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an important element—in the Soviet unwillingness to sign a so-called nonproliferation treaty barring the spread of nuclear weapons. As a result, West Germany is made to appear as the main obstacle to an arms control accord that might bring in its train a truly significant easing of international tension—perhaps even in Southeast Asia.

The West German role in seeming to block détente has furnished ammunition to those who have at all times wanted to split apart the growing Atlantic Community. General de Gaulle, in particular, has used widespread antipathy to Germany in Europe, Britain, and this country to win sympathy for his efforts to immobilize NATO and the European Community or Common Market.

This disunity is further heightened by the continued West German insistence on a fixed quota of foreign troops, despite changing strategic conditions, and financial pressures in this country and in Britain. Indeed, in this country and Britain, those opposed to foreign commitments regularly use the troop issue to mount attacks on the whole concept of Atlantic unity.

These costs are the heavier to bear in that the unrenounced German claims are largely mythical. Everybody knows that the Germans are going to settle for the present frontiers with Poland and Czechoslovakia; that they are not going to have independent access to nuclear weapons; and that they are not going to keep forever on their territory every single American soldier now on German soil. So why not say so?

The answer is that Chancellor Erhard's government is afraid to make public renunciation that could be used against it by the opposition inside West Germany, and notably, by competing forces within the Chancellor's own Christian Democratic Party. It has repeatedly been argued that any motion toward renunciation, particularly if it were unilateral, would force a political change bringing to power reckless leaders, and thus threatening the peace of Europe.

To me this consideration was very important as long as the West was moving toward unity. In that spirit, it made sense to push the issue of Germany's nuclear role onto a NATO committee, the so-called McNamara Committee, that will probably end up with a collective decision maximizing German prestige and masking the renunciation of an independent nuclear role.

Similarly, it makes sense to put the troop issue to a tripartite Anglo-American-German committee as suggested by the White House last month. Presumably this committee, after looking at over-all strategic requirements, ability to pay, and changing technological developments, can come up with a formula permitting eventual reduction of the American military presence in Germany.

But insofar as German refusal to budge begins to afflict Western unity, then it seems to me that the game becomes not worth the candle. It is more important, in other words, to maintain growing Atlantic harmony than it is to maintain any particular German government—particularly a government as weak as the Erhard regime.

Sooner or later, the news has to be broken to the Germans that they are going to have to renounce certain claims. And the real test of the Erhard-Johnson talks is whether that message can be put across.

FOREIGN AID AND THE BRAIN DRAIN

Mr. MONDALE. Mr. President, the July issue of Foreign Affairs contained a most enlightening article by Dr. James A. Perkins, president of Cornell University entitled "Foreign Aid and the Brain Drain." In this article, Dr. Perkins out-

lines what he refers to as the "conflict between the objectives of our foreign assistance programs and the requirements of our expanding economy—between our efforts to train people in the less developed countries, and our drain of foreign specialists to fill important jobs here in the United States."

Mr. President, as one who has become increasingly concerned with the magnitude of the brain drain problem, I am happy to see this question receiving the increased public attention which it deserves. In order to make Dr. Perkins' article available to an even wider audience, I ask unanimous consent that it be printed in the RECORD at this point.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

FOREIGN AID AND THE BRAIN DRAIN

(By James A. Perkins)

Our foreign policies are often much more closely related to our domestic policies than we realize—and not alone through the political struggles over appropriations, or even over Congressional approval of international agreements. Indeed, our foreign policies can come so sharply into conflict with our domestic policies that, unless this conflict is both understood and resolved by governmental leaders, domestic pressures can completely undermine and even nullify our foreign programs.

There is in our contemporary national life a disturbing illustration of this basic rule of statecraft, and it is one which is being discussed more and more widely, with a growing sense of concern. This is the conflict between the objectives of our foreign assistance programs and the requirements of our expanding economy—between our efforts to train people in the less developed countries and our drain of foreign specialists to fill important jobs here in the United States.

