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For Discussion Only

A DEVELOPMENT ASSISTANCE PROGRAM FOR THE 1970's

by

Robert E. Asher

Foreign Policy Studies Program
The Brookings Institution
Washington, D.C.

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Summary

The Administration that assumes office on January 20, 1969, will be faced with an unenviable array of problems. This paper addresses itself to one of those problems: What, if anything, should be done about the U.S. foreign aid program?

The paper argues that fresh perspective and a fresh approach are needed for reasons more fundamental than the familiar fact that new administrations like to take new initiatives and are in a better position to do so than they will be after two years in office. The basic reason for a new approach is that the world of today is very different from the world of 1945-1955; the barnacle-encrusted set of programs inherited from an era in which the United States was virtually the sole provider of aid on a significant scale is no longer appropriate. Aid "works," but our arrangements for helping it work are antediluvian.

Development assistance — financial and technical assistance from rich countries to promote modernization in poor countries — needs to be separated conceptually, organizationally and every other way, from military aid, from emergency relief, from supporting assistance to friendly governments, and from other aid that may have developmental effects but is given for other reasons. At the same time, it needs to be more closely integrated than it has been with trade policy, investment policy, and cultural exchange policy.

A rationale for US participation in development assistance programs during the 1970's can be inferred from some of the discussion in Section I of changes in the domestic and international environment since the close of the Second World War. Gnawing doubts and contradictory assertions about whether foreign aid truly serves the national interest (or interests) of the United States, however, warrant direct examination of this question. Accordingly, Section II discusses the rationale for development assistance. It concludes that, on balance, aid from rich countries to poor countries serves both national and international interests. It places considerable emphasis on nurturing the nascent sense of international community, building a better world order, and giving vent to the humanitarian impulses that arise from the fact that "we are rich and they are poor." It also examines certain economic, political, and security reasons for promoting growth in the low-income world.

Two decades of experience with development assistance have taught us a number of lessons which are summarized in Section III, together with certain of their implications for aid policy in the future. The most important lesson perhaps is the fact that, despite widespread frustration among both donors and receivers of aid, rates of growth which are impressive by any historical standards have been achieved in a number of aid-receiving countries. However, whereas capital investment can produce significant increases in gross national product within a short span of years, the attainment of significant social and civic progress appears to require both longer time horizons and more subtle programming.

The long-range objectives of the United States, the gradual convergence of US objectives with those of other major donors, plus other factors, provide justification for a phased transition from an overwhelmingly bilateral development assistance program to one that is primarily multilateral. The paper suggests that full responsibility for capital assistance to less developed countries be transferred to the World Bank Group and the regional development banks by 1975. The disposition of technical assistance is more complicated; in addition to an expansion of multilateral efforts, the creation of a Technical Assistance Foundation is recommended.

The present network of autonomous and quasi-autonomous international agencies is ill-equipped to give the development effort the focus and direction it needs. No one is really minding the store; i.e., exercising any kind of overall control. A genuine Director-General (or Directorate-General) for international economic affairs is not in the cards within the short-term future. The sense of international community is too feeble, understanding of the strategy of development is too rudimentary, and revolutions, whether of rising expectations or rising frustrations, are too disorderly.

It is not, however, too early to begin thinking about devices for strengthening the sense of international community and the related machinery for promoting economic, social, and civic development. A task force for this purpose should be created, perhaps in conjunction with the "grand assize" of development experience by the international commission headed by Lester B. Pearson.

Assuming that US capital assistance for development promotion is put under multilateral auspices by 1975, what kind of bilateral aid program should be conducted during the interval? The visibility of the Agency for International Development should be decreased substantially and the US program should be made as independent of the annual authorization-appropriation gauntlet as possible.

To this end, an Act for International Development should be proposed. The Act should:

(a) Assign responsibility for promoting private investment and private enterprise in less developed countries, through investment guaranties, tax concessions and other devices, to a US Government Corporation created for such purposes;

(b) Create a technical assistance corporation or foundation that could accept private contributions, including those of private foundations, employ non-citizens as well as citizens of the United States, offer them careers in technical assistance, and "top off" salaries of US specialists for which less developed countries are unable or unwilling to pay in full. Since the Technical Assistance Foundation would require some government funds, the authorizing legislation might include some guidelines for calculating the government contribution;

(c) Phase out technical assistance as an AID activity, thereby removing from the AID headquarters office and its foreign compounds the bulk of the American personnel paid from AID funds;

(d) If a program of military aid is continued, divorce it clearly from development assistance and assign responsibility for it to the Department of Defense;

(e) Similarly, provide that the President's Contingency Fund should include supporting assistance, presidential gifts to newly-independent countries when such gifts are appropriate (e.g., at the time independence is attained), funds designed to permit American ambassadors to finance small special projects without prior approval from Washington, and other non-military aid which is not clearly development assistance of the kind that can ultimately be transferred to multilateral auspices;

(f) Provide the authorization for capital assistance to low-income countries until 1975 in amounts that, together with flows of nonappropriated long-term capital, approximate 1% of the gross national product of the United States; provide it also according to a formula which permits increasing proportions of the appropriation to be transferred directly to multilateral institutions and ends bilateral capital assistance from the AID not later than 1975.

(g) Preserve the Agency for International Development thereafter as a planning and coordinating office, succeeding perhaps the National Advisory Council on International Financial and Monetary Policies insofar as policies with respect to less developed countries are concerned. The streamlined AID would also watch over the newly-created private investment corporation, the Technical Assistance Foundation, Food-for-Peace and related development-oriented efforts.

The Act for International Development should recognize the interrelations, not only of aid and investment policy, but also of trade and aid. Without entering substantively into the realm of trade policy, the Act could refer to the importance of enabling less developed countries to earn more from exports and could express, as the sense of Congress, the view that special concessions to the less developed countries in the field of commercial policy are warranted. Similarly, it might recognize that the "brain drain" — the less developed countries' loss of trained and educated personnel to rich countries such as the United States — is a serious problem. The Congress could invite the appropriate US agencies, in cooperation with international agencies and agencies of less-developed countries, to come up with plans for reducing the drain.

In brief, the Act for International Development should make it clear that the United States recognizes international development as the long-term job that it is, is prepared to make the job primarily a multilateral enterprise, expects to phase out the operational responsibilities of the least-loved symbol of its bilateral program (the Agency for International Development), and will carry on activities such as the promotion of private investment and the supplying of technical assistance through quasi-governmental entities designed for the long pull.

The discussion that follows includes other recommendations, at least one of which deserves mention in this summary, because it could provide a partial answer to the most intractable question concerning development assistance: Where will the money come from?

The members of the International Monetary Fund have created a new reserve asset, the Special Drawing Right (SDR), to supplement the gold and dollar balances held by central banks. Activation of the Fund's Special Account for SDR's will constitute a genuine step forward in international economic cooperation. Although the contemplated arrangements for access to this asset in no way discriminate against less developed countries, an almost painless way of favoring them is being missed.

To date, the industrialized countries have been unwilling to endorse any of the arrangements whereby all or most of the reserves created to meet a world need for liquidity could be distributed in the form of development assistance to low-income countries. In that event, high-income countries would have to earn them in exchange for goods and services rather than receiving them more or less automatically. If the growth of world trade justifies the creation of SDR's in the amount of $2 billion per year during the 1970's, the use of only half of this amount for lending to poor countries through the International Development Association and similar entities could provide $10 billion in aid resources during the 1970's in the form in which they are most needed — under the control of a competent multilateral agency, untied as to procurement sources, and available on a truly long-term, low-interest basis. The time is ripe for an educational campaign in favor of this objective.

The purpose of development is not to entrench privilege, but to liberate the underprivileged. The United States must make clear its desire that the fruits of productivity increases and the benefits of modernization be equitably shared within less developed countries. The middle-income American rightly resents contributing or being taxed to improve the lot of the few in poor countries who are already rich. In the interests of peaceful change, the divisive social cleavages that characterize society in most of the less developed world must be bridged rather than broadened.

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I. The Changed Domestic and International Environment: Basic Reason for a New Aid Program

Insofar as learning the lessons of 20 years in the foreign aid business is concerned, the United States is still very much like Shakespeare's "whining school boy, with his satchel and shining morning face, creeping like snail unwillingly to school." Each year before voting the appropriation, it goes through an agonizing but superficial reappraisal, the upshot of which is a stay of execution rather than a new lease on life for the aid program.

The President asserts that the program is clearly in the national interest, that the sums asked for constitute a "bare-bones" request," and

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* In preparing this paper, I have incorporated sentences, paragraphs and ideas from some of my previously published writing, including:

"International Agencies and Economic Development: An Overview," The Global Partnership, edited by Richard N. Gardner and Max F. Millikan, (Frederick A. Praeger, 1968);

International Development and the U.S. National Interest, Planning Pamphlet No. 124 (National Planning Association, Wash., D.C., July 1967);

"The United States and the Developing Countries," The Crossroad Papers, edited by Hans J. Morgenthau (W. W. Norton, 1965); and

Grants, Loans, and Local Currencies: Their Role in Foreign Aid, (Brookings, 1961).

I am also indebted to the lively, thoughtful group from government agencies, universities, and research institutions who participated in an off-the-record Brookings seminar on "The Future of US Foreign Aid" which I chaired during the winter of 1967-1968.

that the taxpayer is getting, and will continue to get, a good return on his investment. The Congress, however, wants proof and has become increasingly unwilling merely to endorse Presidential recommendations. With respect to foreign aid, it persists in pulling up the plant by the roots four times a year to see how it is growing. In its never-ending war with the Executive Branch and its uninhibited pursuit of "truth," it appears to flaunt America's failures as norms and dismiss its accomplishments as aberrations. The public is bewildered and uncertain where to place foreign aid in a rational arraying of priorities for a nation with great but by no means unlimited resources.

If one assumes that the United States is not prepared to end its participation in the activities of the World Bank Group, the Inter-American Development Bank, the United Nations Development Program, and other multilateral undertakings, the principal alternative courses of action which can be envisaged are the following:

(a) The United States can retreat. It can continue its multilateral contributions at approximately present levels, but terminate all its bilateral foreign economic aid, or all but Food-for-Freedom and long-term loans from the Export-Import Bank;

(b) It can jog along more or less as at present; i.e., without basic authorizing legislation, annually tightening the screws a bit here and occasionally loosening them a bit there, but not appropriating enough money or reorganizing its program in such fashion as to make a markedly more substantial impact, economically or politically than at present;

(c) It can (in theory) substantially enlarge its program, to attain the 1 percent of gross national product that has been recommended as a target level for the flow of long-term financial resources from high-income to low-income countries; and it can calculate that 1 percent much more realistically than the current practice of indiscriminately lumping grants, loans, Food-for-Freedom, and other items of disparate real value;

(d) It can, without substantially altering the level of aid, change the bilateral/multilateral mix in the direction of much greater reliance on multilateral instruments;

(e) It can try to break out of the aid syndrome and integrate more formally aid, trade, investment, and cultural exchange policy into a broad, long-range strategy for promoting development in the low income countries and obtaining a better integrated community of nations.

The choice depends importantly on one's answer to a double-barreled question: What kind of world order should America seek and what role, if any, can development assistance play in bringing about that world order? The world today consists of 130 (?) nations that are legally independent but in almost every other way interdependent. The long-range task of statecraft has been defined as the building of "an international community of interests out of a world of nation-states, most of which are experiencing rapid change internally, and in many of which such change is accompanied by externally influenced violence."

Ruth B. Russell, <u>The United Nations and United States Security Policy</u>, (Brookings, 1968), p. 307.

Arraying alternative courses of policy as I have just done in (a) through (e) above is generally considered a useful first step. It can easily become a pseudo-scientific exercise. More alternatives and more variants of stated alternatives can always be suggested. Discussions of the pros and cons of each alternative provide an illusion of objectivity and comprehensiveness on the part of the analyst that makes his personal choice seem more logical and foreordained than it is.

My array, for example, accepts development (economic, social and civic), or "modernization" of low-income countries, as the principal present objective of foreign aid; it would look different if the military security of the United States, the prevention of any extension of Soviet influence in the world, or the attainment of markets for US products were the principal objective. With development accepted as the objective, choices could be posed in terms of categories of countries to which efforts should be limited: those with which the United States has historic ties, or considers closest to the take-off to self-sustaining growth, or of outstanding strategic importance. Or in terms of problem-focused rather than country-focused efforts: the United States lives in a world of nations and tends to think in terms of aid to India, to Korea, to Bolivia, etc., and to measure success in terms of improvements in levels of living in those countries. It could, and at times does, think instead of global campaigns to wipe out illiteracy and malaria, to introduce the new, more productive rice and wheat strains, or to launch family planning throughout the low-income world, with results judged on the basis of progress toward global targets. There is no point, however, in stretching the list of policy alternatives to unmanageable proportions.

With respect to foreign aid (and most other aspects of foreign policy as well), the United States does appear to have reached the end of an era. Fresh perspective, and a program to match it, are urgently needed. During the 1950's, the basic framework for American foreign aid was the Mutual

Security Act as amended. Foreign aid was justified as a national security measure, needed to strengthen allies and to build up low-income countries so that they would be less vulnerable to communist invasion. During the 1960's, less emphasis has been placed on the quest for military allies, although the support of potential aid-receivers for the US effort in the Vietnam war has remained important in the eyes of the Congress.

In the 1960's, development itself has been given a higher priority, at least by the Executive Branch. On the security side, more emphasis has been given to the internal threat to less-developed countries from guerrillas and from operatives trained abroad. The basic framework for foreign aid has been the Foreign Assistance Act of 1961. Dwindling appropriations have made it less important, both absolutely and in relation to other sources of assistance, while restrictive amendments and provisions offensive to self-respecting nations, have made this country's bilateral development assistance program progressively more difficult — in my view, almost impossible — to administer. Further amendment of the much-amended Foreign Assistance Act of 1961 is one of the least attractive policy alternatives.

The necessary new perspective seems to me to point toward a phased transition to an almost wholly multilateral approach to capital assistance for development and to a somewhat more multilateral approach to technical assistance. A basic Act for International Development could spell out the transition, re-allocate residual bilateral programs to appropriate public, quasi-public, or private US agencies, and gradually transform the Agency for International Development into a planning and coordinating office rather than a major operating agency. At the same time, the new legislation could recognize the interrelationships among aid and other arms of economic and social policy and permit a more long-range, better-sustained total effort than the prevailing one.

At present, economic aid is still expected to serve a variety of contradictory purposes. It is an arm of foreign policy, but increasingly ill-adapted to fulfill various short-range objectives of American policy and not yet well-adapted to serve the long-range goal of expediting balanced development in low-income countries. It is an economic instrument, although the ultimate end that it serves is political. Its relationship to such other economic instruments as commercial policy and investment policy is loose and poorly understood. Foreign aid continues to be viewed as a voluntary, annual, emergency program, but virtually everyone expects it to be with us for all of the 1970's — and beyond.

The fact that the United States got into the international development business somewhat haphazardly via Lend-Lease, UNRRA, the European Recovery Program, the Mutual Defense Assistance Program, Point IV, and various military alliances, and that the United States has been learning by doing rather than waiting until it had all the answers, is consistent with the pragmatic, action-oriented temperament of this country. In this observer's view, the procedure was not only consistent with the American temperament, but with the exigencies of the situation abroad.

The foreign aid program, however, began in a world environment fundamentally different from the one in which we live today. Before considering policies appropriate for the 1970's, it would be useful to reconsider, with the benefit of hindsight, the import of certain developments since the close of World War II. The developments in question involve changes in the global political and military landscape, in the economic scene, in the domestic situation of the United States, and in world-wide understanding of the nature of the development process.

The Political and Military Landscape

When the guns were stilled and the bombing and killing of World War II were brought to a halt, the second most productive workshop in the world — Western Europe — lay physically devastated and deeply damaged economically, politically, and psychologically. Half a world away, a terrifyingly potent new source of energy had been revealed in the atomic bombs dropped on Hiroshima and Nagasaki; Japan's "co-prosperity sphere" had been split asunder. The Kuomintang of Chiang Kai-Shek was losing its grip on China and communist forces under Mao-Tse-tung were tightening theirs. An aggressive and truculent Soviet Union seemed bent on expansion.

