

FOREIGN AID OVERHAUL

by

Jeanne Kuebler

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FOREIGN AID OVERHAUL

FOREIGN AID, whose annual authorizations and appropriations have been running into increasing trouble in Congress, is about to come under the searching gaze of a blue-ribbon White House committee. The new Committee to Strengthen the Security of the Free World, headed by Gen. Lucius D. Clay,¹ was formed to give continuing counsel to the President and other top administration officials on programs of economic and military aid to foreign countries. The announcement of the group's appointment, Dec. 10, stated that its first task would be to undertake "an immediate review of our military and economic assistance to determine whether the level and distribution of these programs is contributing materially to the security of the United States and is directed to specific and attainable goals of economic and political stability in the free world."

This initial review by a bipartisan and representative group of prominent men is thought to have two cardinal purposes: (1) To obtain suggestions for changes in the foreign aid program calculated to give it a broader base of support in the country and in Congress; and (2) to obtain recommendations for confining the over-all program within limits that will make it susceptible to tighter control without jeopardizing accomplishment of the aims of extending assistance to foreign countries. In the longer run, it seems probable that the new committee's function will be to keep actual administration of foreign aid under the constant and informed surveillance which is a recognized need but which cannot be provided by Congress.

When Budget Director David E. Bell takes over as administrator of the Agency for International Development

¹Clay is chairman of Continental Can Co. Other members of the committee are Robert B. Anderson, Treasury Secretary under Eisenhower; Eugene R. Black, retiring World Bank president; Clifford Harden, chancellor of the University of Nebraska; Robert A. Lovett, Defense Secretary under Truman; Edward S. Mason, Harvard economics professor; L. F. McCollum, president of Continental Oil Co.; George Meany, A.F.L.-C.I.O. president; Herman Phleger, former legal adviser to the State Department.

later this month, he will be the third man in the post in less than two years. Bell's predecessor, New York lawyer Fowler Hamilton, resigned Nov. 7 amid rumors that President Kennedy was unhappy over his 14-month administration of the agency.

The frequent changes in top AID personnel point up the continuing dissatisfaction with this seemingly endless program and the constant hope that a bright new program can be found to replace it. In his first foreign aid message, March 22, 1961, President Kennedy called for a "fresh approach" that would shift emphasis from mutual security to a coordinated free world effort to help the underdeveloped nations attain self-sustaining growth and economic stability. He called also for a revamping of the administrative setup, which he termed "bureaucratically fragmented, awkward and slow . . . diffused over a haphazard and irrational structure . . . inconsistent and unduly rigid and thus unsuited for our present needs and purposes." Hamilton's departure indicates that much of the admittedly huge job remains to be done.

Forms and Purposes of Foreign Assistance

ASSISTANCE to foreign countries for political purposes has a long history, but foreign aid on a vast scale dates back only to World War II, when the United States granted close to \$50 billion to its allies under the lend-lease program.² In the 17 years since the war, the American aid program has had many changes of emphasis. War relief and rehabilitation, emergency stabilization loans, contributions to international finance agencies, special Greek-Turkish aid, and the Marshall Plan accounted for most of around \$30 billion laid out from 1946 to 1952. These programs were succeeded, as the menace of Soviet expansion grew, by military assistance, first to North Atlantic Treaty Organization allies and then to other countries of the free world; financial grants to countries shouldering a heavy defense load; technical assistance to underdeveloped nations; and long-term loans to assist, in President Kennedy's

² Reverse lend-lease and various postwar settlements reduced the net total to about \$40 billion. See "Future of Foreign Aid," *E.R.R.*, 1961 Vol. I, p. 325.

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words, the advance of "less developed nations into self-sustained economic growth." The total cost since 1953 will have amounted to about \$70 billion by the end of the current fiscal year.

EVOLUTION OF MILITARY AID AND DEFENSE SUPPORT

To the economic rehabilitation envisioned in the European Recovery Program was added a billion-dollar Mutual Defense Assistance Program for members of the North Atlantic Treaty Organization, which was formed in April 1949; also incorporated into M.D.A.P. was military aid to certain Asian countries. M.D.A.P., later the Mutual Security Program, instituted the present global system of military assistance to allied and other nations whose ability to defend themselves is considered by the President to be important to the security of the United States.

