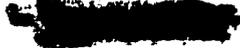


# DRAFT

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## A NEW PARADIGM FOR THIS NATION'S FOREIGN ECONOMIC ASSISTANCE PROGRAM

This nation's foreign economic assistance program is rooted for the most part in the period following the end of World War II. The United States was the only victor in that war. It had the dominant economy in the world, it was the scientific and technological leader of the world, and the international economy was experiencing a severe dollar shortage. Aside from any humanitarian concerns for those who were devastated by the war, it made a lot of economic sense for the United States to be generous with others and to help restore the international economy.

Later, the United States become engaged in the Cold War with the Soviet Union. This quickly became a global struggle for the minds of men and women in the developing countries. It was widely believed that assisting with the economic development of these countries was the way to win them over to our side. It was argued that well-fed people who were experiencing successful economic development would not succumb to any perceived benefits of the communist system. Thus we shifted our foreign economic assistance programs from rebuilding Western Europe to the development of the low-income developing countries.

Unfortunately, we failed to understand why our efforts at helping to rebuild war-torn Western Europe and Japan had been so

successful, and in the beginning applied the same policies to the developing countries. What we failed to perceive correctly was that Western Europe and Japan had an adequate stock of human capital in the form of a well-educated populace and adequate institutional arrangements. All that was needed were transfers of capital to rebuild the physical plant in those countries, and to provide temporary balance of payments support.

When these same principles were applied to the developing countries they met with failure. Those countries did not have well-educated populations, nor did they have the institutional arrangements needed for modernization and economic development. Moreover, although President Truman correctly saw the importance of knowledge as an input into the development process, in the case of agriculture the Point IV program mistakenly assumed that U.S. technology could be successfully transferred to the developing countries. Thus, a great deal of the programs for agriculture concentrated on the establishment of extension services rather than on the establishment of agricultural research systems. The problem with this strategy was that there was no locally viable technology to transfer and technology from the United States was not adapted to the differences in ecological and economic conditions.

A lot of learning by doing took place in our foreign economic assistance programs in these early days. This was a

credit to our foreign aid establishment and to the academic community, for when these development assistance programs started the stock of knowledge and experience for doing them was extremely limited. Unfortunately, just about the time we were learning more about how to do it, Gunnar Myrdal's devastating critique of foreign aid, The Asian Drama, was published in the mid-1960's. The problem with this critique, four volumes in length and massive in its scholarship, was that it was ten years out of date when it was published. Most of the data referred to an earlier period. In the intervening period, much had been learned and there were some highly successful development experiences.

Nevertheless, Myrdal carried the day. Political support for foreign aid began to wane, largely on the grounds that we didn't know how to do it, that the provision of foreign aid was corrupt and corrupting in any case, and that it tended to benefit upper income groups rather than those for whom the assistance was intended. A variety of attempts were made to revitalize our foreign aid programs by changing their focus and by reorganizing the development agency itself. However, despite these efforts this nation's support for foreign economic assistance now ranks 17th among the 17 industrialized countries when expressed as a share of our gross national product. Despite repeated pledges by the industrialized countries that they would provide up to one percent of their GNP in the form of foreign aid, the U.S. share

is now at .12 percent.

There have been other things wrong with our foreign aid program. For one thing, we have misperceived what our commitment to foreign economic assistance has really been. Most Americans believe this country to be the most benevolent country in the world. Most of them don't realize that today Japan, a country with an economy only half the size of the United States, provides more foreign economic assistance in absolute terms than does the United States.

For another, despite the relative decline of this nation's position in the global economy, and its loss of leadership in the scientific and technological field, we still perceive the foreign aid relationship as one of patron-client. We tend to think that we know best, and that our efforts are designed to do good. Not only does this rankle the recipient, it doesn't enable us to do what is in our best interest.

The first step in revitalizing our foreign economic assistance program is to establish a new rationale for it. The second step is to define our comparative advantage in providing such assistance. And the third is to put our assistance programs on the basis of truly collaborative arrangements with other countries. The remainder of this chapter is dedicated to these issues.

A New Rationale for Foreign Aid

The United States will continue to provide humanitarian aid in times of natural disasters in other countries. Despite its decline in support for government-to-government or institutional foreign assistance, the U.S. citizenry has always responded positively to calls for assistance when natural disasters strike. Moreover, it is willing to give privately for such purposes even when the government is responding through our foreign aid program.

Our economic assistance programs need to go beyond humanitarian objectives, however. Our foreign economic assistance programs need to be articulated more clearly as in our own best economic and political interests. They also need to be based more soundly on the changes in the international economy. And they need to be articulated realistically in terms of achievable goals.

To begin, we need to state clearly that we are interested in the development of the developing countries and the former countries of Eastern Union because it is in our best interests to do so. This articulation needs to state clearly that we know our future markets lie in these countries, and that increasingly a larger supply of the raw materials we need for our own economic activities will come from these countries. Such an articulation

has two important benefits. First, it will keep us from misleading ourselves about what a benevolent country we really are, and thus put ourselves in a more proper mindset as we go about our international collaborative efforts. In addition, a more candid approach will help our efforts to be more constructively received by the collaborating country.

