

COMMITTEE PRINT

SOME IMPORTANT ISSUES IN FOREIGN AID

COMMITTEE ON FOREIGN RELATIONS  
UNITED STATES SENATE

A REPORT

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AT THE REQUEST OF  
SENATOR BOURKE B. HICKENLOOPER



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## LETTERS OF TRANSMITTAL

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UNITED STATES SENATE,  
*June 24, 1966.*

HON. J. W. FULBRIGHT,  
*Chairman, Committee on Foreign Relations,  
Washington, D.C.*

DEAR MR. CHAIRMAN: Last year I asked the Library of Congress to examine the subject of foreign aid with particular emphasis on issues which have crystallized during the past few years. The Legislative Reference Service of the Library has now submitted a report to me entitled "Some Important Issues in Foreign Aid" which I believe should be made available to Members of the Senate and to the public in the form of a committee print.

There are some suggestions made in this study with which I do not agree. Nevertheless, it is most provocative and should be of great help not only to the Congress but to the administration in developing a program which will be more in the national interest. I believe also that the study will give the American people a better understanding of the complexity of some of the problems involved in an effective foreign aid program.

As you and members of the committee know, it has been my judgment in the past that the American system of free enterprise provides the best framework by which developing nations can create the greatest wealth in the shortest period of time for the greatest number of their people. Properly administered foreign aid can assist this process. This study makes that point in these words:

"The cost of economic development in the underdeveloped countries is so great that, in terms of sheer volume alone, the task cannot be accomplished without a large expansion in the movement of capital and human resources via the private initiative route. Almost everyone agrees that private initiative in foreign aid is essential but, thus far, little has been accomplished toward stimulating it to assume a leadership role."

I take this opportunity to express my sincere appreciation to Dr. Howard S. Piquet and his coworkers at the Legislative Reference Service, Mr. Elden E. Billings, Dr. Ernest Lent, and Mrs. Kay Wahner, for their contributions to this report.

Sincerely yours,

BOURKE B. HICKENLOOPER,  
*U.S. Senator.*

THE LIBRARY OF CONGRESS,  
*Washington, D.C., March 30, 1966.*

Senator BOURKE B. HICKENLOOPER,  
*U.S. Senate, Washington, D.C.*

DEAR SENATOR HICKENLOOPER: I take pleasure in enclosing our report "Some Important Issues in Foreign Aid," in response to your request for a "think piece" on the subject. It has been prepared under the direction of Dr. Howard S. Piquet, our senior specialist in international economics. He has kept in touch with Mr. George A. Pavlik, of your staff, and told him several weeks ago that the report would be ready for submission to you by the end of this month.

Yours sincerely,

LESTER S. JAYSON, *Director.*

## FOREWORD

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This report has been prepared in response to a request by Senator Hickenlooper for a "think piece" on foreign aid. It does not purport to be a comprehensive, or systematic, review of existing foreign aid programs, and no attempt has been made to catalog all the arguments, criticisms, and proposals of witnesses before committees of Congress, of Members of Congress themselves, of various committees and groups that have been commissioned to study foreign aid, or of the academic community.

The number of books, reports, and monographs that have been written on foreign aid is so great that to make a comprehensive study and review of them would require the services of a staff of experts over a long period of time, as well as concentrated investigation in the field.

The purpose of this report is to analyze certain key questions relative to the strengths and weaknesses of existing foreign aid programs, and to present arguments for and against their continuance.

Attention is given to the five major policy issues concerning which the Committee on Foreign Relations asked for advice in its October 1965 "Memorandum for the Use of Individuals and Organizations Assisting the Committee on Foreign Relations in Its Review of Certain Fundamental Policies Underlying U.S. Foreign Aid Programs."

The author wishes to thank Mr. Elden E. Billings, Dr. Ernest Lent, and Mrs. Kay Wahner for their assistance in preparing this report.

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## SOME IMPORTANT ISSUES IN FOREIGN AID

### I. INTRODUCTION

Attitudes toward foreign aid range all the way from unqualified opposition to virtually unqualified support. These wide divergences exist notwithstanding increasing public understanding of the world setting, which has been dominated by a "revolution of rising expectations" on the part of 1.5 billion people in Asia, Africa, and Latin America, and by persistent efforts on the part of Communist countries to capitalize on this unrest through relentless drives to submerge the West.

The peoples of Asia, Africa, and Latin America—most of whom have never enjoyed better than a minimum of subsistence—have awakened to the possibility of improving their lot in life. Since the close of World War II they have been in ferment, asserting their national identities and seeking economic development.

The Soviet Union and Communist China, though quarreling with each other, have as an objective the enlargement of their power in all areas where resistance is weak, especially in those underdeveloped countries where there is widespread poverty. The means for accomplishing their objective range from open military attack to internal subversion of many kinds.

Opinion in the United States is close to unanimous that there must be no relaxing of the free world's military preparedness efforts. There is a divergence of views, however, as to the forms that the military effort should take—whether major emphasis should be on American forces, or on Allied forces helped by American aid.

American observers in the field have been enthusiastic in their praise for the performance of the national troops of certain countries receiving large amounts of American military assistance; notably, Korea and Formosa. A Korean soldier, it has been pointed out, is just as efficient as an American soldier, but the cost of maintaining him is small compared with what it would cost to maintain an American soldier at the same post. The overriding truth is that what holds the Communists in check is not the existence of even strong national forces in such countries, but rather the knowledge that there is sufficient American military force in being to retaliate promptly and effectively in the event of Communist military attack anywhere.

The author of this report does not feel technically competent to deal with purely military questions. One does not have to be a military expert, however, to observe that military power displayed within the borders of another nation can never be more than temporarily popular. Sooner or later the presence of foreign troops will lead to resentment. To the extent that it is necessary, politically, to maintain military forces in a foreign country, such resentment is a price that must be paid. When the military objective itself ceases to be clear, however, the psychological advantages and disadvantages become blurred.

This might come to be the situation, some day, in West Germany because of the presence there of a large number of foreign troops.

In Vietnam, however, where land fighting is now heavy, the military considerations are so overpowering that psychological and economic questions are relegated to a secondary position.

On the economic side there is a wide divergence of views regarding the policies that should be pursued. Some, who are most strongly opposed to foreign aid in principle, believe the United States should concentrate on its own military and economic strength. On the military side they would have the country rely upon its own strength, emphasizing the Strategic Air Command and the development of missiles and other advanced weapons. They stress the importance of economic growth in the United States and advocate policies designed to bring about a large measure of economic self-sufficiency. This rather extreme view results from a conviction that the concept of an economic and military "Fortress America" is feasible. There is little opposition to aiding foreign victims of fire, flood, earthquake, and other national disasters, however, because aid of this type is justified on purely humanitarian grounds. Foreign aid, according to this view, is conceived of as charity and should not be extended beyond the scope of relief.

Less extreme, but more numerous, are those who oppose foreign aid, but who view it as a necessary, but temporary, phenomenon. Since they believe the concept "Fortress America" is untenable, they hope to strengthen foreign countries to a point at which they will be able to defend themselves. They hope that, after a reasonable time, countries now receiving economic aid will become able to stand on their own feet and no longer need direct assistance from the United States.

Those who would rely principally on home-based American military power are also critical of economic developmental aid. Although they are not opposed to voluntary private capital investment, they are critical of the grants of large amounts of capital to foreign governments for industrialization purposes. They point to the danger of rapid population growth as a major obstacle to economic development, and are convinced that there are not enough qualified Americans available to administer a large number of foreign aid programs. They are not necessarily opposed, however, to the expansion of such lending institutions as the International Bank for Reconstruction and Development and the International Finance Corporation which, for the most part, operate according to generally accepted business standards.

They anticipate that foreign aid can soon be terminated, or at least greatly curtailed, as the recipient countries become self-supporting. They see little reason, therefore, for abandoning the present practice of extending aid on a year-to-year, or at least on a Congress-to-Congress, basis.

At the opposite extreme are those who support developmental foreign aid but believe it will be needed for an almost indefinite future. They believe it is no longer possible for weaker countries to maintain their independence without assistance from their stronger free world partners. They emphasize the determination of the Communist countries to dominate the world and would expand the dictum "United we stand; divided we fall" to the entire free world community.

Although supporters of foreign aid appear to agree that the justification for such expenditure is that it maintains the security, and enhances the national interest, of the United States, there is not always agreement as to the meaning of the terms used. What is the national interest of the United States, and does it depend upon military assistance alone, or upon economic assistance as well? If it depends upon both, what should the proportion be between the two?

To those focusing primarily on the short run, national interest seems to mean the countering of immediate military threats. To them, aid that cannot be justified on this basis is humanitarian only and a luxury.

To those focusing on the longer run, the self-interest of the United States and a broad humanitarian outlook seem to converge. In the long run, they believe, it is in the self-interest of the United States to support independence and the self-determination of peoples everywhere. The position of the United States is more secure, it is maintained, in a world of free nations than in a world dominated by totalitarian dictatorships. The concept can be clarified by comparing the countries of the free world community at the present time with the United States, historically. The Federal Government of the United States has not expected the border States and the sea coast States to bear the cost of defense against foreign invasion. Since invasion is a common danger to every State the common defense is paid for out of common taxes which, in turn, are based on ability to pay, regardless of State lines.

The reasoning is similar in the field of economic responsibility. The Government of the United States, it is pointed out, has not hesitated to spend some of the tax revenues collected from the more prosperous States in less prosperous States.

The United States, however, is a sovereign nation, whereas today's free world is not a sovereign entity, but a community of sovereign states having vital common interests. The common interest in military security is not too difficult to define; the common economic interest is not as clear. Those who believe that the free world community must stand united against the common enemy of Communist aggression, and also build a world stable enough to withstand other, as yet unforeseen, threats believe that economic foreign aid and military defense are but different aspects of the same problem. Some defenders of foreign aid would say that wisely administered foreign aid could go far toward making unnecessary, not only the actual use of military power, but also the necessity of spending ever-increasing sums to maintain it. According to this view, foreign aid is likely to be of long duration.

Which of these views is correct is a matter for decision by the Nation as a whole. Two things, however, are clear. The first is that the United States must meet the threat of Communist imperialism; the second is that it must work toward stable economic relationships in the free world to provide a beneficial climate for both the needs of the growing American economy and the economies of the underdeveloped countries.

Notwithstanding the billions of dollars that have been given to underdeveloped countries in the form of aid, the gap between living levels in the poorer and the richer countries continues to be wide, and is becoming wider. Per capita incomes in the poorer 57 nations, ac-

counting for over 80 percent of the world's population, range between several hundred dollars in Latin America and \$50 to \$60 in some of the more populous countries of Asia and the Far East, compared with well over \$2,500 in the United States. The rate of savings in the poorer countries is low, accounting on the average for less than 5 percent of national income, compared with 15 percent in the United States. In the poorer countries capital is scarce, education is inadequate, and illiteracy is high.

Since the inclusion of "point four" in President Truman's inauguration address in January 1949, and particularly following the Korean war, attention has shifted more and more toward the developing countries of Asia, Africa, and Latin America. The Marshall Plan had been highly successful and it was assumed that it would be equally successful in the uncharted field of economic development. We are finally coming to appreciate that economic development is far more complicated than was the rehabilitation of the mature economies of Western Europe.

The problem of stimulating economic development in the backward countries has not been subjected to the careful attention and detailed studies that were made of economic assistance to Europe before the United States embarked upon the Marshall Plan in 1947-48. More or less unconsciously, we backed into aid for economic development in the underdeveloped countries. The ECA simply expanded its operations into the Far Eastern countries in 1949 and 1950 on much the same assumptions on which European economic recovery was based. Far Eastern aid began as a series of responses to particular crises and it was not until development programs had been established that studies began to appear on the purposes and possibilities of economic aid to the less developed countries.

The less developed countries are in political and economic ferment, and both the United States and the Soviet Union regard some of them as important battlefields in the struggle between Western type freedom and Soviet type dictatorship. What is unclear is the relationship between U.S. foreign aid and the spread and maintenance of democracy in those countries. In some quarters there is a disposition to assume that economic development will lead automatically to the spread of democracy of the U.S. variety. In consequence, whenever a country to which we have been giving aid does not stand by our side in the struggle against communism, there is a temptation to blame that fact on foreign aid, or at least to call for the termination of aid as an ineffective weapon against communism.

Notwithstanding these difficulties, there appears to be general agreement that U.S. foreign aid can be of great importance in certain situations. U.S. aid can help make economic development more likely to succeed in countries where there is an effective and moderate government that is determined to remain independent of Communist domination and to speed up its own development. However, there is always a risk that governments that fail at economic development, and which impose heavy burdens on their people, may be displaced by extremists who are likely to draw their countries into the Communist orbit, or to submit to authoritarian rule.

## II. BACKGROUND AND MAGNITUDE OF AID

Present U.S. foreign aid programs have their origin in the lend-lease philosophy of World War II, the small loan that was made to China in 1938, and the limited assistance given to certain Latin American countries in the early 1940's. The philosophy on which they are based is quite different from that which prevailed after World War I.

At that time inter-governmental foreign aid took the form of interest-bearing loans to our allies.<sup>1</sup> Germany defaulted on her reparations payments to them, and most of the Allies, in consequence, defaulted on their indebtedness to the United States, whereupon in 1931 President Hoover proclaimed a war debt "moratorium" which was tantamount to wiping the loans off the books.

In contrast, the lend-lease program, which was initiated in 1941, was based on the philosophy that the financial and economic aspects of war cannot be separated from its military aspects. It provided for a common pool of both the economic and military sinews of war. The materials needed for waging war were to be made available among the Allies in accordance with their needs and their ability to supply. There was to be repayment after the war, but it was to be in the form of unexpended war material and other goods and services, rather than in foreign exchange.

While the war was still being waged an international organization known as UNRRA (United Nations Relief and Rehabilitation Administration) was established, under which more than \$3 billion of raw materials, food, feedstuffs, clothing, and textiles were made available as relief, primarily to liberated countries that did not have the financial means to purchase them.

In 1944 an International Bank for Reconstruction and Development was established to help solve the problems of postwar economic reconstruction. After the cessation of hostilities in 1945, it became evident that additional means would be needed to rehabilitate Western Europe from the physical damage suffered during the war. In 1947 Secretary of State Marshall called upon Europe to specify what, as a group, they needed in the way of raw materials and equipment to make their economies viable, and committed the United States to consider their needs sympathetically. In April 1948 the U.S. Congress enacted the Foreign Assistance Act, providing for a European recovery program (which came to be known, popularly, as the Marshall Plan) for the economic reconstruction of Western Europe.

Under it, the United States was to make available approximately \$5 billion a year to the Organization for European Economic Cooperation (OEEC) which, in turn, apportioned the proceeds among the 17 cooperating countries.

Had it not been for the outbreak of the Korean war in 1950 the European recovery program probably could have been terminated long before 1952, the date planned. Notwithstanding the Korean war, the national incomes of the cooperating European countries were considerably higher by 1952 than had been anticipated.

The bulk of the foreign aid granted by the United States between the close of World War II and 1951 was for purposes of economic reconstruction—mostly in Western Europe, Japan, and Korea.

<sup>1</sup> In addition, substantial quantities of food were given to foreign peoples, largely under private auspices.

Meanwhile, in 1948, the United States came to the assistance of Greece and Turkey, which were threatened by Communist aggression. Then came the Korean invasion, and with it transformation of the aid program into one primarily of military assistance. Fifty-six percent of all aid funds made available between 1952 and 1959 was for military assistance. Since 1960, however, aid for economic purposes has been increasing relative to military assistance, and in 1964 accounted for 59 percent of the total (Table 1).

TABLE 1.—*Military and economic aid, 1948-64*

Period	Economic	Military	Total
(Billions of dollars)			
1948-51.....	10.8	1.0	11.8
1952-59.....	16.4	20.9	37.3
1960-64.....	11.6	7.8	19.4
<b>Total.....</b>	<b>38.8</b>	<b>29.7</b>	<b>68.5</b>
Percentage distribution			
1948-51.....	91.6	8.4	100
1952-59.....	44.0	56.0	100
1960-64.....	59.7	40.3	100
<b>Total.....</b>	<b>56.6</b>	<b>43.4</b>	<b>100</b>

Source: AID reports to Congress.

The breakdown into military and economic categories is not a clean-cut one, however. Following 1950 a large part of the foreign aid labeled "economic" had a strong military complexion. Included was money spent to bolster the economies of countries to whom we were granting military aid. For example, of the \$3.1 billion of foreign aid funds appropriated for foreign aid in 1958, over \$1.8 billion was for direct military assistance, while \$0.8 billion was for "defense support," leaving only \$0.5 billion for "nonmilitary" aid. Over the past 20 years the United States has appropriated more than \$115 billion for foreign aid, more than half of it for military and "defense support" purposes. In the 1950's, after the pressures of the cold war eased, greater stress was placed upon aid for economic development. Even then, foreign aid requests from Congress continued to be justified primarily on political rather than economic grounds.

In 1961 President Kennedy emphasized economic development, particularly in his first foreign aid message to Congress and in his subsequent address before the United Nations. In that year economic aid in the form of development assistance and grants for technical cooperation accounted for slightly less than 25 percent of all foreign aid. Since then, development assistance has accounted for an increasing share of the total until, in fiscal 1964, it accounted for about 45 percent of total commitments. Of the \$3.5 billion committed in that year military assistance accounted for \$1.2 billion (34 percent) and economic assistance in the form of development loans and technical cooperation for \$1.6 billion (45.7 percent). Commitments for economic support of countries receiving military assistance (mostly Vietnam), together with the contingency fund, contributions to

international organizations, schools, hospitals, and administrative expenses accounted for the remaining \$0.7 billion. Development loans, as such (including the Alliance for Progress), totaled \$1.3 billion, or 37 percent, of all foreign aid commitments).

The bulk of U.S. military assistance prior to 1951 went to Europe. Since 1951 most of it has gone to countries on the periphery of the Communist bloc, in the Far East, the Near East, and South Asia. Military assistance to Europe declined from \$0.8 billion in 1960 to \$0.3 billion in 1964 (Table 2).

TABLE 2.—*Military assistance, by area, 1948-64*

[In billions]

Area	1948-59	1960-64	Total
Total.....	\$21.8	\$9.9	\$31.7
Near East and South Asia.....	3.1	2.2	5.3
Latin America.....	.2	.5	.7
Far East.....	4.9	3.8	8.7
Africa.....	( <sup>1</sup> )	.1	.2
Europe.....	12.9	2.9	15.8
Oceania.....	( <sup>2</sup> )	( <sup>3</sup> )	.1
Nonregional.....	.8	2	1.0

<sup>1</sup> \$31,000,000.    <sup>2</sup> \$25,000,000.    <sup>3</sup> \$40,000,000.

Source: AID reports to Congress

TABLE 3.—*Economic assistance, by area, 1948-64*

[In billions]

Area	1948-59	1960-64	Total 1948-64
Total.....	\$27.2	\$11.2	\$38.4
Near East and South Asia.....	4.2	4.2	8.4
Latin America.....	.5	2.4	12.9
Far East.....	5.9	2.2	8.1
Africa.....	.4	1.2	1.5
Europe.....	15.0	2.2	15.2
Oceania.....			
Nonregional.....	1.1	1.1	2.2

<sup>1</sup> Including Social Progress Trust Fund totaling \$396,000,000 in the period 1962-64.

<sup>2</sup> 1960—\$95,000,000, 1961—\$91,000,000, 1962—\$15,000,000, 1963—\$2,000,000, 1964—\$2,000,000.

Source: AID reports to Congress.

Western Europe was the principal recipient of U.S. economic assistance during the earlier period. Since 1960 the principal recipients have been the Near East and South Asia, Latin America, and the Far East (Table 3). In the earlier days of the aid programs most economic assistance was in the form of grants. Since 1960 loans and grants have been about equal in volume. In all areas except the Far East and Africa, loans are now larger than grants (Table 4).

In retrospect, and in contrast with foreign aid being provided at the present time, the Marshall Plan was conceptually and administratively simple. All that was necessary for the economic reconstruction of Western Europe was the granting of sufficient funds to procure food, fuel, fertilizer, and capital equipment that were in short supply. The recipients of aid were fundamentally similar to ourselves in terms of social and legal institutions and economic organization.

Once the economic means became available, the Europeans did the rest. Physical production was soon restored and the European economies became viable. Since 1952, indeed, Europe has become so prosperous that many American business firms are concerned over European competition not only within Europe, but in the United States itself and in other parts of the world.

Furthermore, although it is difficult to know when, and where, to give it, the actual supplying of military assistance is not a very complex process. It consists primarily of supplying tanks, trucks, jeeps, military advisers, and training. The transition from economic aid given under the Marshall Plan to military aid provided for under successive military assistance programs, therefore, was not a very difficult one.

However, assistance for the development of economically underdeveloped countries, which accounts for almost half of today's foreign aid, is much more complex than either the Marshall plan or the military assistance programs.

TABLE 4.—*Economic assistance, by area and by type, 1948-64*

[In billions]

	1948-59		1960-64		Total 1948-64	
	Loans	Grants	Loans	Grants	Loans	Grants
Total.....	\$3.5	\$23.7	\$5.3	\$5.5	\$8.8	\$29.2
Near East and South Asia.....	1.0	3.2	3.0	1.2	4.0	4.4
Latin America.....	.1	.4	1.4	.5	1.5	.9
Far East.....	.4	5.6	.2	1.9	.6	7.5
Africa.....	.1	.2	.5	.7	.6	.9
Oceania.....						
Nonregional.....		1.1		1.1		2.2

Source: AID reports to Congress.

Although it is easy for Congress and the public to decide to transfer funds from military assistance to economic development, it is not easy to implement the decision, for it involves conceptual and theoretical difficulties that were not even dreamed of under the earlier programs. Only now are we coming to realize that economic development is a highly complex concept and that its accomplishment is not a simple function of the amounts of money spent.

If economic development were simply a matter of appropriating funds there would be relatively little to worry about. All that would be necessary would be to appropriate ever larger sums of money, with the simple faith that if two aspirin tablets can cure a headache a whole bottle of them will cure any and all ills.

Instances have been cited where economic development assistance would be more effective if the funds available were actually smaller, rather than greater. Availability of funds is only one factor in the complicated process of economic development. Sociological, psychological, ethical, moral, and even religious considerations are involved. To understand fully the process of economic development one would need to know the details of economic history in all of their ramifications. He would need to be economist, technician, sociologist, and psychologist all rolled into one. A number of technicians and engi-

neers who have returned from the field have seen many of their fondest hopes dashed to the ground because too much emphasis was placed on science, technology, and engineering and not enough on *people* and social institutions.

Revival of the economies of Western Europe was relatively simple, compared with what we are now trying to do with respect to economic development in the backward countries. Europe had a wealth of trained workers and experienced managers, as well as imaginative entrepreneurs. All that had to be done was to provide them with the tools to enable them to do the job. European civilization and American civilization are basically similar; law and order and emphasis on the rights of the individual lie at the base of both.

Economic development of the backward countries, in strong contrast, must start with the building of school systems; with the creation of governments and new social and economic structures, and with changing deep-seated attitudes of millions of people. These are the prerequisites that must be realized before economic progress can get started. For this reason, the Marshall Plan does not provide a pattern that can be followed in extending aid to the less-developed countries.

Current "economic" assistance can be broken down into three broad categories, as follows:

1. Approximately \$370 million is for *supporting assistance* and \$50 million for the contingency fund. These two kinds of assistance are used primarily in countries where security considerations predominate. Almost 90 percent of all supporting assistance is for use in Vietnam, Laos, Korea, and Jordan. These figures are considerably lower than in earlier years. In 1960 over \$1 billion was used for this purpose. Supporting assistance has been terminated in 13 countries, where sufficient progress has been made toward stability to enable the United States to convert its aid from temporary support to long-term economic development.