The United States stood at the pinnacle of its power and prestige. Physically undamaged, enormously strengthened economically (both absolutely and relatively), sole possessor of the secret of the atom, father of the United Nations, filled with missionary zeal and determined not to relapse into the isolationism of the interwar years, it appeared to be a formidable bulwark against the forces of totalitarianism and chaos. Nevertheless, building a new world order of the kind implicit in the United Nations Charter — a collectivity of sovereign nation-states collaborating in the maintenance of international peace and the promotion of the general welfare — was not going to be easy in the divided world that was emerging.

For the United States, the containment of communism and the reconstruction of Western Europe and Japan soon claimed top priority — objectives somewhat inconsistent with the equal treatment for all nations implicit in the global framework of the Charter. Although the dissolution of colonial empires was creating power vacuums, the pace of dissolution during the first postwar decade seemed to the United States far from headlong.

In 1949, the USSR exploded an atomic bomb. In June 1950, communist forces invaded South Korea and the United States, under a United Nations umbrella, responded to the challenge. Hostilities continued until July 1953, by which time South Korea was a devastated area. Fifteen years later, a promising economic recovery is underway, but South Korea still receives American aid and 50,000 American troops are still stationed there. Korea remains a divided nation; frequent border incidents threaten to touch off more general hostilities.

During the early years of the Eisenhower Administration, a network of military alliances involving some 42 nations throughout the "free world" was built up by the United States and military bases in far-off lands were acquired. Initially, economic aid commitments to less developed countries were more often than not the sweetening believed necessary to make the military pact more palatable. Regardless of the rationale, subsequent investment was invariably required to protect the initial investment. Since both military and economic assistance were forms of foreign aid, subsequent allegations that foreign aid has "entrapped" the United States, or "overextended" it, or involved it in commitments not required by more current assessments of the national interest, could be made without specifying the kind of aid and without regard to the relationships between military and economic aid. In addition to 50,000 troops in Korea, the United States in 1968 has more than 500,000 in Vietnam, 300,000 in Europe, 50,000 in Thailand, and smaller contingents in various other areas.

As the 1950's wore on, Western Europe and Japan, with generous American aid, rose to new heights of prosperity and productive power. This triumph of American policy was not unalloyed. France, America's oldest ally, became singularly uncooperative and other high-income allies grew more inwardlooking, more preoccupied with the domestic problems of affluent societies, more confident of the validity of their own assessments of the risks the future held in store for them. The European Economic Community survived a series of crises and emerged as a major force in world affairs.

The communist world ceased to present a monolithic facade, if indeed it ever did. Polycentrism, to use the current jargon, has steadily undermined the power of both of the superpowers (the USA and the USSR). Nationalism in Eastern Europe refuses to succumb to a communism that gives top priority to the interests of the Soviet Union. Among the communist giants, the split between China and Russia is a fact of historic importance. China, though internally convulsed at present, has come forward fast as a nuclear power. Further proliferation of nuclear weapons can probably be expected. Intercontinental ballistic weapons and other developments in what is ironically called "national security" have reduced the military necessity for overseas bases while nationalism has increased the political hazards in maintaining such outposts.

The low-income world has ceased to be merely a passive battleground for rival great powers. It has become a restless, vocal, constellation of more than 80 sovereign states, each of which is eager for a voice in the world of the 20th Century. Almost all of them are in the grip of revolution (in the historic sense of the term) and revolutions are, by definition, disorderly affairs. Violent overthrows of existing governments, military takeovers, and periodic breakdowns of law and order continue to occur. The relationship of economic growth to political stability is far less direct than it once appeared to be. To expect stable or democratic regimes and friendly relations with the United States as early corollaries of economic growth has been revealed as naive.

Three times in the Middle East, war has broken out between the Arab States and Israel. India and Pakistan, and India and China, have marched against each other. Numerous other threats to the peace have erupted in both the more developed and less developed regions of the world — in Berlin, the Congo, the Formosa Strait, Quemoy and Matsu, Cuba, and elsewhere — particularly in the low income world.

Saddest of all for the United States has been the costly, drawn-out, divisive war in Vietnam. If it can be brought to some kind of honorable end, and if military spending for other purposes can be held constant, $30 billion per year minus this country's contribution to relief and rehabilitation in Vietnam, may become available in theory at least, for application to other festering sores on the body politic at home and abroad.

Although the sense of international community is not particularly potent at the moment, there is a growing consciousness of the interdependence of nations and peoples, a steady erosion of the traditional perquisites of sovereignty, and a gradual expansion in the roles of international institutions, regional and global.

The Economic Environment

The economic situation of the world, not surprisingly, has changed as drastically as the political and military situation. The United States' share in the gross national product of the world is still enormous — approximately __% — but is slowly decreasing as a better-balanced pattern of world production emerges. At 196_ prices, US GNP is expected to be $__ billion by 1975, as compared with $____ in 1950. Per capita GNP, already at the incredible level of $____ in 1967, should reach $____ in 1975.

Growth in Western Europe and Japan, as we know, has been even more rapid than growth in the United States.[1] International trade among

[1] For an explanation, see Edward F. Denison, assisted by Jean-Pierre Poullier, Why Growth Rates Differ: Postwar Experience in Nine Western Countries, (The Brookings Institution, Washington, D.C., 1967).

industrialized countries has skyrocketed. Tariffs have been reduced in successive rounds of cautious but productive negotiations, to a nominally low level, with virtually none of the harmful effects that high-tariff advocates of the 1920's feared, and with benefits to all from the increased volume of world trade. Private foreign investment has also increased, been unevenly distributed, and remained a source of controversy.

Traditional concerns about the national origins of goods, funds, and services make less and less sense, however, and the growth of so-called international corporations is making it harder and harder to identify those origins. When a company is incorporated in one country, gets it finance from another, uses the money to build capital equipment in a third country, imports raw materials from a fourth, and sells substantial portions of the product in various countries, including the one in which it is incorporated, it becomes difficult — and irrelevant to anything that is economically rational — to allocate the various parts of its operations to the national accounts and balances of payments of individual countries.[1]

[1] Paraphrased from a memorandum to the author by Walter A. Salant.

The United States, once thought to be suffering from a persistent tendency toward dollar glut, has been suffering from persistent balance-of-payments deficits. The deficits are widely thought to be a manifestation of a basic disequilibrium which requires correction. Certain situations that would be regarded as disequilibria calling for adjustment among separate countries, however, are not so regarded when they occur among regions within a large country. A new view is gaining ground among analysts of international capital markets. As reported by a pioneering economist in this field:

> "If the intermediary services which the United States has provided to the rest of the world are an important ingredient of the rest of the world's economic growth, then continuation of the liquidity deficit of the United States is important to sustain that growth. Continuation of that deficit, however, is inconsistent with the combination of (a) the present international monetary system, and (b) the present notions of monetary authorities and most economists about what constitutes 'equilibrium' in international payments."/

/ Walter S. Salant, "Capital Markets and the Balance of Payments of a Financial Center," in Maintaining and Restoring Balance in International Payments, by William Fellner, Fritz Machlup, Robert Triffin, and others (Princeton University Press, 1966), p. 192. Mr. Salant defines financial intermediaries as those who "not only perform the brokerage function of bringing the savers and capital-formers together but are also willing to provide cash or other short-term claims to savers and to buy (and hold) the securities which capital-formers are willing to issue." (p. 179).

Recognition that the international monetary system, like so many other national and international mechanisms, is inadequate for the world of today, has been slow to bear fruit in terms of reform of the system. After four years of intensive negotiations, a new facility, based on Special Drawing Rights (SDR's) in the International Monetary Fund, has been created without, however, the connecting link between reserve-creation and development assistance that could have been forged. As of this writing, SDR's, a potentially important supplement to existing reserve assets, are not yet in use.

During the Cold War era, severe restrictions on East-West trade were introduced under the leadership of the United States. This nation was much more successful, however, in persuading itself of the dangers and evils of trade with communist countries than it was in persuading others. Allies objected to the wide range of goods that the United States considered of "strategic" importance and began building up "peaceful" trade as soon as they detected the slightest thaw in the Cold War, if not as an inducement to a thaw. The United States Congress has been reluctant to see the restrictions eased and eager to punish those engaged in trade with "the enemy." It has regularly used foreign aid legislation for this purpose. Trade between the communist and non-communist world has nevertheless increased and the United States has failed, for what it apparently regards as good and sufficient reasons, to share proportionately in the increase.

In the United States, commercial policy, monetary and investment policy, and foreign aid policy have tended to be the provinces of different US Government officials, operating under different mandates, through different agencies. Aid, in a sense, has been the "soft option," necessary in part because of reluctance to make fundamental changes in other areas of policy. As Congressional resistance to aid appropriations has mounted, the "soft option" has become hard. The "hard options," however, have not become noticeably softer.

Until the mid-1960's, the United States, thanks to its phenomenally productive agricultural sector, was well-equipped to meet many aid requirements with a form of assistance — food aid — that was politically popular in the United States. Agricultural development lagged ominously in the low-income countries, but by 1968 the beginnings of an agricultural breakthrough were detectable in some of the key less developed areas. The result may be diminishing requirements for food aid, but sharply increased requirements for fertilizers, tractors, and other items politically less appealing to the Congress and the public than food for the hungry.

The United States, which was a trail-blazer in the foreign aid field, is now only one of some two dozen nations in the foreign aid business. All of the rich and most of the middle-income non-communist countries now have foreign aid programs. So do Russia, China and other communist countries, as well as a number of the less developed countries themselves. The various bilateral programs began with quite different and mutually inconsistent rationales. While it is true that time horizons and national objectives continue to differ, and that different groups within each nation at different periods justify foreign aid on different grounds, a growing convergence in the long-range objectives of the principal free-world donors is detectable. Development, economic, social and civic, of low income countries which are themselves seriously interested in modernization, is becoming the agreed objective of international efforts.

Only a fraction of the $120 billion in foreign aid appropriated by the United States, not more than one-third of the total, has been devoted to development. American aid has contributed to the substantial, indeed remarkable, economic improvement that has taken place in the less developed world since 1950. Despite the progress made, there is a widespread sense of frustration. Rapid population growth has reduced the rate of improvement in per capita income to modest proportions. Ministates, ill equipped to survive as nations, raise the flag of independence and join the queue for foreign aid. Increasing sums are needed to pay interest and amortization charges on previously-received loans. Aspirations continue to escalate and run dangerously ahead of achievements.

Just as development of the low-income world has emerged as the principal objective of bilateral foreign aid efforts, so it has become the principal economic and social preoccupation of the network of international machinery erected during the last two decades. The never-ending scrutiny of national policies in international forums, the desire of every country to present itself before others in the most favorable light, and the habit of consultation are gradually forcing nations to broaden their perspectives and act in the common interest.

By utilizing international machinery, the United States can, to some extent, avoid the strains inherent in donor-recipient relations, the open-ended escalation of commitments that begin on a very limited scale, the injection of side issues into the mainstream of negotiations, and the competitive follies implicit in numerous overlapping, uncoordinated, bilateral efforts. For these advantages, there are of course offsetting costs. Nevertheless, multilateralism is widely believed to be the wave of the future. It assumes a growing consensus, not only about development as a goal, but also about the nature of the development process, and the desirability of promoting growth in non-discriminatory fashion.

The American Domestic Scene

The speedy reconversion of the American economy without major unemployment after World War II confounded hostile critics of the country. The United States appeared to be a model of economic efficiency and political stability — gradually integrating the diverse elements in its population, capable of providing jobs for all and thereby eliminating poverty at home, united about its mission abroad.

The pockets of poverty which remained were thought of (by those who thought of them at all) as subject to elimination through the continuation and expansion of welfare programs begun in the 1930's. The pockets swelled as a result of the mechanization of agriculture and a massive migration of displaced Negroes (and whites) from rural to urban areas. A simultaneous movement of middle and upper-income whites from the cities to the suburbs resulted in Negro "ghettos" in all the larger cities. In consequence, poverty at home became a political issue during the 1960's.

In the inflationary terminology of the day, the United States envisaged itself as engaged in a two-front "war on poverty," "fighting" at home and abroad, with a rising priority demanded for the domestic front and remarkably little effort being made to apply the lessons learned on one front to the other. Compared to the efficiency and ingenuity with which this country mobilizes its resources for military purposes, its attacks on the poverty problem are puny affairs, long on rhetoric and short on performance. My present purpose, however, is not to draw the easy invidious comparison between massive military and modest non-military efforts. It is rather to draw attention to the domestic and international sides of the non-military "campaigns" and to ask whether the divorce between them should be as broad as it appears to be.

The mountains of literature on economic development and foreign aid are replete with references to remedies of yesteryear -- to agricultural extension services, vocational education, cooperatives, hybrid corn, and the like. They are, however, singularly devoid of references to what we have learned, and are learning today, from the civil rights struggle and the domestic war on poverty that might be applicable in the international arena -- and vice versa.

The promotion of economic growth and social change abroad has been the province of foreign policy specialists, development economists, and a heterogeneous crew of technicians in the Agency for International Development and predecessor agencies, the State Department, and the international divisions of certain other agencies. The federal agencies most directly involved in the war on poverty at home have been the Office of Economic Opportunity, the Departments of Health, Education and Welfare, Housing and Urban Development, Labor, and Agriculture. Although Sargent Shriver, ex-Director of the Peace Corps, served as the first head of the Office of Economic Opportunity, on the whole the people concerned with the problems of Detroit, Newark, Harlem, Watts, and rural Mississippi communicate but little with the people concerned with the Alliance for Progress or with development assistance for India, Pakistan and Nigeria.[/]

[/] The OEO's Job Corps is to some extent modeled on the Peace Corps. An Associated Press dispatch of December 1, 1967, mentions an experiment in which six former members of the Job Corps had been sent overseas as Peace Corps volunteers. Officials of the Peace Corps described the program as "successful even beyond our original hopes." (New York Times, December 3, 1967).

Analogies between the revolutions of rising expectations or frustrations at home and abroad can be overdrawn. Yet the anti-poverty movement in the United States and the struggle of the less developed countries for a place in the international firmament have enough in common to warrant calling attention to certain similarities and differences.

At home, the Negro leaders, at least until recently, have sought integration in the American community. The less developed countries have sought integration in a nascent international community. Both ask an end to second-class citizenship, a better chance to earn a livelihood and educate their children, to acquire dignity and status, to speak up and be heard. Both think of themselves as condemned by persons of another, paler hue, to live in a world they never made, under arrangements that perpetuate their subordinate status.

Both groups suffer because of the tendency of critics to confuse the past with the present and the exceptional with the average. Critics of the domestic poverty program sometimes argue that because the Irish or the Jews or the Poles or some other immigrant group managed to overcome its initial handicaps without federal and state assistance, the underprivileged of today could do likewise if they worked harder, studied more, spent less, and saved more. Like-minded critics of foreign aid point to Canada, Sweden, and other countries that have achieved high standards of living without foreign aid.

Critics with less interest in historical analogy assert that because particular individuals with slum backgrounds have attained well-deserved eminence in contemporary America, others could, too, if they were so inclined. The parallel argument in foreign aid is that Malaysia or Mexico or some other country on one of the less-developed continents is doing better with almost no aid than nearby nations that have received generous amounts. With millions of slum-dwellers in the United States, and with 80-odd less developed countries in Asia, Africa, and Latin America, there are bound to be exceptions in both groups; they prove very little about the policies appropriate in the average case.

By historical standards, both the black minority at home and the less developed countries abroad have in fact made remarkable progress in recent years. But man does not live by historical standards alone. Dissatisfaction, disenchantment, and xenophobia are rampant.

Time is a critical factor. Feelings of frustration can cause the frustrated to abandon integration as a goal and non-violence as a technique. As Americans should have learned by now, programs that would be acclaimed at one moment in history will be attacked as inadequate, ineffective and insulting a few years later — if the psychological moment for adopting them has been allowed to pass.