In the developing countries we are concerned, of course, with increasing the pool of modern men with modern skills and modern attitudes so central to the prospects for those nations. But on the domestic front our need for these same skills has led us to enact immigration laws that actually encourage the importation of these same men and women. Is it possible that we are draining off this precious talent faster than we are helping to create it? Is it a serious problem? Can anything be done about it—or is it just one of the macabre ironies that illustrate the Biblical prediction, "That unto every one which hath shall be given; and from him that hath not, even that he hath shall be taken away from him?"

We must start our exploration with a reminder of the recent history of development theory. Actually, we are talking about a body of literature and a level of sophisticated analysis that is very recent. Indeed, we are talking about the last decade, because the experience with the reconstruction of Europe actually blinded us to the realities of development assistance. This point is worth a mention and can, perhaps, be best illustrated by a personal experience.

An April 1945—just a month before V.E. Day—I was visiting the temporary headquarters of our military governor in Ludwigs-haven. Word came that the general manager of the local I. G. Farben factory respectfully suggested a visit to his plant to discuss ways in which its rehabilitation could serve the mission of the occupying powers. Intrigued, we got into our jeeps and drove to what had been one of the great industrial plants of prewar Germany, now a square mile of rubble. By some miracle a small building had survived, and into this tottering structure we were escorted. I still gasp, more

than twenty years later, at the recollection of being introduced to a full complement of managers and directors of this factory, re-assembled even before the bombs had stopped falling. Laid out before us was a detailed presentation of what rehabilitation would require in tons of coal per day and of how the plant could be converted to produce material and equipment needed by the military establishment of the United States.

When the first shock of this political neutrality had passed, one had to realize that here was a vivid demonstration of the real power behind the miracle of European reconstruction: the presence of the skilled and experienced manpower ready and anxious to restore the status quo ante. These men, sitting down together in that drafty derelict of a building, were able to construct order out of chaos because they knew how things had been and could be again; they knew what raw materials were needed and where they could be found; and they knew what public policies would be required to allow reconstruction to proceed uninhibited.

There is no question that the Marshall Plan and the enlightened laissez-faire policies of the military governors greatly hastened the process of European reconstruction. These two factors may also have saved an impatient Europe from more politically extreme solutions. But the rebuilding of the European infrastructure and the new visions of economic and political integration that ensued were made possible, first and foremost, by modern men whose experience with the pre-war economic structure could serve as a blueprint for action. Europe did not have to be invented; it only had to be remembered.

The truth is, however, that this lesson was only partially learned. The visible need and the visible accomplishment of repairing the capital plant of Europe—the factories, bridges, trains and trucks—obscured the fact that the real engine of reconstruction was not concrete and steel but modern men working both in industry and the civil service. And so while Europe has gone on to build a more and more impressive economic base, adding the incentive of great dreams to the drive of reconstructed memories, it has until very recently neglected to build a modern system of education to replenish its human skills. The French educational planner Raymond Poignant shows in a recent report that the Common Market countries, with a population approximately equal to Russia and to the United States, produce less than a third as many university graduates as Russia and less than a quarter as many as the United States. In the United States the idea of the common school combined with the Land-Grant college has given us almost a century's head start on our European friends in education and training for the broad range of skills and attitudes needed by a modern and fully developed society. Given the increasing dependence of advanced technological societies on university graduates, this disparity is bound to depress the possibilities of European growth. Perhaps no wind of change in Europe is more important than the revolution, just started, that will inevitably lead to the democratization and modernization of its schools and universities. Until this reform is completed, the European educational system will be the bottleneck that shuts off the development of Europe's manpower and shortens the life of its great dreams.

The Europeans, however, were not the only ones to be dazzled by the apparent success of concrete and steel. Our own development policies in the '50s and early '60s, whetted in part by the ambitions of the emerging nations themselves, were built on the assumption that if infrastructure were indeed responsible for European recovery, then bridges, roads, dams, factories and power plants should claim first priority in the underdeveloped world, too.