2. Aid for *economic development*, in the form of development loans and grants for technical assistance, now approximates \$1.7 billion a year. In 26 countries economic assistance has been terminated. The latest, and one of the most notable, examples is the Republic of China (Taiwan) where assistance from the United States ended in 1965. Over the past decade the gross national product of Taiwan has increased 45 percent, while industrial output and exports have tripled. Administrators of foreign aid use Taiwan as an outstanding example of what foreign aid can accomplish.

3. Contributions to international organizations, such as the United Nations Special Fund, the United Nations Children's Fund, and the Indus Basin Development Fund, account for another \$155 million. In addition, \$65 million has been appropriated for administrative and miscellaneous expenses.

Broadly speaking, countries receiving aid may be divided into two broad groups, the "strategic" and the "nonstrategic" countries.

The strategic countries are those to which we are extending aid because of U.S. military bases on their soil and because heavy military burdens are considered necessary to resist military pressure from Communist countries. At the present time there are at least seven such countries—Korea, Formosa, Vietnam, Laos, Pakistan, Turkey, and Spain. Since the Marshall plan came to an end in 1952 the

United States has extended economic aid, in one form or another, to almost 100 countries. Of the more than \$33 billion that has been appropriated for this purpose, almost one-third has gone to these countries, in addition to substantial direct military assistance.

Generally speaking, our assistance to the strategic countries has caused little in the way of genuine economic development. Because the waste and corruption that has been uncovered has been principally in these countries, the public and Congress have expressed serious misgiving regarding foreign aid to them.

In these countries economic and military considerations are closely intertwined and our objectives in them are dual. They are primarily military, but they are supplemented by such economic assistance as is necessary to make military assistance feasible. Certain projects that would be of great importance from a strictly economic developmental point of view have had to be shelved, from time to time, in favor of projects that are essential to meet urgent military requirements. There are some who maintain that we have been prone to abandon longrun economic developmental objectives in these countries too easily.

Some of the other countries (nonstrategic) to which economic developmental assistance is being given, notably in Latin America, have been politically independent for generations. In some of them are found the greatest extremes between wealth and poverty. Their social patterns are jealously guarded against change largely because of the self-interests of powerfully entrenched groups. Other countries, particularly in Asia and Africa, are newly independent but are plagued by poverty, disease, ignorance, and social and economic backwardness. At the same time, they are conscious of the great wealth and better living conditions in the more highly developed countries and are pressing hard for improvement under what has come to be known as the "revolution of rising expectations." Many of these countries are characterized by emotionally charged nationalism, by resentment against the United States, and by impatience with the slowness of economic growth. Most of them lack the institutional structure, the experience, the personnel, and even the state of mind necessary to operate as a modern economy.

The Communist countries miss few opportunities to generate friction, to compound misunderstanding, and to disrupt constructive efforts to solve pressing problems in these countries. They are targets for their programs of subversion, economic warfare, propaganda, and intimidation.

### III. OBJECTIVES AND ACCOMPLISHMENTS OF AID

The objectives of foreign aid, which are multiple and complex, are not always consistent with each other and, with respect to individual countries, are sometimes vague and timeless. Generally speaking, our foreign aid programs appear to be based on three broad principles; namely, (1) that foreign aid is extended primarily to counter communism, (2) that the United States is committed to long-range programs for economic development in the less-developed countries, and (3) that aid should be confined to nations that try to help themselves. Expenditures for foreign aid are supposed to achieve democracy, freedom, and higher levels of living in the underdeveloped world.

Furthermore, it is presumed that foreign aid will promote the broad aims of U.S. foreign policy.

The objectives of foreign aid, as stated in section 102 of the Foreign Assistance Act of 1961, as amended, are:

1. To help assure peace in a worldwide atmosphere of freedom;
2. To continue to provide assistance by aiding the peoples of less-developed friendly countries to develop their resources, to improve their living standards, to realize their aspirations for justice, education, dignity, and respect as individual human beings, and to establish responsible governments;
3. To demonstrate that economic growth and political democracy can go hand in hand, thereby reducing world tensions and insecurity;
4. To encourage the development of free economic institutions and productive capabilities and to minimize barriers to the flow of private investment capital;
5. To support increased economic cooperation and trade among countries, freedom of the press, information, and religion, and freedom for all persons to travel and pursue their lawful activities without discrimination as to race or religion;
6. To support these principles in our relations with countries friendly to the United States, but which are in controversy with each other, in such ways as to promote adjudication of the issues involved by means of international law procedures;
7. To make assistance available, upon request, essential to the creation of an environment in which the energies of the people of the world can be devoted to constructive purposes, free of pressure and erosion by the adversaries of freedom;
8. To complement assistance by furnishing, under any other act, surplus agricultural commodities and excess property;
9. To reaffirm the conviction of Congress that the peace of the world and the security of the United States are endangered as long as international communism continues to attempt to bring under Communist domination peoples now free and independent, and to keep under domination peoples once free but now subject to such domination;
10. To continue to make available to other free countries the assistance necessary to help them maintain their freedom;
11. To continue to cooperate with regional organizations of free peoples for mutual assistance, such as NATO, OECD, and the EEC.
12. To urge all other countries that are able to contribute to join in a common undertaking to meet the goals herein stated.

Military assistance is retained in the law. In the Far East emphasis continues to be on military and supporting assistance, to help threatened countries defend themselves against Communist aggression and subversion. Even in this region, however, efforts are continuing to shift from security support to economic development wherever possible.

Several years ago the Legislative Reference Service examined the Presidential messages and the testimony before committees of Congress by leading administration witnesses, made after 1950, in con-

nection with foreign aid legislation.<sup>1</sup> It found that five major arguments have been advanced, with rather consistent frequency and emphasis, in support of foreign aid. It is asserted that foreign aid will:

1. Help build a strong free world alliance which is essential to U.S. security.
2. Help U.S. allies build adequate defenses without imperiling their basic economy.
3. Provide a more economical defense for the United States in terms of money and manpower.
4. Help deter Soviet aggression and to meet it more effectively if deterrence should fail.
5. Help raise living standards in the less-developed areas and thus make Communist claims less attractive.

In addition, the survey disclosed 10 other arguments in support of foreign aid. According to them the purposes of foreign aid are to:

1. Help insure continued access to vital raw materials;
2. Help maintain strength for a long-term struggle with the Soviet bloc;
3. Raise living standards in the less-developed areas and thus help lay the foundation for a world of prosperity, political freedom, and international cooperation;
4. Help build self-sustaining economies, including the defense establishment, in allied countries;
5. Help provide the United States with military bases at strategic points around the world;
6. Speed up European defenses to meet the then-immediate crisis (mostly 1951-53);
7. Help develop a favorable attitude toward the United States, especially in Asia and the Middle East (mostly 1951-53);
8. Help stimulate increased American private investment in underdeveloped areas;
9. Help increase American exports and develop markets for future exports in the underdeveloped areas; and
10. Help provide employment for hundreds of thousands of Americans (mostly 1958).

In 1957 a study submitted by the Center of International Studies of the Massachusetts Institute of Technology to the Special Senate Committee To Study the Foreign Aid Program stated that American foreign policy "must meet the following twofold test":<sup>2</sup>

First, it must prevent any diminution of relative U.S. military strength which might encourage a potential hostile power to conclude either that it might win a big war, or that it could threaten or force us into degenerative step-by-step appeasement and isolation. Further, U.S. policy must minimize the likelihood of war by miscalculation; and it must give us the capability to win a war, should one be forced on us, on politically advantageous terms.

Second, our strategy must not require us, in order to preserve a stable balance of power, to sustain a posture corrosive of our central values, procedures, and institutions. We must avoid the dilemma of being forced, for the sake of survival, to stunt our vitality as a free society.

<sup>1</sup> "U.S. Foreign Aid: Its Purposes, Scope, Administration and Related Information," 86th Cong., 1st sess., H. Doc. No. 116, June 11, 1959.

<sup>2</sup> Reprinted in "The Foreign Aid Program," printed pursuant to S. Res. 35 and 141, 85th Cong., July 1957, Government Printing Office, Washington, D.C.

If the United States could achieve these manifold objectives by the expenditure of a mere \$3 to \$4 billion a year, which is less than 4 percent of the Federal budget, it would be the greatest bargain in history. They are so diverse and so inclusive that one's first impression is that foreign aid is akin to a shotgun that is aimed at multiple targets at fairly long range. If a shot hits a target it appears to be the result of accident rather than of careful aim.

Unless we are clear as to the purposes of foreign aid, and unless social and political realities in the developing countries are taken into account, as well as international relations generally, it can hardly be expected that the programs will succeed.

It would appear reasonable to bring together these assorted objectives of foreign aid under the following broad headings: (1) to enhance the military security of the United States by strengthening those foreign countries that are particularly vulnerable to Communist attack; (2) to halt the spread of Communist infiltration; (3) to assist economic development in the less-developed countries; and (4) to demonstrate that democracy, private enterprise, and economic abundance are closely interrelated, and that the American system is preferable to totalitarian dictatorship. These objectives are so broad that it is often difficult to judge whether any particular program is on target. Also, they are so broad that it is unrealistic to expect that they can be achieved over a short period of time. It is essential that one's thinking be adjusted from months and years to decades and generations.

#### IV. SOME PROBLEM AREAS: THE QUESTIONS STATED

Solutions to many of the problems that have been raised regarding foreign aid begin to emerge after the objectives of the programs are clarified. An attempt is made herein to bring together some of the more important questions that are frequently asked with respect to the purposes of foreign aid and their implementation. Answers to the administrative and organizational questions depend, for the most part, upon answers to more fundamental questions regarding philosophy and purpose.

Perhaps the most important question of all is the degree to which, and the manner in which, foreign aid should be used as an instrument of U.S. foreign policy. This question is so central, and so important, that it needs to be answered before attempts are made to answer more specific questions. After it has been answered, attention can be turned to the following questions:

##### *I. Questions with respect to national security*

1. To what extent are military considerations of overriding importance in foreign aid programs?
2. To what extent, if at all, is military assistance inconsistent with aid for economic development, as such?
3. How effective is economic assistance as a weapon against the inroads of communism?
4. How are our foreign aid programs related to world peace?

##### *II. Political questions*

1. To what extent should short-run political considerations be involved in foreign aid?

2. How effective is the utilization of agricultural surpluses as an instrument of foreign aid?

3. To what extent does an "American presence" in foreign countries as the donor of aid help, or hurt, the United States?

4. Should the United States insist upon greater performance with respect to self-help on the part of countries receiving aid?

5. To what extent does governmental aid to the governments of the less-developed countries weaken the private sector, relative to the public sector, of those economies?

### *III. Questions regarding the economics of foreign aid*

1. How does "economic development" differ from "economic growth"?

2. Are there instances where our economic development programs have been successful?

3. What are the principal requisites for economic development?

4. What role does agriculture play in economic development?

5. Is there a worldwide shortage of capital?

6. What cultural changes need to be made in the less-developed countries?

7. What structural changes need to be made in the developed countries that are giving aid?

8. What is the relationship between international trade and economic development?

9. What is the outlook for mineral production in the less-developed countries?

### *IV. Questions regarding population growth and economic development*

1. Why is it that the poorer countries are also the most over-populated countries?

2. Why is it that, throughout history, certain countries have developed economically, while others have not?

3. What is the relationship between the "standard" of living, the "level" of living, and population growth?

4. How important is birth control to economic development?

5. How can we break the vicious circle of poverty—increasing food supply—increasing birth rates—increasing population—poverty? U.S.

### *V. Questions regarding private enterprise, administration and finance*

1. How can the flow of private capital from the more-developed to the less-developed countries be stimulated?

2. How can the private technical and institutional skills of the developed countries be tapped for purposes of economic development in the less-developed countries?

3. To what extent should aid be given on a multilateral basis?

4. Would longer-than-annual congressional authorizations for foreign aid be desirable?

5. How centralized should the administration of aid programs be?

6. Is Congress too greatly concerned over administrative details?

7. How costly are our foreign aid programs relative to:

(a) The Federal budget?

(b) The balance-of-payments deficit?

8. Are loans preferable to grants?

## V. FOREIGN AID AND U.S. FOREIGN POLICY

By its very nature, foreign aid is an instrument of foreign policy, even though the fact may not be loudly proclaimed. The very act of giving, or withholding, aid is a matter of foreign policy. It is a foreign activity financed, or assisted, for reasons beyond simple U.S. convenience, and it is recognized as such by those receiving the assistance. The fact is not altered by any desire to "avoid strings," by basing the receipt of aid on some sort of a "right" to receive it, or by efforts to preserve the dignity of recipient countries. As an instrument of foreign policy, the degree of commitment may vary from very little to very much, depending upon the situation and the size and importance of the assistance.

Official explanations of the purposes of foreign aid emphasize that assistance to other countries is for the purpose of enabling them to maintain independence against foreign political domination and to become economically self-supporting. Such objectives, of course, are so general that they can include a large variety of specific objectives.

In recent years increasing official emphasis has been placed on the role of foreign aid as an instrument of foreign policy. In his 1965 testimony before the Senate Foreign Relations Committee Secretary of State Rusk stated that the fundamental reasons why the United States conducts programs of economic aid is to support the interests of the United States, in the broader sense, around the world.<sup>1</sup> Earlier (1962) President Kennedy stated the foreign policy objectives clearly when he said that, "Foreign aid is a method by which the United States maintains a position of influence and control around the world, and sustains a good many countries which would definitely collapse, or pass into the Communist bloc."<sup>2</sup>

These statements are not necessarily inconsistent with the flood of official statements stressing the idealistic and humanitarian motivations of the aid programs.

As one studies the history of U.S. foreign aid programs, starting with the Marshall Plan in 1947, he is impressed by the fact that what sparked foreign aid in the very beginning, and which is still a major reason for its continuation, has been the Communist challenge to the national security of the United States.

Figures presented in the administration's "Summary Presentation" to Congress for fiscal 1966 divide all appropriations for foreign assistance into two categories—military and economic. The economic category is about twice as large as the military, accounting for approximately two-thirds of the total. However, the presentation does not clearly state that two-thirds of the aid is for "economic" purposes. The classification of all aid as either military or economic obscures the fact that part of the aid is extended for political purposes.

Certain writers have given the impression that, because some aid is given for political purposes, it is, by virtue of that fact, sinister or something of which to be ashamed. For example, Mr. Walter Friedenberg, of Scripps-Howard, said in 1963 that the "one, great

<sup>1</sup> Senate Foreign Relations Committee, hearings on the Foreign Assistance Act of 1965, p. 5

<sup>2</sup> Speech before the Economic Club, New York City, December 1962

unmentionable motive of the American aid programs: to gain desired political ends." He wrote:

Normally, U.S. officials from the President down say our aid is aimed at "assisting other countries to maintain their national independence and become economically self-supporting." That's true, but it is so blandly stated that it tells only half the story. Foreign aid, our top policymakers know, is international politics. But they're not supposed to say so aloud. The rationale for the hushup: What would be gained here by injecting more realism into the annual debate on foreign aid would be lost through the resentment stirred up in the recipient countries.<sup>1</sup>

Even those having only superficial familiarity with history know of the political machinations of rulers and statesmen bent on domination of their neighbors. It does not follow, however, that all international political activity is associated with such motivation. Entry of the United States into World War II which, in the opinion of many, was too long delayed in view of the overt acts of Hitler and Mussolini, could hardly be called sinister from any commonsense point of view. Yet, the action was politically motivated.

Difficulty arises from an habitual fuzzy use of the terms "policy" and "political." According to Webster's Third New International Dictionary—

*Policy* means a definite course, or method, of action selected \* \* \* to guide and determine present and future decisions; or a specific decision, or set of decisions, designed to carry out such a chosen course of action.

*Political* means of, or pertaining to, government or governmental affairs; or relating to matters of government, as distinguished from matters of law.

*Political action* is defined as action designed to attain a purpose by the use of political power, or by activity in political channels.

Thus, any action by, or through, government is *political*, by definition. Such action does not have to be sordid, or based upon personal or national ambition—although upon occasion it may be.

Policy and political action may be either good or bad, effective or ineffective. The fact that it is "political," in and of itself, is immaterial. It is just as illogical to condemn anything because it is political as it would be to condemn all firearms as harmful because murderers use them. An automatic revolver is harmful in the hands of a thug, but quite beneficial in the hands of an officer of the law.

Judgment regarding the purposes of foreign aid ought to be based, not on the fact that they may be political, but on their own merits. Obviously, Winston Churchill did not conceive of the Marshall Plan as something sinister when he called it "the most unsordid act in human history."

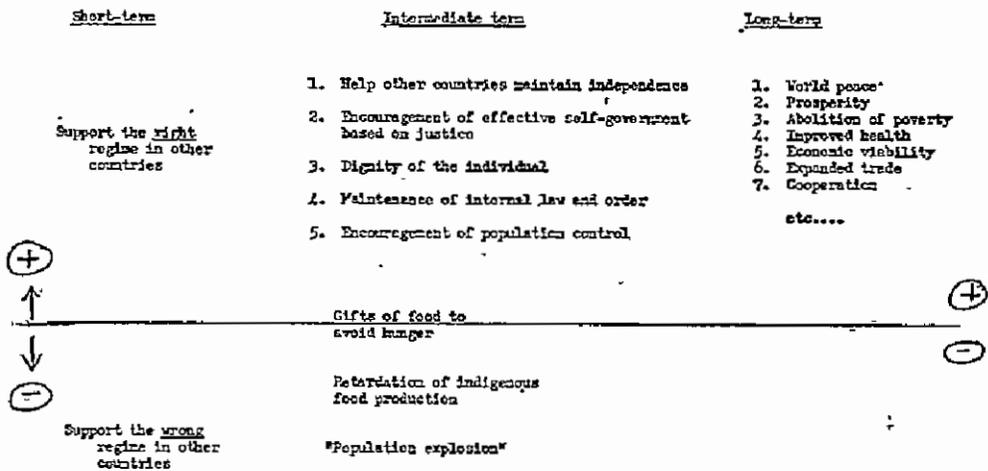
The question on which interest should center is not the futile one of whether, or the degree to which, foreign aid programs are political in nature, but whether the purpose of any action is consistent with the longrun objectives of the United States.

There was no serious European criticism of the Marshall Plan because of any suspicion of the shortrun political motives of the United States. This was because it was abundantly clear that the purpose of the plan was to facilitate the economic rehabilitation of Western Europe. It was hoped, in both Europe and the United

<sup>1</sup> Cited in Andrew Tully and Milton Britten, "Where Did Your Money Go? The Foreign Aid Story." New York, Simon & Schuster, 1964, p. 189.

States, that such rehabilitation would result in: (1) restoration of the economic viability of Western Europe, which would relieve considerable pressure from the United States, and (2) the political integration of Western Europe. In the light of European history it required little insight to reach the conclusion that a politically and economically integrated Europe would be less likely to breed world wars than a Europe of individual nation-states. The prospect of ending the traditional animosity between France and Germany, alone, was well worth the effort that went into the formulation and execution of the Marshall Plan.

FOREIGN POLICY OBJECTIVES



**EXPERTS NOT ALWAYS CLEAR**

Sometimes, even experts on political affairs are not clear regarding their distinctions and differences. Some of the confusion arises from personal likes and dislikes, but much of it arises from lack of clarity regarding the time period over which judgments are made. With most official statements of the longrun objectives of U.S. foreign policy there can be no serious disagreement. To disagree with them, in fact, would be akin to taking issue with the desirability of the "good" and the undesirability of the "bad." Who, for instance, could disagree with such obvious criteria of virtue as God, love, mother, and patriotism? Who can take issue with the desirability of world peace, worldwide prosperity, the eradication of poverty, a more abundant life for everyone, economic viability, and healthier world trade?

But, say some, these statements of objectives do not constitute "foreign policy." Foreign policy consists of day-to-day decisions leading to attainment of something approximating the obviously desirable longrun goals.

Both points of view are correct, and both are also in error, because neither makes clear the time period under consideration. The accompanying oversimplified diagram is intended to make this clearer.

At the far left of the diagram are indicated actions and policies of the moment, while at the extreme right are the longrun objectives of foreign policy. In between are intermediate-run actions and attitudes that may, or may not, be consistent with the longrun

objectives. Actions and attitudes shown above the horizontal line are "pluses," in the sense that they are consistent with attainment of the longrun objectives, while below the line are minuses representing actions and attitudes that are inconsistent with them.

In the intermediate time period it seems clear that maintenance of the independence of peoples, effective self-government, maintenance of internal law and order, enforcement of justice with emphasis on the dignity of the individual, and economic viability accompanied by increased productivity, are all consistent with attainment of the longrun objectives.

But, what about gifts of food to hungry peoples in the less-developed countries? Are such gifts consistent with attainment of these objectives? Certainly, the avoidance of impending famine is obligatory on humanitarian grounds. It is not so clear, however, that large gifts of food are consistent with them. For, while relieving hunger, they might well have the effect, in certain areas, of retarding indigenous food production. Even more serious, and in accordance with the principles of population growth, the easy provision of food on a giveaway basis, or even an increase in indigenous food production, can result in such rapid increases of population as to negate the benefits of the increased food supply. If this happens, there is inconsistency between the giveaway food policy and attainment of long-term foreign policy objectives. For the same reason, encouragement and attainment of population control, via whatever methods the recipient countries may choose, is on the plus side of the diagram because it makes it possible for levels of living to rise.

Judgment is most difficult of all with respect to actions and attitudes in the very short run because here is where it is essential to have foresight. In hundreds of day-to-day problems decisions must be made, as far as possible, on the plus side of the diagram. Hindsight is better than foresight, and it is easy to cite instances where foreign policy-making officials have made wrong decisions. For example, should the regime of "Mr. X" or "Mr. Y" be supported in a politically highly unstable country? The essence of genius in formulating foreign policy does not lie in stating the fairly obvious long-run objectives, but in knowing what to do on a day-to-day basis regarding real people and real forces in dozens of trouble spots throughout the world. It is easy to criticize the decisionmakers after decisions have been made. It is not at all easy, however, to make decisions with calm confidence that they will all be on the plus side.

#### MILITARY ASSISTANCE FOR POLITICAL PURPOSES

It is almost impossible to classify foreign aid into the three deceptively neat categories—military, economic, and political. One illustration of military assistance which is extended primarily for political purposes is called "Free World Orientation," the purpose of which is to preclude, or minimize, Communist bloc influence. In the words of the Secretary of Defense, "the basic justification common to all programs in the free world orientation category is the need to manifest U.S. interest and prevent a weighting of the scale which would upset the delicate balance of certain nonallied nations and cause them to fall quickly and finally to the Communist side." He also stated that "the section labeled 'Free World Orientation' includes countries

for whom we are providing military assistance largely for political reasons." <sup>1</sup>

The training of military personnel of other countries at American schools and installations also has political overtones. The chairman of the House Foreign Affairs Committee, speaking on the floor of the House, stated that:

Every critic of foreign aid is confronted with the fact that the Armed Forces of Brazil threw out the Goulart government and that U.S. military aid was a major factor in giving these forces an indoctrination in the principles of democracy and a pro-U.S. orientation. Many of these officers were trained in the United States under the AID program. They knew that democracy was better than communism. <sup>2</sup>

Also having a political complexion are the "civic action programs" which are included under military assistance. Such programs involve the participation of military personnel of recipient countries in such economic projects as the construction of roads and dams. These projects afford civilian populations visible evidence that their governments and their military are endeavoring to improve the lot of the average citizen. It is anticipated that such programs will help lessen vulnerability to the subversive efforts of Communist agents.