Token efforts will not suffice; comprehensive multi-faceted programs are needed. No single nostrum, whether better schools, decent housing, vocational education, birth control, or work relief, will do the trick. The difficulties of functioning at home through state and local governments that are out of touch with slum dwellers and hostile to reform have their analogy in the difficulties of working through unrepresentative national and local power structures abroad. How to bridge the communications gap, how to evoke popular participation in constructive development efforts, how to get through "to the people," are problems everywhere.

Such progress as has been achieved has exacerbated certain tensions. At home, part of the black community has profited dramatically from two decades of civil rights legislation and has entered the mainstream of American life. In the process, it has widened the gap separating it from the masses who feel untouched by the measures thus far adopted and increasingly ambivalent toward integration as a goal. Similarly, in less developed countries, the new political leaders who have acquired power and influence at home and attend international conferences abroad, the upper level bureaucrats who deal with foreigners, the generals who were corporals a few years ago, and the successful entrepreneurs constitute an élite increasingly isolated from the local population they purport to lead.

Unlike the poverty-stricken at home, the poverty-stricken abroad are not a minority group. They constitute the overwhelming majority of mankind. This underscores the peril of ignoring their needs, but at the same time raises the valid question of how much the United States, with six percent of the world's population and less than 50 percent [?] of its wealth, can reasonably be expected to do.

The less developed countries cannot readily be accommodated through established political processes. The United States Government exists, world government does not. The responsibility of the richest country in the world for warring on poverty at home is self-evident. But there is nothing in international law that requires rich countries to come to the aid of poor countries; the obligation is at most a moral one.

Building the Great Society at home will pose a heavy claim on available resources and inevitably complicate the task of providing the wherewithal for promoting development abroad. Nevertheless, the direction of domestic progress can provide important clues for new directions in foreign aid. At home, society has been moving away from the harsh spirit of the Elizabethan poor laws, away from detailed surveillance of the recipients' private lives, away from distinctions between "worthy" and "unworthy" eligibles based on highly subjective judgments, and away from relief in kind rather than in cash. It has been moving toward fresh opportunities for paid employment, toward broader participation in drawing up the ground rules under which assistance is provided, and toward income maintenance via social security payments, negative income taxes, guaranteed annual incomes, etc.

Although new directions in foreign aid are imperative, the present state of relations between the executive and legislative branches of the

United States Government makes it hard for the country to adopt a stance appropriate for the 1970's. Because foreign aid has had no organized domestic constituency, the debates on the authorization and appropriation measures have regularly given the Congress its greatest opportunity to vent its frustration and irritation over the President's conduct of domestic and foreign affairs and the unmanageable onward rush of events in a troubled world. In the never-ending struggle between the legislative and executive branches for power, they offer the former scope and rope for hamstringing the latter.

The Congress, in addition to providing the public funds which are needed, should provide some broad guidelines for their use. The national interest will be best served, however, if the legislative branch gives to the larger, better-staffed executive branch considerable discretion with respect to how much, to whom, and for how many years -- and if both branches keep at least one eye fixed on the long-term outlook, regardless of the irritations of the moment. The reason for a broad grant of discretionary authority is not because the executive branch is wiser but because legislation is a much more explosive, unilateral, and inflexible device than negotiation for securing, for instance, a change in Egyptian policy, compensation for nationalization of American property, or preference for the small business enterprise.

The check list of statutory criteria which must be satisfied before loans from aid appropriations can be approved includes 63 items, many of which, viewed separately, may appear defensible. Together they constitute a straitjacket. When foreign aid legislation is expanded by the Congress from the establishment of general guidelines into the preparation of a manual of detailed instructions to the aid administrator, the results are more likely to serve local than national interests. The national interest will also suffer if aid legislation is allowed to become a vehicle for the ventilation of congressional irritation with the conduct of other aspects of foreign or domestic policy.

None of this is intended to imply that the executive branch never needs a kick in the pants, that shock treatment for a designated foreign government will not sometimes prove helpful, or that the witholding of aid is always an anti-social act.

II. Rationale for Development Assistance

The fundamentally changed domestic and international environment means that virtually all the familiar geo-political moorings of US foreign policy have become unhinged. What for years seemed axiomatic now seems dubious. John F. Kennedy may be the last President who could, without creating a credibility gap, maintain that "We in this country...are—by destiny rather than choice—the watchmen on the walls of world freedom."_/

_/ Cite source.

The interventionist policy articulated in the Truman Doctrine in 1947 is finding its final fateful expression in Vietnam. At the very time the US has come to question most seriously the rationale for its involvement in the less developed countries, it is most deeply involved.

Communism nevertheless seems a less contagious disease than when, according to the domino theory, its presence on one side of a frontier was believed deadly also to the population on the other side of that frontier. Forward military bases have become less valuable to the United States. Military pacts that harness a mouse to an elephant do not add noticeably to the stability, strength and security of the elephant. Nor is the proximity of the elephant always reassuring to the mouse; the willingness and capacity of outside powers to exert a sustained, beneficent influence on the evolution of underdeveloped allies are doubted. The exhaustion of domestic national resources that would make the United States heavily dependent on distant sources of supply appears less imminent today, in the age of atomic energy plastics, synthetic fibers, and other substitutes for internationally-traded raw materials, than it did only yesterday.

The arguments that gave the greatest immediacy and urgency to the case for foreign aid have thus lost much of their force. With the underbrush cleared away, the long-range case can be seen in better perspective.

To avoid over-involvement on the one hand or a return to isolationism on the other, the United States needs a relationship to the less developed world that is realistic in the light of its own foreign policy goals and those of the low-income countries; that limits the risks of inadvertant involvement in open warfare; that is reasonably persuasive economically; and that is politically supportable, internally and externally. The outlines of a new rationale are slowly emerging.[1]

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[1] I am indebted to my friend and former Brookings colleague, Robert H. Johnson, for much of the four foregoing paragraphs.

"...properly understood, our long-term security interests, our economic interests, our cultural and social interests, and our deep historical moral concerns with the welfare of common men everywhere come together and can all be advanced by the right kind of policies toward the low-income countries."[1]

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[1] Max F. Millikan, "The U.S. and the Low Income Countries," scheduled for publication in <u>Agenda for the Nation</u> (Brookings, 1969).

What Kind of World Order Should the US Seek?

In a pamphlet written in 1966 I discussed at some length the US interest in international development, seeking to distinguish, where necessary, between: (a) arguments that what happens in the less developed world is important to the United States and all mankind, and (b) arguments that foreign aid can help make the right things happen./ I shall now attempt only to

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/ Robert E. Asher, International Development and the U.S. National Interest, National Planning Association, Planning Pamphlet No. 124 (Wash., D.C. 1967).

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summarize and update the case then made, concentrating on the rationale relevant for the 1970's./

/ Most valuable in connection with the updating are: Max F. Millikan, loc. cit.; Ronald Steel, Pax Americana (The Viking Press, Inc., 1967), esp. pp. 253-270; Theodore Geiger, "A Rationale for the U.S. Foreign Aid Effort," unpublished paper written for Brookings' 1967-1968 seminar on the Future of Foreign Aid.

Overarching the specific political, economic, strategic and humanitarian arguments for and against action to help mitigate the grinding poverty of two-thirds of mankind is the fundamental question: What kind of world order should America seek, what type of international environment will it find most congenial?

An environment in which the United States can calmly cultivate its own garden without having to worry about soil conditions, horticultural practices, or crop yields elsewhere has obvious attractions but must be dismissed as a nostalgic dream. The world is too much with us.

Despite the power and persistence of nationalism, consciousness of the interdependence of nations and peoples is growing. The old world order of vastly disparate, legally-sovereign states is crumbling, but the institutional base for a better world order remains grossly inadequate.

> "If we can give substance to the fundamental idea that we are joined...[with the new countries] in a constitutional endeavor to create a world order in which all peoples can find their separate identities, it should be possible for us to achieve that degree of integrity in our relations which will make it possible to avoid hypocrisy and to disagree at times without malice. Acculturation need no longer appear as a process in which some people take on the ways of others, but instead as one in which everyone is seeking to change and develop in order to build a better world community."/

/ Lucien W. Pye, "The Foreign Aid Instrument: Search for Reality," in Foreign Policy in the Sixties, eds. Roger Hilsman and Robert C. Good (Baltimore, Md., Johns Hopkins Press, 1965), p. 112.

Why give substance to this idea? "It is one thing to be in good physical or financial condition within an orderly and prosperous community, but quite another thing to be privileged by the wealth of one's possessions in surroundings of misery, ill-health, lack of public order, and widespread resentment."/

/ Arnold Wolfers, Discord and Collaboration: Essays on International Politics (Baltimore, Md., Johns Hopkins Press, 1962), p. 75.

Consequently, the long-range goal — establishment of the underlying conditions and institutional framework for a more effective and compassionate world order — should be borne clearly in mind when reaching decisions about interim or intermediate courses of action.

Moral and Humanitarian Considerations

Closely related to the question of the kind of world order which the United States should seek among the divergent trends of recent years is the humanitarian argument for development assistance. Sometimes dismissed as soft-headed and irrelevant, it remains durable and potent. It involves justice and decency and the moral basis for leadership among nations.

The kind of inequality that exists between nations, the kind of grinding poverty that permeates so much of the world is no longer tolerated within the borders of a modern, progressive nation-state. This inequality is mitigated within a country like the United States, Great Britain, or Sweden by continuous transfers of wealth from the richer to the poorer citizens and from the richer areas to the poorer ones. Foreign aid is an extension of this process in a world that has become too small for fellow-feeling between man and man to stop at political frontiers.[1]

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[1] "The Vienna Declaration on Cooperation for Development" (Vienna, Theodor Körner Foundation, July 1962; mimeographed) para. 2.

Throughout its history, the power and prestige of the United States have depended on what the country stood for, as well as on the strength of its economy and its military establishment. Its support for self-determination, for social justice, for political democracy, and for religious freedom has placed it in the mainstream of history and made it the lodestar of masses in the most faraway places. The effect of ideas and ideals on the balance of power has been real.

Participation in international development programs is a way of strengthening our moral claim to leadership, counteracting the isolation that tends to be the social and moral price of wealth, and helping us to live at peace with ourselves as well as others. While the majority of mankind lives at the margin of subsistence, the United States will find it hard to enjoy its high and ever-rising standard of living.

"A sustained long-term economic strategy on the part of the West," Barbara Ward has argued, "would have more than economic consequences. It would begin to institutionalize human solidarity and human compassion and underpin a world order with some claim to be called humane."_/

_/ Barbara Ward, "A Strategy for the Wealthy West," SAIS Review, Summer, 1965, p. 9.

Humanitarian objectives embrace more than the relief of hunger, disease and destitution. The national interest of the United States in a compatible and congenial world environment and its moral, humanitarian interest in the quality of life for the average man everywhere come together in the growing American concern for the social and civic dimensions of the development process. The full potentials of human beings stand a better chance of realization in open societies in which all members have a voice in decision-making and opportunity to advance without discrimination on account of caste, color, race or creed. "Most Americans share with many people abroad a faith that in the long run this multidimensional human development will greatly increase the prospects for a world environment of more open, more cooperative, and more liberated societies..."_/

_/ Millikan, loc. cit., section on Social & Civic Development [check final text]

Security Aspects

Unfortunately, there is no guarantee that economic improvement will be accompanied by desirable social and political changes or vice-versa. Nor is it certain that self-governing, self-sustaining peoples will be prepared to live harmoniously with themselves, their neighbors, or the United States. It merely seems more likely than that frustrated, insecure, starving populations — traditional breeding grounds for demagogues — will do so.

If the hopes and dreams of people in poor countries appear doomed to frustration while people in rich countries grow steadily richer, the prospects for peace will indeed be threatened. If the dividing line between rich and poor countries is also a color line separating the white-skinned minority from those of other hues, the threat will be increased.

Poverty, it has been said, is old but the conviction that something can be done about it is new. A low-income area untouched by this conviction can be quite stable. When the window to a more glamorous future is opened, however, as it inevitably must be in an age of instant communication, awareness of disparities may become acute. In the absence of progress, frustrations and tensions will mount (as they may, even in its presence).

As these frustrations and tensions rise and incidents occur, the growing circle of parties to the conflict may escalate disputes to higher and higher levels. Local conflicts in low-income areas can thus lead to general conflagration._/ (Awareness of this risk, however, serves as a restraining influence at least on the major powers, particularly since they have also

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_/ Max F. Millikan, "Why Not Foreign Aid?," Sun-Times (Chicago), Dec 23, 1962.

learned that not every square mile of underdeveloped territory that shifts its international allegiance is necessarily a damaging loss to the side from which it shifts.) Efforts to build national consensus around constructive programs for economic and social development offer an important long-run protection, but not a guarantee, against violence born of frustration./

/ Ibid. However, see also Theodore Geiger, The Conflicted Relationship, (McGraw-Hill Book Co., New York, Toronto, London, Sydney, 1967), pp. 225-226 for a reminder of why violent social upheaval is most likely, not when exploitation and repression are greatest but when, following such a period, the condition of subordinate groups begins to improve.

The vast differences among the 80-odd less developed countries will be alluded to again in this paper. Not even the largest of them now possesses the resources to threaten directly the security of the United States. Several of them, however, have the capacity before long to acquire significant nuclear capabilities. The security interests of the United States consequently require not only an effective nuclear non-proliferation treaty but positive programs to prevent nations that might acquire nuclear capabilities from feeling beleaguered or alienated./ Development assistance, sensitively

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/ Millikan, "The U.S. and the Low Income Countries," p. __.

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administered, can serve this purpose.

The case for development promotion, to the extent that it rests on security grounds, need no longer be based heavily on either the fear of imminent communist take-over in particular low-income areas or the assumption that the outcome of some local dispute is itself of transcendent importance to the United States. This change will normally make it easier to reconcile security considerations, which before seemed over-riding, with longer-term economic, social, and political objectives. Autocratic regimes, uninterested in a decent sharing of the fruits of productivity increases, a functioning system of justice, and a voice for the voiceless in domestic decision-making, need not be aided on the ground that they will otherwise leave the "free world" and fall forever into the hands of a monolithic enemy.

The security rationale for development assistance rests rather on the desirability of mitigating the frustrations of poverty and the bitterness against the rich that such frustrations can engender; the possibility of diverting poor countries from the foreign adventures, irredentist claims, and international posturing which the absence of domestic achievements sometimes stimulates; and the hope that better living conditions — a growing stake in the world as it is — will ultimately decrease racial tensions. Development increases the overall competence of low-income countries, including their ability to intervene elsewhere. It also improves their power to protect themselves against assault from abroad and subversion at home, and enhances their long-term interest in machinery for the peaceful adjudication of disputes.

Economic Rationale

At least one of the economic arguments in favor of a U.S. commitment to international development — that development creates larger markets for American exports, new opportunities for private investment, and more promising sources of supply for imports — is demonstrably true and too familiar to merit elaboration here. The huge U.S. market is far more important to the less developed countries, however, than their national markets, individually, are to the United States. If a higher level of trade with the less developed countries serves the American national interest, it is not primarily because of its income effects in the United States, but rather because various political and social crises to which the United States cannot remain indifferent, may be somewhat more easily resolved in the context of a broadly shared expansion of the world economy. Secondly, and related to the earlier remarks about the kind of world order sought by the United States, it is because countries with weak, undiversified, inefficient economies make feeble, quixotic partners in the network of international institutions upon which all nations, including the United States, rely increasingly.

With economic growth, less developed countries tend to become more reliable partners, not only because they have more to lose by rocking the boat, but because, as income increases, more of the conditions favorable to democracy come into being. A growing middle class "tempers conflict by rewarding moderate and democratic parties and penalizing extremist groups." The upper class becomes less autocratic. An immense variety of organizations which serve as countervailing sources of power is spawned: labor unions, farm groups, chambers of commerce, trade associations, cooperatives, professional societies._/

_/ Seymour Martin Lipset, Political Man: The Social Bases of Politics, (New York: Doubleday and Co., 1960) pp. 66-67.