The answers in foreign assistance have never been simple, and they become no simpler the more we learn. Surely the business of assisting in the modernization of a traditional society is far from perfected. But we have made several discoveries in the last fifteen years. We now realize that societies and nations are all in different stages of development. We know that every country must have savings for capital development and that foreign assistance is almost a necessity for those too poor to save in adequate amounts. We have also found that social structure may be a barrier to the release of developing energies. One of the most important things we have learned is that investment in capital equipment is not the single magic lever that, once provided and pulled, starts an unending cycle of growth. The machinery—political and social, as well as economic—neither tends nor reproduces itself. The pivotal force around which any modernization process must move is talented, skilled, developed man.

This lesson has been increasingly the theme of students of the development process. The Ashby Report on higher education in Nigeria was a landmark in its emphasis on trained manpower and the education system required to produce it. The interest of some of our economists—Lewis, Mason, Schultz, Harbison, Ward and Galbraith—is bringing a new level of sophistication to the subject of manpower development. In the social field there have been important contributions by anthropologists, such as Cornell's Holmberg, Sharp, Opler and Leighton, who have spent fifteen years studying the impediments to development imbedded in the customs and taboos of those whose modernization we would further. And the work of such men as Beeby, Curle and Havighurst, analyzing the problems of literacy, secondary education, university reform and adult education, has become crucial in assessing the role of education in the making of modern man.

As we have had experience with the development of man from a primitive, tribal state to integration in a complex, advanced society—a process that many of us have observed in a single lifetime—we have learned several things about his attitudes and the factors that influence him along the way. It is important to the subject at hand that we look more closely at this evolution, so that we can better understand what a fragile process it is and how precious is the man who emerges from it.

II

The first thing we must make clear is that men vary as much in their development as societies do. Just as societies are strung out along the chain of advancement, reaching from the economic and social levels of the Upper Volta and Brazil to Japan and the United States, so are men distributed along an arc that ranges from unquestioning primitives to the restless, driving managers of advanced technological enterprise. And just as it is possible to describe with some accuracy the levels of economic development, it is possible to identify certain stages of human development.

One strong caveat to this analysis should be recorded at the outset. It is not assumed here that the members of any given society fall into clearcut categories. There are many ways, as Kalman Silvert has pointed out, of "mingling structural with value factors"—a task I will leave the reader to work out with Professor Silvert. The skills and attitudes conducive to modernization vary within a society. This is as true in the most highly developed nation-state as in the most backward and isolated village. We all know that in our own nation talent is distributed throughout the whole social structure; that high I.Q. is not solely the prerogative of the economically privileged; and even that any one man can be modern in some respects,

traditional in others, and in still others ruthlessly and shockingly primitive.

Bearing this caution in mind, let us examine the characteristics and social evolution of modernizing man.

Surely this evolution must start with the desire for change. The man who never questions the status quo, who believes that his destiny is inevitably controlled by fate or the natural world, who commits himself to the faithful repetition of habits of work and patterns of life his ancestors knew—such a man, at whatever end of the economic spectrum he may be found, cannot assist or contribute to the modernizing of his world. A man capable of change must be prepared to abandon the past as a guide to the present and to replace acceptance with dissatisfaction, even though the path ahead may be unclear.

This first big step in human development must be nourished by exposure to change. And here education, mobility and visible example can be potent forces indeed. The education that gives young people skills can also give them a sense of new-found powers and leave them impatient with the ways of their fathers and the primitive life of bush, village or *javela*. Literacy opens up still other avenues of communication that can bring in visions of the world outside. Sometimes there may be a radio or a television set to stimulate the imagination.

The new mobility can also bring change. The peasant who travels to the city market may find his route changed by a new road and the city transformed by a new airport. He is confronted with cars, machines, people in strange dress, and he returns with unfulfilled desires and comparisons for his own life. He may do nothing more about them than to chew an extra supply of narcotic leaves—but he may also decide that his son had better go to school.