Second, we need to recognize that the international economy has changed enormously over the last several decades and that our economic assistance programs need to reflect that reality. Among other things this means that we recognize that there is now a well developed international capital market that can mobilize savings for the developing countries if they pursue sound economic development policies. In addition, we need to recognize that balance-of-payment support in most cases is counterproductive since it enables countries to put off the day they change their misguided economic policies. Finally, we need to recognize that with a flexible exchange rate system, large capital inflows can be counterproductive since they will give the recipient country a case of the Dutch disease by causing the value of its currency to rise in foreign exchange markets. These propositions mean that it is the quality of the capital we provide that is important and not the amount. Emphasis on the quality of our capital will have very positive features when negotiating over the size of the aid flows.

Third, we need to recognize that the international capital market is not likely to be a viable source of funding for investing in human capital in the developing countries. The gestation period is too long. Moreover, private commercial banks are in a weak negotiating position when they try to claim payments on loans that have been dedicated to such things as education, health systems, and institutional arrangements. The benefits of such investments tend to be diffuse and far into the future. The bulk of the foreign economic assistance should be dedicated to investments in human capital, where the private international capital market is not likely to be responsive. As noted above, these are the investments which in the longer term can have such a high social rate of return.

Fourth, we need to recognize that investing in collaborative research and educational efforts has a high payoff to our own society. This nation desperately needs a stronger knowledge base on the rest of the world. It also needs to gain access to the new technology which spills out from growing R & D efforts in other countries. It can accomplish both of these goals by significantly expanding its collaborative research programs with educational and research centers in other countries.

The benefits of collaborative educational programs with other countries can also redound significantly to the United States. Students from other countries can be real assets in U.S.

educational institutions if their skills are properly taken advantage of while they are in this country. Faculty exchanges can play a similar important role, with the U.S. faculty member learning a great deal about the country in which he or she works, and the visiting professor in U.S. teaching institutions also teaching about his or her own country. In addition, providing educational services to students from abroad is essentially the export of a service. This country desperately needs foreign exchange. Providing educational services is one way of earning it.

Collaborative ventures in health care similarly have mutual benefits. There is much to be learned about diseases and parasites in other countries. Some of these diseases may find their way to this country. If, in developing these collaborative arrangements, improved health care in the other country should result, U.S. citizens will experience lower risk from diseases brought to this country from abroad.

There are similar benefits from collaborating on the solution of environmental problems. These problems have taken on an international dimension. We need to know more about global warming, for example, if we are to develop a sound strategy to deal with it when it comes, or if we are to devise proper strategies to forestall it. We can learn similar things from collaborative efforts to address environmental problems.

Fifth, we need to change our perspective generally on what our foreign economic assistance programs are all about. We need to view all of them in a true collaborative perspective. In fact, we should probably purge the word "assistance" from our lexicon, and describe our activities to this end as a program of international collaboration and cooperation. International cooperation was the phrase this nation used to describe its international ventures in the immediate post-World War II period. For some reason that word disappeared from our vocabulary. We need to return it to common usage.

Sixth and finally, given that the United States and other countries are likely to continue to run surpluses from their agricultural sector, we should find ways to make more effective use of these surpluses in our foreign economic assistance programs. One way to do that is to establish a goal with other industrialized countries to eliminate hunger and malnutrition from the face of the earth. This is a feasible goal; all that is lacking is the political will to do it. Eliminating hunger and malnutrition would make a significant contribution to raising resource productivity globally.

The U.S. Comparative Advantage in Providing  
Development Assistance

Countries differ in their comparative advantage in providing

foreign economic assistance. Japan, for example, with its very high savings rate and a large surplus on its trade accounts, is a logical candidate to provide large capital flows to the developing countries. The United States, for its part, has quite low domestic savings rates and a large deficit on its balance of payments. Consequently, it is a large importer of capital, and is likely to continue to be so into the foreseeable future. Thus it is not to the comparative advantage of the United States to provide large capital flows to the developing countries.

The comparative advantage of the United States lies in its well developed educational system, its past experience with successful economic development, and its experience with a democratic form of government. Even though the United States has lost its scientific and technological leadership in many fields, it still leads the world in the expenditures it makes on science and technology and it has vital and robust educational institutions. Thus, extending the services of these institutions in truly collaborative endeavors plays to the U.S.'s comparative advantage in providing development assistance.

The United States is also generally viewed as one of the most well-developed countries in the world. Thus, it has already advanced far down the development path. It has experience with the kinds of institutional arrangements needed at various stages of development. It can share this experience and knowledge with

other countries, while at the same time drawing on the experience and knowledge of other countries in learning how to deal with some of the pressing social problems here at home.

Finally, the U.S. has had two centuries of experience with a democratic form of government. It thus has a vast storehouse of knowledge to draw on in assisting countries that want to establish democratic forms of government. This will be a delicate business under the best of circumstances. However, if we truly succeed in changing our posture from our past patron-client relationship to one of being interested in collaboration and cooperation, we can probably have a significant influence on the spread of democratic forms of government worldwide.

#### Mutual Self Interests; Mutual Benefits

Successful efforts at international cooperation and collaboration require that there truly be mutual self interests and mutual benefits. Our future programs of international cooperation should be so designed as to realize mutual self interests and mutual benefits. They also need to be articulated in that way both to the domestic body politic and to the collaborating country. If they are, domestic support for them will be attained; so will the collaborating country be more willing to participate.

Concluding Comments

A new rationale for this nation's foreign economic assistance programs is needed if we are to design programs that are in our best interest, if we are to develop the domestic political support for them that is needed, and if we are to engage other countries in a truly collaborative effort. The new rationale should indicate that we have a self interest in such programs, that the quality of the resources transferred is more important than the quantity, that we are interested in truly collaborative efforts, and that these programs should be of mutual interest to the collaborating country.