Political Rationale

The long-range political rationale for stimulating growth in the low income areas of the world is the improved climate and the stronger institutional underpinning that the growth can provide for the peaceful conduct of world affairs. The more immediate political rationale is that, despite formidable barriers to development, perceptible headway — enough to prevent aspirations from getting too far ahead of achievements — is supremely important to almost every one of the less developed countries. Development is the wave of the future and riding it is smarter than resisting it, letting it wash by, or commanding it to stand still.

Each low-income country is evidently trying to obtain as much foreign aid as possible while retaining as much freedom of action as possible. The process produces the illusion of rapid, unpredictable changes in the pattern of international political alignments as new countries alternately move closer to, or shy away from, the United States, the Soviet Union, Communist China, France, Britain, and their own neighbors. The perseverance they have shown in their quest for an independent niche in an interdependent world should make the United States more relaxed than it has hitherto been about the mood of the moment, more confident that consistency, dignity, and respectful arm's-length dealings on its part will in the long run serve it best.

Aid is one way, but not the only way, to demonstrate the reality of the United States' long-term interest in economic, social and civic growth in the low-income world. It is an appropriate technique if:

(a) There is real need for the resources that can be transferred via foreign aid and some capacity to use them effectively;

(b) They can be supplied without denying other higher-priority claims on those same resources;

(c) Other techniques — trade, private investment, cultural exchanges — will not suffice;

(d) The aid does more than ease the consciences of the aid-suppliers and make them feel virtuous. It should launch a meaningful dialogue with aid-receivers and raise the inflow of goods and services to the level needed to provide a politically tolerable rate of growth in areas in which development is wanted and feasible and will serve the general welfare.

These conditions are often enough fulfilled to justify the mounting of a larger international development effort than has yet been made. Even the most convincing presentation of the general case for development assistance nevertheless begs the question of how much, to whom, for how long? Some guidelines for responding to these questions will be brought out in later sections of this paper. Suffice it to say here that nothing in this section is intended to imply that all poor countries are equally deserving or that their development will inevitably have beneficial and stabilizing effects at home or abroad. Revolutions, counter-revolutions, hostility to erstwhile friends, folly in economic policy, and irrational acts as yet undreamed of will occur. Wisdom is not a function of the level of technology.

> "...The object of foreign aid is not to distribute money indiscriminately...Rather it is to help alleviate human misery by aiding those who show a capacity to aid themselves, and by doing so to help create an international order where compassion will be joined to self-interest and where the poor may seek to join the rich rather than exterminate them. For those of us privileged to live in societies affluent beyond the imagination of most of mankind, foreign aid is not simply charity, but...as Oliver Wendell Holmes once said of taxes, our investment in civilization."/

/ Ronald Steel, Pax Americana, p. 270.

III. Understanding the Development Process

From the beginning, informed people in the United States Government were aware that development was a long drawn-out, complex process which required thinking in terms of a generation or more rather than a decade or an annual appropriation cycle. In their eagerness to contribute to speeding up the process and meeting other objectives of American foreign policy, there was an understandable tendency to overstate the gains that could be realized in the short term and to understate the uncertainties, the difficulties, and the setbacks being encountered. A series of panaceas in the form of "priorities" or "emphases" designed to overcome alleged "obstacles" and break particular "bottlenecks" was tried. Even when the new policies represented advances in dealing with current problems, the results were modest compared to what people had been led to expect. The progressive shattering of illusions contributed to the disenchantment that has reached its peak — one fervently hopes — in the latter half of the 1960's.

With due allowance for the primacy each professional accords to his profession as compared with all other professions, a slowly-growing consensus about the nature of the revolution politely called "development" or "modernization" is detectable. Development is not a stage reached when per capita incomes attain some specified level, or after a particular list of "obstacles" has been overcome. It is a process — dynamic, pervasive, never-ending, destructive as well as constructive. The essence of the process is the inculcation of new attitudes and ideas, of states of mind eager for progress, hospitable to change, capable of applying scientific approaches to an ever-wider range of problems.

The rapidity with which the process unfolds depends on the will and capacity of the people of the underdeveloped country far more than on natural resources or imported equipment and supplies. It depends on leaders who educate as well as agitate, and on followers who teach as well as learn. Communication between leaders and followers needs to be a two-way exchange, with a meaningful feedback from the people to their leaders. Popular participation in development programs appears to be essential to facilitate the learning process, to prevent unbridgeable urban-rural gaps, to enable inherited institutions to be transformed rather than to be replaced abruptly by unfamiliar, and therefore perhaps unworkable, transplanted institutions. As yet, the wish to develop is more widespread than the will, and not enough is known about how to translate the wish into the will.

Although gross national product (per capita as well as total), savings and investment rates, earnings from exports, and other economic indexes should move upward, modernization consists of more than maximizing these. A decent sharing of the increased wealth, the elimination of discrimination based on race, color, or creed, higher literacy rates, broader and better-informed participation in political life, and efficient and humane administration — these, too, are vitally important objectives of development.

The term "economic development" is therefore being superseded by the more generic term "development" (without any qualifying adjectives), or "modernization," and is understood to mean economic, social and political growth. For countries in the very early stages of development — traditional societies where more than 70 percent of the people are still on the land, where fewer than 30 percent are literate, where the birth rate runs from 40 to 50 births per 1,000 inhabitants per year, where life is truly at the margin of subsistence and man is at the mercy of the elements — modernization involves a top-to-bottom transformation of society. It means fundamental changes in traditional values, motivations, institutions, and patterns of behavior. It is a long-term job. At best, it will be an erratic, two-steps-forward, one-step-backward, one-step-sideways movement.

Nevertheless, the journey toward self-sustaining growth need not be as drawn-out and costly in human terms as was the comparable journey for the now high-income, better-integrated nations of Western Europe and North America. Their experience, some of their resources, and other more recent experience, can be drawn on to shorten the time span. On the other hand, higher rates of population increase, greater difficulty in favoring investment over consumption, rising aspirations, and better-equipped competitors make the job more difficult than it was a century ago. Political exigencies demand speed, but how rapid the modernization process can become without destroying its organic nature and internal balance remains unknown. It will differ from area to area.

In addition to the increased consensus regarding the general nature of the modernization process, there is greater understanding than there was in 1950 of the vast differences among the 80-odd less developed countries. Each nation is to an important extent in a class by itself, dubiously aided by broad-brush policy prescriptions designed to cover simultaneously Brazil and Burundi, Costa Rica and Nepal, Libya and India.

From the point of view of foreign aid, the critical period in the development process has been assumed to be a relatively short span of years during which, with outside help, the country will move from a period of virtual stagnation in per capita levels of living to a period of modest but sustainable increases. In the earliest portion of this phase, the primary requirement, insofar as foreign aid is concerned, is believed to be technical assistance. Thereby, skills can be improved, attitudes modified, and institutions transformed or established. As the country acquires the skills and institutions enabling it to help itself, its capacity to invest is likely to grow more rapidly than its ability to save. Moreover, it will have to obtain from abroad the great bulk of the manufactured and semi-manufactured goods that it uses in establishing new industries and raising incomes. Consequently, its requirements for imports will rise rapidly and in advance of any corresponding increases in exports. In other words, the balance-of-payments deficit of the developing country tends to swell before it shrinks.

India is a prime example of this stage of development. It is strategically located. It is possessed of the largest population in the non-communist world. It is committed to development. It is making measurable progress without sacrificing its democratic institutions (though subjecting them to severe strain). It is seriously strapped for foreign exchange, bears an almost intolerable debt-servicing burden, and remains the most dramatic reminder of the less developed world's need for commodities from abroad on concessional terms.

As new industries are established, however, and agriculture becomes more productive, and foreign tourists are attracted, less developed countries begin to earn more foreign exchange. Import requirements will not necessarily shrink, indeed they will in all probability continue to grow in volume and variety. As the country becomes better able to pay for the imports it needs, however, its balance-of-payments deficit should be reduced — provided, of course, that it maintains a realistic exchange rate and generally manages its resources prudently.

As soon as the country has demonstrated that it can grow at an overall rate of 5 to 6 percent per year while closing its balance-of-payments deficit, it is graduated from American foreign aid and welcomed into the alumni club. It obviously has reached some kind of milestone. But whether it makes sense to cut off American aid at this point is another question.

Implications for Foreign Aid Policy

A national product that is growing at the rate of 5 to 6 percent per year in real terms without exerting excessive pressure on the balance of payments can be reached:

(a) While the country is still at an appallingly low level of per capita income;

(b) While the rate of increase in per capita income — roughly the overall rate of increase in the national product minus the rate of population increase — is also very modest;

(c) Long before self-sufficiency in skills has been attained; and

(d) When the country is still at a rudimentary stage in terms of social and civic development.

Taiwan and Iran are already members of the alumni club. Turkey, Korea and Pakistan are said to be within hailing distance of membership. Yet per capita income in Taiwan in 1965, the year it was graduated, was only $190. In Iran, it was $210. In Korea and Pakistan in 1965, it was estimated to be $120 and $90 respectively. As the conscience of the world is increasingly awakened and the interdependence of nations becomes clearer, will people be satisfied with policies that bring aid to an end before the recipient has crossed some kind of agreed poverty line? _/ Meanwhile, is there unsustainable

_/ The per capita income figures are from the World Bank Atlas of Per Capita Product and Population, International Bank for Reconstruction and Development, Washington, D. C. 1966. I am well aware of the booby traps in international comparisons of per capita incomes but do not believe my basic point is invalidated: virtue, as exhibited through efficient use of available aid, should not be punished and gross disparities in income will be politically tolerable only if the minimum levels permit what might be called a 20th Century level of life. Even within a single country, a time series showing rising per capita incomes can be misleading. Derived by dividing national income or product by population, it tells nothing about the actual distribution of the fruits of increased productivity. Rises may in reality be confined to small minorities.

irony in cutting a Taiwan adrift while continuing a subsidy to Latin American nations with per capita incomes twice as great as Taiwan's?_/

_/ The "cut-off" of aid is at times achieved by something resembling sleight of hand. In the case of Iran, for example, the occasion was commemorated by a well-publicized Department of State luncheon in November 1967, at which Iran was represented by Ambassador Hushang Ansary and the United States by Secretary of State, Dean Rusk. A message from President Johnson celebrating Iran's graduation after 15 years of economic aid was read, and Secretary Rusk said "Tomorrow...direct economic aid to Iran under our Foreign Assistance Act will end." This meant, however, that Iran could continue (and has continued) to receive agricultural commodities under the Food-for-Freedom Program. Similarly, the military assistance program has not been brought to an end and the large loan program of the Export-Import Bank in Iran remains unaffected.

Experience during the postwar period — an admittedly brief span from which to draw firm conclusions about economic and social policy — also encourages greater optimism about the rates of economic growth sustainable by developing countries for considerable periods of time. Until 1950 or so, the conventional wisdom was that an overall growth rate of about 4 percent per year and a per capita rate of 2 percent per year were the best one could hope for. Because population in most of the developing countries is expanding at a rate of 2.5 to 3.0 percent per year, a 4 percent increase in overall growth boils down to a 1.0 to 1.5 percent improvement in per capita income.

Since 1950, a number of countries at different stages of development and possessed of different combinations of public and private sectors have been growing at overall rates well in excess of 4 percent per year, and the low-income nations as a group have grown somewhat more rapidly than the high-income nations. By the mid-1970's, a nation seriously interested in development, that has established an effective nationwide family planning program, should be able to combine a 6 - 7 percent rate of overall growth with a 2.0 - 2.5 percent population increase for a 3.5 - 5.0 percent improvement per capita per year. A 4 percent improvement per-person-per-year means a doubling of living standards in less than 18 years, as compared with every 35 years at 2 percent. Nevertheless, per capita incomes of $200 per year, increasing at the seemingly high rate of 4 percent per year, will take over 40 years to reach the modest level of $1,000. A decently-shared 4 percent per year improvement in per capita income may therefore be a more appropriate target than a 5 percent increase in overall income.

Under present concepts, American foreign aid need not be continued after the so-called "take-off," which in countries like Taiwan, Iran, Pakistan, and Korea, can occur before the country has reached the $200 per person level of annual income. Early termination creates a special problem with respect to technical assistance.

Technical assistance is not only the first, but also the last requirement in the foreign aid field. Partly because of the long lead time required for the production of skills as compared with the production of commodities, self-sustaining growth in skills may not be attained until long after what has been described as "the trade limit on growth" has been overcome. _/ Were

_/ "An important area of research is that of devising a reliable set of indicators of progress in social and economic sectors which are of particular interest from the technical assistance viewpoint. A strategy of technical assistance must be geared to longer-term results — not necessarily reflected in current overall growth rates — and must be adapted to a great variety of country situations." Organisation for Economic Co-operation and Development, Technical Assistance and the Needs of Developing Countries (Paris, 1968), para. 18.

there an international market in skills comparable to that in commodities, this would be no cause for concern. The less developed countries could purchase the skills they needed and be at no great disadvantage as compared with the more developed nations. Commodities can be ordered from a catalog, or from an agent, at fixed prices. For experts, however, the price may well be 50 percent higher than it is in the home market, there is no catalog to consult, and no convenient system for importing them. Indeed, a number of factors, including a world-wide shortage of adequately-trained specialists, conspire to produce a "brain-drain" instead of a "brain-gain" for the less developed countries.

The case for stanching the brain-drain and expanding fairly rapidly technical assistance of assured quality that is paid for, or partially paid for, by the receiver would appear to be strong. On the technical assistance side, this might mean:

(a) More rapid expansion of the Development Resources Referral Service of the AID and liberalization of its procedures;

(b) The creation of subsidized national or multinational corporations that would provide careers for technical assistants whose services would be obtainable more or less as those of consulting firms are already obtainable;

(c) Increased willingness of governments of high-income countries such as the United States to "top off" the salaries offered to specialists by low income countries so that the specialists would not suffer financially by accepting posts in low income countries;

(d) More extensive use of the funds-in-trust arrangements of the United Nations.[/]

[/] Although the World Bank family makes distinctions among potential borrowers on the basis of levels of development, the UN Development Program does not. Various nations that were graduated from US assistance — Israel, Greece, Taiwan, Yugoslavia — continued for varying lengths of time thereafter to be net receivers of technical assistance from the United Nations. The Expanded Program of Technical Assistance never attempted to distinguish "developing" from "developed" countries insofar as eligibility for aid was concerned, although it was by no means unresponsive to need. The merger into the UN Development Program has not changed the situation. Among members of the World Bank family, only nations with per capita incomes of less than $250 are, by and large, eligible for soft loans from the International Development Association; middle income countries are discouraged from seeking World Bank loans when they are believed by the Bank to be capable of borrowing in the private capital market. Australia, Finland, Italy, Japan, Spain — nations that were substantial borrowers during the late 1950's and early 1960's — no longer are. [Check]

Under the rationale for development assistance that is emerging, the ultimate goal of American aid policy is a political one. It is to contribute to the creation of an international community of better integrated, self-governing, self-supporting nations, respectful of human rights and fundamental freedoms. The integration of society in a nation comes late in the modernization process.

> Integrated societies differ from those in the preceding phase of economic and social transformation in their structure of political power. Personal power tends to become institutionalized through bureaucratization, and the exercise of power is divided into many specialties and shared by many people. This corresponds in considerable measure to trends in social stratification, according to which those concerned with the direct exercise of political power are recruited to an increasing extent through university education and are much more numerous than in earlier phases. At the same time that the ruling groups are being enlarged, and come to depend more on merit than on privilege, the number of those at the opposite end of the social scale is reduced.
>
> As societies become more productive, wealth tends to be more evenly distributed and the standard of living of urban and rural workers tends to approximate that of salaried employees..._/

_/ C.E. Black, The Dynamics of Modernization: A Study in Comparative History (Harper and Row, New York, Evanston and London, 1966), p. 83.