A pervasive influence to which the whole emerging world has been and will increasingly be subjected is the example set by the outsider—the foreign missionary, the military man and the businessman, and now the Peace Corps worker and the consultant. For good or ill, these people are in direct contact with those in a traditional society who would learn not only specific skills but new attitudes toward work and improvement. The example the outsider sets may stimulate or jar, but it can be a vigorous force for change.

Not everyone is exposed to change, nor does the exposure always affect everyone the same way. But those who do respond are ready for stage two—the stimulation of desire for improvement. Dissatisfaction with the status quo is not enough by itself to lead man toward a constructive social goal. He must have hope fed by achievement. The man exposed to a bit of city life, educated enough to read the newspaper and understand the national radio broadcasts, and touched by envy of status and power, can as easily sink back into apathy or drift aimlessly through life as he can step up the ladder of social change. The difference is concrete accomplishment, however small, and the prospect for more accomplishment. His larger hopes must be encouraged by the realization of his smaller ones as he moves toward that well-publicized revolution of rising expectations.

The third stage, granted to those who have survived the incentives of the second, comes when man begins to look at himself as an individual, with unique talents and particular needs to express them. At this stage he is indeed prepared to make the break with his family, tribe and village and to develop himself into a productive unit for the service of those around him. But this is a far more sophisticated business, because the desires of the individual and the needs of his society may be only imperfectly meshed. They may, further, be frustrated by the social structure and the mores of the society itself. By now, however, the new man has become a much

more independent and even abrasive factor in society; he will not be content with just any education or any set of skills if he cannot see, sooner or later, a connection between his new training and the fulfillment of his new desires.

It is at this stage that a traditional system of education will come under intense pressure for reform, both from its dissatisfied consumers and from those who feel responsible for social improvement. Support of traditional educational systems—those based on aristocratic notions of who should be allowed to have an education, on ancient patterns of lecture-response, on outmoded and irrelevant curricula, on part-time faculty—can in fact be counter-productive, for such education will only discourage our new man and block his progress. It is also for those at this stage of development that the setting of educational priorities is so important. Exclusive emphasis on literacy programs may be the key factor in giving a sense of achievement to our dissatisfied man in stage two, but if educational priorities have not been worked out carefully—if all the investment of money and talent has gone into literacy training—there may very well be no one available to teach the skills needed by those who have reached stage three. And it is certain that without attention to those in the third stage of development, there will be a severe shortage of teachers for the next generation of illiterates.

Given a degree of literacy, mobility, outside example, hope confirmed by experience, and a system of education that will teach him the skills he needs, our new man is well on his way toward modernization. He has also become a force for change. But he soon discovers that his biggest task remains. He has found his independence, and now he must find his place. It is not enough to protest; the modern man must participate, and participation involves new structure, new rules and new human relations. At this point, the process of assistance becomes complex indeed, for here individual training must be supplemented by social understanding of ever increasing difficulty.

In this fourth stage, the process of choice becomes complex as well. For it is here that the economic man must face the problem of organizing the society around him in a way that will somehow protect his interests. He may choose the short run, an authoritarian rule that will abridge the tedious process of educating his former friends and family. He may see the advantages of the long run, a more open society that will make development more difficult but perhaps more sure. Whatever his predilection, he will have to develop a social philosophy that justifies, at least to himself, the exercise of authority with respect to his interests. In short, to become an effective economic man he must become a political man.

During all this process of growth and development, he will have undergone profound changes. He will have a life independent of his family, tribe or village. He will come to value ability rather than status, talent rather than lineage. He will recognize the importance of professional skills. He will have renounced one set of ties only to accept another—but the difference is important: the old ties were involuntary, the new he chose freely himself. He will become during this process a modern individual with a new sense of identity. In his more ebullient moments he will feel that at last he can determine his own fate; in more realistic times his optimism will be tempered by the obvious intractability of mankind. Whether he realizes it or not, he will be a modern man, and his country's development and hope will turn on his energy and judgment.