Military assistance programs in Latin America and Africa are directed primarily toward internal security and civic action. Nineteen countries in Latin America and 11 countries in Africa have received some military assistance. According to the Secretary of Defense, the major objective of military assistance in Latin America is "to create political stability." There can be little question but that numerous countries are receiving military aid, not because of any direct contribution they might make to the military defense of the United States, or because of their strategic geography, but because there is a political reason for cultivating the generals and the admirals in power.

#### ECONOMIC ASSISTANCE FOR MILITARY PURPOSES

Just as it is difficult to draw a clear line between military assistance, as such, and military assistance given for political purposes, so also is it difficult to distinguish between pure economic assistance and economic assistance oriented toward military objectives.

For example, the purpose of a hydroelectric system is obviously economic development. However, if it is a plant, the output of which is to be used to power a defense industry complex, it would also have a military purpose. This would also be the case if the plant, whatever its final use, is offered to a government as part of an agreement under which the primary U.S. interest is to acquire rights to a military base. It might also be intended that construction of the plant should gain support for some political objective, or to provide a symbol of modernism, or to enhance the prestige of the ruling group in the country. This would be economic assistance, to be sure, but the more important purpose would be political. The plant, itself, might or might not contribute significantly to economic development.

This difficulty of classification is not a phenomenon unique to foreign aid. It is an accounting difficulty that arises in almost any government or business. A municipality, for example, spends a sum

<sup>1</sup> Foreign Relations Committee, hearings on the Foreign Assistance Act of 1965, pp. 45-47.

<sup>2</sup> Congressional Record, May 24, 1965, p. 10640.

of money for some new fire trucks. The accounting system includes a fire prevention account and a transportation equipment account. Should the new fire trucks be charged to the former, or to the latter account?

If it happens to be a small community and purchase of the fire trucks represents a substantial outlay, it might be classified as neither, but as a capital investment to be written off, over a period of time, as either expenses for fire prevention or as automotive expenses in connection with automotive equipment. In any accounting system decision must be made whether to charge expenditures according to the basis of the objects on which funds are spent, or the functions for which the expenditures are made.

Applying this reasoning to the cost of the hydroelectric plant referred to above, the outlay would be for economic development, if the accounts are set up on the basis of the objects on which expenditures are made, or as military, or political assistance if they are set up on a functional basis.

It is particularly difficult to disentangle military assistance, economic assistance, and political motivation with respect to the strategically located countries. These countries are on the geographical periphery of the free world and there is widespread feeling that they need to be strengthened on all fronts, and held within the free world orbit, simultaneously. It is in the interest of the United States that these countries be able to defend themselves, as far as possible, against Communist attack and infiltration. Since they cannot themselves afford the necessary defense expenditures, the United States has helped them by providing them with a combination of military hardware, military training, and direct and indirect financial assistance. In the past, economic assistance served the same purposes as military assistance, and in a few of them it still does. Assistance to these countries has increasingly been focused on their economic developmental needs while expanding their ability to support their own defense.

Aid officially designated "supporting assistance" is economic aid that is directly in support of military, or political purposes. Supporting assistance in fiscal 1966 totaled \$380 million, before an additional \$80 million was requested for southeast Asia. Another \$50 million was for the contingency fund which is used to meet urgent assistance needs, such as Communist attack or internal subversion which is not foreseen, or cannot be accurately estimated in advance. In the administration's summary presentation for fiscal 1966 the total for "military and supporting assistance" was \$1,688 million, or slightly more than the items lumped together as "development assistance" (development loans, Alliance for Progress loans, technical cooperation, and Alliance for Progress technical cooperation—totaling \$1,667 million).

#### ECONOMIC ASSISTANCE FOR POLITICAL PURPOSES

It is not surprising that "economic assistance" should, upon occasion, be used for purposes that are "political," notwithstanding the indignation that it causes in the minds of certain purists. There is no necessary implication of wrongdoing, in the sense of misuse of public office, because development assistance of some kind by the

United States, while fully serving as an instrument of U.S. foreign policy, might make it possible for a U.S. Ambassador to have easier access to a Foreign Minister or head of state. Foreign aid can be a valuable channel for influencing a country's policy in some wholly salutary direction, such as more peaceful relations with neighboring states.

Mr. David Bell, the outgoing administrator of AID, has frankly admitted that it is a hope of the administration to influence governments in recipient countries toward more specific rules in their foreign relations. In the hearings before the Senate committee he said:

While I don't know the Egyptian story with any detail, I know that it is the view of those who have been responsible, Secretary Rusk, Phil Talbott, and the others, that over the last several years our AID relationship has permitted us to work with Nasser in ways which no international agency could have accomplished for us, because it wasn't their particular interest. It would not be an international bank's role to seek to influence Nasser in his attitude toward Yemen, Saudi Arabia, or Israel.<sup>1</sup>

The report of the Clay Committee gives the impression that a number of short-run decisions with respect to foreign aid have been made so hastily that they have not been in line with the long-run foreign policy objectives of the United States. On page 8 of its report it is stated that:

Some aid projects have come into being as gifts to prove our esteem for foreign heads of state, hastily devised projects to prevent Soviet aid, gambles to maintain existing governments in power, leverage for political support, and similar reasons.<sup>2</sup>

It is alleged that the United States has used foreign aid as leverage to influence voting within the United Nations. There are some who believe we should not use foreign aid as a club to demand a vote favorable to our side in this organization. On the other hand, it might be asked why it is not perfectly proper for the United States, within reason, to exert its influence within the United Nations, since a major long-run objective of U.S. foreign policy is to build up a united front against Communist expansionism as economically strong, and as politically unified, as possible.

The important question is not whether foreign aid is used for political, military, or economic purposes, or for all three, but whether day-to-day decisions are consistent with the broad objectives of U.S. foreign policy. Supporting a political regime in a politically unstable, underdeveloped country can boomerang if the regime happens to lose out. On the other hand, if the regime succeeds and does a good job in political and economic development, United States foreign policy objectives have been served. It has always been this way in international politics, whenever the larger powers have important stakes to gain. It goes without saying that it is to be hoped that the actions of U.S. foreign policymaking officials will be consistent with high moral and ethical standards.

## VI. NATIONAL SECURITY AND COMMUNISM

The most significant single motivation of U.S. foreign aid programs has been defense of the national security against Communist expansionism. Approximately 80 percent of all aid funds have gone to

<sup>1</sup> Senate committee hearings, p. 170.

<sup>2</sup> Committee To Strengthen the Security of the Free World, "The Scope and Distribution of U.S. Military and Economic Assistance Programs": Department of State, Washington, D.C., Mar. 20, 1963.

countries on the periphery of the Communist world, where the threat of military invasion and Communist infiltration is greatest. There has been almost a direct relationship, in fact, between the size of the aid package in any year and the severity of the East-West confrontation ever since the inception of the Marshall Plan nearly two decades ago. This concern is clearly expressed as one of the purposes of foreign aid in the Foreign Assistance Act itself, where it is stated that:

\* \* \* Congress reaffirms its conviction that the peace of the world and the security of the United States are endangered so long as International Communism continues to attempt to bring under Communist domination peoples now free and independent and to keep under domination peoples once free but now subject to such domination.

In countries where military security is a top priority, such as Korea, Vietnam, and Laos, foreign aid is painful, risky, and costly. It would be dangerous, however, to abandon the task. The outstanding successes that we have had since 1945—in Western Europe, Greece, Turkey, Japan, Korea, and Free China—were achieved because we did not give up when the going got tough. There are still countries—most of them in southeast Asia and Latin America—where the Communist threat is serious and where much remains to be done.

#### HOW LARGE A MILITARY BUILDUP?

Concern is often expressed over the size and nature of the military establishments that the United States has been creating in foreign countries under its military assistance programs. There are questions whether they are oversized and too much of the traditional variety.

Notwithstanding the usual admonitions of the military that "this is a military matter," it cannot be denied that, in a larger sense, it is a matter of foreign policy. The intricacies of force structure tell us nothing of any intent nor of the infinite series of interacting expectations that are a part of military strategy. It is doubtful whether the U.S. military have any special powers for reading, or interpreting, "enemy" minds. These are considerations that are not capable of objective discernment. The element of "acceptable risk" is another example of such subjective considerations. Yet, all this is basic to articulating the objectives of our military assistance programs.

In any event, economy and efficiency should apply to military, as well as to other forms of spending. Unless the benefit is greater than the cost, reallocation of resources is in order. The "requirements" approach to military spending may apply where resources are free, but even then choice among alternative strategies is relevant.

Military spending can sometimes make for belligerence, and may increase political tensions. And, if reciprocal acceleration is initiated, our relative defense posture may not be improved, while still more resources are being committed. Cases in point are the hostilities between India and Pakistan, Egypt and Yemen, Greece and Turkey, Jordan and Israel, and, with certain qualifications, Indonesia and Malaysia. According to some critics of military assistance programs, conflicts are inevitable if we insist on arming other nations to the teeth, either through military aid or through sales of military equipment financed and promoted under those programs.

In theory, U.S. military assistance is supposed to release a country's resources for economic development, but the reverse can also be true. There is danger that the United States may encourage underdeveloped countries into trying to support expensive military establishments which cannot always be equated to defensive needs. In final analysis the primary deterrent against overt military aggression is not so much the actual force in being under military assistance programs, as the U.S. commitment to come to the defense of the countries concerned in the event of attack. Some doubts have been expressed with respect to the efficacy of some of our current military assistance programs with respect to Communist-inspired guerrilla "wars of liberation."

It is difficult to generalize regarding the effects of military aid on the creation and maintenance of stable and independent governments. In some instances (India and Pakistan) the military buildup appears to have hindered, rather than helped, the attainment of stability in government. However, in Korea the very substantial military assistance given by the United States appears to have facilitated stability and economic development. In Taiwan, also, military assistance appears to have helped, for in that country economic aid programs have been terminated because of the large measure of success that has been achieved.

Generalization in this area can be misleading, and even dangerous, for the degree to which military assistance facilitates development depends upon the circumstances in each recipient country.

There are even some who argue, in reverse, that economic development may actually increase the chances of war. Such critics maintain that armed conflict is more likely among prosperous nations than among poor nations and, in the absence of any effective international organization for security, more conflict is what we can expect as aid programs succeed in making nations wealthier and more powerful. One of these critics is Prof. Hans J. Morgenthau, who says that—

\* \* \* economic development is likely to be counterproductive if a political incentive for a belligerent foreign policy is present. The contrary conclusion derives from the popular, yet totally unfounded assumption that "poor" nations make war on "rich" nations for economic advantage and that "rich" nations are by definition peaceful because they have what they want.<sup>1</sup>

There is further danger that, in associating economic development with U.S. security interests, expectations will be aroused that cannot be realized. The underdeveloped world is in ferment and we can hardly expect "peace in our time." President Kennedy appeared to be reconciled to sharing some of our abundance with underdeveloped peoples simply because "it is the right thing to do." Whether aid given on this basis will result in direct benefit to the United States cannot be demonstrated with certainty. It is primarily a matter of faith.

One cannot help but wonder whether, if communism contains its own "seeds of destruction," it might not be wise to permit some selective exposure as a form of inoculation for the rest of the free world, and whether this might not be in the interest of the United States. As it is, we appear to be giving the Communists the luxury of "promising pie in the sky" without ever having to deliver. Also, one might ask whether our great concern over the threat of Communism carries with it a belief that military dictatorship is a preferable alter-

<sup>1</sup> "A Political Theory of Foreign Aid," *American Political Science Review*, June 1962, p. 307.

native, in terms of American interest? There is a dangerous tendency, in some quarters, to think of the Communist problem in terms of absolute "pluses" and absolute "minuses" and to conclude that any alternative to communism is preferable to communism itself.

#### COMMUNISM AND ECONOMIC DEVELOPMENT

The simple assumption that communism results primarily from economic poverty is so widely accepted in the United States that it has become almost an article of faith. However, history seems to demonstrate that although there is a relationship between poverty and the growth of communism, it is a highly complex one.

Communism appeals most strongly to groups that already have achieved a relatively high level of literacy and are some distance removed from the brink of starvation. An example of this is in India where communism is strong in the state of Kerala which has one of the highest literacy levels in India. A stagnant society of illiterate, poverty-stricken people, living close to the bare minimum of subsistence, with little expectation of improvement, and with barely enough energy to enable them to work, is not likely to produce a large number of Communists.

It can be argued that, in some of the less developed countries, economic development is likely to make communism more, rather than less, attractive. Industrialization tends to be upsetting. It undercuts the patterns of social life which, in some cases, have remained unchanged for centuries. It tends to break down old feudal, or tribal ways of life and threatens the stability and certainty of the formerly changeless existence.

It is in this new world of change, where old restraints and stability are on the way out, that communism may appear to offer the most direct route to material wealth, power, and prestige. By itself, economic development contributes little to overcoming these problems which it helps create. There is thus no guarantee that democracy will be the end product in the emerging societies of Asia and Africa. There probably is little hope for democracy there unless industrialization is accompanied by improvements in literacy, by basic education, by the development of honest and efficient public administration, and by other economic and social changes which help assure that a large proportion of the people will benefit from the growing wealth of the country. Of particular importance is the development of a sense of justice and an appreciation of the dignity of the individual.

The easy assumption that economic assistance to the less developed countries is the most effective weapon against the inroads of communism undoubtedly gained currency because of the success of the Marshall Plan in Europe. That plan was based on the assumption that the principal danger from communism lay in the possibility that local Communist parties might be able to ride to political victory in the wake of the economic chaos that followed World War II, particularly in Italy and France. It is commonly believed, and with good reason, that the advance of the Communist parties in those countries was halted by the economic recovery toward which the Marshall Plan made such a substantial contribution. As noted earlier, however, Western Europe and the United States are culturally and institutionally similar to each other. Europe had long since tasted the fruit

of economic development. By way of contrast, to inhabitants of most of the underdeveloped countries economic development is a distant hope that has never been realized. Assistance given under the Marshall Plan had only to "prime the economic pump" to restore prosperity as it existed before the war. Economic assistance to the underdeveloped countries, on the other hand, is highly complex and has not yet demonstrated that the process of development can be brought about primarily by outside economic help.

This is not to say, however, that economic development and aid for that purpose is unimportant. What it says is that assistance for economic development must be accompanied by sympathetic understanding and appreciation on the part of the donor countries of the cultural, sociological, ethnic, religious, and other differences between the underdeveloped countries and themselves. The donor countries are headed for trouble if they try to superimpose carbon copies of their own cultures on these peoples.

Excessive preoccupation with communism, in connection with foreign aid programs, has sometimes resulted in rewarding the more mismanaged economies. Little is gained, indeed much is lost when, in our zeal in combating communism, we ignore the importance of good government, efficient administration, and the inculcation of justice in the aid-receiving countries.

#### U.S. SECURITY AND WORLD PEACE

U.S. security interests comprise a complex assortment of ends and means. The longrun security problem is not limited to our relations with the Soviet Union, because we are concerned with the Middle East, with southern and southeast Asia, and with Latin America as well. Disturbances in these areas can be inimical to our interests, whether or not the Communist world is involved.

During the next few decades there are going to be explosive changes in Africa and Asia, under the impact of rapid population growth, developing nationalism, and the application of Western technology. U.S. security requires expenditures sufficiently large for adequate defense. We must not fail to recognize, however, that a purely economic foreign aid program, say in the Middle East, designed to lessen the chances of war in that area, may be an important aspect of our security policy. That policy should include measures to insure and perpetuate peace, while assuring our own defense if peace is not maintained. In our search for peace we must be careful not to pursue measures which are inconsistent with our own defense.

Since the Korean war, Congress has been reluctant to support foreign assistance that is not tied to a military formula. Such an attitude is too narrow with respect to overall U.S. security interests. In some instances we have denied assistance to certain countries because they trade with Communist countries, even though the Communist countries offer the only feasible outlets for their products. When aid without political strings offers a reasonable prospect of enhancing political stability, insistence on political strings can be inconsistent with national security.

Security policy should be consistent with both the maintenance of peace and assurance of our own defense. The means appropriate to these ends are not military, and they involve more than negative

anticommunism. They require careful discrimination with respect to different geographical areas and countries. To the extent that we recognize this we shall be in a better position to judge the merits of development programs in the less-developed countries in relation to national security.

There is temptation to equate reform of the leftist variety with communism. This has been so particularly with respect to attitudes toward Latin America. Some assert that it was fear of communism that led to U.S. intervention in the Dominican Republic in 1965. In the words of James Goodsell, Latin American correspondent of the *Christian Science Monitor*—

Valid democracy in Latin America must be based upon allowing a free vote of the masses, emerging from slavery and backwardness, who currently trend toward the left. \* \* \* With the obvious exception of Cuba, no government in Latin America today is communist directed. It could be different tomorrow, however, if the current battle for democracy should be lost. The real threat of communism \* \* \* is twofold: (1) That the mammoth social and economic problems of Latin America will remain unsolved and therefore keep populations restless and looking for new formulas, one of which undoubtedly will be communism; and (2) that Moscow, Peking, and Havana will take advantage of this unresolved set of problems. Through their tactics of propaganda they could make communism appear the solution to mankind's misery.<sup>1</sup>

It is necessary to overcome the temptation to identify everything that is liberal with communism. The Communist threat is a real one, but it is essential that it be clearly identified.

One of the criticisms commonly made of U.S. foreign aid programs is that they have not stopped communism in spite of the hundreds of millions of dollars that have been spent on them. In answer to this criticism the Honorable Frank M. Coffin, formerly a Member of Congress, and later Deputy Administrator for Operations of the AID, says:

In view of the worldwide confrontation of ways of life, it is remarkable that of the 46 nations that have won their independence since World War II, not one has elected to become a Communist satellite.<sup>2</sup>

## VII. POLITICAL QUESTIONS

It has been shown that foreign aid is an integral part of foreign policy, whether we wish it that way or not. As was shown in chapter V, the mere fact of giving, or of withholding, aid to a particular country is itself a political decision. A diagram was used to show the relationship between day-to-day decisions and the longrun objectives of foreign policy. It was observed that the essential consideration is not whether a particular decision is short run, or intermediate run, but whether it is consistent with the longrun objectives of foreign policy.

The United States would find it difficult to terminate foreign aid. As long as a United Nations of any kind of permanence and meaningful basis is contemplated, the United States cannot disengage itself from involvement in economic development for the simple reason that at least two-thirds of the members of the U.N. identify economic development with the idea of sovereignty itself. The meaningful questions regarding foreign aid, therefore, are: Where to give it? how to give it? and how much to give?

The purpose of this chapter is to bring into focus some political considerations, particularly those of the short-run variety. If foreign

<sup>1</sup> *Christian Science Monitor*, Feb. 4, 1966.

<sup>2</sup> From remarks made at the Regional Foreign Policy Conference, Boston, Mass., Sept. 11, 1963.

aid is administered wisely there is a strong presumption that it will promote the basic objectives of U.S. foreign policy.

Foreign aid can be a particularly useful instrument of foreign policy in those instances where there is a strong community of interest between the aid-giving and the aid-receiving countries. When military assistance is involved, there is presumably a strong mutuality of interest with respect to security. The assumption is not so easily warranted, however, with respect to aid for economic development, because so much depends upon the manner in which the aid is given, and upon political considerations.

Although there is still little consensus among experts regarding the actual process of economic development, Americans are now less sure in prescribing for development than they were a decade ago, when they thought they had all the answers. The prevailing emphasis on research evidences slowly developing humility. Appreciation seems to be growing of the fact that the forces of economic development are so powerful, and compressed into such a short period of time, that no one can be confident that the rapid changes underway will lead to a spread of democracy rather than dictatorship. In any event, the situation is likely to be unstable for some time to come, as the underdeveloped countries thresh about searching for identities of their own. We have little choice but to hold on to the faith that economic development will enlarge the area of freedom, while acting with as much political wisdom as possible.

It has been alleged that there is inconsistency on the part of the United States with respect to its general attitude toward foreign aid. If we believe that economic development can make a significant contribution to the peace and security of the West why, it is asked, are we not willing to make a larger financial sacrifice than we seem willing to make, for the purpose? Furthermore, it is asked, if economic aid is an important instrument of foreign policy, why do we keep the instrument so small in size and effectiveness?

#### POLITICAL PITFALLS

There is little disagreement with the long-run objectives of U.S. foreign policy toward the attainment of which foreign aid programs are directed. Those who object to the role of politics in foreign aid have in mind certain shorter range aspects of policy as they apply to individual aid-receiving countries.

There are certain short-run political objectives and actions that undoubtedly are fully as praiseworthy as the long-run political objectives set forth in the Foreign Assistance Act itself. One such objective might be to prevent a Communist coup which would endanger the security of other non-Communist countries or, perhaps, even world peace. Another shorter range political purpose which would receive strong support from the American public might be to prevent two aid-receiving countries, such as India and Pakistan, from fighting each other.

On the other hand, there are some who contend that U.S. foreign policy is already too deeply involved in trying to influence affairs in other countries and who believe that short-run political considerations should be eliminated, as far as possible, from foreign aid. They contend that the effectiveness of assistance for purposes of military

security and economic development is reduced by having assistance primarily for political purposes mixed up with it. Political strings, they emphasize, are resented by aid-receiving countries and funds and energies are diverted from military security and economic development to serve political purposes.

Early in 1965 Senator Fulbright wrote:

The United States nonetheless maintains aid programs in about 90 countries. Few of these contribute appreciably to economic development or to our security. Many are token programs designed to maintain an American "presence," which I take to be a euphemism for the exertion of one form or another of political leverage.<sup>1</sup>

It would, of course, be inappropriate for the U.S. Government to disclose publicly any political concessions that it had gained in return for extending foreign aid to a particular country. The consequences might range anywhere from ruffled feelings on the part of the foreign government to its conceivable toppling in a wave of anti-Americanism. It is possible, also, that public acknowledgment by the AID about even the types of political considerations affecting development assistance might lessen the attractiveness of the programs and their ability to help achieve objectives of any kind in the future.

It may be that considerations such as these help account for the apparent lack of any full public statement of AID's rebuttal to this criticism. Spokesmen for AID frequently state, in general terms, that we benefit by maintaining a foreign aid presence in a country or that our own interests cannot be pursued as effectively through an international organization as through an AID program.

There is no way of knowing fully, from publicly available material, either how important any political purposes pursued through AID may be, or whether there is a strong advantage to pursuing them through AID rather than through other instruments of national policy. Also unclear from publicly available sources is what part, if any, of aid for political purposes might require a cover of aid for economic development to be effective.

Somewhat different is the position of those who oppose the use of foreign aid as an instrument of particular administration policies, but who feel it should be used for the achievement of other policies. Numerous congressional amendments designed to deny aid to this or that particular country fall into this category.

There is much to be said for keeping economic aid separate from both military aid and short-term political aid which, somewhat cynically, is sometimes called check book diplomacy. It might be that, for such short-term purposes, it would be advisable for the Secretary of State to have his own slush fund which he would have to justify before Congress. Such activities are the concern of our ambassadors and the Department of State and should not be confused with developmental aid. Some say that developmental aid should be completely divorced from the cold war and that, in order to do this, there should be an agency with its own terms of reference and completely divorced from the Department of State.

It is frequently complained that, in spite of the hundreds of millions of dollars that have been spent on foreign aid, recipient countries still don't like us. By now we should have learned that attempts to purchase friendship via foreign assistance have proved, and are

<sup>1</sup>"Foreign Aid? Yes, but With a New Approach." The New York Times Magazine, Mar. 21, 1965.

likely to continue to prove, frustrating. Most foreign governments do not believe that aid, even of the stringless variety, is devoid of cold war objectives. Furthermore, no matter how vehemently it may be maintained that aid is extended in the self-interest of the donor, as well as of the recipient country, it is associated with charity and is resented.

The very fact that AID missions abroad are under the general supervision of American embassies raises questions in the minds of aid-recipients as to how far assistance is given to support their own national aspirations and the extent to which it is given to serve the convenience of U.S. domestic politics.