Clearly, Taiwan, Iran, Pakistan and Korea are not yet integrated societies. Certain objectives of American assistance policy — rising levels of income, investment, savings, and exports — are on the road to realization, but achievement of other objectives equally important in creating a collectivity of nations respectful of basic human rights and fairly firmly anchored to the value system implicit in the UN Charter, remains in the future. If aid is terminated before a country has made real progress toward social and civic as well as economic modernization, the ultimate objective of the aid effort will remain in limbo, and a relationship that has been mutually beneficial may be ended prematurely. Whereas heavy capital investment can normally be relied on to produce significant increases in gross national product within a short span of time, the stimulation of significant social and political progress appears to require both longer time horizons and more subtle programming.

Economic growth and diversification do tend to produce interest groups and train participants in essential political skills. Economically oriented development assistance also tends to provide an acceptable opening wedge for a meaningful dialogue between the United States and the receiving country on matters that extend far beyond the specifications for the generators, tractors, trucks or fertilizers to be imported under aid programs. Where aid is substantial, discussions of patterns of land ownership and use, wages, prices, taxes and exchange rates, import and export policies, and other arrangements that stimulate or retard economic growth, are normal parts of the aid process. Such discussions clearly have more than economic implications.

However, just as the rather unsophisticated anti-communism of the United States Government distorted the allocation of US aid before, after and especially during the 1950's, and in other ways encumbered the aid program with a burdensome legacy, so too, some of the emphasis on development as primarily an economic phenomenon has masked the need for better criteria and more sensitive judgments concerning social progress and social justice in less developed countries. Such judgments will normally be more acceptable if they are reached within a multilateral framework in which the receiving country is a full partner. The annual country reviews of the Inter-American Committee on the Alliance for Progress (CIAP) could be built up to include greater specificity with respect to desirable social and institutional measures in participating countries. The Foreign Assistance Acts of 1966 and thereafter include a provision which requires US loan assistance to Latin American countries to be consistent with CIAP's conclusions and recommendations. No comparable guidelines are insisted upon for aid to Asia and Africa.

Increased attention to the political as well as the social dimensions of development is warranted. Just as a nation may need both military and economic assistance, or economic and social assistance, it may also need political assistance. One could design a program of direct political assistance in the form of projects that strengthen various underpinnings of democracy — widespread participation in the political process, effective parliaments, competent political parties, qualified leadership, independent judiciaries, free presses, and so forth. Such a program would hardly be acceptable if offered by the US Government in lieu of assistance for economic and social development, but some of it can be brought in acceptably under non-governmental auspices and more of it may become acceptable when both the "success" and the limitations of more narrowly economic aid have been demonstrated.

The purpose of this discussion is not to advocate a cradle-to-grave aid program that will operate until the receiving nation is a fully integrated society in the sense that Sweden is today. It is, rather, to cast doubt on the comfortable assumption that either the American national interest or the interest of the world as a whole has been adequately served, insofar as aid is concerned, as soon as a developing country is able to pay for necessary imports of goods and services from a rising level of export earnings, regardless of the absolute level of its per capita income, the rate of increase in that income, the degree of social cohesion within the body politic, and the sense of national identity and purpose which characterize the area.

Termination of financial assistance before the country has reached a per-person-per-year level of income of, say, \$500 - \$600, and is increasing it at about 4 percent per annum may be dubious wisdom because it will prolong unnecessarily the period of widening income gaps between rich and poor countries. In a strictly economic sense, aid "works" and full advantage ought to be taken of this important lesson of the postwar era. Greater attention to the social and political components of the type of development considered conducive to a decent world order is also highly desirable, if not imperative. The objective of the exercise should be to achieve, before development assistance is terminated, the best possible prospects for balanced economic, social and civic growth. The probability is that technical assistance in the form of expertise on concessional terms will be needed for more years than commodity assistance on concessional terms.

Further Implications of Postwar Aid Experience

There are many further lessons from the experience of the last twenty years that should be recalled in formulating a development assistance program for the 1970's. Some of them have attained the status of clichés, even though they do not yet govern policy. The following are particularly relevant in designing an overall program, though not necessarily equally helpful in determining the size, scope, or direction of the program in any given aid-receiving nation.

1. The purpose to be served by the assistance must command significant support at the receiving end. Modernization tends to be this kind of purpose and the availability of external assistance helps to make it a more feasible goal in the less developed countries. Aid is not useless as a device for cementing alliances, winning friends, prolonging historic ties, extracting short-run political advantages, heading off offerings of rival powers, and promoting the exports of, or paving the way for private investment from, the aid-giving country. In theory, these desires on the part of donors can readily be reconciled with the development interests of the receiver. Surplus agricultural commodities can provide partial payment for employees on public works projects. The compensation for an air base can finance some high priority

investment projects. The fact that fast footwork by the United States results in American underwriting for an enterprise that might otherwise have been financed by Communist China does not make the enterprise any less valuable from an economic point of view. Nevertheless, the multiple motives of donor countries tend not only to invite conflict among agencies and interests within those countries, but to be divisive and corrosive at the receiving end by comparison with the unambiguous commitment to development that characterizes most of the multilateral sources of aid.

2. At the same time, aid must serve the individual or collective national interests of aid-providers. While it is impossible to prove conclusively that outside aid is a sine qua non of development and that such development as may ensue will be worth the annual investment of 1 percent or some other fraction of the gross national product of the high-income countries, the case for development assistance can be made in asymmetrical fashion. In other words, the risks involved in forcing the less developed countries to remain mired in poverty or to rise entirely by their bootstraps can be shown to be serious and difficult to reconcile with the sense of international community and decency the United States seeks to foster, while the costs of providing assistance in the volume that can be used effectively are demonstrably bearable. The message of the section on the rationale for development assistance (Section II above) was that, on balance, a reasonably generous development assistance program would serve affirmatively the long-term interests of the United States.

3. Development, as has been said ad nauseam, is a long-term process involving a serious attempt to mobilize energies and resources, to plan ahead, and to invest in the future. Flexibility is necessary and slavish adherence to a predetermined course is foolish. That the United States should want to make its assistance conditional upon good performance and should wish to retain

freedom to turn the spigot on and off is understandable. More often than not, however, maintenance of the receiving nation "on a short leash" is a disincentive to orderly planning on its part. Performance can and should be reviewed more or less continuously, but the idea that supplies should be withheld unless certain actions are taken within a specified time limit, or that program loans must be subject to quarterly review and variation in order to guarantee _pari passu_ fulfillment of the receiving country's "commitments," is often illusory.

Obvious technical _quid pro quos_ (physical sites for specific projects, allocations of local currency, assignment of counterpart personnel, relative freedom from corruption, continuation of the activity when the subsidy ends) must of course be forthcoming. Major policy changes — land reform, tax reform, family planning, import liberalization, realistic exchange rates, etc. — must be sought where appropriate. But the timing of the latter changes is a matter of great delicacy. The changes will be hard to introduce on schedule even though they have long been needed and commitments to initiate them have been made. The leverage conferred by the US aid program is more limited than it is popularly thought to be and the more bluntly the aid instrument is used the less effective it becomes.

Because of the commendable reluctance of the United States to let people starve, food aid which is really for the relief of the hungry will be discontinued only under the most extreme provocation. Individual technical assistants can exert enormous influence, but influence and leverage are not synonymous; the very limited leverage inherent in a technical assistance program is now so generally recognized that technical assistance is often continued when capital assistance programs are suspended for disciplinary reasons. Capital assistance in substantial volume does carry leverage, but is more effective as an incentive to good behavior than as a sword of Damocles ready to drop in the event of bad behavior. To be sure, flagrant violations of widely accepted norms of national conduct, as well as outbreaks of war or revolution, normally justify prompt reduction or suspension of all forms of aid.

The point at issue in the foregoing paragraphs is simply that agreement concerning policy directions during the medium-term future (2-5 years) is probably more vital than policing on a quarterly basis. Neither the appropriation process in the United States nor the operating policies of American aid agencies are as yet properly geared to the long-term nature of the development process. Repeated attempts to secure longer-term authorizations from the Congress have been rebuffed or withdrawn after having been granted. Because the Legislative Branch is determined to keep the Executive Branch on a short leash, the tendency is for the Executive Branch to keep the aid-receiving nations on an ever shorter leash and to demand better behavior of them than will be forthcoming. _/

_/ The Agency for International Development's Summary Presentation to the Congress, Proposed Foreign AID Program FY 1968 (May 1967) discusses self-help on pp. 16-22 and reports with pride various reforms, some quite Draconian, enacted in low-income nations in return for US aid. Brazil, for example, is imposing "a courageous coffee policy that will reduce the real return to producers by about 45 percent in the 1966-67 crop year" (p.20). "A loan to the Bolivian Mining Bank to finance expansion and modernization of the private mining industry was not agreed to until the Bolivian Government undertook a major reform of the country's mining code, a reorganization of the bank, and the passage and enforcement of new mineral export tax laws to encourage mining investment; the new code is in effect, the new tax law has been passed, and the required reorganization is being carried out." (p. 16). But will citizens in Bolivia and Brazil be as satisfied with the bargain struck as the AID is? Will the suspicion that they bowed to superior power in these instances encourage them to compensate by rising up and "kicking the United States in the teeth" at the next opportunity?

4. In accelerating development, sensible economic and social policies on the part of the less-developed country are more important than injections of foreign funds or commodities. This means that channels of communication must be kept open and expert advice made available when policies are being formulated or re-assessed. The supreme importance of sensible policies in the developing country is reflected in a recent addition to the conventional wisdom according to which "the quality of our aid is as important as the quantity" or, in the jargonese version, "aid's influence potential is much more important than its resource contribution." Although perfectly true, the statement when sonorously said, seems to imply that money doesn't really matter. Yet virtually all the success stories in foreign aid — success in the limited, previously-discussed sense of rising per capita incomes and improved capacity to import — are stories of generous amounts of assistance. _/

_/ This could be due to coincidence rather than to cause and effect, but it seems to me more plausible to conclude that the substantial inflows of assistance to Greece, Israel, Jordan, Korea, Pakistan, Taiwan, etc. have been instrumental in sparking the economic improvement registered.

Aid on a generous scale is required because development is expensive, because mistakes will be made, and because the shift to growth-promoting policies often involves political and economic risks which will not be incurred unless the period of maximum risk is, to some extent, underwritten in advance. Material assistance can be both incentive and insurance. Money, in summary, does matter even though it is never the full story.

5. The aspect that matters most about the inflow of financial resources is not necessarily the immediate use to which funds are put, but the way in which increments to the national income resulting from the initial investment are used over time.

> ...Even if the short-run productivity is high, the economy may continue to be dependent on external assistance indefinitely unless the additional output is allocated so as to increase saving and reduce the trade gap ... The initial elements in the [economic] development sequence are getting the initial increase in the rate of growth, channeling the increments in income into increased saving, and allocating investment so as to avoid balance-of-payments bottlenecks.../

/ H. B. Chenery and A. M. Strout, "Foreign Assistance and Economic Development," American Economic Review, Vol. LVI, Number 4, Part 1, Sept. 1966, p. 724.

The authors cited go on to argue that the long-run effectiveness of aid will be increased by supporting, not just a tolerable growth rate, but as high a rate as the economy of the receiving country can achieve "without a substantial deterioration in the efficiency of use of capital." The higher the rate, the smaller will be the proportion of the increase in GNP that is offset by population growth. More aid in the short run may mean smaller aid requirements in the long run. When GNP is growing rapidly rather than just tolerably, it should also be easier to raise marginal saving rates, to expand exports, and to attract foreign private investment. / Furthermore, an economy that is

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/ Loc. cit., pp. 724-725.

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growing at 6 or 7 percent per year and increasing its export earnings at about that rate will be in a much stronger position to service foreign loans.

6. The correlation between volume of aid and amount of economic growth is probably greater and certainly more demonstrable than the correlation between volume of assistance and amount of influence acquired by the donor. The "influence potential" of foreign aid is to some extent correlated with the amount of aid provided. Up to some point, it rises with increasing amounts of aid and, from that point, tends to decline with declining amounts. In the process of rising, however, it encourages arrogance on the part of the donors and stimulates fears and resistance among recievers. Consequently, the peak is

never very high and hopes of obtaining or maintaining vast amounts of leverage through foreign aid are unlikely to be realized. In view of the limited knowledge aid donors have about the real needs of less developed countries and the frequent desire of donors to use their leverage for questionable purposes, this may be a blessing.[/]

[/] The less reason the receiver has to suspect the motives of the foreign advisor, the more likely it is that the advice will be judged on its merits. The contribution of the Harvard Advisory Group to policy formulation in Pakistan, for example, has been enormous and indicates the desirability of more extensive use of this type of high-caliber advisory mission of persons who are neither emissaries of governmental or inter-governmental agencies. The limiting factor appears to be the small number of truly top-notch personnel available for assignment.

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7. The project approach which reigned supreme during the early years of foreign aid — the use of aid to finance specific, identifiable undertakings that could serve as visible monuments to the program — placed excessive emphasis on the initial use of the aid funds. Although it has long been known that foreign financing of "good" projects might only ease the diversion of domestic resources to "bad" projects, the shift from the project approach to the program approach or to a reasonable meld of the two approaches has been slow. Since project financing must continue to be an element in the aid program, it would be unwise to oversell the program approach, which provides imported resources needed by the economy as a whole, or by a particular sector such as agriculture, rather than the equipment and supplies needed at a particular project site.

To regard the project and the program approach as mutually exclusive techniques would also be unwise. For countries in the early stages of development, most of the outside aid should probably take the form of project assistance, thereby concentrating effort on the establishment of a few, well-managed enterprises. For countries farther along the road to development, advanced enough to have good country development programs and some competence in translating them into action, most of the outside aid should take the form of program assistance. The program approach is preferable, not because it gives the donor a tighter rein, but because it helps focus the dialogue between donor and receiver on the more important policy questions and because it can more quickly galvanize the whole economy, including the private sector. In designing an aid program for the 1970's, assurance of proper scope for the program approach is important. Currently, the multilateral agencies can provide program aid only by stretching the definition of the term "project" almost to the breaking point.

8. With the advent of the Kennedy Administration and the launching of the Alliance for Progress, the preparation of overall country development programs was given considerable impetus. The initial swing of the pendulum probably over-emphasized the value of preparing an impressive, internally-consistent, five-year plan based — all too frequently — on statistical data of doubtful validity and, in any event, unlikely to be carried out because of the absence of machinery and procedures linking the plan to the actual investment decisions of the government and the private sector. Although 50 or more countries now have partial or comprehensive national development plans and development planning, like development lending, has become respectable, in only a few countries has the planning exercise sparked the actions that ought to follow from it.

Consequently, more attention is currently being given to sector programming in agriculture, education, transportation, and other fields, and the readying of priority sectors for both program and project assistance. More attention is also being given to the formulation of integrated area development schemes which seek to direct toward a single, manageable, geographic region within a developing country all the necessary developmental inputs, simultaneously and in such fashion as to reinforce each other. Thus, areas such as Northeast Thailand, Brazil's Northeast, Turkey's wheat growing lands, and Iran's Qazvim (?) region can be given an opportunity to make a real forward leap.

Overall programming, sector programming, and area programming all tend to lengthen the time horizons of the programmers and to bring out the need for broader, longer-term aid commitments than are typically afforded by the project approach.

9. The limit on the number of objectives which a government can simultaneously pursue with any vigor is depressingly low, even in large, diversified, advanced nations. In less developed countries, a "systems approach" to a few high priority goals may be more effective than either the project or the program approach. According to James P. Grant of the AID, and other experienced aid administrators, concentration of substantial aid resources and management on a limited number of important goals, within a specified timeframe, in a "systems approach," can produce several times the benefits that would be obtained if the same financial and management resources were spread over many projects.

In other words, if the United States and, say, Turkey can agree in 1967 to give top priority to (a) self-sufficiency in wheat for Turkey by 1972, (b) a $200 million increase in earnings from lumber exports, and (c) a quadrupling of foreign exchange earnings by 1972, Turkey should be closer to "graduation" from US aid than if it tries to progress in balanced fashion to a wider series of goals. "Systems directors" for the top priority objectives can be designated and authorized to cut across organizational and jurisdictional lines to get things moving. The Prime Minister himself can become the systems director for a truly important effort. Upon success, new goals, designed in part to correct recently-created imbalances in the growth process, can be set.