Even from such a rough analysis, it must be clear that the man who survives this difficult climb is rare indeed. Some may make it in one generation; for others to

reach stage three or four may be the achievement of many slow and painful steps by many generations before them. Our current focus on this precious pool of men and women is well considered. Only such people can manage a modern state. Only they can assume the large responsibilities of a modern government and bring to it the efficiency and dispassion such a government requires. Only these people have the attitudes and the ambitions necessary to master the new and important callings of science, medicine and the arts.

III

In our programs for assisting these new men, we are doing some things right. The current drive toward literacy is sound, for without widespread literacy the world will be forever anchored down by those mired in stage one. The emphasis on training teachers for secondary schools is vital for the development of those moving into stage three. Our support of strong universities makes possible the widening of horizons so necessary to the whole educational system.

Our exchange programs, aimed at increasing the traffic of persons to this and other countries, are on the right track as well. No more yeasty influence exists in the modernizing countries than those men and women who have had an educational experience in Europe or the United States. They will always know their life can be different, and they will have ideas about how it can be changed. They will always feel that they are part of a larger society. One has only to spend a day in the Department of Agriculture in Thailand, for example, to realize that there is a direct connection between the overseas training of its top officials and the progressive activity of the department as a whole.

It is at just this point, however, that our foreign and domestic policies come into conflict. For one of the gravest problems facing the underdeveloped world is the fact that all too many of its best-trained men and women leave home and never return to the departments of agriculture or the schools or the hospitals. If we accept the fact that those who climb the ladder of change are a minority at best, that the climb was difficult, and that the presence of these people determines whether or not a foreign assistance program will succeed, then we must understand that it is far more critical for the less developed world to lose them than it is for the more developed world to gain them. Yet it is just this loss we not only countenance but encourage. While with one hand we give laboratory equipment, train teachers, send our own teachers, build buildings—all on the very simple propositions that the modernization of the undeveloped world is in our immediate and demonstrated self-interest and that the critical component of a modernizing society is its modernizing men—with the other hand we take away not only the raw materials but the very people who have been so carefully trained to develop them.

The basis of this conflict lies in the fact that growth is the law of life for mature economies as well as young ones. The needs of the developed world are both varied and insistent, cutting across the requirements of the less developed countries in almost every direction. A mature country wants access to raw materials which it can transform into finished products itself. The supplying country believes, with justice, that it must learn to convert its own raw materials if its workers are to advance their knowledge and use their skills. Again, every responsible advanced nation is concerned about such things as gold outflow, balance of payments, trade and dollar gaps, and seeks to protect its growth by favorable import quotas and other aggressive action in the world market. At the same time, a young and growing economy needs growing markets, and the pressure

to export increases as the economy matures. The less developed country does not just want to buy cars, it wants to make them; eventually it may even want to export them. The conflict can be severe enough between countries as sophisticated as Canada and the United States when, for example, one wants to sell finished paper and the other insists on importing only the pulp. At what a disadvantage, then, is Peru or the Congo in the face of the insatiable American or European colossus.

In all of this, an overriding interest—and responsibility—of a developing nation is to create the jobs and the incentives for those who are moving up the ladder and demanding more sophisticated employment. But it is precisely these people who find employment in the United States so much more financially and professionally rewarding. And it is just their talents and skills that fit so well into our own shortages. The result is that we have gradually changed our immigration laws to reduce the inflow of unskilled help, so badly needed in the last century, in favor of the skilled help we now require. It is no longer the call to "Give me your tired, your poor, your huddled masses;" now we ask for your alert, your privileged, your brainy, your talented. Our machines can do the menial work. Today the emphasis is on technical skill, sophisticated training and adaptability to modern society.