Theoretically, the utilization of agricultural surpluses for foreign aid purposes can be as valuable as any other instrument. Yet, so much has been said in the Congressional Record, in the press, and elsewhere about U.S. surplus disposal programs that Public Law 480 and similar programs have come to be looked upon by some recipients as a device whereby the United States can conveniently solve a knotty domestic political problem. Those inclined to be critical of the U.S. use this as an illustration of how they are doing the United States a favor by accepting foreign aid. Furthermore, the giving away of food to underdeveloped countries can have the effect of deemphasizing agricultural development in the very countries where primary emphasis in economic development should be upon indigenous food production.

Shakespeare tells us that charity is "twice blessed": it blesses him that giveth and him that receives. In the foreign aid field the blessing is not always obvious. It could be that it "curseth" him who gives it and him who receives it. It is a curse to us if we come to believe that everyone is for sale and that the open checkbook is an adequate substitute for traditional diplomacy. Conversely, it is a curse to the recipients if easy access to foreign aid has the effect of subsidizing economic and political inefficiency, thereby inhibiting domestic changes that are essential if economic development is to occur.

It is important that Americans discipline themselves to take a long view and to evolve an intelligent, consistent Western aid posture, vis-a-vis the less developed countries.

Too often, in the opinion of many, those administering aid programs are concerned over flattering a head of state to keep him in power and to confuse such aid with aid genuinely intended to promote economic development. The report of the Clay Committee had this to say on the subject:

Some aid projects have come into being as gifts to prove our esteem for foreign heads of state, hastily devised projects to prevent Soviet aid, gambles to maintain existing governments in power, leverage for political support, and similar reasons. While a certain amount of this is unavoidable, there have been too many exceptions to the rule. Insofar as others believe we accept promises in lieu of performance, respond to careful campaigns against our Embassies, pay higher prices for base and other settlements if negotiations are long and unpleasant enough, and give unjustified aid in the hopes of precluding Soviet assistance in marginal cases, to that extent the firmness of U.S. negotiating positions loses credibility, our efforts to make aid more effective by getting local self-help are weakened, and U.S. congressional and domestic backing for aid is undermined.

We are convinced that the United States must take more risks for the purpose of obtaining performance from foreign governments, be more willing to live with charges that it is insensitive to other countries' needs, and accept the consequences that in some countries there will be less friendly political climates.<sup>1</sup>

<sup>1</sup> "Report to the President of the United States From the Committee To Strengthen the Security of the Free World" (Clay report), March 1963, pp. 6-7.

There is little reason to assume that economic aid will necessarily promote political allegiance to the United States or that it will lead to freedom and democracy. If by democracy and freedom are meant "respect for the individual" and its corollary "government by discussion," there is little basis for optimism as far as foreign aid is concerned. Respect for the individual is unique to the Judeo-Christian tradition and in those parts of the world that are not steeped in it the idea is practically unintelligible.

The gains arising from aid for economic development are elusive and the time that it takes for development to occur is very long. Moreover, with certain exceptions, the magnitude of our economic aid neither gives us much influence over foreign domestic policies nor makes more than a marginal contribution to economic development. The rationale justifying much of the foreign assistance that the United States is giving would be more credible if it were not so over-ambitious. Perhaps President Kennedy's statement that the United States is giving aid "because it is the right thing to do" is the most convincing justification of all.

#### IMPORTANCE OF SELF-HELP

From their inception U.S. foreign aid programs have stressed their cooperative nature and the expectation that the less-developed countries will help themselves to develop. This was the central theme of the Hot Springs Conference on Food and Agriculture in 1943, which was the precursor of the Food and Agriculture Organization of the United Nations. The philosophy was carried over into the Marshall Plan and is incorporated in the philosophy of present economic foreign aid programs.

However, the philosophy has been observed more in its breach than in its performance. In many countries it is little more than an expression of intention. Promises have been accepted in lieu of performance.

Congress and the public have become increasingly concerned over this failure of the less-developed countries to do their share to help themselves develop. In April 1965 the Senate Foreign Relations Committee, in connection with the foreign aid authorization measure of that year, emphasized that underdeveloped countries have "no inherent right" to assistance from the United States. Physical attacks on U.S. property in Indonesia, the United Arab Republic, and elsewhere have served to intensify this disenchantment with foreign aid.

In October 1965 Senator George D. Aiken, of Vermont, noted that disillusionment with foreign aid was increasing, and stated that—

American aid was based on the assumption that there would be substantial amounts of self-help—that the rich of a poor nation would invest in their own economies; that they would pay their taxes; that they would support land reform and show some interest in the poor of their own societies. This has proved largely a false expectation. The wealthy of underdeveloped countries have no stomach for social change. They are quick to describe any effort toward tax collection as communism and land reform as revolution. In general, they reject the measures which have produced reasonably affluent and productive societies in Europe and the United States.<sup>1</sup>

In recent messages to Congress President Johnson has indicated his determination to lay greater emphasis on self-help in foreign aid

<sup>1</sup> Congressional Record, Oct. 21, 1965.

programs, in an attempt to get at the "root causes" of much of the world's poverty and backwardness. He has characterized the foreign aid bill of 1967 as having a new look and a new purpose. "Foreign action, not promises, will be the standard of our assistance," he has said, and U.S. money will go to those willing not only to talk about basic social change, but who are determined to help themselves. He has made it clear, furthermore, that aid will go only to those countries that are not "hostile to us."

Whereas President Kennedy emphasized the need for money for purposes of *general economic development* in those free, but less developed, nations which stand poised between sustained growth and economic chaos, President Johnson insists on conditions that are more stringent, although with goals that are more modest. "It must be clear," he has said, "that the principle of our assistance is cooperation. Those who do not fulfill their commitments to help themselves cannot expect help from us."

To break the cycle of hunger, ignorance, and disease, he would spend more on food, education, and health measures. He would: (1) modify the food-for-peace program so as to gear farm output to world food needs to 1970, which would have the effect of emphasizing increased production, rather than the disposal of surpluses, (2) encourage aid-receiving countries to increase their own food production, (3) place greater emphasis on education, health, and sanitation in foreign countries, and (4) give high priority to programs for helping recipient countries to control their population growth.

The President believes that foreign aid should be authorized by Congress for 5 years, rather than for only 1 year (although appropriations would still be made annually); that economic aid should be kept separate from military assistance; and a larger share of economic aid should be made available through international organizations, to the extent that other rich countries contribute their fair share of the cost.

If these proposals are implemented by Congress, the emphasis in foreign aid will be changed from overall industrial development to improvements in agriculture, health, education, and population control. Industrial development would then be left primarily to domestically formed capital, supplemented by private foreign investment, for which the developing countries would be expected to create a favorable "climate."

The Clay report also urged that greater emphasis be laid on self-help in foreign aid. On page 12 it said:

The United States should be increasingly more specific on the self-help and reforms it seeks and do so on a country-by-country basis. At the top of such a list are the goals of monetary stability, sound financial and social budgeting, reductions and eventual elimination of subsidies to government enterprises, tax systems and administration which contemplate raising local revenue levels, stimulating private local and foreign investment, and distributing the tax burden more fairly, and measures for the better utilization of land designed to increase agricultural productivity and credit, expand and diversify agricultural exports, encourage rural development, and increase income on the lower levels of society.

#### FOREIGN AID AND THE PRIVATE SECTOR

There continues to be controversy regarding the effects of foreign aid upon the private sector of economic life. The commonly accepted view has been that only governments can be counted on to

weld a conglomeration of people and physical resources in an under-developed country into one nation, and to create necessary economic and social overhead in the way of roads, schools, and utilities without which growth in the private sector cannot even get started.

There is considerable contrary opinion to the effect that foreign aid leads to an undesirable concentration of power in both donor and recipient countries, particularly the latter. Since foreign aid is financed by taxing individuals and enterprises in the donor countries for the purpose of transferring funds to the governments of the recipient countries, the resources of governments in the recipient countries are increased, relative to those of the private sector. This encourages governments to restrict private foreign capital, thus further strengthening the public sector and weakening the private sector. According to Messrs. Bauer and Wood,<sup>1</sup> certain West African countries have received aid from abroad while their governments have subjected local farmers to heavy taxation for compulsory saving. The result has been not only to obstruct the formation of private capital, but also to hold back the spread of the exchange economy and the development of a local entrepreneurial class and a prosperous peasantry.

The donor countries, themselves, have brought this phenomenon about. In allocating aid, preference is given to those countries which undertake comprehensive development planning, by way of a large measure of government determination of the composition and direction of economic activity. This criterion was spelled out in President Kennedy's message to Congress in March 1961 where it was specified that comprehensive development planning and compulsory saving are two conditions of a country's eligibility for aid. It is to be expected that closely controlled and highly centralized economic systems will result from such conditions.

It is claimed that the giving of foreign aid also leads to the concentration of political power in some of the donor countries. In the words of Bauer and Wood:

The financing of aid increases the pressures on the economy, requires the imposition of additional taxation and thus makes the imposition \* \* \* of direct controls, including exchange controls, more likely. These tendencies are reinforced by the constant emphasis on the need for greater sacrifices and on the alleged inadequacy of current efforts in the granting of foreign aid \* \* \*. This danger is all the more serious because \* \* \* whether the recipient countries progress or stagnate, either condition can be used with superficial plausibility as an argument for further aid.

### VIII. ECONOMIC QUESTIONS

Between one-quarter and one-third of the \$115 billion that has been spent for foreign aid since the close of World War II—including food for peace, Export-Import Bank loans, and other categories—has been devoted to economic development, as such. In fiscal 1966, \$1.7 billion, or approximately 27 percent of all aid (amounting to \$6.3 billion) will be for purposes of economic development. It will account for approximately 47 percent of the \$3.6 billion made available under the Foreign Assistance Act. Since the concept "economic development" is not very precise, the proportion of aid that is spent for this purpose is an approximation only.

Notwithstanding these expenditures, the gap in productivity and living levels between the more, and the less, industrialized countries

<sup>1</sup>"Foreign Aid—The Soft Option," by P. T. Bauer and J. B. Wood, in Banca Nazionale del Lavoro, December 1961, Rome.

has been widening, rather than narrowing. One important reason for this is that the industrialized countries have applied new developments in technology to agriculture and mining, as well as to manufacturing, which has resulted in a smaller demand for many of the raw materials produced by the less-developed countries. Since the 1950's export prices of many such products have declined, while incentives for new investment in the poorer countries have not materialized. Meanwhile, population growth in many of the underdeveloped countries is consuming most of the gains that are being made. Production lags behind demand, whereas in the more highly developed countries lack of demand tends to retard production.

More than half the world's population lives in countries where average consumption, in terms of calories, is below basic nutrition requirements, notwithstanding the fact that the vast majority of people devote their labor to food production, rather than to manufacturing and services. In India, for example, only 16 percent of the people are employed in manufacturing. Most of them still live in villages and are engaged in agriculture. Their average caloric consumption is under 2,000 per day, compared with over 3,000 in the United States, where less than 9 percent of the people are engaged in agriculture. On the other hand, the developed countries have food to spare. The United States, Canada, Australia, and Argentina supply over 80 percent of the food grains that enter world trade.

#### MEANING OF "DEVELOPMENT"

The term "underdeveloped" is inexact and can be misleading. India and Pakistan are great and ancient civilizations and, in many respects, are "developed" countries. However, economically, they are very poor. Other countries, including some in Africa, are developed in practically no sense at all. Similarly, in countries that are developed there are often areas that are underdeveloped.

In the context of foreign aid, "underdeveloped" means simply that a country is relatively poor in economic terms. If the level of wealth in "developed" countries is taken to mean a per capita income of at least \$500 a year, then 80 percent of all mankind lives below it. In the 57 poorer countries in which these people live, per capita incomes range between several hundred dollars a year in Latin America and less than \$60 in some of the heavily populated countries in the Far East. In the United States the comparable figure is \$2,500.

Underdeveloped countries are characterized by a rapid growth of population, by shortages of food, rapid urbanization, inadequate production, inadequate exports, a low rate of capital formation and inadequate technology. Economic development means more than feeding the hungry, building schools, and reducing death rates by improving sanitation and medical services. The real test of economic development is the degree to which the underdeveloped countries are enlarging their resources of skills and capital, and the degree to which they are coming to rely more and more upon themselves, and less and less upon outside assistance. Basically, economic development depends upon changing attitudes on the part of the economically underdeveloped peoples. In simplest terms, it means an increase in per capita incomes. Increase in the total income of a country is an inadequate test, for in many instances increasing production is

negated by rapidly increasing population. *Population growth is so important to economic development, and is such a key factor in judging the success of foreign aid programs—indeed, it is probably the most important single subject in the whole field of economic development and foreign aid—that it will be the subject of a separate chapter.*

Because economic development is such a slow process, and because the worldwide challenge of foreign aid is so great, it is easy to jump to the conclusion that foreign aid programs have been uniformly unsuccessful, a conclusion that is not substantiated by the facts. In a number of countries the progress of development has been so satisfactory that the United States either has terminated, or is planning to terminate, aid within the next few years. Among such countries are: Greece, Israel, Taiwan, Mexico, Venezuela, and the Philippines. According to Mr. Bell, Administrator of the AID, it is probable that a few other countries will be added to the list.

This is not to say that the per capita level of living in these countries has reached those in the developed countries. What it means is that technological improvements of production have been introduced and per capita incomes are rising. In some instances these improvements were sparked by foreign aid, but the process is now moving forward under its own steam.

As was stressed earlier in this report, it is essential that we think in terms of decades and generations, rather than months and years, in judging the success of developmental aid. There is danger that our traditional impatience will lead us to attempt to speed up changes in the underdeveloped countries too fast. Attempts to accelerate the processes of history, by plunging from primitive conditions into more or less intricate industrial societies, are usually disappointing.

The principal contention of those who argue in favor of foreign aid for economic development is that such aid breaks the vicious circle of poverty and stagnation. This argument, in turn, is based on the thesis that it is poverty itself which makes material progress impossible, because incomes are so low that capital formation is impossible and, without capital, incomes cannot increase.

In the countries named above it seems reasonable to conclude that economic development was stimulated by outside aid. It does not necessarily follow, however, that foreign aid will lead to economic development in any or all countries. Throughout history, certain peoples have shown a capacity to develop economically, whereas others have not. All presently developed countries started out as underdeveloped countries, in the sense that they had low per capita incomes and very little capital. Yet, they developed without direct assistance from other countries.

Hong Kong is significant in this connection. It lacks natural resources, is subject to heavy population pressure, and has a limited home market, all features that are supposed to reinforce the vicious circle of poverty. Yet, without receiving any foreign aid, and in just a few years, Hong Kong has become a major manufacturing center and a large-scale exporter of manufactured products to the highly developed countries.

All of which raises questions regarding the relationship between foreign aid and economic development. In countries where the setting is favorable for development, the receipt of foreign aid can be an important catalytic agent. It is doubtful, however, whether

foreign aid will stimulate economic development in countries where the basic requisites for development are not present.

#### REQUISITES FOR ECONOMIC DEVELOPMENT

Some enthusiasts, who are inclined to be impatient with the slow results of the foreign aid programs, argue that the way to speed up economic development is to increase the size of foreign aid appropriations. They believe that accomplishments are in direct proportion to the volume of funds spent.

Evidence that this is the case is far from conclusive. In the first place, many of the less-developed countries are reluctant to settle down to the distasteful job of collecting taxes, introducing reforms, and fully utilizing their own resources. In the second place, the economic problems faced by many of the less developed countries are beyond solution in purely economic terms. Before economic development can occur, important problems of education, health, tribalism, and traditionalism must be solved. Until there is better understanding of these problems and of how to deal with them, there would appear to be little reason for relying upon larger appropriations alone.

It is also commonly believed that economic development is primarily a matter of investment; that differences in income between the rich and the poor countries largely reflect differences in capital per head, and that these differences can be reduced by large-scale transfers of funds. Such transfers, it is asserted, need only be temporary because, within a few years, they will start the underdeveloped world firmly along the road of material progress. This is a particularly superficial way of envisaging the problem of economic development. Indeed, by relying so exclusively upon the injection of capital into the underdeveloped countries, we obscure many essential factors that impede development and divert attention away from the really fundamental problems of development.

In the course of their development none of the most highly developed countries received direct aid from the outside. It is an oversimplification to contend that the transfer of funds can eliminate the great differences between the developed and less-developed countries in terms of economic qualities, social attitudes, and physical condition. Even the largest imaginable transfer of funds cannot achieve this.

According to Prof. J. K. Galbraith, and others, the four fundamental requirements essential for economic progress in the underdeveloped countries are: (1) a substantial degree of literacy, (2) a substantial measure of social justice, (3) a reliable apparatus of government and public administration, and (4) a clear understanding of what development involves.<sup>1</sup>

These are the four basic foundation stones on which economic development must be built. The last named of them, a clear understanding of what development involves, is in turn dependent upon: (1) the presence of at least a small class of persons having talents and incentives that lead them to organize, innovate, and take risks; (2) a desire for material improvement; (3) the belief that economic activity (including physical labor) is worthy of respect; and (4) a willingness to work together for common purposes.

<sup>1</sup> According to Galbraith, "one or more of these four factors is missing in most of the underdeveloped countries."

Economic development thus depends upon important human and institutional factors, as well as upon the availability of material resources and capital. The people in many underdeveloped countries, including India and most of the Moslem world, have mental attitudes that obstruct material progress. An example is the Hindu belief in the sanctity of animal life, especially cattle. Since 1950 India, with a population of over 480 million people, has received about \$2.4 billion of U.S. food surpluses and about \$2 billion in other U.S. economic aid, in addition to substantial sums from other industrialized countries. Yet, it appears to be headed for another major famine. Experts estimate that if just the excess of India's sacred cattle were used for food the country's food problem would be largely solved. However, within the past few years laws prohibiting the killing of cattle have been enacted in six major Indian states which include about half the population of the country, legislation which coincided with the official inception of the second 5-year plan with its emphasis on the production of steel and other heavy industrial products. There are still over 60 million untouchables in India, most of the population is illiterate, and a large proportion of all children do not attend school. Annual expenditures on elementary education are equal to about one-half the cost of any one of the three steel plants included in the public sector under the plan.

Similar prejudices and beliefs are present throughout the underdeveloped world. Thus, when U.S. foreign aid advisers encourage Vietnamese natives to farm nearby hilly areas, and offer to show them how to do it by using new methods, they are likely to receive the reply "My grandfather told me that land is no good, and his grandfather told him that it is no good. Now, do you mean to tell me that the land is good?" Sometimes aid officials are successful in combating these prejudices and in seeing old taboos abandoned, but oftener than not the taboos remain.

Differences in economic qualities of different ethnic groups are also extremely important in economic development, although it is a subject that is not often discussed openly. In the words of Bauer and Wood:<sup>1</sup>

It would be unwise to be dogmatic about the historical and biological factors behind ethnic differences in economic performance. These differences (some of which are almost certainly derived from climate and environment) are probably not fixed for all time. But at any moment and over decades or even centuries, the differences in economic qualities and attitudes of individuals and groups are pronounced and important. This can be seen in many underdeveloped countries. The Chinese in Malaya, the Indians in East Africa, the Lebanese in West Africa, usually immigrants without capital or much formal education, have soon outdistanced the indigenous population, and the special conditions of migration do not account entirely for these striking differences in performance.

#### KEY POSITION OF AGRICULTURE

Throughout history economic development has been a process of relatively slow progress, from simple to more complex agriculture, to the development of cottage industries, and thence to the production of more complicated manufactures, international trading, and finance. In the first instance, it is more important that the less-developed peoples learn how to get better returns from the soil than it is that

<sup>1</sup> Bauer, P. T. and Wood, "Foreign Aid, the Soft Option", in Banca Nazionale del Lavoro, Rome, December 1961.

they pollute the sky with factory smoke. As the late Paul Appleby, Assistant Secretary of Agriculture and later Deputy Director of the Bureau of the Budget, used to say back in the 1940's when he was serving as U.S. delegate to the interim commission charged with responsibility for establishing a Food and Agriculture Organization of the United Nations, "a few cents' worth of insecticides given to the average Mexican peasant, together with instructions how to use them, would enable him to more than double his bean crop." Real economic development begins when people in an underdeveloped area succeed in growing more food than they can themselves consume. It is the creation of such surpluses that gives rise to the formation of indigenous capital, which is necessary for economic development.

Some of the less-developed countries import a substantial proportion of their food requirements. On top of this they are heavily in debt for capital already borrowed abroad, with the result that they are not able to earn enough foreign exchange, through exports, to enable them to borrow the additional capital that they need to enable them to make their economies viable.

Nevertheless, a new American initiative to use its immense farm productivity in a crash program to improve nutrition throughout the world could be dangerous. It could get in the way of foreign aid programs designed to increase agricultural output in the developing countries themselves. Equally important, the giving away of surplus food in tremendous quantities to hungry people would be more akin to charity than to self-help. As emphasized in the following chapter, unless such an increase in food supply is accompanied by insistence upon population control, it could aggravate the pressure of population growth.

#### SCARCITY OF CAPITAL

Indigenous capital formation in the underdeveloped countries is low because per capita production is low, and per capita production is low because of inadequate investment. Because of this generally accepted logical circle, great emphasis has been placed on governmental grants of capital to the underdeveloped countries. At the same time, it is hoped and expected that private capital will be induced to invest to a much greater degree than it has invested in the past.

Since the rate of return on investment is considerably higher in the developed countries than in the underdeveloped countries, the principal incentive for private investment in the latter countries is lacking. The productivity of capital is higher in the richer, than in the poorer, countries because industrial techniques are more advanced, because technical progress is more rapid, and because there are relatively more skilled workers and administrators in the richer countries. Furthermore, as long as the developed countries make capital available to the underdeveloped countries in the form of outright grants, or in the form of loans bearing rates of interest far lower than what they would normally be, it is to be expected that the countries receiving aid will not be anxious to borrow on a commercial basis. Politically, therefore, foreign aid encourages governments in the underdeveloped countries to ignore, or even restrict, alternative sources of capital. From their point of view it would be foolish, even unpatriotic, to pay market rates of interests for foreign capital if capital can be obtained via foreign aid either more cheaply, or for nothing.

The resulting inadequate flow of private foreign investment funds is then adduced as a major reason why additional foreign aid is needed—another apparently logical circle.

The prevailing belief that development depends primarily upon investment expenditure tends to result in an inefficient use of capital. The definition of investment in foreign aid programs is arbitrary, and expenditure does not become productive simply by being labeled "investment." By calling all expenditure investment, spending is encouraged regardless of cost. Also, the idea that development depends primarily upon investment has led to the neglect of other, more important factors in development, including the encouragement of appropriate economic qualities and attitudes.

Some experts believe that there is a worldwide shortage of capital and that it is an illusion to expect that the developed countries can continue to supply adequate capital to the underdeveloped countries to enable them to develop within a reasonable period of time. The International Bank for Reconstruction and Development, for example, is already finding it difficult to raise new capital, and as yet there is no evidence that there is about to be a large expansion in the movement of private capital to the underdeveloped countries.

Gov. David Horowitz, of the Bank of Israel, who is an authority in international finance, is one who believes we are encountering a worldwide shortage of capital. His analysis is based on historical trends going back to the first industrial revolution in the latter half of the 19th century.

According to Horowitz,<sup>1</sup> the first industrial revolution was made possible by a high rate of saving and private accumulation of capital, which depended in large part upon the maintenance of high profits and low wages. Labor, of course, was not organized. There was always a reserve army of unemployed workers, with the result that wages were close to the bare minimum of subsistence. Furthermore, most of the people had no political influence, or were inarticulate. Democracy had not yet bloomed.

A similar formula was applicable in the Soviet Union following the revolution of 1917. Speedy industrialization and large-scale organization were possible only because of the rapid formation of capital through forced saving. Red China today is trying to achieve similar results by reducing consumption and forcing saving.