10. More planning on a transnational basis is necessary to reconcile overall and sector programs of national governments; if all countries expect to increase their exports more rapidly than their imports, some are bound to be disappointed. Planning on a wider basis can also contribute to strengthening the sense of international community and achieving a more rational division of international labor.

Although the Food and Agriculture Organization of the United Nations is engaged in drawing up an Indicative World Plan for Agriculture, "regional approaches" are more frequently mentioned in discussions of the future of foreign aid. The term "regional approach," however, is used in several quite different senses. These include: (a) the use of regional institutions as allocating agencies for financial or technical assistance; (b) the development of telecommunications, highway systems, river basins, and power networks intended to facilitate trade, tourism, and communication within the region; and (c) the launching of common markets, currency unions, supranational authorities, or other devices to promote political and economic integration, particularly among the smaller and weaker sovereign entities of the low-income world.

Under the first of these arrangements — the allocation of assistance pursuant to the recommendations of regional agencies such as the regional economic commissions of the United Nations, or through regional institutions, such as the Latin American or Asian Development Bank, in the management of which the countries of the region have a strong voice — the assistance itself may, or may not, foster regional integration. The process of reviewing the competing claims on available resources may build up esprit de corps within the region but the resources themselves may be allocated entirely to national development projects and programs in ways that tend to promote national self-sufficiency rather than international integration. Alternatively, they can be used to finance Pan-American highways and Mekong River Development Schemes, or regional or subregional common markets. Donor countries interested in more than the slow build-up of regional esprit de corps and habits of cooperation can allocate assistance to special funds administered by regional bodies, for example, the Pre-Investment Fund for Latin American Integration of the Inter-American Development Bank.

Whereas four countries — India, Pakistan, Indonesia and Brazil — together contain more than half the population of the less-developed non-communist world, close to 100 of the developing countries have populations under 15 million and two-thirds of these have populations of less than five million. A nation of four million inhabitants with a per capita income of $125 per year represents a market comparable in economic importance (if one ignores income distribution) to an American city the size of Bridgeport, Connecticut; Corpus Christi, Texas; or Fort Wayne, Indiana. The best hope for such countries would seem in most cases to lie in regional integration schemes to enlarge markets, support more diversified economies, and reduce the burdens of separate defense and diplomatic establishments.

So far, the most successful non-European effort at integration is the Central American Common Market. The association of a number of African countries with the European Economic Community has brought important advantages to the associated nations and considerable uneasiness to developing countries in Asia and Latin America.

Countries that are economically inconsequential will have trouble surviving as sovereign entities. Nations with respectable economic potential can fail for other reasons — tribal or religious differences about which emotions run high, irreconcilable language difficulties, an unbridgeable urban-rural split, or incompetent leadership.

The merger of nonviable nations into something stronger and better integrated is essential but the pathway is so strewn with political pitfalls that many seemingly sensible arrangements will come to naught. The wise course for the United States may be to support the principle of integration and support financially the regional development funds, banks and other institutions that can help promote common markets, free trade areas, river development schemes, and perhaps political unions within the region, but to avoid close identification with particular arrangements.

11. Americans have found it difficult to maintain a proper balance between optimism, skepticism and pessimism, particularly with respect to innovations and alleged breakthroughs in the field of development. During the decade 1955-1965, predictions were regularly made that the 1980's would see famine in Asia and mass starvation on an unprecedented scale because of Asian inability to modernize agriculture in the face of the population explosion. When in the mid-1960's "the pill" and the IUD seemed to promise an early end to the population explosion, the gloom was briefly dispelled.

It reappeared shortly thereafter, with the realization that most of the people who would be eating in the 1980's were already with us and, furthermore, that the pill and the IUD had side-effects and drawbacks that would slow down their acceptance.

In January 1967, the President in his State of the Union message was pessimistic. "Next to the pursuit of peace, the really great challenge to the human family is the race between food supply and population increase. That race tonight is being lost."/ The World Food Supply Panel of the

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/ Congressional Record, Vol. 113, No. 1; January 10, 1967, 90th Congress, First Session; p. H29.

President's Science Advisory Committee in its May 1967 report, spoke of the "...grim reality of the food shortage that will occur during the next 20 years... before programs of family planning can be expected to bring about long-term amelioration of the problem by reducing world population growth."/

/ The World Food Problem, A Report of the President's Science Advisory Committee, Vol. 1, May 1967, p. 14. This and the passage from the President's State of the Union message are both mentioned in Resources, No. 27, January 1968, Resources for the Future, Inc.; p. 3.

Nine months later the thoughtful and responsible Administrator of the Department of Agriculture's International Development Service reported to the Second International Conference on War on Hunger:

> The good news is that we may be on the threshold of an agricultural revolution in many of the hungry, densely populated countries of the less developed world, particularly in Asia. Further, we are witnessing some advances in food technology which, if commercially feasible, can make quality diets available to millions at much lower costs.

> Exciting new varieties of rice, wheat, grain sorghum, and corn are now available. In large part, they have been developed at the International Rice Institute in the Philippines and at what is now the International Maize and Wheat Improvement Center in Mexico. (The Institute was sponsored by the Rockefeller and Ford Foundations, the Center by Rockefeller.) The new varieties are much more responsive to fertilizer than traditional varieties. Under proper growing conditions, they outyield traditional varieties not by a mere 10, 20 or 30 percent but by a multiple of two or more. This is why they have caught the imagination of so many Asian farmers.
>
> The new food grain varieties are far more than just another technological breakthrough — they may be to the agricultural revolution in Asia what the steam engine was to the industrial revolution in Europe./

/ Lester R. Brown, speech of February 20, 1968, to Second International Conference on War on Hunger; Washington, D.C. See also Mr. Brown's article, "The Agricultural Revolution in Asia," in Foreign Affairs, July 1968, pp. 688-698.

This theme was promptly taken up by the AID Administrator in a series of speeches beginning with a talk to the Society for International Development entitled "The Green Revolution: Accomplishments and Apprehensions."

> ...Record yields, harvests of unprecedented size and crops in the ground demonstrate that throughout much of the developing world--and particularly in Asia--we are on the verge of an agricultural revolution...
>
> Pakistan has an excellent chance of achieving self-sufficiency in food grains in another year...
>
> India will harvest more than 95 million tons in food grains this year--again a record crop. She hopes to achieve self-sufficiency in food grains in another three or four years. She has the capability to do so...
>
> ...The Philippines are clearly about to achieve self-sufficiency in rice./

/ William S. Gaud, Administrator, Agency for International Development, Address of March 8, 1968, to Society for International Development; Washington, D.C.

The foreign aid program is desperately in need of new successes and we may indeed be in the process of achieving one here that merits all the optimism currently being mustered on its behalf. Yet the long record of programs previously hailed as breakthroughs or keys to modernization at an early date should give us pause. DDT promised to end malaria and spark the productive use of millions of man-days otherwise lost in debilitating illness. But DDT-resistant mosquitoes made it more prudent to talk about malaria control than malaria eradication, and the man-days gained through malaria control have made only modest contributions to gross national product. Community development programs were far more promising under their early inspired leadership than when the bureaucrats took them over. Atomic energy was hailed as a release from poverty and drudgery until the economics thereof was soberly analyzed. Transistor radios and educational TV were expected to solve the teacher shortage until it became clear that they are more effective as supplements to than as replacements for face-to-face encounters. The road to development is long and rocky and winding.

Miracle wheat and miracle rice may well take longer to transform deficits into surpluses than their proponents now believe. If not, they may give rise to the problems associated with falling prices and insufficient returns to producers. Nevertheless, they represent real triumphs for the persevering, long-range, high-quality research approach most notably fostered by the Rockefeller Foundation and more or less foreclosed to American governmental agencies in the foreign aid business because of their short time horizons.

12. The trend toward longer-term planning, whether for sectors of national economies, for the economy of the nation-state as a whole, or for a group of nation-states is evident. Even the most rudimentary kind of

development planning will tend to bring out the relationships among aid, trade, and investment policies.

From the point of view of their self-respect, their integration in the world economy, and their long-run development, there is every reason to make it as easy as possible for developing nations to increase their earnings from international trade and to receive a larger inflow of private capital. The result would also serve the interests of the United States. Even very substantial changes in US trade and investment policies — accompanied by parallel changes in the policies of other high income countries — could not, in the short- and medium-term, provide the less developed countries as a group with supplementary resources sufficient to meet their absorptive capacities. The case for foreign aid — more of it than is currently available — will be as strong during the first half of the 1970's as it is today.

> Trade is a substitute for aid to the extent that it helps to make the underdeveloped world richer. This it can do by improving the demand for primary products, and by helping to ensure more rational and lower cost industrial development in the underdeveloped world. It is only to a small extent a substitute for aid so far as the financing of balance of payments deficits goes. Aid is needed primarily because underdeveloped countries cannot raise the savings required to finance all the worthwhile investment that can be undertaken...there are some exceptions to this--countries which could and would save more themselves if they could export more: but they are not typical, and even with them, lack of savings is the rationale for most, even if not for all, of the aid they could well use._/

_/ I. M. D. Little and J. M. Clifford, International Aid (Aldine Publishing Company, Chicago, 1966), p. 159.

The establishment in 1964 of the United Nations Conference on Trade and Development as a continuing agency has provided the international community with a forum for a simultaneous, coordinated review of trade, aid, and investment policies of concern to the low-income countries. Readying the United States delegation for the meetings of UNCTAD and its numerous subsidiaries is forcing the US Government to consider its own development efforts in a more integrated context. The result is a recognition that there is nothing nobler about aid than trade and that there is much to be said in favor of modifications in trade policy which will permit the less developed countries to earn through trade more of the foreign exchange they need. This would be desirable even if the modifications tend to blur the conventional distinctions between trade and aid and even if the immediate benefits of trade liberalization accrue primarily to the most advanced of the less developed countries.

There is also much to be said in favor of increasing the flow of private investment to the less developed countries, and the United States has been saying it for many years. Too much of its talk, however, has been devoted to the need for creating a "favorable climate" for private investment and the desirability of an investment code. Until the expansion, during the 1960's, of investment guaranty programs, not enough effort was devoted to ways of stimulating private investment in the absence of or in advance of a favorable investment climate.

Towards a Development Program for the 1970's

Though the borderlines between trade, private investment, and aid are fuzzy, the fundamental distinction is clear. In aid, there is a substantial element of subsidy, an unrequited transfer of resources. Because of the subsidy element, aid can be directed to purposes that are unprofitable in terms of the calculus applied to trade and investment transactions, but are considered mutually beneficial by donor and receiver. Aid is a peculiarly flexible instrument. It can be turned to the solution of a particular problem, "in a particular place and at a particular time, in a specific and unique way."[/]

[/] Andrej Krassowski, The Aid Relationship, (Overseas Development Institute, 1968), p. 11.

While elements of subsidy (and hence aid) may enter into commodity agreements, trade preferences, sales of surplus foodstuffs, stockpile purchases, and investment guaranty schemes, basically these are not aid programs but rather, programs capable of reducing the need for aid. More effective self-help efforts in the low-income world can reduce further the requirements for foreign aid. Nevertheless, a basic conclusion of most experts is that, although more can and should be done than has been done to reduce the need for aid, the need will not be eliminated in the foreseeable future. On the contrary, the need (admittedly a flexible, somewhat subjective concept into which political and ethical as well as economic judgments will enter) is for more aid than is presently being made available.

Decision-makers in high-income countries who have to weigh the needs of low-income countries for foreign aid against other claims on available resources do not as yet accord a very high priority to foreign aid. In the United States, the political obstacles facing aid programs that depend on public funds are formidable. If at times I seem to neglect them, it is not because I am unaware of them but because there are advantages in discussing the kind of program we "ought to have" before considering its political feasibility.

On purposes, there is a widespread convergence of view that the principal objective is development along lines explicit and implicit in the United Nations Charter, the Charter of Punta del Este, and similar documents. This means economic and social progress with respect for individual human rights and without threatening international peace and security, but with wide latitude for local decisions concerning the dividing line between public and private enterprise, the choice of partners in international trade, the support or non-support of major donors in international disputes, etc. Military aid, famine and disaster relief, and other forms of assistance that may have developmental effects but are given for other reasons, are not considered aid for development.

Although there is no generally accepted strategy of development (nor is there a recognized strategy for realizing most of society's other goals), development targets have been and are being set in many fields. The most all-embracing of these are percentage increases in national income or gross national product, overall and per capita. Political exigencies in the 1970's will probably require higher targets in this respect than those of the 1950's and 1960's. The inflow of resources should be great enough to permit a poor country that follows reasonably sensible policies to expect an overall increase in its GNP of about 6 to 7 percent per year, or roughly 35 to 40 percent every five years.

There is no magic in the 6 to 7 percent-per-year figure. Some countries should do better than that. Some will do worse. In neither case are the political consequences in terms of stability, democracy, or a peaceful foreign policy axiomatic. Progress in this order of magnitude, however, if share with a modicum of social justice, may avoid some of the tensions and frustrations that will almost certainly build up under substantially lower rates.

The sharing problem is critically important. It is most unfortunate that data on income distribution within less-developed countries are so meager and inadequate. The belief is widespread that development assistance to date has benefited chiefly small "in-groups" and has barely touched the bulk of the population. If aid were more obviously devoted to improving the welfare of the poorest third of the population, not only the humanitarian argument for aid from rich countries to poor countries, but other aspects of the rationale as well, would be greatly strengthened. Decreased emphasis on investment rates, savings rates, per capita income statistics and other macro-economic indicators would have to be accompanied by substantive changes in programs. As of this writing, I am unclear as to how to restructure development assistance to make a more frontal attack on poverty where it is greatest, but I would like to see a task force at work on the problem. As a minimum, could not some of the niggling, self-serving provisions now incorporated in US loan agreements be replaced by provisions limiting the salaries and fringe benefits paid to executives of aided enterprises, requiring the payment of prevailing wages to workers, and generally reversing the "trickle-down" theory on which development in so much of the low-income world appears to be based?

The more developed countries are not now providing resources at a level that facilitates growth at 6 to 7 percent rates. They might be if they moved up to the 1 percent of GNP that has, with increasing frequency, been endorsed as an appropriate level of contribution._/ Nevertheless, there is nothing

_/ See, for example, UN Conference on Trade and Development, "Trends and Problems in World Trade and Development: Growth, Development Finance and Aid Synchronization of International and National Policies," TD/34; 26 October 1967. [Re-check this reference.] Under its "high projection" (a 3.7 percent growth rate for per capita income in less developed countries during

1965-1975), the "trade gap" of the less developed countries, measured in 1960 prices, may reach $26 billion by 1975. "If one-half of the trade gap were to be bridged by public capital inflow, this would involve an increase in such inflow to some $13 billion net by 1975... Moreover, the absorptive capacity of developing countries is probably increasing rapidly enough to permit them to use such a quantity of external resources effectively by 1975. It may also be anticipated that private capital inflow would rise to $5 billion by 1975. The total required inflow of public and private capital would thus amount to $18 billion, which could be provided if developed countries implemented the 1 percent assistance target. Most of the remainder of the gap would probably have to be bridged by a higher rate of import substitution than in the past..." (para. 28)

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more "right" or sacrosanct about contributions of 1 percent of GNP from rich countries than there is about the 6 to 7 percent growth target for poor countries.

