POINT FOUR AND ITS EFFECT
ON UNITED STATES TRADE

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Introduction. An analogy between Karl Marx's nineteenth century gas-light London and the twentieth century "tail-finned" United States was made by Gunnar Myrdal in the International Economy. In his comparison, Dr. Myrdal substituted countries for classes and concluded that as wealthier nations increase their wealth, poorer nations become poorer.

One clear lesson of the opposite movements of rich and poor nations was that the security of our nation would be further threatened. But, perhaps more importantly, it would add to the further political instability and economic and social frustrations of the millions of peoples of the lesser developed countries of the world.

The overwhelming majority of the peoples in the underdeveloped countries are illiterate; many live at the borderline of adequate nourishment. They have a life expectancy of a little over 30 years, or less than one-half of that in this country. They produce, on a per capita basis, less than one-tenth the goods and services of the countries of Western Europe or approximately one-twentieth of the United States. The things they share in common are: low productivity; low income, low levels of living; a high rate of population increase; and, in most instances, a recently-kindled, intense desire to shake themselves of this poverty.

Some of this newly fermented zeal for economic progress and social reform has been merely blunted in a vague and nebulous resentment against conditions as they now exist; in other cases, it has served to fire a quest for growing knowledge and outside resources to initiate and accelerate economic growth. Thus, the changing status and aspirations of people in the less developed countries have opened new paths leading to expanded economic relations and general contacts in the world. In this general stirring and awakening, a new and untested world balance of power is being created.

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Moreover, the arousing of the underdeveloped nation's desire for progress, coupled with the developments of a bi-polar international power struggle between East and West, has precipitated a world-wide ideological struggle for men's minds. The rise of Russia from a backward country to the world's second greatest industrial power in 40 years can be a powerful incentive for underdeveloped nations to attempt development by communistic methods. A situation has been created in which the millions of people, searching for the touchstone of economic progress with desperate determination, are weighing two systems: the communist system and our system. Which will lead to the fulfillment of goals of betterment more quickly?

The current power struggle can be witnessed in many areas, but perhaps it is being waged most dramatically in the Near and Far East. All of the small nations of Southeastern Asia and the Near East are watching to see if the economic development programs currently pursued are more successful within the working democracy in India or under the totalitarian communistic system of Federated People's Republic of China. The destiny of our free society, the ideals we cherish and the world balance of power is at stake. The success of the United States in its efforts to encourage, aid and abet these important areas of the world might, in the long run, spell victory or defeat of the so-called Western way of life.

The present international situation has lead us to accept three rather broad postulates in the conduct or guidance of our foreign affairs: firstly, that economic growth of the underdeveloped world is essential to our own national security; secondly, that economic development will increase our trade with foreign nations and thereby permit a more economical use of resources by promoting specialization of production; and, thirdly, that the humanitarian principle dictates that we should help our fellow men.2/

It is the second postulate that we wish to examine most closely in this presentation. Moreover, we shall confine ourselves to the operation of Point IV activities as differentiated from other economic development programs and their effect on the exports of the United States agricultural and industrial exports. And, furthermore, we shall attempt to explore the effects in the short and long run or through various stages of development.

The Objectives of Point IV. The basic intent and purposes of Point IV has been stated clearly by the Congress of the United States. The following

objectives were encompassed in the initial legislation:

To aid the efforts of the peoples of economically underdeveloped areas to develop their resources and improve their working and living conditions by encouraging the exchange of technical knowledge and skills and the flow of investment capital to countries which provide conditions under which such technical assistance and capital can effectively and constructively contribute to raising standards of living, creating new sources of wealth, increasing productivity and expanding purchasing power.

The expenditures to carry out the specific objectives of Point IV have not been large. Our total foreign aid outlays have been large but not our Point IV expenditures. In recent years, from $3.8 to $5.0 billions of foreign grants and credit have been extended annually by the United States. Most of these funds have been spent on our direct military or defense support efforts. Other than for emergency relief or famine, only $1.0 to $1.5 billions has been for economic aid to the underdeveloped countries. Of this latter sum, only $100 to $135 million have been allocated to Point IV purposes. For a program touching more than a billion of population, covering three continents, it is of very modest cost compared with other programs. Its annual cost is about one-third of our total defense and economic assistance support to the one country of South Korea.

In addition to being a relatively small program, Point IV differs from other aid programs in that it is a technical assistance program engaged, first and foremost, in the development and transfer of skills and related knowledge. However, the initiation of technical progress, as so clearly spelled out in the Congressional mandate cited above, is intricately interwoven with effective utilization of capital. In fact, the interdependence of knowledge and capital as related to economic development demand further exploration.