Thus, a common feature characterizes the early capitalism of the 18th century of Britain and the present-day Soviet and Red Chinese systems; namely, capital formation through ruthless reduction of consumption and living levels. Such an economic policy can be enforced only in a pre-democratic or a totalitarian regime. Its concomitants are appalling poverty and starvation and extremely low levels of living.

Under democratic forms of government, where labor is free to organize, and where the forces of competition generally prevail, incomes are more widely distributed and the rate of saving is lower than it would be under forced draft.

The propensity to save is reduced if population expands more rapidly than incomes, so that real income per capita declines. In the less developed countries the margin above bare subsistence is so small

<sup>1</sup> Horowitz, David, "World Economic Disparities," Center for the Study of Democratic Institutions. Fund for the Republic, Inc., 1962.

as to defy attempts to squeeze out of it savings for capital formation and investment. Therefore, rapid indigenous capital formation in these countries can be brought about only through coercion under some form of totalitarian regime.

The accumulation of capital, as such, does not guarantee that it will be used for investment and the promotion of economic growth. In some of the less developed countries there is a wealthy minority at the top of the economic ladder who, instead of investing their wealth in productive domestic enterprise, squander it in conspicuous consumption. This is particularly the case in some of the Middle Eastern countries where there are large incomes from oil royalties.

Because of the more general distribution of wealth and incomes prevailing today in the developed countries than in the days of the industrial revolution, there is relatively less capital formation, and a larger proportion of national income is spent on final consumption.

Meanwhile, there is an increasing demand for investment in the highly developed countries that are now experiencing an acceleration of automation. Entire industries need to be modernized as new technologies appear. These demands, stimulated by automation, are accentuated by stepped-up armaments which also devour capital.

On the supply side, the flow of capital to investment is being diminished by redistribution of incomes. Such redistribution reduces higher bracket incomes from which historically the bulk of savings were made. Incomes have increased more rapidly in the middle and lower income brackets than have incomes in the higher brackets. The result has been, not only to eliminate social extremes, but also to increase consumption in those sections of the population which have a high propensity to consume. The result is to decrease the total share of income that is saved, accumulated, and invested and to increase the share that is spent for consumption.

The assumption that a surplus of capital in the Western economies would be attracted to the underdeveloped countries because of higher potential returns, has not materialized. Capital, which is in heavy demand everywhere, is reluctant to break virgin ground in underdeveloped areas while there is the lure of high return on investment in the developed countries themselves. "Except for capital going to the underdeveloped countries to exploit oil resources, little is flowing according to what have been assumed to be the natural processes of economic gravitation, and even this amount is affected to some extent by artificial stimuli, such as the activity of the World Bank, grants-in-aid, etc."

#### NEED FOR CULTURAL CHANGES IN THE LESS DEVELOPED COUNTRIES

According to certain critics of foreign aid, preoccupation with foreign aid has tended to obscure certain deep-seated factors underlying the differences between the prosperity of rich and poor countries, and has drawn attention away from the need for rather radical policies in the less developed countries. The need for such policies is not fully recognized because, under the shelter of aid, the illusion has spread that economic development is possible without making cultural changes.

The cultural changes that are necessary for economic development were discussed above under the heading "Requisites for Economic

Development." Abolition of illiteracy, maintenance of social justice, stable and effective government and public administration, and a clear understanding of what development involves are essential. Of particular importance is the desire for material improvement on the part of the economically underdeveloped peoples themselves. The close connection between this requirement and population growth is discussed in the following chapter.

Foreign aid has been called a soft option because it has obscured the underlying requisites for economic development. Much of the enthusiasm for foreign aid, critics maintain, rests on the convenient assumption that it is possible to have economic development in the poorer countries without cultural change. As shown above, one of the most striking examples of resistance to cultural change is the attitude of India toward the sanctity of animal life.

#### NEED FOR STRUCTURAL CHANGES IN THE DEVELOPED COUNTRIES

The reluctance on the part of less developed countries to make cultural changes is matched by reluctance on the part of developed countries to make the structural changes in their economies that are needed to assist the process of development in the less developed countries. The most important structural change would be to stimulate imports from the less developed countries by eliminating trade restrictions.

High on the list of such restrictions are those imposed by the United States, Great Britain, and other developed countries against imports of cotton textiles from Hong Kong, India, Pakistan, and other underdeveloped countries. The United States also imposes rigid restrictions against imports of lead, zinc, petroleum, and sugar. Development in the underdeveloped countries depends largely upon their ability to find markets in the developed world for the products that they can produce most efficiently.

It does not make good sense that the developed countries should give away large sums in the form of aid to the less developed countries, while at the same time placing obstacles against their exports. Politically, however, the reason is not hard to find: Foreign aid is provided from general taxation, whereas imports of competitively produced goods are opposed by politically well-organized interests. To admit a large volume of imports of cotton textiles and other products that can be produced by the less developed countries at low cost, such as footwear, will necessitate changes (most of them rather slight) in the structure of industry in the developed countries which they are not prepared to undertake. In the United States, for example, it would be next to impossible, for political reasons, to remove barriers against the importation of many highly competitive imports. The most recent example is the provision (in 1964) for the imposition of import quotas on beef, veal, and certain other meat products, when their prices decline to certain levels. Such protectionism is a major obstacle to the success of our foreign aid programs.

Again in the words of Bauer and Wood:

Foreign aid also serves the interests of influential groups in donor countries seeking a market for their products, including producers of capital goods for the large-scale projects financed by foreign aid, and U.S. Government and agricultural interests wishing to get rid of huge agricultural surpluses. This is an example

of the familiar rule that benefits to sectional interests are obvious, while the cost to the community is obscured."<sup>1</sup>

They go on to say that:

Poor countries will not progress without far-reaching changes in their social and physical environment and their attitudes and values, and this must be accompanied by structural changes in developed countries. Political charity is no substitute for these changes and contributes insignificantly to the progress of the underdeveloped world. Once the premise is accepted that substantial foreign aid is a necessary and perhaps a sufficient condition for the development of poor countries then either progress or stagnation of these countries can be used as an argument for further aid; their progress can be instanced to show the value of aid and their stagnation the need for it. Moreover, once the West has made substantial sacrifices for foreign aid it becomes practically impossible to cast doubt on the worthwhileness of these programs. The greater the sacrifices, the more difficult it becomes to question the principles in the name of which they were exacted. There need be practically no limit to this process; the West is effectively making out a blank check to the backward countries.

Meanwhile, the flow of foreign aid itself helps local politicians to postpone those changes which obstruct the development of their countries, and enables politicians in the richer countries to escape the structural changes which would follow the freer entry of exports from poorer countries.

#### IMPORTANCE OF TRADE

Trade and economic development are closely related. The earth's resources are unevenly distributed, and countries prosper when they produce the goods that they can produce best in light of the resources at their command. This means specialization of production which depends, in turn, upon broad markets. Economic development, specialization of production, and markets are the three different facets of economic prosperity. Without broad markets there can be little specialization, and consequently little in the way of development in the less developed countries.

Because of concentration on exports of only a few primary products, there has been a worsening of the terms of trade of most of the underdeveloped countries. Because the trend of world prices of primary products since the 1950's has been downward, relative to prices of manufacturers, many of the underdeveloped countries have had to export increasing quantities of raw materials to pay for a given quantity of imported manufactured goods. If the less developed countries are to develop it is essential that they have markets for their products. They are heavily dependent upon the developed countries for both export markets and imports of many manufactured products. Although more than two-thirds of their trade is with the industrialized countries, their total trade has been increasing more slowly than world trade as a whole.

World trade increased rapidly following World War II, with most of the increase confined to the industrialized countries. In 1953 trade among the industrialized countries accounted for 37 percent of total world trade. By 1960 the figure was 42 percent, and by 1964 it was 45 percent. Although part of this increase is accounted for by the rapid expansion of Japan's trade, by far the larger proportion resulted from the expansion of trade among the countries of Europe and across the Atlantic. (See Table 5 and Chart I, page 42.)

If exports of the underdeveloped countries had increased at the same rate as trade among the industrialized countries since the close of

<sup>1</sup> Bauer and Wood, op. cit.

World War II, their extra foreign exchange earnings would have been much greater than the amounts that they have received in the form of foreign aid and investment.

Trade barriers maintained by the developed countries impede imports from the less developed countries. For example, Argentine beef would find a ready market in the United Kingdom if protection were removed from British agriculture. Also, most of New Zealand's export problems would be solved if the United States would admit New Zealand dairy products and meat products.

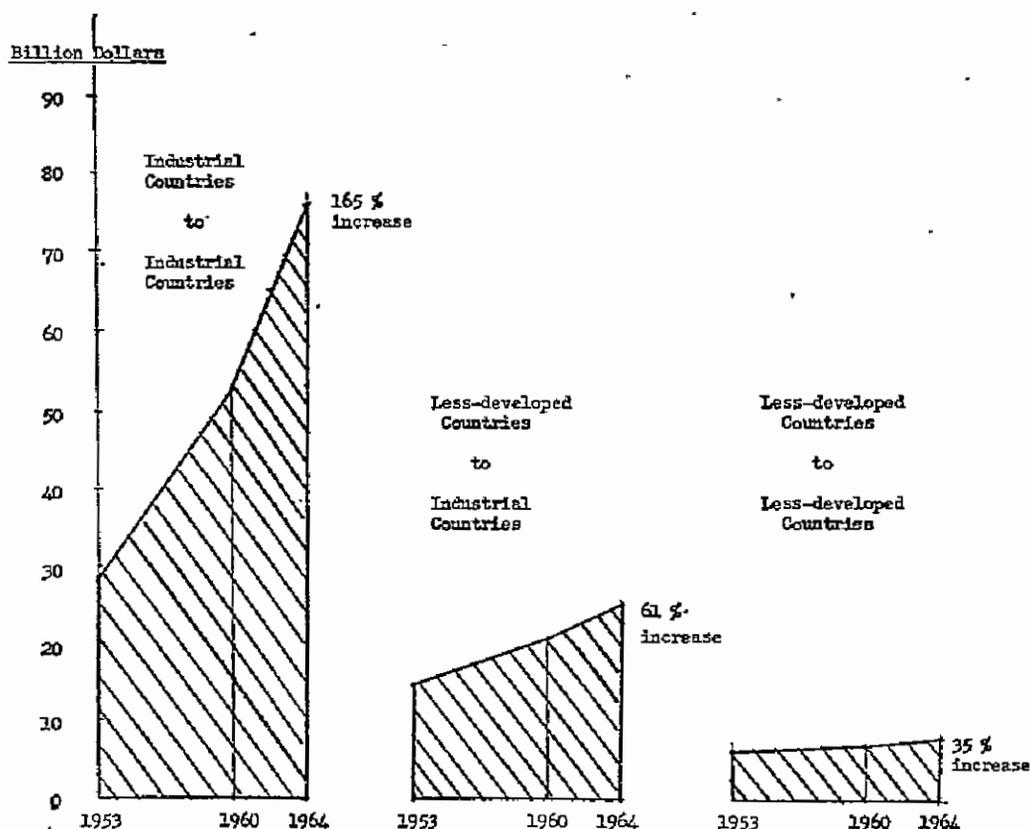
To be realistic, however, it must be recognized that the world trading system, which was built by British initiative in the late 19th century, probably cannot be restored. Nevertheless, much can be done by liberalizing trade restrictions so as to make trade "freer" than it now is. The greater the degree of reliance upon the forces of the market, the more likely it will be that the underdeveloped countries will develop.

TABLE 5.—Changes in world trade, 1953-64

[In billions]

	1953	1960	1964
Total world trade.....	\$78.2	\$125.8	\$169.7
Trade among the industrialized countries.....	28.7	52.4	76.3
Exports from industrialized countries to the developing countries.....	13.6	20.4	23.5
Exports from developing countries to the industrialized countries.....	14.8	19.0	23.9
Trade among the developing countries.....	5.1	0.0	6.9

Chart I. CHANGES IN WORLD TRADE, 1953-64



Source: GATT

Development of the underdeveloped countries should be viewed as an integral part of the reorganization of world trade. To do this, both the developed and the less developed countries should think of themselves as partners in a joint enterprise, rather than as donors and recipients of aid. The underdeveloped countries have been urging the developed countries to extend trade preferences to them to enable them to increase their exports, particularly of manufactured goods. Ever since 1923 the United States, in principle, has opposed the granting of trade preferences. Under the unconditional most-favored-nation policy it has generalized to all countries that do not discriminate against its commerce all tariff concessions negotiated with other countries.

Nevertheless, increasing attention is being given to the possibility of granting some sort of special trade benefits to the underdeveloped countries. As recently as last November, Undersecretary of State Thomas C. Mann proposed that the Organization for Economic Cooperation and Development study the question of granting special tariff benefits to the underdeveloped nations. Before departing from the principle of equality of treatment in international trade, however, it would seem to make sense to press hard for the general liberalization of trade among all countries. In any event, trade policy is an essential aspect of the problem of economic development.

Many of the foreign aid programs and national plans of the underdeveloped countries are directed toward national development, with little regard for their international implications. An overriding need is for an integrated world system of trade and payments, including both the developed and the underdeveloped countries. Economic aid programs have not been thought of as a means for integrating the stagnant trade of the less-developed countries, and most national plans for economic development have taken little account of the relationship of the developing countries to world trade. Each country has planned as if it were a closed economy, rather than an integral part of the world economy. Export industries, which are a country's strongest industries, often are burdened by rising costs and by high taxes. In many countries, especially in Latin America, rising costs have resulted from inflation and labor restrictions, together with the introduction of social services before increased productivity was available to pay for them. Plans for economic development are characterized by a strong trend toward self-sufficiency, buttressed by import restrictions—all dependent upon the inflow of aid funds from the developed countries.

The production, in the developed countries, of substitutes for raw materials produced in the less-developed countries has caused a falling off in the demand for those materials. Domestic fruits and juices, for example, have tended to limit the demand for bananas, and new vegetable fats of domestic origin are replacing cocoa butter in the manufacture of margarine.

#### MINERALS

The outlook for mineral production in the underdeveloped countries is more favorable than the outlook for agriculture. Although new technology has made available substitutes for many raw materials, it has not rendered mineral production obsolete. It has only postponed the day until the industrialized countries must depend to an

increasing degree upon the as yet untapped resources of mineral wealth in the less-developed countries.

The developed countries are large consumers of metals and the prospect is that they will become ever larger. In 1958 the consumption of copper in the United States was 17 pounds per person. If the rest of the world used copper at this rate, production would have to be more than six times its present level. The less-developed countries that have abundant mineral resources have reason to be more hopeful, with respect to economic development, than those that are entirely dependent upon agricultural production.

## IX. POPULATION GROWTH AND ECONOMIC DEVELOPMENT

The propensity for population to expand more rapidly than production in the underdeveloped countries is such an important aspect of economic development that the problem of population growth warrants special attention in any study of foreign aid.

The fact that countries whose people are hungriest and most poverty stricken are also those whose populations are large and fastest growing is not a mere coincidence, even though many statements by persons in high position make it appear that it is no more than that. Such superficiality tends to reinforce the belief that massive international gifts of food can solve the problem, whereas they are likely to make the situation worse, in the long run.

Most references to population growth in the underdeveloped countries emphasize the need for increasing food supply, but fail to recognize the causal connection between population growth and economic underdevelopment. They fail to recognize that population growth is the most important *cause* of economic underdevelopment and that, by virtue of this fact, the control of population growth is *the key* to economic development. This lack of insight evidences failure to understand the principle of population, as evolved over 160 years ago by Thomas R. Malthus in the later editions of his celebrated study.<sup>1</sup> It has been fashionable since the turn of the 20th century to be critical of the Malthusian theory, but it is time we awakened to the fact that his analysis was more penetrating, and closer to an explanation of poverty, than most contemporary analyses.

### POPULATION TRENDS AND PROJECTIONS

World population has increased more rapidly over the past two centuries than in earlier periods. In the Middle Ages it remained fairly constant, but between 1750 and 1850 it increased 4.6 percent per decade, between 1850 and 1900 it increased 7.6 percent per decade, and between 1900 and 1950 it increased 8.9 percent per decade. Over the past century population increased most rapidly in the newer nations, being three times greater in North America than in Europe. At present, the world's population is slightly in excess of 3.3 billion and it is increasing at the rate of 2 percent a year (20 percent per decade). At the present rate of increase, resources permitting, it will reach 6 billion by the year 2000.

In the underdeveloped parts of the world birth rates and death rates have both been high, so that until relatively recently their populations

<sup>1</sup> Malthus, Thomas R., "An Essay on the Principle of Population", 2d ed., 1803 Reprinted by Richard D. Irwin, Inc., Homewood, Ill., 1953

remained fairly constant. During the 20th century, however, death rates in many of these areas have declined, while birth rates have remained constant, or increased, with the result that population has increased rapidly.

Between 1964 and 1980 it is estimated that the world's population will increase 30 percent, with the largest increase in Asia and the largest percentage increases in middle America, South America, and Africa, as shown in the following tabulation:

*Estimated population growth, 1964-80*

[In millions]

	1964	1980	Increase	Percentage increase
North America.....	211	267	56	26.5
Middle and South America.....	236	374	138	58.5
Africa.....	303	449	146	48.2
Asia.....	1,843	2,404	561	30.4
Europe.....	443	470	26	5.9
U.S.S.R.....	229	279	50	21.8
Oceania.....	18	23	5	27.8
World total.....	3,283	4,274	991	30.2

Source: Population Reference Bureau of Washington (as reproduced by James Reston in the New York Times, Jan. 8, 1965).

Next to the problem of preventing self-destruction by nuclear force, the population explosion is probably the greatest problem of the century. At present, 100 million people are close to famine. Prof. Gunnar Myrdal, the well-known Swedish economist, believes "the world is moving swiftly toward something more than crisis—a world calamity. Frankly it makes me afraid!" Secretary of the Interior Udall has issued a similar warning. He recently told a Senate Government Operations Subcommittee that "if the present rate of population increase continues indefinitely most of the crucial problems that now confront the human race will simply become insoluble." He spoke in support of a bill that would establish a program of governmental aid in making birth control information available in the United States and abroad.

#### BIRTH RATES AND DEATH RATES

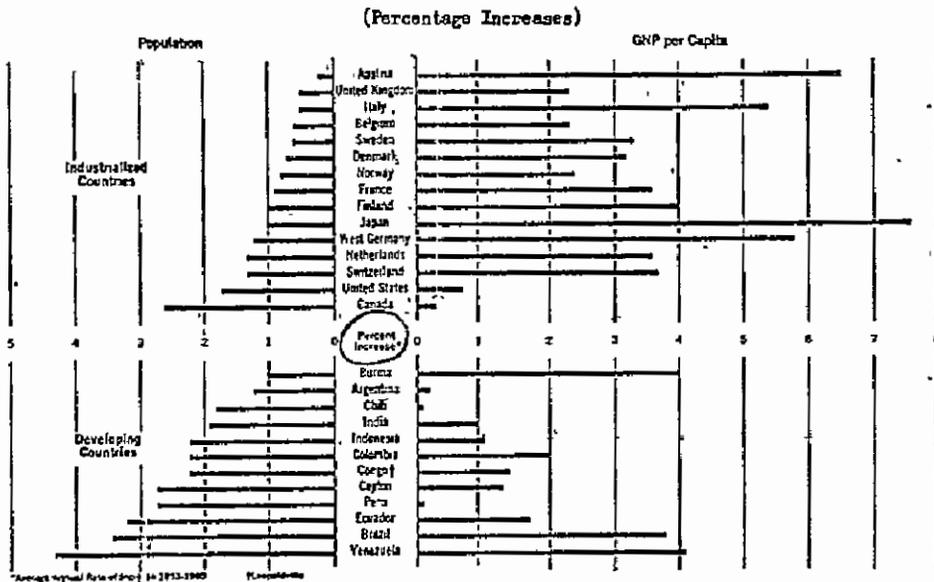
The highest birth rates are in the poorest countries—Asia, Africa, and Latin America—which now have 70 percent of the world's population. Current trends indicate that between now and the year 2000 seven-eighths of the world's population increase will be in the less developed countries. Birth rates in such countries range from 30 to 50 per thousand persons, compared with rates of 16 to 20 per thousand in the industrialized countries of the West.

Recent increases in population of the underdeveloped countries have been caused primarily by declining death rates. Surprisingly low death rates are found in certain Asian and Latin American countries, where public health programs have been most effective. Although infant mortality is high in some Latin American countries and in Africa, it is as low as in the United States, in Japan, Taiwan, and Hong Kong.

Declining death rates, if the decline is gradual, usually are accompanied by simultaneous changes in mental, psychological, and cultural attitudes which lead to declining birth rates. Usually, however, there is a time lag of at least a generation. The more rapid the decline in the death rate, the greater the time lag. This is because mental, psychological, and cultural attitudes are slow to change, and because changes in birth rates through conscious control are subject to cultural and psychological, as well as social and religious, influences which are usually rigid and conservative.

In most industrialized countries increasing output has been keeping well ahead of increasing population, whereas in most of the underdeveloped countries population has been increasing more rapidly than production. The following chart shows percentage increases in population and in per capita gross national product over the 7-year period 1953-60. The countries are divided into two groups: the industrialized countries and the developing countries. In all of the industrialized countries, except only the United States and Canada, per capita gross national product has increased more rapidly than population. In practically all the less developed countries, however, population has increased more rapidly than per capita gross national product. These changes are shown in the following chart.

Growth of Population and Per Capita Gross National Product, 1953-1960 1/



1/ Condliffe, J. B., "Foreign Aid Re-Examined", Stanford Research Institute Journal, 1963, page 8.

CAUSAL RELATIONSHIPS: THE "STANDARD" OF LIVING CONCEPT

"Economic development" and "industrialization" are not synonymous. Unless industrialization is accompanied by improvement in the level of living of a people, the process is not genuine development. Unless the mass of the people are better off than they were before, it might be better if the "development" did not occur. Trans-

formation of a beautiful countryside, populated by happy people, into a crowded manufacturing area, with the beauty of the landscape defaced and with the people receiving low wages, while being subjected to hazardous employment, hardly means that the people are better off than they were before.

Economic development should signify *economic expansion in terms of the quantity and quality of goods consumed, per inhabitant, of the recipient country*. One gathers the impression, when visiting some of the countries receiving foreign aid, that the principal objective of foreign aid is to spend as much money as possible and as quickly as possible. Emphasis is primarily upon administrative problems and financial management, rather than upon *people*.

The fact that the total income of an underdeveloped country (its GNP) has increased does not, by itself, indicate that there has been genuine development. The test of development is whether the individual inhabitant of the country has more, and better, goods to consume. A large increase in aggregate income can leave most people in a society worse off than before if population grows faster than income, or if the growth of income is accompanied by increased concentration of that income in the hands of a small elite, or for military or other purposes that do not raise the level of living. In most of the underdeveloped countries aggregate income has been increasing in recent years, but these increases have been largely negated by growth of population. With only a few exceptions, the underdeveloped countries are not increasing their supply of food per capita.

The problem of aid for economic development can be expressed succinctly, as follows:

(1) *Why is it that, in the course of history, certain countries (such as the United Kingdom, Germany, and the United States) have raised their levels of living, while other countries, some of them much older than those just named (such as India and Saudi Arabia) have not done so?* and (2) *is it possible for the countries in the first category to assist those in the second category in raising their levels?*

Superficially, it would appear that inventions, technological development, and the accumulation of capital made it possible for certain Western European countries and the United States to industrialize. Culturally speaking, China was an old and highly developed country while what is now the West was still primitive. Economic development and cultural attainments do not necessarily go hand in hand.