More sophisticated and more appropriate would be a willingness to be guided by calculations regularly made by international experts concerning both need in the low-income world and capacity elsewhere, including the wealthier communist countries, to meet calculated needs. Eventually, this would surely involve introducing the principle of progressivity into the contribution scale for rich countries — the very rich countries would be expected to contribute a larger fraction of their GNP than the less affluent rich countries. Meanwhile, the flat 1 percent figure for non-communist, industrialized countries is widely accepted — with only a handful of economists knowing the difference between gross national product and national income. A political decision to accept, not just for purposes of lip-service, 1 percent of GNP, realistically measured, as the goal for 1972 or some other specified year could help to remove from the realm of political controversy one item in a controversy-laden field.[/]

[/] The figure of 1 percent as an assistance target has been bandied about since the 1943 conference that launched the United Nations Relief and Rehabilitation Administration (UNRRA), but frequently with little concern as to whether the target was to be 1 percent of gross national product or of national income. The United Nations Conference on Trade and Development held in Geneva in 1964 couched its recommendation in terms of national income. Subsequently, a group of experts in a report to the UN Economic and Social Council on "The Measurement of the Flow of Resources from Developed Market Economies to the Developing Countries" recommended measuring aid against GNP at market prices, though they also suggested that there probably ought to be a series of measures of resource flows. The 1968 UNCTAD adopted a target figure of 1 percent of GNP but was unable to agree on a target date for reaching that figure.

National income differs from GNP mainly by excluding depreciation charges and other allowances for business and institutional consumption of durable goods, and indirect taxes. These exclusions in the OECD countries amount to nearly 20 percent of GNP — enough to make a difference of well over $1 billion per year during the 1960's in the capital flow from the United States alone, under a 1 percent formula. The question of whether to use GNP or national income is therefore not just a technicians' quibble and is only one of a number of relevant questions. See the discussion of the 1 percent target in Development Assistance Efforts and Policies; 1967 Review (Organisation for Economic Cooperation and Development, September 1967), pp. 103-110.

An implemented decision of the OECD Development Assistance Committee that member countries step up the flow of long-term resources to less developed countries to 1 percent of the gross national product of the contributors would have raised the flow by about $4.5 billion in 1966. With GNP in the OECD area growing at more than $50 billion per year (check), aid could rise at $500 million per year.

During the 1960's, the volume of American aid for development has been levelling off or declining while the cost of aid has been rising. The annual debates on the authorization and appropriation measures are increasingly bitter and divisive. Arbitrary ceilings have been placed on the number of countries to which different types of assistance can be given. Numerous restrictions have been introduced to make particular countries ineligible for assistance. The terms for loans have been hardening. The proportion of gross national product devoted to foreign economic aid has dropped to about 6/10 of one percent.

The figures on US economic aid vary substantially according to whether one cites authorizations, appropriations, gross or net obligations, or gross or net expenditures. They also vary according to whether one includes or excludes Food-for-Freedom, long-term loans of the Export-Import Bank, and other sources of assistance. Furthermore, it is important to know what proportion of the total is in grant form and what proportion is in loan form and what the terms of the loans are. Irrespective of these refinements, however, the trend — as already reported — is the same: a levelling off which, in real terms, represents a decline.

After the beating that the foreign aid bill has taken in the Congress in 1967 and 1968, supporters of assistance to less developed countries may feel that the situation is bound to improve because it can hardly get worse. Comforting though this thought may be, there is not much evidence to sustain it. The nation's sense of outrage is fairly well confined to the editorial pages of the Washington Post and the New York Times.

For a variety of reasons, some of which have little to do with the true merits and defects of American foreign assistance programs, the situation has been worsening for some years. Under the much-amended, highly-restrictive, increasingly inadequate Foreign Assistance Act of 1961, it will continue to do so.

IV. A Phased Transition to Multilateral Assistance

Complete abandonment of aid from the richest country in the world to much poorer countries is inconceivable. Adoption of a generous, flexible, bilateral program that will promote acknowledged American interests, without contravening the legitimate interests of other nations and peoples, is conceivable, but not until the end of hostilities in Vietnam, the development of a consensus about the handling of urban and rural poverty and unrest at home, and the re-arraying of national priorities in accordance with contemporary requirements.

Contemporary requirements include procedural as well as substantive aspects. "Style" has always been important in international relations but rarely more so than at present. Even the most scrupulously-designed bilateral program, mounted by a rich and powerful nation, will be suspect in the eyes of poor and weak recipients as compared with enlarged multilateral efforts. In consequence, the enduring interests of the United States in the development of low-income countries and in progressing toward a better world order can in all probability be at least as well served by a phased transition from almost wholly bilateral to almost wholly multilateral assistance. This would be in line with what Senator Fulbright and some of the most articulate members of the Congress have been advocating for several years.[1] Outside of the Congress, multilateral assistance is widely

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[1] See, for example, Senator Fulbright, Chairman of the Foreign Relations Committee, on "Suggested Basic Changes in Foreign Aid Programs," _Congressional Record_, April 1, 1966 (89th Congress, 2nd Session, Vol. 112, Part 6, March 29, 1966 to April 18, 1966), pp. 7464-7467. "The way to bring about this change [in the political context of the relationships between

aid-giving and aid-receiving nations] is to multilateralize — and thereby to institutionalize and depersonalize — the aid relationship. For several years, I have advocated that greater use be made of the World Bank and its affiliated institutions... The Senate has approved this view at least twice, only to see it frustrated by the Appropriations Committee of the other body." (p. 7464)

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regarded as the wave of the future; the United States would once again be riding the wave. For a short, big-push effort like the Marshall Plan, the bilateral approach has much to commend it. It is considerably less appropriate for the long haul, during which all the strains inherent in the relationship between rich donor and poor recipient, each pursuing a variety of objectives, can come to the surface. Moreover, since there are now regional as well as global multilateral institutions, the United States could choose the multilateral approach without either putting all its eggs in one basket or depriving itself of an effective voice in the regional distribution of its assistance.

In broad outline, the new approach might envisage a five-year transition along the following lines.

1. The United States would indicate its intention to raise its net outflow of long-term resources to less developed countries to 1 percent of its GNP by some specified year, say, 1972. Beginning now, however, it would shift 20 percent of its development loan appropriations per year to multilateral auspices. At the end of three years, when 60 percent of the program has been transferred, the procedure would be re-appraised with a view to determining whether to continue the process, to halt it, or to change pace.

2. Of the funds transferred for development loans, 45 percent (?) would go to the World Bank family, 30 percent (?) to the Inter-American

Development Bank and the Central American Bank for Economic Integration, and the remainder to Asian and African lending agencies.

3. Technical assistance funds could go in part to the UN Development Program, in part to Western Hemisphere institutions operating in the framework of the Alliance for Progress, and in part to a non-governmental foundation or corporation.

4. For supporting assistance, which now goes principally to Vietnam, Korea, Laos and Thailand, the ideal arrangement would be a multilateral trustee, such as the Development Assistance Committee of the OECD; an alternative would be to leave it where it is, but phase it out within five years.

5. A strenuous effort should be made to have other countries step up their multilateral assistance, too, but action by the United States need not be made conditional upon this. An effort should, however, be made to have the multilateral agencies take on some of the ablest and most experienced American personnel, coordinate capital with technical assistance more effectively, provide more program aid, enhance their impact by a more judicious selection of targets, and make greater use of such successful American practices as contracts with universities, non-profit private organizations and engineering firms. If a five-year transition period for development lending seems unrealistically rapid, the target could be modified with a view to making the US effort at least 50 percent multilateral by, say, 1975.

6. The United States should not ask the multilateral agencies to abandon their competitive bidding procedures and cease buying from the most efficient producers. Some safeguards for countries in balance-of-payments difficulties might be negotiated, however. [Should I eliminate this last sentence?]

Stated in such summary fashion, the proposal has innumerable loose ends. In presenting alternative courses of action, however, there is merit in emphasizing the main thrust of each course, without obscuring the view by including a lot of qualifying details.

In most senses, the proposal should be viewed as a response to encouraging rather than discouraging changes in the aid environment. The United States pioneered in developing the technical assistance concept, in introducing soft-lending, in utilizing surplus agricultural commodities to promote development abroad, in providing non-project assistance, in demonstrating the potentialities of aid on a generous scale, in stationing well-manned resident missions in key countries, in establishing a Peace Corps, and in many other undertakings. Others have gradually followed the American lead and, in some respects, surpassed the leader. The lonely trail-blazing course trod by the United States has become a highway on which multilateral vehicles are more numerous, better-designed, and more thoroughly road-tested than once they were. Travelling in multilateral vehicles may involve some sacrifice in the "influence potential" of United States aid but will also reduce the "boomerang potential."

In another sense, the proposal merely recognizes that the United States has painted itself into a corner as far as its own capital assistance program is concerned, stretching the list of irritating regulations to be complied with and shrinking the amount of help that can be obtained by complying. When appropriations for loans and grants in the development assistance category exceeded $3 billion per year, one of the most effective arguments against the multilateral approach was that the shift would entail a substantial decrease in the amount of aid made available, with resultant severe setbacks to development progress. With appropriations down to the $1 billion level, that argument loses a good deal of its force.

Senator Fulbright's pro-multilateral views on aid have not been vigorously echoed in the House of Representatives, whose Foreign Affairs Committee would be almost out of business if it did not have US foreign aid to worry about. Nevertheless, the multilateral programs during the 1960's have fared rather well by comparison with appropriations for bilateral aid. Moreover, the comparison need not be made solely on the basis of what the appropriation process would yield. Whereas the Agency for International Development is wholly dependent on annual appropriations, the World Bank and the regional development banks can sell bond issues in private capital markets and obtain loanable funds without running the legislative gauntlet.

Looking further ahead, there are at least two other independent sources of revenue which could become available to international development agencies during the 1970's but are unlikely to be awarded to national agencies. I refer to the licensing of rights to exploit for oil and other valuable resources the oceans and ocean beds beyond territorial waters, and the forging of a stronger link between the creation of monetary reserves and the extension of development assistance. More will be said later about both of these possibilities. The points to be borne in mind now are that: (a) the great decline in aid assumed by many proponents of development assistance to be a costly corollary of greater reliance on multilateral machinery has occurred in advance of the shift, and (b) the best prospects for a return to a more meaningful level of assistance may lie in tapping sources of revenue within reach of the international community but unlikely to become available to national governments.

Irrespective of the channels through which aid is permitted to flow, which less developed countries should receive assistance and in what volume?

For practical purposes, the decision as to whether eligibility standards are being met by Egypt, or Burma, or Haiti, or Paraguay, or how much of the available aid should be allocated to Brazil or India, or whether aid to Pakistan or Korea should be terminated in X or in Y years, must be made by those administering the various programs, preferably on the basis of international reviews of some kind. The international climate to be sought through such reviews should be one in which less developed countries are eager to cease being net recipients of assistance and proud to become net providers.

I see no early evolution of formulae that will produce acceptable answers to the question "how much, to whom?" On the other hand, it does seem to me reasonable to look forward to the gradual evolution of rough and ready norms for import and export policies, investments in growth, expenditures for defense, treatment of minorities, dispensation of justice, concern for the genuinely needy groups in the population, and other criteria that will help to show which countries are seriously interested in development and what the laggards might do to "prove" their seriousness. Recipients, to repeat, should be development-minded, capable of benefitting from external assistance, and behaving decently, domestically and internationally.

Judgments concerning qualifications may be multilateralized by using the Alliance-for-Progress machinery, the World Bank Group, the United Nations Development Program, panels of "wise men," regional banks, or other international agencies. Multilateral machinery cannot be expected to shore up shaky governments because the United States wants them shored up, to promote the sale of noncompetitive US exports, to adopt the political or economic philosophy of the United States, or to oppose political doctrines to which the United States is opposed. Multilateral agencies, on the other hand, may be better equipped than the United States to operate in certain sensitive areas of economic and social policy (e.g., exchange rate policy, import and export controls). This is not, however, true of all sensitive areas — family planning has to date been an exception.

There is no reason to believe that the views of the United States will be given short shrift in international forums. Some opposition may arise simply because of the source, but offsetting this will be sober second thoughts based on the economic and political power of the United States, the "justice" or merit of the views it espouses, and the skill with which it espouses them.

Although orderly development requires simultaneous headway on many fronts, governments cannot give equal priority to all claims for attention. One of the lessons of the past decade in particular has been the need for each less developed country to concentrate on a limited number of goals achievable within a specified timeframe — self-sufficiency in rice in five years, a tripling of earnings from tourism in four years, and end to the "brain drain" by some specified date. The multilateral machinery, with its many autonomous parts and its somewhat technocratic approach, is at present more ill-equipped than is the United States Government to reach agreement with the political leaders of developing countries on such targets and to center its efforts on the agreed goals. Neither the UN Resident Representative in a less developed country nor any other international official serves in a true sense as captain of a team.

With respect to policy guidance, Andrzej Krassowski has called attention to the need for outside donors to play "the role of devil's advocate or loyal opposition."

"...This sort of donor role falls somewhere between giving advice and exerting pressure. Advice is normally offered with the expectation of action being taken in accordance with the advice given. The devil's advocate role is to advise, but without expecting or necessarily wanting, acceptance. Pressure is normally backed by some form of sanction to ensure that certain actions follow. Again the devil's advocate role is a form of pressure for action, but there is no threat of sanctions if no action follows...

Since in the majority of developing countries there is no genuine debate on policy or the debate is confined to a very small, and unrepresentative, inbred circle, the lack of serious and broadly-based discussion leads to a lack of critical appraisal, a dogmatic following of certain concepts, and a lack of innovation and of challenge to familiar and traditional methods. The donor government's aid and development personnel can, in many cases, perform the role that one would expect a loyal opposition to perform — the role of a partner for a necessary exchange of views, and one whose outlook is likely to be sharply different and, therefore, inherently critical."/

/ Andrzej Krassowski, The Aid Relationship, Overseas Development Institute, 1968, p. 13.

If multilateral machinery replaces donor governments, it should be better equipped to carry on this role. When policies are adopted and targets set, the multilateral machinery should be capable of participating in a "systems approach" to a manageable handful of priority goals.

An authoritative task force ought to review the situation and come forward with recommendations designed to equip the multilateral machinery to function in more integrated, more skillful fashion: (a) as a fount of policy guidance, (b) as a partner in the selection of a few high priority targets on which to concentrate the development drive in each country, and (c) as a source of external resources to help realize those targets.

Would American good will toward the multilateral agencies fade if those agencies were in business in a much bigger way, if they failed to favor the countries we liked, rewarded some that we do not like, and generally moved out of the shadow of the larger US program into the limelight? What serious losses in flexibility and concentration of effort would the United States suffer by a transition to multilateral aid? What losses in flexibility would the multilateral machinery suffer? How significant, for example, is the 1967 effort in Congress to involve the General Accounting Office in the auditing of the expenditures of the Inter-American Development Bank? Is the Selden Amendment a warning that Executive Branch efforts to multilateralize aid will be accompanied by Congressional efforts to treat the multilateral programs as if they were bilateral?_/

_/ The 1966 decision of the National Advisory Council on International Monetary and Financial Policies — an Executive Branch rather than a Congressional body — reaffirming the United States policy of opposing assistance by any international financial institution to any country ineligible for US bilateral assistance because of its expropriation of American-owned private property is, to me, disquieting. Since an affirmative US vote is required with respect to dollar financing provided by the Fund for Special Operations of the Inter-American Development Bank, US opposition in such cases is tantamount to a veto. See National Advisory Council on International Monetary and Financial Policies, Special Report to the President and to the Congress on the Proposed Expansion of the Fund for Special Operations and on the Proposed Modification of Provisions for the Election of Executive Directors of the Inter-American Development Bank, April 1967 (mimeographed), pp. 17-18. Note also the Congressional attitude toward multilateral programs expressed in Section 301(b) of the Foreign Assistance Act of 1967: "...The President shall seek to assure that no contribution to the United Nations Development Program authorized by the Act shall be used for projects for economic or technical assistance to Cuba, so long as Cuba is governed by the Castro regime."

In the United States, the acceptability of the multilateral alternative is based largely on the vision of a handsome pyramid with the World Bank, headed by a dynamic American President and governed by weighted voting, at the apex. The rest of the development machinery is assumed to fall into place somewhere below. At present, most of the rest of the world would also accept (and regard as a significant step forward) multilateralization of the administration of capital assistance along the lines proposed herein — i.e., with a leading role for the World Bank Group.