The Transfer of Knowledge. Looking initially at the problem of transfer of knowledge, economic growth depends upon both technological knowledge about things and living creatures and upon social knowledge about man and his relationships with fellowmen. The former is often emphasized in the context of Point IV. However, the latter is just as important since growth depends as much upon such matters as learning how to administer large scale organizations, or creating institutions which favor economizing efforts, as it does upon breeding new seeds or learning how to build bigger dams.

For example, the potential increased productivity from the dissemination and the use of available information in some underdeveloped communities is profound. This is especially important when we consider that increased productivity of the soil in most underdeveloped areas is one of the quickest methods of raising national income. Admittedly, in many areas, considerable research must be carried out before extension recommendations can be made; in fact, research is a pre-requisite to extension. However, once knowledge becomes available the need for dissemination through extension type programs becomes of primary importance.

The costs of the extension of knowledge are part of the overall plan of economic development that must be borne by the general economy. According to W. Arthur Lewis' study, The Theory of Economic Growth, a general rule of thumb for the allocation of funds for agricultural extension and research purposes varies between 3/4 and one percent of the national farm income. This proportion has, for example, been spent by the United States, Great Britain, and Japan.

Mr. Lewis also cites some rough estimates of the returns on this type of investment and these estimates underscore the high marginal rates of return that have been experienced. An example of increased productivity through application of technical knowledge involves Japan where agricultural productivity increased at a cumulative annual rate of 1.3 percent per annum during the period 1880-1920. Rates of one percent were attained by Great Britain and the United States during the same period.4/

The Need for Capital Formation. In addition to the transfer of knowledge, capital investments are associated with increased economic growth. Moreover, we must emphasize again that it is not merely a matter of making capital funds available but a suitable institutional framework for its utilization must be provided. In a sense, this establishes a condition that knowledge and capital go hand in hand.

In the experience of most industrial countries, capital investments of 9 to 12 percent of national income have resulted in growth in the economies of about 3 percent. Thus, the ratio of the value of added capital and value of additional output has been roughly three or four to one.5/

These estimates of growth rates in developed nations are generally predicated on increased investments in direct production equipment. For these nations in which there are large investments in buildings and public works, increased capital investment does mean direct productive goods. However, for

underdeveloped nations the structure of investments is substantially different. There must be investments on the farms in the form of permanent land improvements, livestock, farm buildings, fertilizer and so forth; in specific service to agricultural production and marketing, such as water control works, storage and processing; in services shared by the farm and non-farm sectors, as transportation, communication, electrification, education and health service; and in urban development and industrialization in general.\textsuperscript{6/}

In other words, little improvement in national welfare is possible without a progressive shift from a predominantly subsistence agriculture to production for the market. Markets, in turn, are dependent upon the expansion of transportation and communications, upon the growth of industrialization and urbanization, and the development of trade on an international as well as a national scale -- all of which hinges, of course, on capital investment and the acquiring of technical "know'how". Agriculture is never developed for agriculture's sake, but only if, through the industrialization process, urban populations are expanded in the country or in other parts of the world and if, as a result, the demand for food and other farm products increases.

With a large segment of capital expenditures earmarked for basic construction purposes, the immediate utilization of capital for increasing the real income of the people will likely be lower in underdeveloped countries than what we have come to accept as normal in more advanced nations. Also wastage of capital will have to be tolerated due to lack of talent in organization, maintenance, and skill in use of productive assets.

Because of the expense involved in purchasing capital goods, every available means should be utilized in substituting labor for capital. In the early stages, progress in production is achieved primarily by the use of surplus rural labor and simple working tools in improvement work. Studies from the Far East regarding the labor needed to maintain draft animals have demonstrated that such beasts of burden are essentially accumulators of human energy. In other words, over a period of time, the human labor expended in caring and maintaining an animal were roughly equivalent to the animal's power contribution.\textsuperscript{7/} This was explained in part by the fact that human labor is spread over the year. However, with economic development, work animals were being used more days in the year and their net contribution in power value exceeded the human labor invested.

\textsuperscript{7/} Ibid.
In spite of the efforts of capital substitution, savings in the form of accumulated funds are invariably needed to carry out economic development. The problem always seemed to resolve itself to the question: from whence cometh the money?

If we grant that some of the investment in high productivity ventures will be undertaken by international developmental agencies, foreign governments and private investors, then the low return investment will be largely the responsibility of domestic financing. History has demonstrated that a high activity in capital formation and economic growth has taken place where income is distributed more favorably in the direction of capital and less favorably toward labor. Stated in another manner, given the goal of rapid economic development, increased productivity in a given economy can not be passed back to labor, for then the surplus would go toward consumption expenditure rather than capital investment.