Shortly after the middle of the 18th century agriculture in Western Europe experienced a technological revolution, a development which was soon followed by the explosive industrial revolution with its rapid succession of inventions in textiles, metalworking, and industrial power.

By themselves, these inventions and changed methods of production did not constitute economic development, inasmuch as their immediate effect was to enhance the riches of a small uppercrust, while degrading workers in factories and mines to a level even lower than that prevailing during the medieval period.

Genuine economic development did not occur until the people, first in the United Kingdom and later in other countries, took action resulting in a wider distribution of the steadily growing production of

the country. In England there was a long, drawn-out struggle to enact factory legislation between the first quarter and the third quarter of the 18th century. The workers, fighting desperately to improve their status, eventually convinced Parliament that the length of the working day should be restricted and minimum health and safety standards required.

More important than the actual legislation was the dissatisfaction of the common man with his lot in life and the hope that had been kindled in the mind of the common man that improvement in his condition was attainable. *It was this ray of hope and the determination to transform it into actuality that made economic development possible.* It is the potentiality of this hope, resulting in a steady rise of wages, and the equally important fact that rising wages have not been negated by rapid population growth, that has discredited the economic theories of Karl Marx.

But, why did this development occur only in certain countries? Why hasn't it happened elsewhere also? The answer lies neither in the facts of physical environment nor in the availability of capital, although abundant material resources and easy access to capital tend to facilitate development. The answer lies within the people themselves. It lies in arousing the hope referred to above, and in doing something about it.

In the first edition of his book, published in 1789, Malthus said (and his contemporary, David Ricardo, agreed) that attempting to raise the level of living of the people of Great Britain through social legislation was a hopeless task because of the propensity of humans to propagate. His geometrical and arithmetical tendencies in rates of growth—referring to the tendency of animal life to exert constant pressure against agricultural food supply—has long been a classic.

It is true that Malthus placed too much emphasis on the minimum of subsistence as the determinant of the size of a country's population.

The theory, as originally formulated, could be called the "alley cat-garbage pail" principle. The more garbage pails there are the larger will be the cat population, the latter always being in direct proportion to the amount of food available. The essence of this, his earliest theory, was that population grows so fast that it will always keep pace with food supply, thereby making it impossible for increases in production to result in higher levels of living. Every improvement in technology is absorbed by increases in the number of mouths to be fed.

In the later editions of his essay Malthus modified his theory by substituting "moral restraint" for the minimum of subsistence as the determinant of the size of the population. This restraint is the moral, or ethical, aspect of the economic concept "standard" of living. It is ethical, or moral, because it has to do with the concern of people over the anticipated well-being of their progeny. Standards of living may be viewed as the rungs of a ladder, the bottom one of which is the minimum of subsistence. As people climb the ladder and attain higher standards, they will exercise increasing restraint against too rapid reproduction so that their offspring will not have to fall to a lower rung of the ladder. If peoples receiving aid in the form of direct gifts of food do not restrain themselves with respect to propagation, the gifts will result in increased population and be self-defeating.

Modern population theory, which is based largely on Malthus' later writings, takes into account four main variables; viz, birth rates, death rates, increased productivity resulting from technological improvements, and the "standard" (in contrast to the "level") of living. The birth rate, death rate, and productivity concepts are easily understood. The concept "standard of living", however, is frequently misunderstood. The level of living means the sum total of goods that are consumed by a people, whereas the standard refers to the desired-for level of living. "Standard" has an ethical connotation. A simple illustration might clarify: A graduate student, studying for his doctorate, is married and living on a shoestring. Realizing that they are not able to provide what they deem to be the minimum necessities of life, including educational opportunities, that they consider necessary for their offspring (their standard) he and his wife refrain from having offspring. Their minimum standard of living is higher than their actual level of living. Technically speaking, standard signifies the minimum of goods and services that are deemed to be so essential to living that, until there is reasonable expectation of acquiring them, those concerned will abstain from reproduction.

Many of the people of India would like to enjoy a higher level of living than they now have. One has only to be in India during a famine to understand the hopelessness of the low-caste Indian. Hundreds of deaths from starvation occur during a single night. A higher level of living is so far beyond their reach that they can conceive of nothing better. Their numbers are determined, as in the case of the alley cats, by the bits of food that they can beg or steal. Just to give them food and clothing, in the name of decency and charity, only serves to increase their number and aggravates the problem in the long run. *What they need, above all else, is a reasonable expectation that they can improve their lot in life.* Only then will it be possible for them to attain a higher level of living. Until hope is engendered, and its realization is brought within the realm of the attainable, economic development is a vain quest. *Unless standards of living also rise, there is little point in attempting to improve the level of living of a people.*

Does this reasoning return us to the defeatism of the original Malthusian theory? Is there no possibility of a people raising their standard of living? Is the mass of mankind doomed to eternal poverty? The answer is "No."

There are two recent examples of countries that have taken great strides along the road of economic development with little assistance from the outside. The first is Japan, which started to develop early in the 20th century. Paucity of natural resources has made the struggle tremendously difficult, particularly since the country has reached the point where future development depends largely upon the ability to export manufactured goods to pay for the raw materials that are so sorely needed. The point is that the Japanese had what it takes to get started—the desire to improve themselves economically, a desire so strong that they were willing to save and invest their small surpluses.

The second example is the Soviet Union. One cannot study that country without becoming acutely aware of the huge development job that the Russians have done, even though it has been at the expense

of personal freedom. Unlike Japan, Russia has substantial natural resources upon which to draw.

The United States needs to know when not to give certain kinds of aid, as well as when to do so. There is danger of trying to apply too much capital, too quickly. Cases have been reported where machinery received as aid has been too advanced for the recipient peoples. It is usually more important that an underdeveloped people be assisted in improving their agricultural methods gradually than in being encouraged to blacken their skies with factory smoke. The introduction of fertilizers and insecticides can be more important than industrialization. We should be wary of the desire of the leaders of an underdeveloped country to industrialize quickly, for often their overriding interest is in enhancing their own prestige and power.

An economically underdeveloped people will develop more effectively if they follow logical stages of growth. The problem is to recognize the next feasible stage of development. It is not enough that Americans abroad who are engaged in foreign aid work be technically competent in their fields of specialization. For the most part the engineers, the health specialists, and other technicians whom we send abroad are competent in this sense. Too often, however, they know too little about the peoples of the underdeveloped countries. What is needed are dedicated Americans who have a deep understanding of the people of those areas, persons who know and appreciate the history, culture, aspirations, and customs of the native populations.

#### DEMAND FOR, AND SUPPLY OF, CAPITAL

There is a tendency to place too much emphasis on the supplying of capital to the underdeveloped countries and too little on the demand for it. Incentive to save and invest is limited by the size of the market for the products which capital investment makes possible. There is presently little demand for most of the products that can be produced in countries that are plagued by poverty. It would not have paid Robinson Crusoe, for example, to make a hammer to drive in just a few nails. He used a rock instead. So, also, in typical underdeveloped countries a single steel rolling mill in just a few hours can produce all the steel shapes needed in that country for a long time to come.

If the standard of living of the mass of the people in an underdeveloped country rises, even slightly, that fact alone can be enough to induce saving and capital investment. Already, in some of the underdeveloped countries, there is an abundance of capital in the hands of the wealthy "upper crust."

The disposition to save, far from being a mathematical function of the interest rate, is a psychological characteristic of a people. Once the hope of improvement in the level of living is generated, it is reasonable to suppose that some saving will occur, even in a very poor country. Even a small amount of economic improvement, especially if accompanied by education, can cause the spiral of development to get underway. If this were accompanied by raising the legal minimum age limit for marriages and by spreading knowledge of birth control (as is being done at the present time in Japan, Formosa, and India) the problem of economic development would be less difficult than it now is.

An important present-day fact is that people in the underdeveloped areas have been coming into contact with consumer goods from the advanced economies of the West. Up to a point this contact can be advantageous to economic development since, after the contact, the peoples of the underdeveloped countries are apt to develop a certain amount of restlessness and dissatisfaction. If there is enough dissatisfaction to stimulate the imagination of the people, and if they can come to realize that similar goods are within their reach by their own efforts, there is a chance that they will start to save. It might be important, therefore, for the United States to place greater emphasis in its foreign aid programs upon simple consumer goods, relative to elaborate industrial installations. The demonstration effect of consumer goods, which is similar to the demonstration effect with respect to improvements in agricultural production, might have an important effect upon half-starved people.

#### REVOLUTION OF RISING EXPECTATIONS

A person's *standard* of living, we have seen, is his concern over the economic welfare of his contemplated progeny. Unlike the level of living, which consists of the goods and services available for consumption, it is an ethical standard of what one deems to be the indispensable minimum for his children, to the extent that if it is not attainable he will refrain from having children.

Basically, such awareness evidences discontent with anything less than the minimum standard. Its level depends upon education in its broadest sense. Such education includes the ability to understand the nature of the forces that make for economic development and a rising level of living. It means appreciation of the cause-and-effect relationships between resources and production, on the one hand, and population growth, on the other.

Such discontent can be a source of destructive revolution, or of frustration. It can, however, also be a constructive force leading to increased understanding of the essential causes of inadequate income. The growing spirit of discontent in underdeveloped areas has been called a revolution of rising expectations. Such a revolution can be dangerous unless the peoples concerned understand that their expectations can be realized only after long and arduous effort. Too often it has been translated into demands for sharing the wealth with richer countries, rather than for setting the stage for expanded production.

Until men and women in the underdeveloped countries *want* education for their children enough to make personal sacrifices, it is not likely that there will be much development. Education and abundance must be desired enough to sacrifice leisure and elaborate ceremonies. Also, religious beliefs that make a virtue of resignation and suffering need to be modified.

In the words of the well-known international economist, John B. Condliffe:<sup>1</sup>

Such changes come slowly, but they can be speeded. They come mainly through the women and children exposed to new influences. The village nurse can be a potent instrument, as can the village teacher. There are innovators in every community—a farmer willing to experiment, a craftsman ready to start a small factory, a housewife prepared to break from customary practices in cooking,

<sup>1</sup> Condliffe, J. B., *op. cit.*

dress, or ornament. These can be encouraged. \* \* \* Anything that breaks the grip of custom can be effective \* \* \*.

The adjustment of birth rates is a slow process that lags by at least a generation. But it is improbable that development goals can be reached unless birth rates begin to decline soon and fast. This is not simply a matter of technique. Primarily, it is a question of motivation and therefore of changed attitudes. When men, as well as women, desire better opportunities for their children sufficiently to exercise control, the means will be found.

Unless economic planning takes into account education in this large sense, concentrating instead on the mechanics of capital investment, organizational problems, training in technical skills, etc., it is almost a foregone conclusion that the plans will not result in increasing per-capita incomes of people in the underdeveloped countries.

Again, in the words of Condliffe:

Man is the creative factor in development. But, paradoxically, Man rather than Nature now presents the chief obstacle to economic development. \* \* \* It ought not to be beyond human intelligence to devise effective means of cooperation across national boundaries so that the peoples whose living levels have not kept pace may be helped to more adequate means of livelihood. To achieve such cooperation they must first achieve control of their own increase. Even this is not beyond imagination if emphasis is shifted from the material to the human aspects of economic progress.

#### BIRTH CONTROL

It is unfortunate that, whenever the question of population control is raised, discussion centers primarily upon the *pros* and *cons* of birth control. This is not to say that the birth control aspects of the population problem are not important, for they are. What it says is that the key to population control is a rising standard of living in overpopulated areas. The manner in which the *standard* is translated into population control is a matter to be determined by individuals and countries themselves. The control of population growth is not merely a matter of knowing the techniques of birth control. Primarily, it is a question of motivation involving changing attitudes.

For a long time Japan limited the growth of its population by legalized abortions. To most of us in the West this method is objectionable. It offends many religious beliefs, as well as our sense of propriety. Within the past few years, however, through intensified efforts on the part of the Japanese Government, the use of contraceptives is taking the place of abortions, and the birth rate has been dramatically reduced. This change has been brought about, not because of religious scruples, but because of pressure by Japanese medical experts who emphasize the dangers of abortion to the health of the people.<sup>1</sup>

Once people become convinced that it is necessary to limit births if they are to attain the minimum standard of life that they feel is necessary, a way to limit them will be found. Abstinence, of course, is the simplest method, and increasing attention is being given to the rhythm method. In recent years oral contraceptives have been developed, while simple mechanical devices have been perfected and have been so reduced in cost that they are within the financial reach of almost everyone. India, also, is proving that educational campaigns in favor of birth control can be effective. Like the Japanese, they are not inhibited by religious scruples.

<sup>1</sup> Reader's Digest, March 1966.

The Roman Catholic Church has been, and continues to be, the most powerful single force opposed to the use of contraceptives. However, even it is examining its historical attitude toward birth control. A special commission of lay and clerical experts, appointed by Pope Paul VI, is studying the question, although the Pope himself recently categorically prohibited the use of medicinal and mechanical contraceptives. A number of prominent Roman Catholic laymen have taken issue with the traditional teachings of the church in this respect and are exerting pressure for liberalization of the hierarchy's stand on the question.

The U.S. foreign aid bill of 1963 authorized the use of aid funds for population studies, and there are now population experts in the AID. The big need in the underdeveloped countries is not so much for the supplying of contraceptive devices as it is for training doctors and midwives in their use, the extension of medical services to rural areas, the providing of educational materials for distribution, and medical conferences.

It is a healthy sign that the question of population control, including birth control, has been pulled out from the dark recesses of human ignorance and spread before the public for discussion. In itself, this is hopeful. Also highly significant is the fact that the President of the United States has been stressing the importance of population control in poverty-stricken areas.

#### PRESIDENTIAL ATTITUDES

In 1959 Gen. William H. Draper, chairman of the Population Crisis Committee, reported to President Eisenhower that population increases in the underdeveloped countries were wiping out the advantages of U.S. foreign aid and suggested that the United States make its knowledge of birth control available to these countries if they so requested. In reply, the President said:

I cannot imagine anything more emphatically a subject that is not a proper political, or governmental activity, or function, or responsibility. That is not our business.

At first, President Kennedy took a similar stand, but later (April 1963) agreed that maybe the United States should make its birth control information available so that nations could make up their own minds about population control.

President Johnson is the first President of the United States to face squarely the problem of population control. On June 25, 1965, on the 20th anniversary of the United Nations, he said:

Let us act on the fact that \$5 invested in population control is worth \$100 invested in economic growth.

On August 30 of the same year, in hailing the World Population Conference, he said:

Second only to the search for peace, it is humanity's greatest challenge.

In a message to Congress in 1966 he said:

We stand ready to help developing countries deal with the population problem \* \* \*. The United States cannot, and should not, force any country to adopt any particular approach to this problem. It is a matter of individual and national conscience in which we will not interfere.

He went on to say that:

Population growth now consumes about two-thirds of economic growth in the less developed world. As death rates are steadily driven down the individual miracle of birth becomes a collective tragedy of want. In all cases our help will be given only upon request, and only to finance advisers, training, transportation, educational equipment, and local currency needs. \* \* \* Population policy remains a question for each family and each nation to decide. But we must be prepared to help when decisions are made.

It remains now for the proposals of the President to be translated into Government policy and to be sanctioned by legislation.

Thus, a subject that could hardly be discussed in public only a few years ago, is now a feature of national policy. In this connection it is important to be aware that those having religious scruples regarding birth control are not as sensitive to the term "population control" as they are to the term "birth control."

One wonders whether the United States, the principal donor of aid, should not go so far as to insist upon agreement with individual aid-receiving countries as to the goals that they aim to achieve with respect to population control. Then, unless these goals are achieved, or unless reasonable efforts are made to achieve them, the United States could threaten to terminate aid. To continue aid in the face of rapidly increasing population, without increased productivity, serves only to aggravate the problems of underdevelopment. Standards of performance need to be set, and if reasonable efforts are not made to live up to them by the aid-receiving countries, serious consideration should be given to terminating the programs.

#### A "CIRCLE" OR A "SPIRAL"?

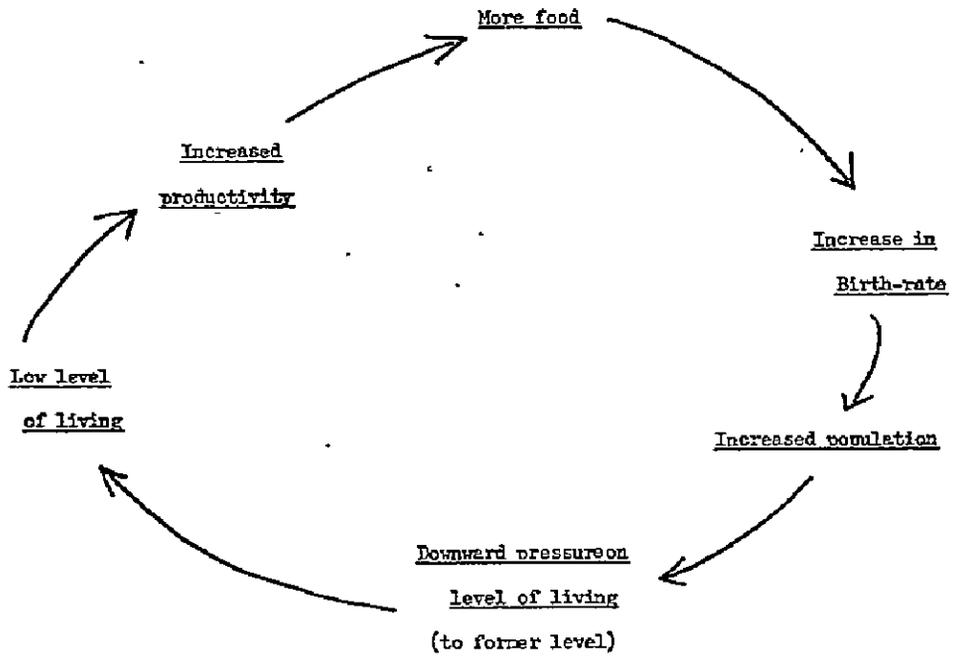
A simple diagrammatic presentation might help clarify the relationships between *standards* of living, productivity, population, and *levels* of living.

As long as the *standard* of living coincides with the minimum of subsistence, peoples in underdeveloped countries are victims of a vicious circle of misery (diagram A). When they become aware of the possibility of improving their lot in life by restricting births, they can break the vicious circle and embark upon an expanding spiral of prosperity (diagram B).

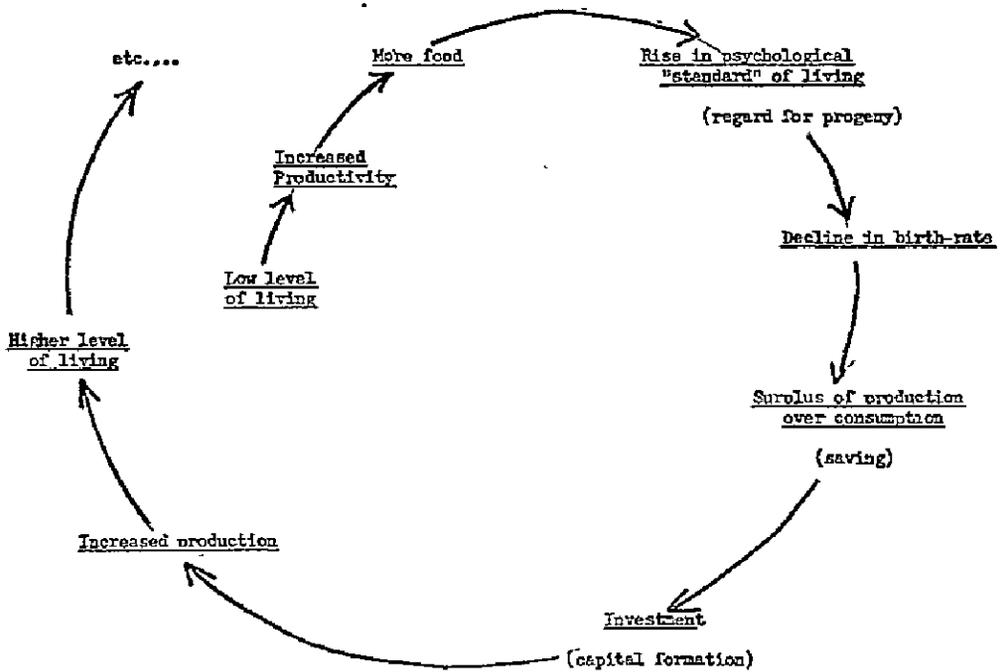
In diagram A ("Vicious circle of misery") an expansion of production, resulting from new production techniques, brings into being a larger food supply. Or, additional food might be made available by outside gifts. Increased food supply makes it possible for the birth-rate to increase, in accordance with the original Malthusian principle of population, based upon the minimum of subsistence (the "alley cat" principle). The result is to bring the per capita level of living back to its original level. Although the country's total production is greater than before, the per capita level of living remains unchanged.

In diagram B ("Expanding spiral of development") increased production, as in diagram A, results in a larger food supply. The people, however, have acquired a rising *standard* of living. They want better things for their children than they themselves had. Hence, they limit births. The result is that the increased production is not negated by rising population, so that the per capita level of living increases.

THE VICIOUS CIRCLE OF MISERY



THE EXPANDING SPIRAL OF DEVELOPMENT



Also, increased productivity makes it possible for the people to live on less than they produce, even at the higher level, with the result that saving occurs. The savings are invested and capital formation gets underway. The new investment makes possible still greater increases in production. Increasing production means more food, and so the spiral continues, ever widening, and leading to the attainment of higher levels of living, as the standard of living rises. The cause of the expanding spiral is the rising *standard* of living. This is what is meant by "economic development."

#### X. PRIVATE INITIATIVE IN FOREIGN AID

The cost of economic development in the underdeveloped countries is so great that, in terms of sheer volume alone, the task cannot be accomplished without a large expansion in the movement of capital and human resources *via* the private initiative route. Almost everyone agrees that private initiative in foreign aid is essential but, thus far, little has been accomplished toward stimulating it to assume a leadership role.

Most of the outward flow of private capital from the United States in recent years has been to the developed countries (principally Western Europe and Canada) and to the less-developed countries that have large oil resources. Special guarantees have been given in the foreign assistance acts against various political risks, including specific and selected risk guarantees.

That Congress recognizes the importance of mobilizing private capital and technical assistance is indicated by an amendment to the Foreign Assistance Act of 1961 (sec. 621) which reaffirms the spirit of earlier legislation. It states that "in providing technical assistance under this Act, the head of any such agency or such officer shall utilize to the fullest extent practical, goods and professional and other services from private enterprises on a private contract basis."

A committee that was recently appointed to study foreign aid through private initiative states that:

The capital gap alone has been estimated at between \$5 billion and \$20 billion annually. Since no conceivable increase in government-financed foreign aid is likely to fill all of this gap, the Committee concluded that the private sector must fill it or it will not be filled. \* \* \* United States business commitments in the less-developed countries is extensive, but most of this is in the extractive industries and the rate at which Americans are investing fresh capital in the developing countries is modest. Unless investment is deliberately stimulated, the Committee sees no reason to expect this rate to increase very much.<sup>1</sup>

The report goes on to say that "there are reasons, real and imagined, why business today is limiting its commitments in the developing world. For one thing, markets in these countries are small by American standards. To some degree, also, promising opportunities are simply overlooked by American business. The overwhelming reason, however, is that business finds a difficult 'climate' for enterprise in the developing world." Inflation is sometimes blamed for this situation, together with outmoded systems of business law and regulation, and the rudimentary nature of the capital markets in those countries. Almost everywhere there are political risks, and other difficulties are so great as not to be compensated for by prospective profits.

<sup>1</sup> "Foreign Aid Through Private Initiative" Report of the Advisory Committee on Private Enterprise in Foreign Aid. (Watson report), Agency for International Development, Washington, D C., July 1965.