The military and anti-Communist orientation of Mutual Security dominated official and public thinking on aid policy during the 1950s; foreign aid was justified as a relatively inexpensive way to reinforce this country's security. However, the program was undergoing considerable modification. Within its framework were incorporated programs tantamount to economic assistance. The United States recognized, in 1951, that many countries needed budget contributions to support a heavy defense load; such assistance was known as defense support (now supporting assistance). Intended to enable the recipient to make a specific contribution to the common defense, budget support was granted also to countries which gave the United States important military base rights.

While defense support is carried in the program as economic aid, it is actually compensation for military alliance or, in the direct terminology of Hans J. Morgenthau, University of Chicago political science professor, "bribery." It is important, in Morgenthau's view, not to categorize such payments as economic development aid; this, he believes, creates illusions. Both the giver and the receiver "may come to expect results in terms of economic development which . . . may not be forthcoming."³

Defense support is decreasing, partly because of the increased prosperity of former recipients and partly because

³ Hans Morgenthau, "A Political Theory of Foreign Aid," *American Political Science Review*, June 1962, pp. 802-808.

criticism in Congress has led to transfer of this type of assistance to other categories of aid. In requesting a \$481.5 million appropriation for supporting assistance for the current fiscal year, Secretary of State Dean Rusk told a House Appropriations subcommittee that the program had been reduced to a minimum. Congress disagreed and cut it to \$195 million (about a third of total grants). This sum is being used primarily for budget assistance to Asian allies on the fringes of Red China and the Soviet Union. The President's contingency fund, used to a large degree for similar purposes, also was cut by Congress—from \$400 million to \$250 million.

TRUMAN'S POINT IV: TECHNICAL ASSISTANCE PLAN

A limited program of technical assistance was instituted in Latin America in 1942; the world-wide technical assistance program known as Point IV was proposed by President Truman in his 1949 inaugural address. As the fourth aspect of a "major course of action" for American foreign policy, Truman called for "a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped countries." The following year Congress appropriated almost \$27 million for technical assistance, and a Technical Cooperation Administration was set up in the Department of State to administer the new program.

Technical cooperation has always been a small budget item, averaging 4-5 per cent of the total foreign aid appropriation. Yet it is widely known, and the results from relatively small expenditures, particularly on health projects, have been noteworthy. Technical cooperation involves bilateral arrangements; assistance is made available only when the recipient nation agrees to pay a fair share of the cost and cooperate in administration. Technical experts and materials are provided for demonstration projects, nationals of the foreign country are brought to the United States for training, and American colleges and universities in some cases plan and organize institutions of higher education in recipient nations.

Point IV originally operated in only a few countries with projects concentrated in health, education and agriculture. By mid-1961, programs had been set up in 63

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countries for training in industry, mining, labor, public administration, public safety, community development, housing and transportation. Since inception of the program, less than \$2 billion has been expended on technical cooperation; in fiscal 1961, latest year for which detailed statistics are available, country expenditures were about \$162 million. Many projects of the type handled under the technical cooperation program are gradually being taken over by the Peace Corps.⁴

ECONOMIC AID AND SALES OF FARM COMMODITIES

Non-military aid to foreign countries declined sharply between 1949 and 1953, and it has increased only slightly during the past decade. Preliminary figures indicate that total economic aid in fiscal 1962 amounted to \$5.2 billion,⁵ compared to \$1.6 billion of military aid. Originally, non-military aid was granted only to specific countries. The Mutual Security Act of 1951, however, expanded the list of recipients; material help as well as technical advice would be given to hasten economic development in underdeveloped areas.

In fiscal 1962, 81 countries received \$456.8 million in economic grant aid (including technical assistance), and additional countries received grants under the Food-for-Peace program, a 1961 outgrowth of the Agricultural Trade Development and Assistance Act of 1954. The latter act, Public Law 480, was designed "to increase the consumption of U.S. agricultural commodities in foreign countries, to improve the foreign relations of the United States." It provided for overseas sales of farm products for local currencies; free distribution for relief purposes; distribution abroad by voluntary non-profit agencies and intergovernmental agencies; and long-term dollar credit sales. The use since 1961 of food grants as a part of wages on projects that require a large amount of labor has been emphasized, thus freeing aid funds for other purposes. Local currencies accruing to the United States from food sales to foreign countries are used within the respective countries for military assistance, economic development projects, loans to the government or to private enterprises, and for retirement of obligations of the United States. Surplus

⁴ See "Peace Corps Expansion," *E.R.R.*, 1962 Vol. II, pp. 865-868.