Moreover, productivity gains of an economy to be used for reinvestment can be drained off in two general ways. One is by inflation; the other, taxation. A combination of inflation and taxation may also be employed. The manner in which development has taken place in the past using inflation and taxation are rather interesting. Japan is a case in point. The state gained control of the feudal lands of the nobility by first heavily taxing the land and then taking over the debts of the nobility and issuing government bonds in payment. The nobility finding themselves with government bonds turned to banking and were allowed to purchase factories whose establishment the government was encouraging. Clearly, the cost of industrialization initially was borne by agriculture in the early period of economic development.

This pattern of capital accumulation has been the rule in the development of other countries, including our own. European capital, which immensely aided this country in its development, was initially serviced or paid for by agricultural exports.

**Point IV and Trade Patterns.** As a young, expanding nation, we were nurtured in our growth by a reliance on export markets as outlets for our domestically raised farm products and as sources of much-needed capital. Today, as a developed economy, much questioning and pointed criticism is directed at our national policies which in any way might encourage the production in underdeveloped nations of farm products that are directly competitive with ours. Thus, some persons and some groups would remove or severely curtail the opportunities for economic growth among underdeveloped countries by methods which we in our early history once enjoyed.

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This attitude, I feel, is symptomatic and symbolic of our times. It springs from a growing anxiety spawned in the shadow of a pyramiding stock of $7 to $8 billion of farm surpluses; it reflects the cross-currents and conflicts which ensue when organized special groups are willing to sacrifice the nation's general welfare for their own interest; and it underscores the need of public understanding of international economic problems.

Admittedly, the impact of Point IV on our pattern of trade is difficult to assess. The interdependence of technical assistance and economic aid when applied to economic development should by now be apparent and defies differentiation. The two are hand and glove. Moreover, the time lag from the introduction of a new technique or new capital to fruition in terms of improved productivity, the availability of exportable surpluses, and their appearances on the world commodity markets shows a highly irregular pattern among nations and through periods of time. However, some attempt must be made to put this problem in its prospective.

It may be pointed out that the United States imports less than $35 million worth of farm commodities that are regarded as materially interfering with any domestic price support or other agricultural program undertaken by the Department of Agriculture. These products account for only about one percent of our total imports of foreign agricultural goods. The import restrictions our government imposes under Section 22 of the Agricultural Adjustment Act, as amended, holds most of these imports at token levels. The majority of our agricultural imports, roughly $3.9 billion annually, are either complementary or supplementary to our agricultural economy.

Of course, we are interested in the degree to which our foreign markets may have been displaced due to technical aid extended to nations which compete with us for export outlets. But, here again, we should not overlook the influence of other important factors: namely, the impact of our farm price support program; and the actions of private U.S. corporations and investment firms abroad.

Factors other than Point IV may contribute to competition. The United States adherence to a system of farm price supports considerably above world market levels has served as a protective umbrella for prices of many farm commodities entering international commerce. As a consequence, at least in part, the response among producers of other nations, many of them in underdeveloped countries, has been to expand production under the favorable price conditions. In cotton, for example, at the same time that the

9/ Gastineau, R.L., "The Other Half," Foreign Agriculture, USDA, FAS, July 1957, p.6
10/ It must be recognized that price supports programs have also stimulated the production of synthetic materials, such as synthetic fibers and detergents, which are competitive to both domestic and foreign farm products.
United States, in the face of a cotton surplus, reduced its output by almost three million bales as a result of an acreage cut of 25 percent, other cotton producing countries increased their production by 1.3 million bales.

Likewise, private investors have influenced agricultural production and trade patterns. Private investments leading to the production of competitive agricultural products have been made by United States private firms, particularly in Latin America. In these countries many United States companies, individuals and financial institutions have either directly or indirectly through subsidiaries and affiliated concerns, brought about large increases in cotton production and exports by establishing cotton gins and markets, furnishing technical and management assistance and providing financial aids to growers, cotton ginners and cotton cooperative. United States capital to a lesser degree has promoted increased production of other basic commodities and dairy products in these countries.

The role of such private investments has been seen in Latin America where United States investments were largely credited with the very great increase in cotton production since 1950-51. According to the findings of a Congressional Subcommittee, United States corporations interested in such operations have invested millions of dollars in plant and equipment in Latin America. Thus, while criticism has been frequently directed at governmental Point IV operations, there is considerable evidence that a number of United States owned companies are engaged in helping through financial and technical aid to stimulate production of agricultural commodities which are in surplus in the United States.

Stages of Development Affect Trade Pattern. The further evaluation of Point IV policies on trade patterns must take into account certain short and long run aspects. In the short run, the application of a simple technical assistance program would have extremely limited effects on the United States exports of either industrial or agricultural goods. Training programs take time to establish and administer, and only small changes would flow from programs so limited in scope.

