to give you some of my views—one businessman's views—on these matters.

The state of the economy might be summed up in five words—good, but not good enough. Let's take a look at the positive first.

As you may have heard, automobile sales this year are very likely to break the 1955 all-time sales record of 7.2 million cars. Industry truck sales probably will set a new record. Many other economic indicators also are hitting new peaks. We look forward to continuing growth in motor vehicle sales and in the economy as a whole.

In short, I see no reason for anxiety about the economy, no crisis around the next corner; but I do see reason for concern over the long-run prospects. We have been growing, but we have been growing too slowly. The last six years have seen a persistent lag in economic growth, largely because we have not achieved the levels of business investment necessary to assure prosperous growth. If over this period we had had more satisfactory growth, we would find many of the important social and economic problems confronting us a whole lot easier to manage.

An increase of only $\frac{1}{2}$ of one per cent annually in the growth rate over the past six years would have virtually assured us a Gross National Product of \$600 billion in 1963. We would now probably have a substantially lower unemployment rate, perhaps 4 per cent or less, which would be very close to full employment by any realistic calculation. As a matter of fact, there is every reason to believe we can achieve a \$600 billion Gross National Product next year if we take the appropriate actions now.

More to the point, if we do not now and in the future improve the rate of business investment and economic growth, we shall be hard put to meet the need for new jobs for our growing population of working age.

One possible remedy for our problems would be a dose of expansionary fiscal or monetary policy. But today, we are in a

dilemma. If we try to give the economy a strong inflationary boost, we will aggravate another nagging economic problem—the persistent deficit in our balance of payments and the consequent loss of gold reserves. Therefore, fiscal and monetary policies have followed a narrow path between expansionary policies designed to serve our domestic economic interests, and more restrictive policies designed to protect our external economic position.

So far, we have managed to stay on the tightrope. But the tightrope act hasn't gotten us very far. We haven't overcome the lag in investment, the lag in employment, or the lag in our international payments. In fact we haven't made any noticeable progress in these areas.

Washington, it seems to me, has fallen back on a program of tinkering with the economy in the hope of finding some easy way to get off the tightrope and out of the dilemma. We've had six years of ad hoc and often conflicting measures to reduce unemployment, to encouraging business, to restrict the flow of dollars overseas. But for all the tinkering, we're still pretty much where we started.

I think the time has come to stop tinkering with symptoms, to take a hard, honest look at the roots of our problems, and to apply whatever remedies may be necessary. It's time to stop looking for easy ways out that don't exist. It's time to make some hard but necessary decisions.

Hard, because they may involve some risks and because they will certainly be unpopular in many quarters. Necessary, because we just can't stay where we are forever.

But let me be specific. If the economy does not create job opportunities for our growing work force, we shall face increasing pressure for feather-bedding, spread-the-work measures, and restrictions on the introduction of new and more efficient technology. If we don't create more new jobs, then naturally people are going to do everything they can to freeze themselves into their present jobs. This is the way to a stagnant economy, rising costs and lower standards of living for everyone.

But even if we could stay on our present economic plateau, I don't think we should be satisfied to remain there. The United States did not become a great nation by taking the easy way out, by being satisfied, by avoiding risks or evading controversy. We became great by aiming high, individually and collectively, and then surpassing our aims. We became great by recognizing our problems and responsibilities, by taking chances when chances were necessary, by facing up honestly to our disagreements and resolving them in free and open discussion. And this is the only way we can preserve our greatness.

What are the roots of our present economic problems, and what do we need to do to dig them out? These are much bigger questions than I can handle. I'm sure I don't see all the