⁵ Including Export-Import Bank loans (\$584 million) and contributions to international organizations and miscellaneous foreign items (\$429 million).

commodities to a total of \$8.5 billion have been shipped under various provisions of P.L. 480.

Surplus commodity disposal as a foreign aid tool has several obvious advantages, but it has incurred opposition in Congress and in foreign countries. Legislators object to its use as a substitute for a realistic surplus management program; the administration's 1963 program was cut 28 per cent. Other food-exporting nations, most of them allies of the United States, protest that the program damages their traditional markets and is, in reality, a form of "dumping."

Debate Over Aid Policies and Programs

FOREIGN AID PROGRAMS in general have enlisted substantial bipartisan support in Congress and among the voters. Most legislators have subscribed to the idea that military assistance to other countries contributes to American security and that efforts to advance the economic development and political stability of underdeveloped countries are in the long-term interest of the United States. Additional support is generated by the moral concept that to help the poor nations is an obligation of the rich. President Kennedy said in his first foreign aid message March 22, 1961, that assistance was one of the responsibilities America could not shirk.

There is no escaping our obligations: Our moral obligations as a wise leader and good neighbor in the interdependent community of free nations—our economic obligations as the wealthiest people in a world of largely poor people, as a nation no longer dependent upon the loans from abroad that once helped us develop our own economy—and our political obligations as the single largest counter to the adversaries of freedom.

Doubts have been voiced, however, about the effectiveness of foreign aid in furthering U.S. objectives or in promoting self-sustaining economic development in recipient countries. Failure to correct economic shortcomings within the United States—continuing unemployment and unused industrial capacity, an adverse balance of payments with resulting losses of gold, and the chronic federal deficit—has been linked to American generosity overseas.

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QUESTIONING OF FOREIGN AID ON VARIOUS COUNTS

The chief opponent of foreign aid in Congress, Rep. Otto E. Passman (D La.), chairman of the House Appropriations subcommittee concerned with foreign aid, has cited the drain on U.S. gold reserves as foremost among his reasons for favoring aid cuts. He told the House, Sept. 20, during debate on the foreign aid appropriation for fiscal 1963, that "We simply cannot afford to lose the amount of gold that is being siphoned away from our gold stock, in many instances by the very nations who are receiving our aid."

To alleviate the balance-of-payments deficit, the administration has intensified efforts to persuade other industrial countries to carry a larger aid load. President Kennedy told the Board of Governors of the World Bank and its affiliates at their annual meeting in Washington, last Sept. 20, that the "balance-of-payments deficit is . . . the result of expenditures our people have made on behalf . . . of the free world." He called on the now-recovered European nations to relieve the United States of its "disproportionate" share of the burden.⁶

Another basic question being asked is, What have the heavy expenditures for economic aid accomplished? The gap between the rich and the poor nations is admittedly widening. U.N. Special Fund Director Paul G. Hoffman has noted that the net average increase in personal income in the underdeveloped lands in the period 1950-59 was \$1 a year, or about 1 per cent. The gross national product of industrial countries in the free world, on the other hand, has risen by at least 2½ per cent annually. The growing gap is due in part to rapidly growing populations in the underdeveloped countries.⁷ But it is due also, critics of the present aid program say, to poor planning and administration. Barbara Ward Jackson, British economist, wrote last October that the West has not developed a long-term, imaginative strategy because it has not yet decided what foreign aid programs are for. She asserted that it was still impossible, after years of experience in giving aid, "to discern anything like a clear and interrelated structure of policies."⁸

⁶ See "Gold and the Balance of Payments," *E.R.R.*, 1962 Vol. II, pp. 738-742.

⁷ See "Population Control," *E.R.R.*, 1962 Vol. II, pp. 597-598 and 610-611.

⁸ Barbara Ward Jackson, "Foreign Aid: Strategy or Stopgap?", *Foreign Affairs*, October 1962, p. 103.