The conclusion is inescapable. The United States as a mature but still growing nation has an apparently unlimited demand for precisely those people most desperately needed by the countries we are spending billions of dollars annually to help. The figures are by no means complete either for the flow of assistance or the counterflow of brainpower. But the statistics that have been developed on the so-called "brain drain" present a somber picture. According to one UNESCO report, 43,000 scientists and engineers emigrated to the United States between 1949 and 1961, "many" of whom came from the less developed countries. Of the 11,200 immigrants from Argentina alone between 1951 and 1963, nearly half were technicians and professional people, 15 percent were high-level administrators and 38 percent skilled workers. In 1964-65, 28 percent of the internships and 26 percent of the residencies in U.S. hospitals were filled by foreign graduates—nearly 11,000 in all—and 80 percent of the foreign interns and 70 percent of the foreign residents were from developing countries. The drain from Asian nations, particularly Taiwan and Korea, is the most serious: it is estimated that over 90 percent of the Asia students who come here to study never return home. In Europe—especially in Britain, which is inadvertently bleeding the Commonwealth of its most highly trained men—the situation is much the same. As John C. Shearer correctly puts it, "The movement of high-level human resources may, to a great extent, account for the persistent and ever widening gaps between rich and poor areas."

Here is the cruel fact of life: we are in competition with the results of our own assistance policies. While we support the idea of foreign development, our domestic needs may be quietly making hash of our best efforts abroad. In that case, foreign aid might simply be a misnomer for domestic assistance with overseas implications. What can we do about it?

First, we must find out the facts. No one seems to know, even roughly, what our actual support of manpower development adds up to. We know even less about the drain of foreign talent, either in numbers or cost. We should get these figures and then make them visible for public scrutiny and debate.

Then we must concentrate on a variety of measures that will encourage this precious pool of manpower to put its talents to work at home. This part of the job will call for

both imagination and understanding. We must recognize, on the one hand, that the United States is a land of opportunity and hope, a country whose doors have traditionally been open to those seeking a new life and a new challenge. It is in many senses a generous nation as well as an omnivorous one. Its government and its educational institutions have adjusted themselves with considerable care, perhaps even some success, to the needs of the many (now officially 82,000, but more likely well over 100,000) foreign students who come here in increasing numbers each year. And now these institutions are adding to this care their concerted efforts to induce these foreign students to return home.

But we must also recognize the fact that we can make it too easy for the talented and the skilled to come here and to stay, and that there are ways we can help to make "home" a more attractive place to be. We can, for example, close up some of the more selfish loopholes—the special waivers that allow students to stay here in our own "national interest," particularly if they can teach a foreign language or be useful to the defense department; the cynical exploitation of foreign students by the diploma mills; the all-too-easy solutions to our need for teaching assistants, laboratory aides and medical workers, offered in the name of scholarships and fellowships. We can increase the productivity of our own medical and professional schools to relieve our dependence on foreign nationals. We can, as many students of this subject have suggested, raise our entrance requirements for all foreign students, limit the admission of undergraduate foreign students, tailor their education more carefully for problems they will meet at home, and place far more emphasis in our aid programs on the upgrading of universities abroad.

Perhaps even more important will be the incentives that we can help the developing countries create to draw the interest of their best people. Gregory Henderson of Harvard has suggested the use of return scholarships and a special Peace Corps effort to put foreign students to work in their native countries. Some American business firms are beginning to search out qualified foreign students in this country for employment at home. Recently, a group of business leaders established a fellowship program for the training of students "who have a definite intent to return to their home countries at the completion of their fellowships." Where the emigration occurs because there is a temporary oversupply of university people—as is the case currently in Taiwan and India—arrangements might be made to lend this surplus to other less developed countries or to retrain these people for tasks that fit the level of their own country's development.

Whatever the specific measures—and with a little imagination the list can be endless—we must understand that modern men, wherever they are, have the same needs. The United States has come to be a mecca—and Europe hardly less so—because it provides a continual education, stimulation, mobility, contact with new ideas, opportunities to create and to serve. But the world has now become small enough and its remotest corner accessible enough so that these modern men can reach out to one another from any point on the globe. The university that keeps its avenues of communication open to alumni wherever they may be, the business that gives its foreign employees a chance to move around and bring home new ideas, the less developed country itself that uses its trained manpower to the full—all contribute to this lifelong process of the nourishment of modern man.