It was observed earlier in this report that it is futile to expect that private capital will flow, in any appreciable degree, from the developed to the underdeveloped countries as long as governments of the developed countries make capital available either free, in the form of grants, or at greatly reduced interest rates. It can hardly be expected that the governments and citizens of the less-developed countries will choose to pay interest for private capital when they can get government capital for nothing, and particularly when it is being urged upon them by the well-meaning governments of developed countries.

The central problem is how to stimulate investment of private capital, both indigenous and foreign, in the less-developed countries. The Watson committee report contains numerous recommendations for action designed to help overcome the high risks and relatively low profits in the developing countries. Among the more important are the following:

1. That Federal tax law be amended so that losses suffered by American-owned subsidiaries in developing countries can be offset against profits made elsewhere. It also endorses the proposal for a 30-percent tax credit on earnings on private investments in developing countries.

2. That the cost of selected risk guaranties be reduced and that the extended risk guaranty program be greatly expanded. Such guaranties insure American owners against risks arising from the inconvertibility of currencies (but not from devaluation), nationalization and confiscation, and losses from war and revolution. The committee proposes that extended risk guaranties be broadened so as to insure investors against almost all risk.

Their specific proposal is that in undertakings in which businessmen are willing to risk as much as 25 percent of an investment, an amount not to exceed 75 percent of the investment should be eligible for 100 percent extended risk guarantee.

The committee is aware of objections in principle to protection against *all* the hazards of private operation, as well as of the practical objection that such assurances may some day result in large claims against the U.S. Treasury.

3. That the Government take whatever steps are feasible to indemnify both locally-owned and foreign-owned enterprises in the less-developed countries against the effects of currency devaluation (not presently covered under the guaranty system).

4. That the International Finance Corporation be permitted to borrow \$400 million from the International Bank for Reconstruction and Development (World Bank). At present the latter institution is encountering difficulty in finding outlets for investment funds under its present banking requirements. Such a transfer would make it possible to grant loans on more liberal terms.

5. That the U.S. Government and private organizations assist the less-developed countries in undertaking extensive market surveys and feasibility studies to be used as part of a campaign to engage the interest of prospective local and foreign private investors.

6. That the outflow of private capital to the less-developed countries be stimulated, notwithstanding the efforts of Government to retard the flow of private capital to the developed countries for balance-of-payments reasons.

A number of Senators are supporting a bill which would establish a "Peace by Investment Corporation" for the purpose of establishing and expanding people-to-people relationships between the United States and the less-developed countries,<sup>1</sup> by tapping the resources of millions of American investors to encourage private investment in those countries. It would establish a corporation which would have authority to purchase securities and obligations of, or to make loans to, any underdeveloped country or public agency of such country, or any private firm, corporation, or association doing business in such country, for the purpose of financing any undertaking to expand industrial, mining, construction, or agricultural activity.

The corporation would issue class A capital stock of \$1 million which would be sold to the U.S. Treasury. This stock would be retired within a period of 6 years, after which time the corporation would pass into private ownership. There would also be class B stock which would be offered for sale to the public at \$5 per share. The corporation would also be empowered to issue debentures, bonds, and notes for purchase by the Secretary of the Treasury.

The corporation would be "mixed," in that its board of directors would be composed of members appointed from private life by the President of the United States, and the Secretaries of State, Treasury, Commerce, and Labor, together with four members to be appointed by the President from various U.S. agencies concerned with international economic development.

A somewhat similar proposal was made by William N. Rogers in hearings before the Senate Special Committee to Study the Foreign Aid Program in 1957.<sup>2</sup> It has approximately the same objectives as the Peace by Investment Corp., but would attempt to achieve them on a purely private basis without Government assistance. It would seek to encourage individual and institutional investors to employ their risk capital abroad, while mobilizing local capital in the less-developed countries themselves. It would also provide managerial and technological functions comparable to some of those now provided by the AID and its private contractors.

Even more difficult than the transfer of capital from the developed to the less-developed countries is the problem of transferring skills and technology, as well as attitudes of individuals and institutions. The Watson committee recommended that the export of technical assistance to institutions in the developing countries be subsidized, and also that U.S. exporters of technical and professional services be made eligible for the same financing and guarantee facilities from AID and the Export-Import Bank that exporters of tangible goods now receive.

It also recommended that quasi-private organizations for technical assistance be established. Such institutions, the committee suggests, might receive funds from Congress, on contract from AID, from foundations and other private sources, and from foreign governments. They would perform three specific functions, namely: (1) the administration of technical assistance programs in countries which do not receive aid in the usual sense (such as some of the oil-rich countries) but which need help in developing their human resources, (2) the

<sup>1</sup> S. 1992, introduced May 19, 1965, by Senator Javits for himself and Senators Hartke, Morse, Pell, Cooper and Scott.

<sup>2</sup> The Foreign Aid Program: Hearings before the Senate Special Committee to Study the Foreign Aid Program: 85th Cong., 1st sess.; March/April 1957, pp. 623-630.

exchange of plans and information among American foundations, universities, professional societies, and other organizations regarding their activities in the less-developed countries, and (3) maintenance of contacts with nonprofit organizations in these countries.

The problem of the human side of foreign aid hinges on the fact that there is a shortage, not only of technical engineering and scientific skills in the less-developed countries, but also of entrepreneurial talent.

Entrepreneurial talent is scarce because relatively few persons have had the training and experience necessary for top-level administrative responsibility, and because the few who have the aptitudes needed for industrial promotion often seek other outlets for their talents, such as real estate and trading.

In consequence, it is usually assumed that the government of an underdeveloped country should preempt the role of entrepreneurship. Because the necessary talent is not in being, and because the government itself is most likely to be plagued by inferior political and administrative leadership, the result is to cover the problem over with the heavy blanket of bureaucracy. The "climate" of public confidence needed to stimulate foreign and domestic investment is hardly improved by such action. According to one authority<sup>1</sup> there are four principal avenues for increasing the supply of managerial resources in the underdeveloped countries, namely: (1) increasing the level of foreign investments that utilize technical and managerial personnel on local project sites; (2) importing of high-talent foreign manpower for work in locally owned enterprises; (3) sending nationals abroad for study and work experience; and (4) developing the needed human resources at home.

One important reason why large-scale manufacturing companies in the developed countries are not attracted to the underdeveloped countries is the small size of their markets. Alternative opportunities in the developed countries are so much greater that they do not want to be bothered, because of the small profit potential, by extending their operations to the underdeveloped countries. For this reason, it seems probable that certain smaller manufacturing industries in the developed countries would be more likely to be interested in foreign markets in such countries than the larger companies. It is difficult, however, to arouse their interest, to mobilize small investments, and to locate managerial manpower.

There are instances where management consultant firms have been successful in developing markets and in establishing manufacturing and selling organizations in some of the underdeveloped countries. Such firms send a small number of their own experts into an underdeveloped country where they first make an intensive market survey. According to one such firm,<sup>2</sup> the marketing surveys that already exist are usually far from realistic and confuse wishful thinking with hard-headed appraisal. The firm then recruits native talent and proceeds to train them. It is understood that in Iran this procedure was highly successful. The Americans were soon able to withdraw, leaving in the country a hard-core of trained and experienced personnel. Such procedure is analogous to planting a seed

<sup>1</sup> De Forest, J. D., "Entrepreneurship and Economic Development," *Challenge* magazine, June 1965.

<sup>2</sup> Based on private conversation with Messrs. W. J. Biehl and Daniel F. Magner, of Fry Consultants, Chicago, Ill.

in properly prepared, fertile ground. The idea takes root and enterprises multiply as the native personnel widen their range of activities. A further advantage is that, when it comes to importing machinery and other equipment from abroad, those in charge are more likely to make their purchases in the countries under whose nationals they were trained than from other countries. This type of development, therefore, results in the indirect benefit of stimulating exports from the developed country taking the initiative.

It has been proposed that Congress create a National Foundation for Technical Assistance to administer much of the technical assistance program for which AID is now responsible. The principal advantage of such a Foundation would be that, not being governmental, it could drop specialized personnel more readily when the need for various specializations disappears. Although AID has authority to do this, the fact is that, being a Government body, it is not likely to do so promptly.

It has also been proposed that American management and engineering firms establish a self-regulating body for exercising professional quality control. It is claimed that more business-like methods could be developed in this manner for getting interested parties together on mutually satisfactory terms, and in accordance with the appropriate provisions of the Foreign Assistance Act, than under existing self-regulations and procedures.

## XI. ADMINISTRATIVE AND FINANCIAL QUESTIONS

The scope of this report does not permit discussion of all the questions that have been asked with respect to the administrative and financial aspects of foreign aid. This chapter is confined to the following subjects:

- Bilateral versus multilateral aid
- Annual, or longer term, congressional aid authorizations
- Centralized administration of aid
- Congressional supervision
- Loans, grants, and interest rates
- Cost of foreign aid
- Foreign aid and the balance-of-payments deficit
- Foreign aid by other countries

### SHOULD AID BE GIVEN ON A BILATERAL, OR A MULTILATERAL, BASIS?

Whether aid can better be given unilaterally or multilaterally, through international organizations, is not a clean-cut question, since most nations today participate in one or more multilateral agencies. Rather, the question should be for what purposes, and under what circumstances, is bilateral or multilateral aid more effective?

There is considerable opinion that multilateral programs are better insulated than unilateral programs against political manipulation and that they are often acceptable in situations where bilateral programs would be suspect. Although it is doubtful whether there is absence of political influence in international organizations, it probably is safe to say that actions taken by U.N. agencies reflect a broader consensus and are generally more acceptable than those of a single foreign office.

The last three administrations have expressed strong support for greater channeling of aid through multilateral agencies, and in October 1963 the Senate Foreign Relations Committee concluded that it was time for the United States to shift its aid away from the traditional bilateral approach to a multilateral basis. In March of the same year the Committee to Strengthen the Security of the Free World (Clay committee) had recommended gradual conversion to a cooperative international effort.

In 1964 the United Nations Conference on Trade and Development adopted unanimously a recommendation on guidelines for international financial cooperation calling for the channeling of external resources, wherever possible and appropriate, through multilateral institutions, including regional development institutions.

Notwithstanding these expressions of support for greater emphasis on multilateral aid, the developed countries have been reluctant to follow through. The proportion of aid channeled through international agencies increased from about 10 percent in 1954-56 to approximately 12 percent in 1958-59. It has been estimated that it did not exceed 15 percent in 1963, and that it is still less than 20 percent.

The United States and the United Kingdom are the only major countries that give substantial support to the multilateral approach. Other donors of aid, including West Germany and France, maintain tight control over their foreign aid funds. Among their motives is the desire to encourage the expenditure of aid funds for their exports.

Supporters of both points of view tend to present their views in stark blacks and whites, disregarding the gray areas. In the late 1940's, because of the experience of the United Nations Relief and Rehabilitation Agency, "multilateral" was identified with the United Nations and "bilateral" came to mean the interests of the United States. The debate was often conducted in terms of generalities, which tended to color subsequent discussion.

Experience shows that the goals allegedly realizable by bilateral aid are not always attained, and indeed, may even produce opposite results. On the other hand, advocates of increased multilateral aid sometimes present their case in extremes, portraying a benevolent, "disinterested" international organization composed of administrators dispensing aid efficiently and objectively.

Advocates giving a larger proportion of aid through multilateral channels emphasize the "nonpolitical" nature of multilateral aid. Henry Cabot Lodge, while serving as Ambassador to the United Nations, argued this way in a speech before the 10th Annual Conference of National Organizations on March 7, 1960:

These (multilateral) programs are so obviously insulated against political manipulation that they are welcomed in places where bilateral programs, however unjustifiably in our case, would be suspect. Thus there is less risk of having our purpose misunderstood and resented. Indeed we get credit for helping an altruistic U.N. program.<sup>1</sup>

Some multilateral economic agencies, of course, are less political than others. The Organization for European Cooperation and Development is less political than the Council for Economic Mutual Assistance (Comecon), but the term "nonpolitical" is usually reserved

<sup>1</sup> Henry Cabot Lodge, "Mutual Aid Through the United Nations," Department of State Bulletin, Apr. 4, 1960, p. 525

for the United Nations and its specialized agencies. Here we may observe a striking duality in American thinking in that, to the extent that Americans approve of the political neutrality of the U.N. family, it is mainly because they expect these agencies to be "nonpolitical" or "neutral" in favor of the West.<sup>1</sup> In the minds of some, it seems that the United Nations should be an extension of U.S. foreign policy for "national" interests rather than the reverse, politically innocuous, international body that American policymakers sometime like to portray it as being.<sup>2</sup>

The United Nations has been lauded when its actions conform to what Americans consider to be in their national interest and has been attacked as "political" whenever the opposite has occurred. Instances in which the United States has opposed the actions of the international body have inevitably occurred; for the United Nations can decide that it will not provide aid unless certain criteria are met. Once the criteria have been established, however, it cannot afford to discriminate among qualified applicants.

The controversy over the distribution of U.N. funds in Cuba is a case in point. In May 1961, a short time after the abortive landing at the Bay of Pigs, the Governing Council of the U.N. Special Fund approved a grant of \$1 million for the expansion of an agricultural experimental station in Cuba. The Governing Council stood firm against American expressions of outrage on the ground that the charter of the Special Fund, like that of other U.N. assistance agencies, does not allow the granting or withholding of aid on the basis of political considerations.

Because of the "nonpolitical" complexion of the United Nations individual countries have tried to put controls on money channeled into the international body. Senator Wayne Morse voiced this stand, during the hearings on the 1966 foreign assistance program before the Senate Foreign Relations Committee, as follows:

\* \* \* one of the great issues in this (debate) and one about which there is going to be very strong differences \* \* \* is that some of us \* \* \* do not think we ought to turn foreign aid over to a multilateral agency. We think that we ought to cooperate in providing American contributions to those agencies but not to do with as those agencies may decide to do, without what we consider to be basic checks.<sup>3</sup>

Aid receivers, as well as aid donors, from time to time have accused the U.N. agencies of interfering unwarrantedly in the internal affairs of aid-receiving governments. The International Bank for Reconstruction and Development in its Turkish program, the International Monetary Fund in Brazil, and the International Atomic Energy Agency in India have all encountered this difficulty.

Whatever advantages a bilateral program may have, in terms of freedom of action, the longer it remains in existence, the less freedom it seems to allow the donor. As time passes, it becomes increasingly difficult to discriminate between friends, enemies, and neutrals. Once a country has invested in a receiving country, further investment tends to be viewed as the best way to preserve the initial investment. After

<sup>1</sup> For an explanation of this contradiction, see Inis L. Claude, "The Containment and Resolution of Disputes," *The United States and the United Nations*, edited by Francis O. Wilcox and H. Field Haviland (Baltimore: Johns Hopkins Press, 1961), p. 122.

<sup>2</sup> George Liska, *The New Statecraft* (Chicago: The University Press, 1960), p. 215.

<sup>3</sup> Hearings before the Committee on Foreign Relations, U.S. Senate, 89th Cong., 1st sess., on the foreign assistance program, Mar. 9, 1965, pp. 39-40.

a bilateral program has been in operation for 5 years or more the recipient country comes to view it as a "right."

One of the principal arguments in favor of giving aid on a multilateral basis is that an international organization has more freedom to dispense funds on the basis of purely economic considerations. Yet, as experience attests, in an all-embracing international body, such as the United Nations, this advantage is hypothetical rather than proved. A decision may reflect mutual accommodation among nations rather than willingness to conform to the requirements of effective use of aid. Both aid donors and aid receivers have criticized international bodies. In January 1963 the Soviet Union attacked the United Nations Special Fund, asserting that six Western concerns had received 82 percent of the money awarded on subcontracts and that nine Western countries had obtained 84 percent of the orders for special equipment.

Advocates of the multilateral approach have made much of the argument that if the United States were to increase its contributions to multilateral agencies, other nations would follow suit—a sort of "keeping up with the Joneses," in reverse.

Multilateralization of aid, however, might result in a lessening of the flow of funds to underdeveloped countries. For instance, an attitude which might conceivably be cultivated (by the United States, for example) is that by inducing other donor countries to assume more of the burden it can reduce its own contribution. Congresses and Parliaments, already rather disillusioned with the results of foreign aid, might be more reluctant to vote funds for an international, than for a national, agency. As a result, the total funds available might be smaller than realizable under the bilateral approach. Exclusive reliance on multilateral channels might therefore leave the underdeveloped nations worse off than they would be under bilateral aid. At least, at the present time competition among bilateral programs tends to swell the total of aid to needy countries.

It is also argued that multilateralization of aid would result in greater and more effective coordination of aid channels. This argument has become significant only since the number of donor countries has grown and since country programing has become important. As long as the United States was practically the only dispenser of assistance with funds given on a project basis, the proponents of the bilateral approach had a rather good case on this particular point.

It is not clear that multinational bodies would do a better job at coordinating aid efforts than is done under the bilateral approach. The Indus and Mekong River projects and the consortia for India and Pakistan indicate that it is possible to attain a substantial measure of coordination without the pooling of funds, as long as there is an effective mechanism for reaching agreement as to who will do what.

Still another argument is that the United States will "get more for its money" by pooling its aid funds in an international organization. Henry Cabot Lodge has argued that dollars of the United States are more than matched by dollars of other contributors and that money will be more wisely used when the recipient feels that it has a share in planning and implementing programs. Secretary of the Treasury Douglas Dillon's statement before the Senate Foreign Relations Committee on November 15, 1963, with respect to legislation affecting

the Inter-American Development Bank, summarized this point of view as follows:

Fortunately, there is increasing realization throughout Latin America that the extent of their own efforts will in the long run determine the success or failure of the Alliance for Progress and will determine whether the external resources being made available to them can be successfully utilized. \* \* \* Through their own financial participation, through their presence in the staff and management, and their decisions in all of its governing bodies, the IDB is available to the Latin American countries as their own instrument which they themselves can use and direct in the struggle to cast off the bonds of poverty and ignorance.<sup>1</sup>

It is often argued that the multilateralization of foreign aid will strengthen international institutions, which is itself an important feature of U.S. foreign policy. Whether strong multilateral international aid organizations will always act in the interest of free world aims, however, is open to question. Certain important short-term political and economic interests of the United States might not be served by channeling all foreign aid through multilateral channels. For, it is not true that an international organization is completely immune from power politics. In fact, the political climate may be such that reliance on an international organization might strain it to the point of collapse. A case in point was the debilitating effect of the Congo operation on the United Nations.

A possible compromise between the bilateral and multilateral approaches is the "consortium," an arrangement under which bilateral funds are channeled through a multinational body. The annual rounds of concerted aid to India, a prime example, constituted an attempt to bring together the aid efforts of different countries and international organizations and, at the same time, set the combined aid into proper relation with the requirements and priorities of the receiving country.

A major advantage of such coordination of bilateral aid is that, while there is more efficient coordination of aid efforts, the donor country still retains a considerable degree of flexibility toward the aid recipient.

Another means for promoting the flow of aid funds through multilateral channels is the streamlining of United Nations assistance programs. The United States has already promoted what may prove to be a major step in this direction by its proposal for the merger of the United Nations Special Fund and the Expanded Program of Technical Assistance, which was realized this year.

It can probably be generalized that, to the extent that it is not to be utilized as an integral part of the foreign policy of the United States toward an individual country, foreign economic assistance can best be supplied through an international organization. Contrarily, to the extent that foreign aid is to be utilized as part of U.S. foreign policy toward a country, it can be administered more effectively by the United States than by an international organization.

#### ANNUAL, OR LONGER TERM, CONGRESSIONAL AUTHORIZATIONS FOR FOREIGN AID?

Although Congress has been willing to authorize funds for certain longer term programs, such as the development loan fund and the

<sup>1</sup> Statement of Douglas Dillon, Secretary of the Treasury, before the Senate Committee on Foreign Relations on legislation affecting the Inter-American Development Bank and the International Development Association, Nov 15, 1953, p. 16.

Alliance for Progress, it has balked at the idea of placing the entire foreign aid program on a long-term authorization basis.

As passed by the Senate, the Foreign Assistance Act of 1966 provided for a 2-year authorization, as well as for the termination of foreign aid in its present form at the end of fiscal 1967, together with establishment of a Foreign Aid Planning Committee.

It authorized an appropriation of \$3.35 billion for fiscal 1966 and of almost \$2.6 billion for fiscal 1967. The House version provided for only a 1-year authorization and, in conference, the provision for multi-year authorization was removed from the bill.

In their statement accompanying the conference report House conferees reported that, although they could not agree to a blanket 2-year authorization under present conditions, they were not irrevocably opposed to authorizing aid funds for longer than 1 year regardless of circumstances. They added that, while they could not bind subsequent Congresses, they had, in view of the action of the Senate conferees in receding from their position, included an "expression of informal understanding" in their statement. It stated that during consideration of the foreign assistance authorization bill they would urge their colleagues to examine with the greatest care such proposals as may be submitted authorizing foreign aid programs for 2 or more years.

In explaining the action of the Senate conferees, Senate Foreign Relations Committee Chairman J. W. Fulbright expressed the hope that in 1966 some headway could be made so as to avoid the dreary cycle of successive 1-year aid programs.

Part of the reluctance of Congress to place authorization of foreign aid on a multiyear basis lies in its interpretation of its own role in the foreign aid program. Members opposing multiyear authorizations argue that Congress has a duty to retain strict control over the foreign aid program and that authorization for several years would signify abdication of this responsibility.

In hearings before the House Committee on Foreign Affairs in 1961, Henry R. Labouisse, Chairman of the President's Task Force on Foreign Economic Assistance, said that the administration planned to incorporate into any agreement with a recipient government a clause which would enable the United States to rescind, or modify, the agreement if Congress should withdraw authority. Also, the agreement would incorporate an understanding that, if there were a basic political change which the United States felt was inimicable to its interests, it would not be bound.

Senator Wayne Morse, Democrat of Oregon, stressed that, during the 2-year period proposed in the bill, the Foreign Relations Committee would be in a position at all times to take jurisdiction over the foreign aid program and to make recommendations to the Senate, including legislative recommendations. According to him, nothing in the amendment is intended to mean that Congress cannot take any action until 2 years have expired. It means only that the program as a whole would not come to an end until the end of the 2-year period.

Certain congressional proponents of annual authorizations from time to time have accused the administration of desiring multiyear authorizations so as to bypass annual scrutiny by Congress and other congressional controls. This charge has been denied by administration officials and some Members of Congress, who argue that Congress

will be able to obtain the best of all possible worlds by a multiyear authorization, in that it will continue to watch the foreign assistance program closely, while obviating meticulous, tedious, and repetitious reviews of programs which have already been reviewed many times.

The administrators of foreign aid contend that the annual authorization requirement has restricted discretion, hampered adaptation to changing conditions abroad, and indulged the demands of particular domestic interests at the expense of the program's objectives. Furthermore, the program has been threatened repeatedly by reductions in appropriations. Multiyear authorizations, they maintain, would allow Congress and administrative officials to spend their time more effectively in administrative and legislative oversight of the program.

Another major argument of those favoring multiyear authorizations is that the annual authorization process thwarts efficient long-range planning for economic development. Their position is that adequate authority for long-term financing would permit more orderly development and effective execution of development programs by the administrators of aid. Without such authorizations, they argue, insistent pressures arise for stopgap financing to meet crises, which could have been prevented at less cost by adequate long-range programs.

Economic development is a long-run process which does not coincide with the short-run cycles of Congress. The present system makes long-range planning virtually impossible and causes delays in procurement. As a result, as unspent money accumulates, the programs become even more vulnerable to the congressional chopping block. Members of Congress who are opposed to increased aid point to unobligated balances to show that adequate money is still available for aid.

The President's Committee to Study the United States Military Assistance Program (Draper committee), appointed by the President in 1959, recognizing this problem, proposed that Congress place the military aid program on a 3-year schedule and authorize commitments much ahead of disbursements.