Political opposition is voiced to specific types of foreign aid, such as military assistance to Latin America, that may involve the United States in internal quarrels and indirectly strengthen anti-democratic and anti-reform governments.⁹ Sen. Wayne Morse (D Ore.), long-time supporter of aid programs, voted against the most recent authorization and appropriation bills because, among other things, he opposed military assistance to Latin American governments. Foreign aid has embroiled the United States in quarrels of allied nations with their neighbors: Pakistan, for example, has objected to aid to India; Greece, an ally whose budget assistance was halted last June 30, is reportedly resentful over American aid to Yugoslavia and Egypt.¹⁰

OPPOSITION TO AIDING NEUTRALIST OR RED COUNTRIES

Particularly strong opposition was voiced in Congress this year to loans and continued grants of surplus food to Communist countries and, to a lesser degree, neutral nations. Aid to Yugoslavia was begun after Marshal Tito's break with Stalin in 1948, but military aid was discontinued in 1956. Surplus food barter transactions with East European satellites were authorized in 1957. Total aid to Yugoslavia has amounted to \$1.7 billion economic; \$694 million military; \$685 million surplus foods. The only other Communist nation aided is Poland, which has received \$523 million in economic aid plus \$425 million in surplus foods.

The aid program has always engendered controversy,¹¹ but the fight that broke out on Capitol Hill during the past session was exceptionally vigorous. The Senate, which voted 57 to 24 to prohibit aid or food grants or sales to Communist countries, rescinded the ban on food programs following a vigorous White House protest. In the final action, House and Senate conferees barred aid to any nation "whose government is based upon that theory of government known as communism" but allowed the President to waive the ban if he determined that withholding aid would be contrary to the national interest.

⁹ See "Arms Aid to Latin America," *E.R.R.*, 1962 Vol. II, pp. 729-782.

¹⁰ Victor Meier, "Problems of U.S. Aid to the Middle East," *Swiss Review of World Affairs*, October 1962, p. 19.

¹¹ See "Extension of Foreign Aid," *E.R.R.*, 1956 Vol. II, pp. 869-871.

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Assistance to neutrals has also been criticized; some leading recipients of American aid have been consistent opponents of U.S. positions within the United Nations, at disarmament conferences, and in public statements. Aid to India was jeopardized in the Senate Foreign Relations Committee last May, but amendments that would require cuts were eventually deleted. Committee Chairman J. William Fulbright (D Ark.) said that the committee never before had limited aid to an individual country; the attempt to do so in India's case reflected feeling against the anti-American attitude of V. K. Krishna Menon, then India's Defense Minister, in the United Nations, the Indian invasion of Goa, and Indian failure to negotiate a settlement of the Kashmir dispute with Pakistan.

Similar criticism has been lodged against aid to Indonesia, Egypt, Algeria and Ghana, neutrals that frequently attack American policies. There are indications of a growing view within the administration that neutrals should be neutral. McGeorge Bundy, Special Assistant to the President for National Security Affairs, commented recently that "the requirement of reciprocity is as important for friends who are unaligned" as for friends who are allies. Among the unaligned nations, Bundy said, "There is a tendency to take our good will for granted, and to assume that their special interests and prejudices may, in the nature of things, be pressed against us to the limit."¹²

CHARGES OF INEFFICIENCY, WASTE, AND CORRUPTION

The vast aid program offers investigators a fertile field. They have uncovered foreign aid financing of imperial yachts, highways that begin at a beach or end at the foot of a mountain, milk dehydration plants in areas where no milk is produced, flour mills where no grain is raised. Several instances of conflict of interest by U.S. employees, misuse of funds by foreign officials, and food and fiber losses have been found. Losses have been relatively small and most are attributed to waste in planning and to inefficient administration in Washington and overseas.

Proponents believe that constant shifts of top personnel and constant reorganizations have been responsible for much waste and inefficiency. Former Deputy Administra-

¹² McGeorge Bundy, "Friends and Allies," *Foreign Affairs*, October 1962, p. 17.

tor Dennis A. Fitzgerald, in a statement Nov. 16, denounced the "farical game of musical chairs" being played with the administration of the foreign assistance program.¹⁸ He pointed out that the "size, complexity, and difficulty of administration" of AID "dwarfs even the biggest businesses in the United States," yet a new administrator is brought in every 1½ years. He criticized the constant reorganizations, each of which "has been accompanied by more or less serious delays in both programming and implementation, lowered employee morale, and a loss of confidence in the public eye."