This country must now take the lead. We must work to increase the bargaining power

of the less developed countries so that the drain is not a disaster. And we must call forth our highest powers of statesmanship to contain our short-run domestic interests in favor of our longer-range interest in the welfare and progress of man.

EFFECT OF NATIONAL ECONOMIC PROBLEMS ON EUROPE

Mr. TALMADGE. Mr. President, there appeared in the current issue of the U.S. News & World Report an excellent interview with a prominent American banker in which inflation and this country's present economic problems are discussed as a source of great worry in Europe.

Roy L. Reierson, senior vice president of Bankers Trust Co. in New York, points out Europe's concern over the strength of the dollar and reflects fears abroad that a "run" on the dollar can develop unless the American money situation is improved. He expressed a view held by European financial leaders that the United States should take its money problems in hand and work toward alleviating our balance-of-payments deficit, stop sending so much money overseas in foreign aid, and reduce domestic spending in order to let our overheated economy cool down.

Mr. President, it has long been my view that we cannot continue to have a high rate of deficit domestic spending and wage a costly war in Vietnam at the same time without having inflation or massive new taxes, or a combination of both. Certainly, if the dollar is to remain secure, if we are to stop the drain upon our gold reserve, and if we are to turn back inflation in this country, we must put first things first.

I call to the attention of the Senate this very significant interview of Dr. Reierson and ask unanimous consent that it be printed in the RECORD.

There being no objection, the interview was ordered to be printed in the RECORD, as follows:

WHY THE DOLLAR WORRIES EUROPE—REPORT FROM A U.S. BANKER INTERVIEW WITH AN AUTHORITY ON INTERNATIONAL FINANCE

A top U.S. banker, just home from abroad, says Europeans still have grave doubts about the long-range strength of the dollar.

Bankers in major countries tell him the U.S. must do more to wipe out the deficit in its balance of payments. Fears are voiced that a "run" on the dollar could develop, and patience with the U.S. approach to its money problems is reported to be wearing thin.

In this exclusive interview, Roy L. Reierson, senior vice president of Bankers Trust Company in New York, discusses the concern of Europe's bankers over the future of the British pound—and the U.S. dollar that is linked to it.

Question. Dr. Reierson, what are the bankers of Europe saying about the American dollar?

Answer. Some serious questions are being raised about the dollar—not the immediate position of the dollar, but the longer-run outlook.

Question. What kinds of questions?

Answer. One question is whether the troubles of the British pound sterling may have an adverse effect on the dollar.

Another is how seriously the Vietnam war will affect the dollar and the drain on U.S. gold.

And there is real concern at the failure of the U.S. to curb inflation and the overheated boom.

Question. Is it really important what European bankers say or think about the dollar?

Answer. Yes, it is quite important.

Question. Why is that?

Answer. Foreigners hold billions of U.S. dollars. If for any reason—including loss of confidence in the dollar—foreign holders decide to unload their dollars, the result would be a sharp decline in America's gold supply. The risk is that a loss of confidence, once it begins, may feed on itself and assume serious proportions.

Question. Do you mean a run on the dollar?

Answer. Yes. The dollar, in the view of many Europeans, is suffering progressive deterioration. No one can be sure when this continuing deterioration may trigger a massive run on the dollar.

Question. What worries Europeans most about the dollar?

Answer. What troubles foreign observers is that the American balance-of-payments deficit has been too large for far too long.

Question. By a payments deficit you mean—

Answer. An excess of dollars flowing out of the country compared with dollars flowing in. The U.S. has had such an excess of payments over receipts in 15 of the past 16 years.

Question. With what effects?

Answer. Foreign central banks have accumulated more dollars than they have wished to hold. As a consequence, they have turned in the excess dollars to the U.S. Treasury in exchange for gold at \$35 an ounce.

The U.S. gold stock has dropped from 22.8 billion dollars at the end of 1957 to 13.3 billion dollars now—a loss of about 41 per cent.

On the other side of the ledger, U.S. short-term debts to foreigners—private and official—have increased from 13.6 billion dollars at the end of 1957 to about 24.6 billion dollars in mid-1966, an increase of about 11 billion dollars.