However, if technical assistance were packaged with economic aid, a different impact can be expected. In carrying out such a program, it is highly probable that a recipient country operating on an industrial base which has exhibited some growth will choose to use its relatively meager hoard of aid dollars to

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purchase capital goods to accelerate its industrialization rather than spend them on consumption items, such as food. Under such circumstances, the market for United States industrial goods tend to expand, while those for agricultural commodities are relatively unaffected. In fact, they might be reduced if purchases of needed foods could now be made from soft currency areas.

Recently, much interest has been generated for the direct use of surplus agricultural products in economic development. In fact, President Eisenhower's "Food for Peace" program is based upon this thesis. Much of the discussion in implementing this program give recognition to the proposition that labor to a degree can be substituted for capital.

In the early stages of economic development, large outlays are required for elementary public facilities such as roads, housing, harbors, electrical power, reclamation, public hygiene and education, without which there would be no industrial or agricultural advancement. The erection of this basic substructure has been estimated to account for about one-half of the initial development costs. That is the type of investment that requires relatively little outside economic aid for "overhead costs" of development, but requires large quantities of indigenous material and local labor. It is the type of basic groundwork that has been frequently lacking, and this lack has led to an ineffective absorption of our economic assistance.

Although the establishment of the substructure is essential to economic growth, the investments made produce no consumer goods in the first instance. An underdeveloped country could resort to deficit financing of the building of the required substructure. In most nations, however, this would result in tremendous inflationary pressure. The people added to the working force would spend most of their wages on food and clothing and, since those are not likely to be available, prices would rise. Moreover, the consumption among rural people is currently at such a low level that much of any increase in food output would be absorbed within the rural sector and would not be available for the new members of the industrial labor force. Thus, it is apparent that under circumstances of this nature, increased United States agricultural exports could be used to bring about more rapid employment to bolster a program of deficit financing in economic development.

In a pilot study carried out in India there appeared to be a large number of projects potentially suitable for financing, in whole or in part, through surpluses, either as individual projects or as part of the general development program. It was further concluded that the longer the period for which the project could be assured surplus financing, usually the greater the proportion of total cost which can be financed by agricultural surpluses. On a four-year program basis, the average proportion of the costs covered by surpluses
varied from a low of 46 percent for industrial and semi-industrial projects; to 75 percent for roads, irrigation, and hydroelectric projects; and to 100 percent for education and social development.\[12/\]

Clearly, the results of this study tended to be optimistic in regard to utilization of surplus foods for economic development. It is also interesting to observe that the category where utilization of agricultural products could cover most all the cost was education. The importance of education and individual training to economic growth has been emphasized previously in this paper.

If history chooses to repeat itself, the long-run effects of technical assistance will stimulate foreign trade. For historically, economic development has been an important factor in stimulating trade in both agricultural and industrial commodities. Contemporary events have shown how economic development played an important role in increased foreign trade. The Marshall Plan aid to Western Europe stimulated economic growth and consequently, U. S. exports to this sector of the world.

Moreover -- and this appears fairly important -- the countries with the highest per capita incomes are always our best customers. A country with a developed economy, such as the Netherlands, for example, spends $40 per person per year for American goods. Figures for other industrial nations are Belgium and Luxembourg, $35; United Kingdom, $16; West Germany, $14; and Japan, $9. This heavy volume of trade can be compared with that of underdeveloped countries: Ceylon, $2.32 per person per year; Pakistan, $1.31; India, 77 cents; and Burma, 36 cents.\[13/\] The economic betterment of the latter nations would result in greater trade and prosperity for the United States.

Summary and Conclusions. The United States technical assistance program, known as Point IV, is a relatively small portion dollar-wise of our foreign operations, but it is an important dimension of our foreign economic policy. Point IV is a major instrument through which millions of people in underdeveloped countries hope and aspire to the fruits of economic growth. It is a means of promoting stability in regions vital to our own nation's security; it is a vehicle to carry out a humanitarian program between wealth and dire need.

The tapestry of economic development is shaped by the warp of transfer of knowledge and the woof of capital formation. As an underdeveloped country

\[13/\] "Aid Builds Markets, Congressmen Say, "Minneapolis Tribune, April 17, 1959."
moves through its stages of development, its trade patterns may change
to cause conflicts of interest with producer groups in the United States. But
in the long run, historically, economic development has stimulated trade
in both agricultural and industrial commodities.

The future of our country as a world power depends to a large degree upon
how well the general public understands our stake in the development of the
economies of the nations in Asia, Africa and Latin America. We must
recognize the difference between being a leader in economic development
and dominant in economic development. The first term implies high interest,
high activity and responsibility; the second implies a tendency to exploit every
advantage to its limits.

We must carefully assess our economic needs for the future and also the
needs of the rest of the world and then arrive at a policy which will benefit
as many people as possible. Our programs must be aimed at both national
and world economic expansion.