Saying that the U.S. aid program had "a solid record of performance," Fitzgerald urged: "Let's quit pretending periodically that we have discovered a brand new context to our foreign aid program." It would be better, he insisted, to "build on old and proven principles and experience in order to improve future performance."

Such statements have not quieted critics who believe that the old way of doing things and the quality of personnel in the AID bureaucracy will prevent real improvement. An attempt to weed out unqualified AID employees was made after Hamilton took office, but complaints from dismissed employees and their supporters in Congress were so strong that many were retained.

Experiences like this prompted Sargent Shriver, Peace Corps Director who was rumored to be under consideration for the AID job, to declare on Nov. 22 that "Whoever becomes the administrator would need new authority and extraordinary emergency powers." Otherwise, Shriver said, "he would be trying to do something without the necessary tools for a constructive job."

Recent Organizational and Policy Shifts

CHANGES were made in 1961 to reshape what President Kennedy called the "bureaucratically fragmented, awkward and slow" administration of foreign aid programs. In essence, the agency was reorganized along regional and

¹⁸ Fitzgerald, in his 15 years with the aid program, frequently tangled with Capitol Hill critics. Rep. Passman once declared him *persona non grata* to his committee.

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country—rather than functional—lines in order to centralize and coordinate all types of programs within a single country; to emphasize long-term country development plans; and to enable the staff to deal with such plans. In addition, most of the top jobs were staffed from outside the organization.

Policy changes also have been made in the past few years to quiet domestic criticism. Because of the country's adverse balance-of-payments position, President Eisenhower applied a "Buy American" policy in 1959 to projects underwritten by the Development Loan Fund (established in 1957), and later to procurement for U.S. military and other economic aid. This policy was continued by the Kennedy administration; at present 78 per cent of procurement for the program is carried out in the United States. With the exception of Germany, other aid grantors have similar policies, so objections from abroad were limited. The new policy was protested by Japan, which previously supplied aid materials for South Korea and Taiwan. During an early December visit to Washington members of the Japanese cabinet requested further study of the policy; they were reportedly told it was necessary but temporary.

Strings in the form of self-help provisions have been attached to grants and loans under the Alliance for Progress. Participation in the Alliance is statutorily dependent on institution of economic and social reforms basic to an increase in the recipient nation's capacity for development—land reform, tax increases and improved tax collection methods, investment of local private capital, and other measures. The desirability of introducing such reforms in underdeveloped countries in other parts of the world was stressed in the foreign aid legislation enacted in 1961. It directed that "special attention [be given to the needs of] those nations most willing and able to mobilize their own resources, make necessary social and economic reforms, engage in long-range planning, and make the other efforts necessary if they are to reach the stage of self-sustaining growth."

SHIFT FROM GRANTS-IN-AID TO DEVELOPMENT LOANS

With establishment of the Development Loan Fund in 1957, a policy of backing long-term development programs

was instituted. The Fund makes loans to finance economically sound development projects which do not qualify for assistance from private sources or from such lending agencies as the World Bank. Loans for development projects originally carried interest rates of about 3.5 per cent; for profit-earning projects, the rate was about 5.5 per cent. Rates now are substantially lower, and repayment of only a nominal amount of the loan is required in the first 10 years. The new agency found business so brisk that it committed in little more than a year almost all of the money (\$700 million) available for lending over two years. More than one-half of the total was loaned to five countries—India, Iran, Pakistan, the Philippines and Turkey. To date, the Fund has committed more than \$3 billion.

The shift from grants to loans was applauded in many quarters, but dangers were recognized. Legislative Reference Service experts have noted that while loans may be more businesslike, may encourage carefulness and thrift, and be more acceptable politically, they “may create as serious or even more serious problems than do grants.” Pointing out that vast sums of money will be required for adequate development, the experts commented: “We may well arrive at the point where the less-developed receiving countries are so deeply in debt to the United States that their economic future will be mortgaged to America.”¹⁴

The loan program has grown steadily; in 1956 loans constituted 13 per cent of AID economic assistance; this year, 53 per cent.¹⁵ Obligations and authorizations amounted to more than a billion dollars in fiscal 1962; because authorized funds were almost totally committed, President Kennedy requested \$1,250 million for the current fiscal year. Congress allowed \$975 million; AID officials complained that most of that sum was already committed to the long-term projects started under a two-year authorization in 1961. They said also that the development program was suffering from lack of a long-term authorization by Congress—countries which must allocate a large portion of their own funds fear that support from the United States may be cut off midway in the effort. Authorization for a \$7.3 billion five-year program was requested last year, but

¹⁴ Legislative Reference Service, Library of Congress, *U.S. Foreign Aid, Its Purpose, Scope, Administration, and Related Information* (June 1959), p. 80.