Question. Is the situation now improving?

Answer. No, it is not. If anything, the prospects are deteriorating in the view of many Europeans.

Question. Getting worse in what way?

Answer. Trends are adverse in some of the basic elements of the American balance of payments.

For example, due to the persistent rise of imports at a faster rate than the increase in exports, the American surplus on foreign trade will be lower this year than it was last, and the trade surplus may shrink further in 1967.

The drain of tourist expenditures will show another of its regular increases this year, and may be expected to rise again in 1967.

What is especially adverse is the mounting cost of our military operations in Asia. Unless the unlikely occurs, these costs will keep rising.

The net of this is that the chances of any improvement in the American payments position are bleak indeed.

Question. Do European bankers say what needs to be done to assure a sound dollar?

Answer. Many Europeans are critical of the economic policies being followed in the U.S.

For one thing, they have been skeptical about whether guideposts for wages and prices would achieve anything. This point of view reflects European experience. "Incomes policy" and guidelines have been attempted in Europe, but they have failed.

For another, they are critical of the U.S. for not raising taxes and cutting Government spending to cope with the overheated boom. Once again they are reflecting their own experience: European countries, for political reasons, have not seen fit to raise their taxes, either.

In short, there is a feeling in Europe that, through indecision and inaction, the United States has joined the "inflation club."

Question. Is Europe willing to go along with a continued outflow of dollars from the U.S. as a by-product of Vietnam?

Answer. The American involvement in Asia is not very popular in Europe, and I found little or no evidence of a willingness to condone or to accept continued American payments deficits because of Vietnam.

Indeed, Europeans criticize the present official American attitude, which is to accept the payments deficit because of Vietnam rather than to undertake strenuous corrective action.

Question. Is it any of Europe's business how the U.S. handles the dollar?

Answer. A major reason Europeans have a right to be concerned about the dollar is that they hold so many of them. If the dollar were to be devalued—cheaper in terms of gold and other currencies—Europeans would take losses. Holdings of short-term dollar assets by European central banks total more than 7 billion dollars. Private holdings of dollars by Europeans add up to almost another 5 billion.

Europeans hold long-term bonds on which they would similarly suffer a loss in the event of dollar devaluation.

What is more, Europeans have direct investments in the U.S. on which earnings are payable in dollars.

These are good, sufficient and substantial reasons for their concern about what happens to the dollar.

Question. Are they worried also because troubles for the dollar might upset the whole world money system?

Answer. Europeans are well aware that the dollar plays a key role in the world monetary system. Devaluation of the dollar would mean great chaos and confusion in the international monetary area and could conceivably set off a chain reaction of devaluations of other currencies.

Europeans remember the competitive devaluations of the 1930s and the increases in tariffs and restrictions upon international trade, commerce and finance which resulted.

Question. Do European bankers feel that it is time for the U.S. to be more frugal in the way it lends and spends dollars in the outside world?

Answer. Yes, I would say so.

Question. More specifically, would European bankers favor a reduction in U.S. troops in Europe as a way of saving dollars?

Answer. There is no unanimity of thought among bankers on the question of troop withdrawal. On this issue, European bankers, like others, reflect their particular national interests.

Question. How about reducing U.S. foreign aid?

Answer. You generally find backing for the idea of cuts in foreign aid. The feeling is that American aid spending has not achieved a great deal, and that the continued outpouring of dollars weakens the dollar without contributing a great deal to positive progress in the aid-receiving countries.

The curiosity of some European bankers has been whetted by the receipt of large amounts of dollars from parts of the world which are not wealthy in their own right but which are receiving substantial amounts of American aid.

Question. Is this money showing up in numbered accounts in Switzerland?

Answer. That is my distinct impression. I doubt, however, that the influx of funds is limited to Switzerland.

Question. Could this mean that U.S. aid might in some part be siphoned off by officials or others for private gain, and not go to help the countries very much?

Answer. Yes, one hears this view expressed in Europe. In addition, of course, there is