Opponents of a multiyear authorization, on the other hand, argue that there is no need for Congress to commit itself to multiyear obligations since it is clear that it will continue major programs already begun. Congressman Walter H. Judd (Republican, of Minnesota) replied to Secretary of the Treasury Douglas Dillon in the 1961 hearings: " \* \* \* whenever they [projects financed by development loan funds] were fundamentally sound, I don't know in the 19 years I have been here that the Congress of the United States has failed to go through with what were considered to be moral commitments, if a good project had already been started."

A corollary to the assertion that multiyear authorization of foreign aid is necessary for the continuity of the aid program is that annual authorizations make it difficult to attract and retain personnel to administer the program. Those who take this position hold that the agonizing reappraisals of the program from year to year place the entire effort in doubt and make recruitment difficult. Those disagreeing with this contention point out that even a permanent authorization for the program would not assure that the level of appropriations itself would remain constant. They further argue that every other Federal agency is subject to the annual appropriations

process, that many foreign aid contracts are already on a multiyear basis, and that if the Agency for International Development is having difficulty recruiting capable administrators, it should examine its recruitment policies to find out why they are not successful.

In answer to the contention that under a 2-year authorization Congress would lose control of the program, it has been proposed that a Joint Congressional Committee on Foreign Aid, composed of key members of the House Committee on Foreign Affairs and the Senate Foreign Relations Committee, be created to serve as a "watch-dog committee" to study the program in alternate years. Such a group would obviate the need for the antiquated, often fruitless, and lengthy annual hearings on the aid programs. It is even probable that establishment of a committee of a few Congressmen and Senators would tighten congressional control over foreign aid. Instead of dissecting the program for a given fiscal year, a function which would be left to the Appropriations Committee, the Joint Congressional Committee on Foreign Aid could exercise general oversight of the program and make recommendations for its improvement. In lieu of testimony in lengthy hearings, the administration could submit a detailed report on the foreign aid program in alternate years.

#### CENTRALIZED ADMINISTRATION OF AID

The agencies involved in the U.S. foreign aid effort include the State Department and AID; Defense; Agriculture Department (food for peace); the quasi-independent Peace Corps; the Treasury Department in connection with U.S. policy in international financing institutions such as the World Bank and the Inter-American Development Bank; and the Export-Import Bank.

Administrator Bell described the fairly complex working relationships among these agencies in the course of recent testimony in the Senate, indicating that his office is the "control point" for food for peace and military assistance, as well as for development assistance. He would prefer to have the administration of Public Law 480 (food for peace) under the Secretary of State rather than, as at present, under the Secretary of Agriculture, but says it was felt, when AID was established, that this would not be acceptable to Congress.<sup>1</sup>

The foreign aid authorization bill reported by the Senate Foreign Relations Committee last year requested the President to include in new foreign aid legislative proposals by July 1, 1966, provisions for "unification insofar as practicable," of the administration of all programs of U.S. assistance to foreign countries "under a single officer or agency."<sup>2</sup>

Nevertheless, recent speeches of the President relating to foreign aid programs, give the impression that the administration favors a return to administrative fragmentation, rather than to their further centralization.

Closely related to the question of administrative centralization is the proposal that there be greater concentration of program in fewer countries, thereby eliminating aid to countries where economic assistance is too small to be a major objective of policy. Such a proposal has a twofold appeal. It is a possible approach to greater efficiency,

<sup>1</sup> Senate hearings, 1965, pp. 569-573.

<sup>2</sup> Senate report, 1965, p. 70.

in that it avoids scattering assistance too widely and too thinly. It also appeals to those who wish to curtail the use of military and economic assistance for political purposes.

Section 703(b) of the authorization bill, as reported by the Senate Foreign Relations Committee in 1965, provided that the total number of countries receiving assistance, except for relief or humanitarian purposes, should not exceed 50.<sup>1</sup>

#### CONGRESSIONAL SUPERVISION

It has been observed that a congressional watchdog committee would obviate much of the need for the committees of Congress to review, in detail each year, all aid programs in anticipation of annual authorization legislation.

In both government and business it is almost a truism that the more widely diffused the day-to-day decision-making authority, the less efficient will be the administration. It is necessary to distinguish between policy and the execution of policy. It is necessary that policy itself be discussed on the broadest possible basis. It is equally essential that responsibility for day-to-day decision-making be confined to as small a group as possible. The difference between a "strong" executive and a "weak" executive is that the former accepts responsibility and makes decisions, whereas the latter confuses administration with discussion.

Because of the failure to delegate responsibility, and because of the large membership of Congress, certain practices have appeared that handicap the successful administration of some of our aid programs.

One of the greatest handicaps to the program and to the personnel concerned is the long-run lag between appropriations by Congress and the allocation of funds to the geographical areas concerned. In some instances, 5 or 6 months of a fiscal year have elapsed before those responsible for aid programs in the field are informed of the funds that are available within the fiscal year for financing the work for which they are supposed to be responsible. The result is that neither the American personnel involved, nor the officials of the aid-receiving country concerned, can plan wisely, budget frugally, or perform efficiently.

Related to this weakness is the provision that not more than 20 percent of an annual appropriation can be spent within the last 2 months of the fiscal year. When allocations are not made until 6 months or more of the fiscal year have elapsed, the result is that there is a great flurry of spending in the 4 months, or less, remaining before the deadline. Obviously, this creates many opportunities for waste, based on decisions made too hastily, not because of inefficiency on the part of those in the field, but because of unreasonable and unrealistic restrictions upon their freedom to act in an orderly manner.

Means need to be found to expedite the allocation of appropriated funds to the field, in the interest of more efficient operation, in view of the legal requirement which, coupled with these unjustifiable delays, has the effect of forcing personnel in the field to commit 80 percent of their allocated funds within one-third of the fiscal year.

Related to this situation is that created by the reluctance of administrators in Washington to grant autonomy to administrators in the

<sup>1</sup> Senate report, 1965, p. 70.

field. Few persons in Washington, thousands of miles away from the aid-receiving country, can exercise judgment superior to that of competent personnel on the scene. The time-waste factor alone argues for granting greater autonomy, within specified limits, to those responsible for field operations. To accomplish this objective it will be necessary to change personnel policies, so as to engender greater confidence in the ability of operations personnel to make independent decisions. Persons should be assigned to specific missions abroad, not on the basis of seniority, location, or personal preference, but on the basis of competence to perform the tasks at hand. Competence, in this sense, should include not only professional ability and experience, but also a thorough knowledge of the foreign country's history, culture, political system, and economic structure.

A particularly weak spot is the system of rotation which takes a man out of a less-developed country after 18 months, or so, of service. This tenure is too short to permit him to perform with maximum effectiveness. He is of less than full usefulness for the first few months, because of lack of familiarity with local conditions, and is of diminishing usefulness during the last few months as he looks forward to transfer to some other post.

#### LOANS, GRANTS, AND INTEREST RATES

Generally speaking, the American public and their representatives in Congress favor loans over grants as a means of transferring capital to the underdeveloped countries. In 1961, 1963, and 1964 Congress tightened the terms of American aid loans, with the result that interest on such loans is now charged at a minimum rate of 2½ percent, over 40 years, with a grace period of 10 years, during which time the rate is 1 percent. If development is taking place and indigenous capital is being formed, the principle of granting aid in the form of loans for self-liquidating projects is feasible.

However, the accumulation of loans outstanding to the underdeveloped countries is already so large as to cause concern over their ability to pay the interest charges without crippling their development efforts. In 1964 the underdeveloped countries owed the United States over \$5 billion in dollar-repayable loans, and in 1965 the amount currently due was over \$500 million. On top of this, the underdeveloped countries owe over \$4 billion in loans that are repayable in local currencies, rather than in dollars. The cost of maintaining such large indebtedness is at present eating up approximately 30 percent of all new assistance. Strict adherence to the principle of preferring loans to grants can thus be self-defeating. Unless there are increases in productivity substantial enough to enable them to meet their interest charge obligations without unduly retarding development, further addition to the outstanding dollar indebtedness of the underdeveloped countries does not seem to make good sense. In India, for example, between 15 and 20 percent of all foreign exchange arising from exports is now required to meet that country's foreign debt service.

For some time the Soviet Union granted loans to certain underdeveloped countries at interest rates as low as 2 percent. In view of the fact that capital is scarcer in the Soviet Union than in Europe and the United States, the natural rate of interest there is

higher. The practice of charging the underdeveloped countries interest at such low rates is obviously taken for propaganda purposes, to make it appear that the 5- and 6-percent rates charged by the World Bank, the Export-Import Bank, and European governments are exorbitantly high. In response, the U.S. Government has tried to outdo the Soviet Union by making aid loans at a rate as low as three-fourths of 1 percent, together with "soft" loans that do not have to be repaid at all in convertible currencies.

The only ways to solve this problem are: (1) to substitute grants for loans, (2) to spread repayments over longer time periods, (3) to grant new non-interest-bearing loans, or (4) to cancel the indebtedness. As was pointed out above, as long as the governments of donor countries extend aid on much more favorable terms than commercial loans, it will be difficult, if not impossible, for private capital to move to the underdeveloped countries.

It should be borne in mind that "aid," whether in the form of grants or loans, involves the transfer of resources from the aid-giving to the aid-receiving countries. Private capital that moves internationally, in response to interest rates and other market conditions, strictly speaking, is not "aid." Such loans are business investments and their appearance and expansion indicates that the process of economic development has gotten underway. In principle, capital provided to build an underdeveloped country's infrastructure—i.e., for such public purposes as highway construction, dams, hospitals, and schools—are properly in the sphere of aid. Industrial development, of the manufacturing variety, should be left for development by private capital—indigenous, imported, or both. It is not easy, however, to draw a clear line between the infrastructure and what should be the private sphere.

#### COST OF FOREIGN AID

The financial aspects of foreign aid are not identical with its economic aspects, although of course the two are closely related. The economic aspects involve such questions as the capacity of the country to support the aid program in terms of real wealth and real income, the effects of the program on employment, on the distribution of resources, the distribution of incomes and the scale of economic activity. The financial aspects involve the country's fiscal condition and its international financial position.

In terms of the real income of the United States (physical wealth) its foreign aid programs are small. Even including military assistance, the cost of aid presently amounts to less than 1 percent of the country's gross national product, and to an even lower proportion of its national income. Indeed, the United States is now spending relatively less on economic aid than it did in the early days of the Marshall Plan, when it accounted for nearly 2 percent of a much smaller gross national product, and for 12 percent of a smaller Federal budget.<sup>1</sup>

There is no serious question regarding the ability of the U.S. economy to support foreign aid. If the objectives of the aid programs can be obtained by the expenditure of such a relatively small financial outlay, there is no question about the desirability of foreign aid. As was noted earlier in the report, it would be one of the greatest bargains

<sup>1</sup> Foreign aid currently accounts for slightly less than 6 percent of the current Federal budget.

in world history. The real issues regarding foreign aid do not relate to its cost to the people of the United States. As indicated in this report, they are subtler and far more complicated.

#### FOREIGN AID AND THE BALANCE-OF-PAYMENTS DEFICIT

Whether the United States can "afford" foreign aid, in the light of its present international financial position, has been the cause of greater concern than questions regarding the ability of the American people to afford aid from the point of view of their national income. To appreciate the nature of the question, one needs to have a clear picture of the international balance-of-payments position of the United States.

The balance of international payments is a statement showing the funds entering, and the funds leaving, the country for stated reasons over a given period of time. It should not be confused with the narrower concept of the balance of trade, or the more fundamental concept of a balance sheet of the Nation's economy. The fact that the United States currently has an excess of international payments over international receipts does not mean that its economy has become weak. On the contrary, it is stronger than ever.

The substantial increase in the excess of payments over receipts has resulted from the continued payment of between \$4 and \$5 billion a year to maintain the U.S. Military Establishment abroad and to pay for nonmilitary foreign aid, from a large increase in private foreign investment, and the fact that the economies of Western Europe and Japan have recovered from the war. Because of weakness in their monetary reserve positions they have chosen to devote a large proportion of their dollar earnings to strengthening their monetary reserves. They have been doing this by accumulating dollar balances in U.S. banks and, to a certain extent, by increasing their gold holdings. At what point they will stop accumulating reserves and buy larger quantities of U.S. merchandise depends on commodity prices, interest rates, wages, national monetary policies, and inflation in their own countries and in the United States.

Since 1959 over 85 percent of all U.S. bilateral foreign aid assistance has consisted of U.S. goods and services. In October of that year the Development Loan Fund announced that commodity procurement with Development Loan Fund money would henceforth be limited to goods of U.S. origin. In December 1960 a Presidential order prohibited procurement for foreign aid programs in 19 developed countries—in Western Europe, Canada, Australia, South Africa, New Zealand, and Japan. Commodity purchases with loan funds are now limited to the United States, although commodities financed by development grants and supporting assistance may be purchased anywhere in the free world (except in the 19 prohibited countries). The Agency for International Development, furthermore, does not allow the use of its funds for the purchase of commodities of which the United States is a net importer.

In the private investment field, however, such "tying" of loan funds is neither feasible nor desirable. Over the past few years the U.S. Government has applied a series of measures restricting the outflow of U.S. private capital via an interest-equalization tax, voluntary programs by which U.S. parent companies limit their export of capital

from the United States, and a voluntary program by which American banks hold down increases in their foreign lending. From the start, however, the official policy has been that these restrictive measures are not directed at the less-developed countries. The United States is thus in the rather peculiar position of trying to restrict the outflow of private capital to developed countries, while trying to increase it to the underdeveloped countries.

Although aid outflows constitute a large item on the payments side of the U.S. balance of payments, they do not contribute equal amounts to the deficit, because aid-financed exports loom large on the credit side. In 1960 the Department of Commerce began to break the global figure for Government grants and Government capital outflows into two parts: (1) dollar payments to foreign countries and international institutions, and (2) transactions involving no immediate dollar outflow. On the credit side a line corresponding to the latter category now appears, showing aid-financed exports separately from other exports. Aid given under Public Law 480 (surplus agricultural commodities) involves practically no dollar outflow because the countries being aided receive goods rather than cash. Similarly, disbursement of Export-Import Bank loans involve no immediate dollar outflow, since they finance only exports from the United States. Furthermore, aid-receiving countries usually do not accumulate reserves over long periods, but spend them on imports. Thus, even when U.S. foreign aid takes the form of untied cash transfers, the immediate dollar outflow overstates the balance-of-payments cost to the United States.

On the other hand, there may be some balance-of-payments cost attaching to foreign aid even when there is very little dollar outflow. If countries that receive U.S. goods in the form of aid reduce their normal imports of these goods from the United States and do not use the released funds in the United States, there is a negative effect on the basic balance. Or, if the aid causes them to reduce their imports from other nations which would have used a large proportion of the proceeds for purchases in the United States, it can cause a net increase in the U.S. deficit.<sup>1</sup>

The cutting off of foreign aid in an effort to reduce the balance-of-payments deficit of the United States would be futile. It would be unwise even in a narrow commercial sense, since the long-run benefits to the United States of successful aid programs can be very great.

#### FOREIGN AID BY OTHER COUNTRIES

There is some feeling that, because of its great economic growth in recent years, Western Europe should bear a larger proportion of the cost of foreign aid than it has been bearing.

Contrary to popular opinion, and as shown above, the burden of the cost of economic foreign aid to the United States has been declining, rather than increasing, over the past 15 years, when measured in terms of the country's gross national product and the Federal budget.

<sup>1</sup> For a more detailed treatment of the relationship between foreign aid and the U.S. balance-of-payments deficit, see "The U.S. Balance Payments in 1963", prepared by the Brookings Institution at the request of the Council of Economic Advisers, Washington, D.C., 1963. For a discussion of the overall position of Government transactions in the U.S. balance of payments see: Piquet, H. S. "The U.S. Balance Payments and International Monetary Reserves", American Enterprise Institute for Public Policy Research, Washington, D.C., 1966.

At the present time the developed countries are providing the underdeveloped countries with approximately \$6 billion in economic assistance of which the United States provides approximately \$4 billion.

The approximately two-thirds of the total economic aid effort by all developed countries represented by the U.S. contribution is approximately proportionate to the U.S. share of the national incomes of all the aid-giving countries. In fact, in terms of aid as a percentage of national income, a number of countries (including Belgium, France, and the United Kingdom) currently contribute more than the United States.

According to the Organization for Economic Cooperation and Development, the proportions of economic foreign aid disbursements as percentages of national incomes for the more important countries in 1964 were as follows:

TABLE 6.—Disbursement of economic assistance, as percentage of national income, 1964<sup>1</sup>

	National income (billions)	Aid (official and private) (percentage)
Austria.....	\$6.4	0.24
Belgium.....	12.0	1.13
Canada.....	32.8	.45
Denmark.....	7.1	.29
France.....	66.5	1.94
West Germany.....	79.2	.94
Italy.....	38.7	.41
Japan.....	53.9	.51
Netherlands.....	13.2	.92
Norway.....	4.8	.53
United Kingdom.....	73.1	1.09
United States.....	506.1	.90

<sup>1</sup> Thorp, Willard L., chairman of the Development Assistance Committee, "Development Assistance Efforts and Policies, June 1965 Review", Organization for Economic Cooperation and Development, Paris, 1965.

As far as economic assistance is concerned, therefore, there appears to be no strong justification for complaints that the United States is bearing more than a "fair share" of the foreign aid burden. However, if military assistance and defense expenditures are included, the picture is different. Defense expenditures by the United States are about three times the defense expenditures of all other major countries. This question is much broader, and far more complicated, than foreign aid and involves the defense posture of the entire free world.

In about 40 countries, including those in Africa, U.S. participation in economic development assistance is quite limited. The bulk of the outside help received by many of these countries comes from some other country, in most instances France and the United Kingdom. In a number of such countries, according to David E. Bell, administrator of AID, the U.S. aid program may consist of only a single technical assistance project, the value of which is to demonstrate U.S. concern, and to show that the country is not wholly dependent for assistance upon its former colonial ties.

## XII. CONCLUDING OBSERVATIONS

An important reason for the low esteem in which foreign aid programs are held in the United States is the multiplicity of objectives and activities that make up those programs. The public sees only a blurred picture and what it hears about, for the most part, is a series of unsupported assertions. Because too much is claimed for foreign aid, frustrations and disappointments are inevitable.

It is difficult for many Americans to realize that the world cannot suddenly be made over into a democratic, free enterprise replica of the United States, and that an essential part of independence is the freedom to make mistakes. A method needs to be evolved for early consultation between the United States and countries receiving aid, while recognizing that the developing countries have a right to determine the general directions in which they want to develop. It is equally important that we be frank in advising against, and even refusing to finance, hasty or ill-considered development plans. It is of the greatest importance that our assistance to them not be negated by population growth.

In agreeing upon standards of performance, however, it must always be remembered that many of the newly independent countries have memories of colonialism and are quick to resent anything that appears to impose restrictions upon their freedom of action. There is often deep mistrust of the value of private enterprise and direct private investment.

Much needs to be done in the way of developing country-by-country aid strategy to replace uncoordinated aid projects. Such strategy should be based upon interdisciplinary effort and should be agreed to by both the aid-giving and the aid-receiving country. The United States should then offer assistance to support that strategy, and not be dependent upon requests for individual project aid by the recipient country. Activities can then be developed to implement the agreed-upon strategy and be reviewed every few years. Strategy should be evolved by the best talent that can be found in the area of economic development. The role of the field technician is primarily that of an agent of change. The great unfilled need is for philosophically and analytically-minded people, and the limited availability of this type of person should determine the limits to the size of our aid programs.

What is required is knowledge in depth of the aid-receiving countries. We need to know what motivates people so that we can know how to go about inducing the changes that we seek. The top administrators of aid should devote less of their time to detailed operations and more to basic concepts. Form needs to be subordinated to substance. This is an approach which requires a degree of humility that is not indigenous to the average American. Yet, it is this very humility that is required to convince leaders in the aid-receiving countries that they should rethink what they have long taken for granted. When a recipient country acts in a perverse manner we need to re-examine our techniques of communication. Our success, indeed, can be measured only by their response.

## STANDARDS OF PERFORMANCE

On many occasions Congress has stated that it expects countries receiving aid to do their share in helping themselves, since aid from the outside cannot alone do the job of development in the underdeveloped countries. It can only reinforce and accelerate the process. Economic development depends essentially upon the efforts of the less-developed countries themselves. For this reason, meaningful standards of performance are of the utmost importance. If local conditions are unfavorable, or if local efforts are misapplied, outside assistance can make only a limited contribution to development, or worse still, it can be wasted altogether.

The United States must be prepared to cut off aid to countries that are not doing their part to help themselves, after agreement with them has been reached with respect to standards of self-help, prudent policy, and internal reforms.

One of the reasons for lack of firmness in the past has been fear of the consequences of firmness, especially fear of the possibility of Communist penetration. It is sometimes asserted, for example, that if the United States does not give economic aid, without regard to the domestic policies of the recipient countries, the Soviet Union will do so, the implication being that the United States cannot afford to withhold aid, even when it is clear that the resources will be used in ways inimical to its interests.

This line of reasoning ignores the fact that resources for aid are not unlimited. Aid granted to one country is aid denied to another country, which might be more sympathetic to our guidance. The United States is not acting in its own interest if it ignores the broad political consequences of its aid programs.

In his 1965 review of "Development Assistance Efforts and Policies", Willard L. Thorp, Chairman of the Development Assistance Committee of the OECD, says that "the Development Assistance Committee itself is not equipped to undertake to operate any formal scheme of evaluating performance, or relating performance to assistance in specific country situations." Elsewhere he says that "the common concern with improving performance shared by assistance providers and the less-developed countries should be expressed through a continuing dialogue on principles of mutual respect and common interest."

Those who have had intimate experience with international organizations of the one-country-one-vote variety will not be strongly attracted to this method for actually attaining meaningful performance with respect to economic development.

If agreement can be reached upon clear, specific, and feasible short-term objectives of foreign aid for economic development, it is no more than common sense that the countries providing the aid should be the ones to decide whether, and when, aid should be terminated because of failure on the part of the recipient countries to perform in accordance with those previously agreed-upon objectives. It is hardly reasonable to expect that an international organization of the one-country-one-vote type will take significant action in this regard.

Two basic questions are involved, whether aid is given by an international organization or unilaterally by a donor country. The first is whether aid should be given only after there is full and clear agree-

ment between the assistance-giving and the assistance-receiving countries with respect to standards of performance. The second, and more important, question is whether, and in what manner, failure to maintain these standards should result in the termination of aid. Unless there is clear agreement as to standards, of course, there can be little in the way of effective enforcement. To date there has been a superabundance of talk, of promise, and of agreements as to generalities in our aid programs. With few exceptions, however, there has been little in the way of clear agreement as to standards of performance.

Project assistance has generally been made subject to particular stipulations concerning the design, execution, and proper operation of particular projects. Only recently has the United States been experimenting with agreements with a few of the less-developed countries whereby disbursements of program assistance are made conditional upon specific performance in broader aspects of developmental and general economic policy, such as fiscal and balance-of-payments management.

The fact that we are only now reaching the point at which standards of performance are being considered with respect to balance-of-payments management and other financial problem areas illustrates the failure to get at the fundamentals of economic development. The most basic question of all, and the one that the United States and other countries have shied away from consistently over the past 17 years, is the causal relationship between natural resources, population growth, and economic development. Only within the past 18 months has the President of the United States been outspoken on the population problem. This appears to be evidence either that we are thinking through the problem of economic development more carefully than before, or that we are becoming more courageous and outspoken. In his recent message to Congress on foreign aid, President Johnson emphasized the close connection between population growth and economic development, with a strong intimation that, in order to continue receiving assistance from the United States, the less-developed countries will have to face up squarely to the problem of population control.

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