¹⁵ However, total dollars for grant assistance did not fall.

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Congress, loath to delegate too much authority, gave long-term authorization only for Alliance for Progress projects.

Proposals for Radical Changes in Program

CONGRESS made the deepest cut to date in foreign aid at its 1962 session, and it appears to be still more antagonistic now to continuation of the program in its present form. Many lawmakers and their constituents have a sense of frustration about foreign aid, because the program evidently will continue over a long period of years. Congressional leaders reportedly have warned President Kennedy that, if even more drastic cuts in next year's program are to be avoided, the entire foreign aid setup must be given a new look in both policy and administration.

A plan for revamping foreign aid operations that has attracted wide attention was suggested Aug. 14 by Chester Bowles, Special Assistant to the Secretary of State for African, Asian, and Latin American Affairs. He outlined a program that, he said, would win the support even of conservatives for its "tough-minded, consistent approach." The Bowles memorandum proposed division of aid recipients into four categories on the basis of their level of development and their ability and willingness to utilize outside aid to raise that level. The respective categories would include:

(1) Nations with a gross national product of more than \$350 per capita whose output is misused or badly distributed. Aid to such countries should be temporary, and the United States should insist "on tax reform, land reform, and more effective control and use of existing foreign exchange." This type of stopgap aid, limited to 3-5 years, might be granted to such countries as Argentina, Chile, Cyprus, Greece, Jamaica, Lebanon, Panama, Trinidad, Uruguay, Venezuela.

(2) Nations with a gross national product of less than \$350 per capita which are "demonstrating outstanding competence and will in mustering and using their own resources for rapid economic and social progress." These countries should receive "highest priority treatment," given, when possible, through a "consortium that integrates generous American assistance with that of the international lending agencies and other capital exporting nations." Included in the group might be Colombia, El Salvador, India, Nationalist China, Nigeria, Pakistan, Tunisia.

(3) Nations in a borderline category which are succeeding in certain areas of the economy, failing in others. U.S. aid should be highly selective depending on the extent of self-help measures. The memo said there should be "greatly restricted assistance in those areas where the performance is uncertain, and a firm refusal where it is lacking."

(4) Very backward nations "which at present lack the competence, organization or will to use our project or budget assistance effectively." These countries should be denied direct project assistance until they can absorb it effectively, but they should be offered the services of the Peace Corps, surplus foods, and technical and advisory services of the United Nations.

Classification would be strictly on the basis of economic and social criteria; the aim would be to create viable, independent nations by devising realistic plans looking beyond economics to the creation of better societies. If exceptions from the criteria were found desirable in the broad interests of American foreign policy, the decision should be made at the top level in the State Department, not by AID administrators. This, Bowles believes, would relieve desk and regional AID officers of "a wide range of pressures from worried U.S. ambassadors and embassy personnel, visiting foreign officials, and, at an increasing rate, from foreign lobbies."

Increased emphasis on individual country programs is widely advocated by economists and political scientists. Barbara Ward Jackson recently warned against generalizations about the many and widely differing nations classed as underdeveloped.

Nations as various as India and Mexico on the threshold of full modernization, or Chad and Niger barely emerging from nomadic life, tend to be lumped together as "underdeveloped" and "developing." Development policies, to be effective, have to be based not on generalities but on detailed analysis of the community which is to be aided. The West's increasing acceptance of the need for "country plans" is a fruitful recognition of how specific the problems of development are likely to be.¹⁶

The British economist commended self-help provisions in foreign aid programs, stating that recipient nations should be willing to increase taxes enough to produce revenues equal to at least 20 per cent of national income:

Governments with no plans for popular and technical education, with no policy for raising taxes . . . with no ardor for land reform, with no general strategy for fostering savings and channeling them

¹⁶ Barbara Ward Jackson, "Foreign Aid: Strategy or Stopgap?", *Foreign Affairs*, October 1962, p. 91.

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into productive investment—such governments are simply incapable of becoming valid partners in a serious effort of economic aid. General assistance must wait upon a change of heart and plan.¹⁷

Although AID strategy is undergoing some revision, appointment of Budget Director Bell as the new administrator seems to indicate that there will be no drastic upheaval within the agency for the time being. Because Bell, involved in the final stages of drawing up federal budget proposals for fiscal 1964, cannot assume his new duties until the end of this month, there will scarcely be time to make far-reaching changes before the 1964 program is ready for presentation to Congress next March.

U.S. AID AND FOREIGN AID GIVEN BY OTHER COUNTRIES

American efforts to persuade other industrial nations to take on a larger share of the burden of assisting underdeveloped countries have met with some success. A recent study by the Development Assistance Committee of the Organization for Economic Cooperation and Development¹⁸ found that foreign economic aid from member countries rose by 22 per cent in 1961, to \$6 billion. Germany and Japan increased their contributions most markedly, by 79 and 45 per cent respectively; Italy, Canada, and Portugal fell back slightly.

The largest volume of foreign aid came from the United States, but assistance provided by France was higher per capita, and in the ratio of aid to gross national product the United States ranked behind France, Portugal, Belgium, and Germany. However, much European assistance consists of high-interest loans rather than low-cost, soft-currency loans or outright grants. Two-thirds of Germany's loans, for example, are in the "hard" category, while only one-sixth of U.S. loans are of that character.¹⁹ Provision of loans on easy terms may afford the only possible way to finance such basic developments as railways, roads, and harbors.

Under Secretary of State George W. Ball emphasized this point last September when he told the annual meeting of World Bank governors that "More of the econom-

¹⁷ *Ibid.*, p. 100.

¹⁸ Members of the committee are Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Portugal, United Kingdom, and United States.

¹⁹ Christopher Willoughby, "Sharing the Aid Burden," *New Republic*, Nov. 24, 1962, p. 19.

ically advanced countries must provide credit on longer terms and with reduced interest." Eugene R. Black, World Bank president, in his annual report to UNESCO last April 5, pointed out that payments on hard loans were imposing an increasingly onerous burden on many countries. He warned that some countries "have gone beyond the limit of prudence" in borrowing on a short-term basis at prohibitive interest rates; they have mortgaged their foreign exchange income for years.

The International Development Association, an affiliate of the World Bank, was created in 1960 to help meet the need for low-cost loans. IDA extends loans for 50 years at a small service charge, $\frac{3}{4}$ of 1 per cent. No payment need be made on principal for the first 10 years; 1 per cent is repaid annually for the next 10 years, and 3 per cent annually for the final 30 years. These terms are similar to those now offered by the U.S. Development Loan Fund; IDA, like D.L.F., has found business so good that funds are running out. Replenishment of the supply was a major topic at the September meeting of world bankers.

ADVOCACY OF MULTILATERAL ASSISTANCE PROGRAMS

Needs of underdeveloped areas for outside assistance far exceed all efforts to date to meet them, most authorities agree. A Dutch economist, Jan Tinbergen, said in a recent Twentieth Century Fund study²⁰ that expenditures for this purpose should be increased in the near future to \$12 billion or \$15 billion a year from the current \$6 billion. He recommended immediate enlargement of the role of the United Nations in international economic programs and ultimate creation of a world central bank and a world treasury.

Two Americans with vast experience in international finance, Eugene R. Black of the World Bank and Paul G. Hoffman, Marshall Plan director who now heads the United Nations Special Fund, agree that present bilateral efforts waste millions of dollars. Hoffman observed recently that "The correct—indeed the only sound—approach to the channeling of aid is to select the channel which will give the most effective results at the lowest possible cost."

This means using the United Nations much more frequently than we have in the past. The day has gone by when we can

²⁰ Jan Tinbergen, *Shaping the World Economy* (1962).

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afford to see the slender resources available for development wasted in a futile attempt to buy friends, obtain commercial advantages, or get national credit.²¹

Black, addressing the World Bank governors last September, strongly criticized the "susceptibility to political influences" of bilateral programs: "There is always the risk that political influences may misdirect development aid, since they may bring in considerations that are irrelevant to the real needs."

DIFFERENCES OVER THE PROPER USE OF FOREIGN AID

These statements reflect the dichotomy of aim that has afflicted all aid programs to date. In the last analysis, just what is foreign aid for? Is it solely for economic development, for nation building? Or is it a tool of foreign policy?

Hans J. Morgenthau, a former consultant to the State Department, is a strong dissenter from the development or "nation-building" school. Outlining his "political theory of foreign aid," Morgenthau pointed out last June that "The United States has interests abroad which cannot be secured by military means and for the support of which the traditional methods of diplomacy are only in part appropriate." It therefore has need for a foreign aid program, but in his opinion the present program is "fundamentally weak."

It has been conceived as a self-sufficient technical enterprise, covering a multitude of disparate objectives and activities, responding haphazardly to all sorts of demands, sound and unsound, unrelated or only by accident related to the political purposes of our foreign policy. The United States, in short, has been in the business of foreign aid for more than two decades, but it has yet to develop an intelligible theory of foreign aid that could provide standards of judgment for both the supporters and opponents of a particular measure.

Morgenthau listed six types of aid, only one of them—humanitarian aid—non-political per se. He asserted that the other types of aid, which he described as subsistence, military, bribery, prestige, and economic development, were directed to attainment of political purposes and must be tied to foreign policy aims.

Prestige aid projects, for example, should not be rejected for lack of justification in terms of economic development, because political advantages might be lost. "The classic example" of this error, he said, was "the American

²¹ Paul G. Hoffman, *World Without Want* (1962).

rejection of the Afghan request for the paving of the streets of Kabul as economically unsound." The Soviet Union, which pursues a politically oriented policy of aid, did pave the streets of Kabul and received far greater gratitude for a smaller expenditure than was gained by American development projects.

Economic development aid is based on what Morgenthau called the false assumption that underdevelopment is primarily the result of lack of capital and technological know-how. Lack of development may be a result of lack of natural or human resources: Jordan and Somalia, he pointed out, are "in all likelihood permanently incapable of economic development." In many cases the condition reflects cultural obstacles or a social structure that is incapable of meaningful change unless subjected to pressures that might produce revolution. It was Morgenthau's conclusion that "Foreign aid for economic development has a very much smaller range of potentially successful operation than is generally believed."²² He urged, not a restriction of aid for economic development, but a revision of the program on the basis of foreign policy aims.

Paul G. Hoffman, testifying Dec. 10 before the congressional Joint Economic Committee, said he firmly believed that "Economic aid used as an instrumentality for the attainment of political goals is of dubious value." There was not "the slightest guarantee," he said, that a country accepting aid would adhere to the political ideology of the donor nation and, in his opinion, basing foreign aid decisions on political rather than economic considerations had already resulted in waste of "hundreds of millions of dollars." At the same time, Hoffman emphasized that it was to the interest of advanced nations to help bring about "rapid acceleration in the pace of world economic growth . . . through increasing consumption and production in the undeveloped world." He thought that "effective aid of this kind" would reduce prospects of violent change in underdeveloped countries.

²² Hans Morgenthau, "A Political Theory of Foreign Aid," *American Political Science Review*, June 1942, pp. 301-309.



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RICHARD M. BOECKEL, *Editor*

BUEL W. PATCH, *Associate Editor*

**Editorial Research Reports
1156 Nineteenth Street, N.W.
Washington**

Albert H. Huntington, Jr.
6621 Gordon Avenue
Falls Church, Va. 22046

Monday
Nov. 14, 1983

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Miss D. Helen Davidson
AID/PPC/E Office of Development
Information & Utilization
209 State Annex # 18

Dear Helen:

Here is a good fresh copy of Editorial Research Reports for Dec. 19, 1962. The entire 20-page issue is devoted to "Foreign Aid Overhaul", by Jeanne Kuebler.

All of the ten short articles contain useful information, and should help researchers and historians looking the evolution of U.S. aid policies and programs during the Truman, Eisenhower, and Kennedy Administrations.

The occasion for putting out this "background" type of release in 1962 was the formation, a few days earlier, of a blue ribbon White House Committee headed by General Lucius D. Clay, to advise and counsel the President and other top officials concerning our economic and military aid programs.

Sincerely,
Albert H Huntington Jr.