Yet it is only fair to point out in closing this section that the emerging world economic order is not destined to be headed permanently by an American bank president or by an international technocracy safely insulated from the political winds sweeping across Asia, Africa and Latin America. The one-nation, one-vote arrangements of the UN General Assembly give 300,000 people in Malta the same vote as 230 million people in the United States. The weighted voting in the World Bank gives 230 million Americans nearly 30 times as strong a voice as 115 million Pakistani. The problems of preserving the professional integrity of international agencies while simultaneously making them appropriately responsive to the will of the people of the world are unlikely to have been solved before the 1970's draw to a close.

V. A World Charter for International Development

A World Charter for International Development, elaborated within the framework of the United Nations, could serve as a galvanizing force and desirable corollary of a unilateral decision by the United States to rely more heavily on multilateral channels for development assistance. _/ By spelling out the financial obligations of the more developed countries and the self-help obligations of the less developed countries, it could spur the international community to new heights of effort and standards of behavior. Since both sets of obligations are likely to change over time, it could contain provisions for periodic review and revision of the commitments made by signatories.

If the Charter were, so to speak, loaded in favor of multilateral over bilateral channels and were drafted in advance of a firm U.S. decision on the size and division of its own effort, the Charter could serve as a guideline for a United States decision to rely more heavily on multilateral machinery. If the Charter committed its adherents with respect to their level of effort while remaining silent concerning the mechanisms to be employed, each aid-giving government would still be free to decide how much of its assistance program to carry on bilaterally and how much to conduct multilaterally. The obligations assumed by the aid-receiving countries should include a more equitable distribution of the fruits of productivity gains within those countries. Statistics on overall and per capita growth rates conceal shocking inequities among beneficiaries. It is immoral and unrealistic to ask the average taxpayer in high income countries to come to the aid of well-to-do minorities in low-income countries.

_/ For some of the ideas in this section I am particularly indebted to a participant in the 1967-68 Brookings seminar on the future of foreign aid, who would prefer to remain anonymous.

Some prestigious group — a World Development Council or something of the sort — should be set up to monitor fulfillment of obligations undertaken, progress made, and requirements that are emerging. One possibility would be to make the President of the World Bank chairman of the group and include on it the heads of the international agencies most intimately concerned with development issues, thereby enabling the council to draw, for staff work, on persons already in international employment. Another possibility would be to use outstandingly qualified independent experts, appointed by the Secretary-General of the U.N. (if he can appoint them without having to rely too heavily on "consultations with the governments concerned") or by the President of the World Bank. Experts serving in their individual capacities could produce franker, livelier, more trenchant reports than a group of agency heads understandably interested in puffing up their own achievements and glossing over shortcomings that should be exposed.

A charter-drafting effort could become neither a spur or a guideline, but an exercise in futility, irrelevant to the real world of policy-making. Considerable time and money could be spent, with the end-result a pious set of platitudes committing no one to anything. This danger is real, given the ingenuity and articulateness of the diplomatic fraternity, the desire to wind up with something high-sounding to show for its efforts, and the ambivalence of a world nursing a nascent sense of international community while clinging to obsolete concepts of sovereignty. Conscious of that ambivalence, Ann Winslow recently commented:

> Is it possible that it is not the United Nations that is irrelevant but anachronistic national policies? In a desperately small world, nations still act as if they had the freedom of an empty planet. And the United Nations is a scrapbasket into which they can drop those problems they lack the will to resolve. _/

_/ Anne Winslow, Preface to Issues Before the 22nd General Assembly, Carnegie Endowment for International Peace, September 1967.

In 1966, the Netherlands delegation suggested to the General Assembly that there should be a charter for development. The Assembly in due course adopted a lengthy two-part resolution inviting the Secretary-General to produce a framework for the proposed charter. The preamble to Part A, after seven paragraphs of "reaffirming," "recalling," "endorsing," "considering," "noting," and "bearing in mind," added an eighth

> "Recognizing that the formulation of a consolidated statement of the rights and duties of peoples and nations might sustain and enhance international development efforts and cooperation and could help to enlist wider public support for the strengthening of development policies,"...

Then, in the briefer operative portion of Part A of the resolution, it requested the Secretary-General:

> "to prepare a concise and systematic survey of the various principles, directives and guidelines for action in the field of development."

Part B, after ten paragraphs of "recalling," "recognizing," "noting with concern," "realizing," "considering," and "bearing in mind," and three intermediate paragraphs, requested the Secretary-General also to prepare a "preliminary framework of international development strategy for the 1970's within which initial efforts could be concentrated..."_/

_/ Resolution 2218(XXI), adopted 19 December 1966. United Nations, Official Records: Twenty-First Session, Supplement No. 16 (A/6316) New York 1967, pp. 42-43.

At the 1967 General Assembly session, the Netherlands delegation again put itself enthusiastically behind these efforts. It urged that the Secretary-General not only prepare a survey of the various principles, directives and guidelines in the field of development cooperation but also a preliminary outline of a charter of development. "Our expectation is that next year (1968) the General Assembly will appoint a governmental committee" which can take the Secretary-General's preliminary outline as a starting point and draw up a draft charter. _/

_/ Statement by B. J. Udink, Minister in Charge of Development Aid, in Committee II, United Nations General Assembly, 20 October 1967.

The United States delegation endorsed, lukewarmly, the Dutch proposal for a charter. According to its spokesman in the Second Committee:

> "The United States delegation supported that idea. Such a document might contain a larger number of targets than those set for the present decade. But it was also necessary to avoid introducing precise commitments, which might not be acceptable to many Governments." _/

_/ United Nations General Assembly, Twenty-Second Session, Provisional Summary Record of the One Thousand One Hundred and Sixty-Seventh Meeting, Doc. A/C.2/SR.1167, p. 4 (underlining added).

Thus the stage is set for a charter-drafting effort which might culminate in "much ado about nothing" but might, on the other hand, give a greatly-needed fillip to the establishment of a rationale, framework, and level of international effort for development promotion in the 1970's. A good charter could provide a timely reason for the United States to abandon the short-term, increasingly restrictive framework of the Foreign Assistance Acts of the 1960's in favor of broad implementing legislation.

VI. America's Authorizing Legislation: A Basic Act for International Development?

The interrelations of trade, aid and investment policy have long been known but are currently better understood than at almost any time since the end of the Second World War. The establishment of the United Nations Conference on Trade and Development as a permanent international institution means that, at the international level, the major elements of development policy are more likely than heretofore to receive coordinated review. The time may therefore have come for the United States to break out of its aid syndrome by adopting a basic Act for International Development intended to integrate aid, trade, tax, investment, and cultural exchange policy into a broad, long-range strategy for facilitating development in the low income countries.

Specialists may recall that in 1950, the United States did adopt, as Title IV of the Foreign Economic Assistance Act, an Act for International Development. Intended only to establish the machinery for the Point Four Program, that act dealt almost exclusively with technical assistance. It was amended by the Mutual Security Acts of 1951, 1952 and 1953, and repealed by the Mutual Security Act of 1954. [Check] Specialists may also recall that the report of President Kennedy's Task Force on Foreign Economic Assistance was published under the title An Act for International Development and was subtitled "A Program for the Decade of Development."[1] Although in many

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[1] US Government Printing Office, Department of State Publication No. 7205, June 1961.

respects a landmark report, it dealt largely with proposals for more effective use of the familiar ingredients of foreign aid programs — grants, loans and technical assistance — to support country development programs. The legislation subsequently adopted was entitled the Foreign Assistance Act of 1961. (In the field of trade policy the Kennedy Administration's great achievement was the Trade Expansion Act of 1962.)

In the absence of any widespread demand for truth in legislative labelling, it will always be possible for the United States to superimpose grandiose titles on modest and inadequate legislative efforts. A new Act for International Development is suggested here not as a public relations device, but as an opportunity to express a purpose and provide an authorization for a broad range of development-oriented efforts. Only a few of the authorized activities would require annual appropriations.

The basic ingredients for a new Act for International Development are discussed below.

1. A statement of purpose should indicate the interest of the United States in the economic, social and civic development of low income countries which are themselves seriously interested in development, and the desire of the United States to contribute appropriately to the process. Because the American concept of development embraces social justice as well as economic growth, the United States would refer explicitly to the need for an equitable internal distribution of productivity gains achieved by less developed countries with external assistance, and to the US desire to improve the lot of the most disadvantaged groups.

In fulfillment of its broad objectives, the United States would announce its willingness to accord certain financial and technical assistance, special preferences, incentives, exemptions, etc. to low income countries, insofar as this could be done without damaging the legitimate interests of other high income countries or seriously disrupting the American economy.

2. Without legislating specific changes in commercial policy, the Act could stress the desirability of enabling less developed countries to earn more from exports. It could express, as the sense of Congress, the view that more strenuous efforts ought to be made to reduce tariffs on products of special interest to low income countries and the view that concessions such as temporary tariff preferences for manufactured products from less developed countries appear warranted.[1]

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[1] As will be brought out subsequently, there are other desirable measures in the field of commercial policy — among them, a dent in the dismantling of agricultural protectionism, special treatment for less developed countries under Buy American legislation, multilateral arrangements for compensatory financing of unavoidable shortfalls in the export proceeds and unavoidable increases in the import requirements of less developed countries, and more technical assistance to low income countries in expanding their exports and developing rational tariff structures. Including the full catalog in the authorizing legislation, however, would doom the bill before the practicality of the proposals had been adequately tested.

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3. In the private investment field, the principal thrust of the legislation would be the creation of a government corporation to take over the role of the Office of Private Resources in the Agency for International Development and to perform other functions connected with facilitating the flow of private capital to less developed countries and investing it productively within those countries. The specific concerns of the proposed corporation, preferably not spelled out in the legislation, would be administration and liberalization, to the extent feasible, of the US Investment Guaranty Program; relaxation insofar as possible of restraints

introduced for balance-of-payments reasons on outflows of US capital to less developed countries; positive incentives for individual and corporate investment in such countries; encouragement rather than discouragement of reinvestment of corporate earnings in less developed countries; investigation of the practicality of a program to guarantee bond issues of developing countries in the US capital market, with or without a US subsidy on interest rates. The new corporation should seek to facilitate and supplement, but not to compete with, the efforts of the World Bank and regional banks to tap the private capital markets of the United States.

4. Because no foreseeable combination of trade and private investment policies will eliminate the need for technical and capital assistance during the 1970's, the proposed Act for International Development would have to authorize loans, grants and technical assistance to low income countries. In terms of channels for these forms of assistance, the Act should, as proposed earlier in this discussion, provide for a phased transition to a much more multilateral program by 1975. Organizationally, the transfer of responsibility for capital assistance presents fewer problems than the transfer of technical assistance; there are international lending agencies well equipped to administer larger capital assistance programs than they now operate.

Technical assistance, however, comes in many sizes, shapes and varieties. It includes a number of services that the United States, if it organizes itself to do so, can more readily provide than the UN Development Program, the Organization of American States, or the regional institutions of Asia and Africa. While there are good reasons for strengthening the multilateral organs and enlarging their efforts as compared with bilateral efforts, there is no urgency about getting the United States out of the technical assistance business. American Government agencies, however, are too inflexible and regulation-ridden to do the job well.

Accordingly, the legislation should provide for the creation of a technical assistance foundation or corporation. Such a foundation should be able to accept private contributions. It should be permitted to employ non-citizens as well as citizens of the United States and offer careers in technical assistance to both groups. It should have the resources to "top off" salaries of specialists for which less developed countries are unable or unwilling to pay in full. It should be concerned with the improvement of educational, training and research facilities in the low income world, with measures to discourage the brain drain, with contracts enabling American universities to enter into long-term arrangements with foreign universities, and with training in the United States for specialists and leaders from less developed countries.

5. The Act for International Development should not include a Military Assistance Title. If military assistance to certain less developed countries is deemed essential, it should be provided out of defense appropriations and administered by the Department of Defense, subject to such political guidance as seems necessary.

6. The Contingency Fund for the President traditionally provided by the Foreign Assistance Act has by now been reduced to a fairly minuscule sum. Supporting assistance — grant aid for Vietnam and, in lesser amounts, Thailand, Laos, and Korea — has also been substantially reduced over the years, and might conceivably be eliminated by 1975, transferred to OECD administration, or made part of whatever remains of the military aid program.

7. By way of guidelines for appropriation acts, the authorizing legislation might include as a target figure the familiar 1 percent of GNP, by specifying the willingness of the United States to raise the net flow of long-term resources from this country for development of the low income world to 1 percent of GNP by 1972. Or it might state the intention of the United States, in combination with other high-income countries, to provide a total flow of resources that would meet validated requirements and permit low income countries, with reasonable efforts on their part, to forge ahead at maximum feasible rates. It might limit the United States contribution to some proportion of the total contribution of high income countries. It could perhaps include broad guidelines for classifying receiving countries according to income status or other standards of eligibility and it could make clear that certain international standards of behavior and decency should be observed by receivers.

To discourage simplistic solutions such as distributing available funds to the less developed world on the basis of population, there should be included some recognition that low income countries differ markedly in stages of development, potentialities for growth, concern for social justice, and ability to utilize outside resources productively. Each country is to a substantial extent a case by itself.

To summarize, the Act for International Development should make it clear that the United States recognizes international development as the long-term job that it is; is eager to make development assistance primarily a multilateral enterprise; will contribute its full share to a cooperative effort; will phase out the operational work of the Agency for International Development by 1975; and will carry on activities such as the promotion of private investment and the meeting of residual technical assistance needs through quasi-governmental entities designed for the long pull.

The AID could then become the small coordinating agency that will be needed to keep the new corporations from working at cross-purposes, to speak up for the needs of the multilateral development agencies when their coffers require replenishment from appropriated funds, and to see that, insofar as possible, multilateral and bilateral activities are mutually reinforcing. I would personally favor abolishing the National Advisory Council on International Monetary and Financial Policies established by the Bretton Woods Agreement Act of 1945.[1] I would redistribute those of its functions that are currently relevant in such fashion that the head of the Agency for International Development inherited as a minimum the principal responsibility for advising the US Executive Director of the World Bank.

Insofar as Food-for-Freedom and the work of the Peace Corps are concerned, I see no advantage in jeopardizing programs that already have fairly solid support merely to beef up the role of the Agency for International Development or to make the Act for International Development more far-reaching and comprehensive. With respect to both Food-for-Freedom and the Peace Corps, however, there are opportunities which should not be overlooked, to move more rapidly toward multilateral programs.

The immediate problem, nonetheless, is to replace the badly-battered Foreign Assistance Act with legislation which will make plain and quasi-permanent the US commitment to facilitate development of the low income world through a variety of interrelated long-term measures. To do this

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[1] Public Law 171, 79th Congress, First Session, H.R. 3314.

without building up insuperable opposition on the part of diverse groups unhappy with specific provisions of the authorizing legislation will not be easy. Moreover, machinery without the fuel to make it run is at best a museum piece. An Act for International Development, unaccompanied by an adequate flow of resources to the less developed countries, will not advance the cause of development or the interests of the United States.

The situation with respect to trade policy, private investment, requirements for aid and capacity to supply, are discussed further in the pages that follow.

VII. Trade Policy

Eighty percent or more of the foreign exchange of less developed countries is earned through exports of goods and services. Changes in trade policy that would permit even modest increases in their export earnings are consequently very important. If, for example, exports of goods and services account for 85 percent of a country's foreign exchange receipts, while public grants and loans account for 10 percent of the inflow, and private investment for 5 percent, then a 6 percent increase in the goods and services account would produce more foreign exchange than a 50 percent increase in public grants and loans or a 150 percent increase in private funds. This is not to say that the 6 percent increase would produce more development; the problems of converting increased export earnings into economic growth are fairly formidable in a less developed country. It is conceivable that an additional $100,000 in aid, properly applied, would produce more development than an additional $1 million from traditional exports.

Higher export earnings can easily be dissipated in useless imports, in exports of capital to numbered accounts in Swiss banks, in inability to mobilize capital for investment purposes, and in general waste. It takes very little talent to absorb additional resources without achieving additional development and to run a constant or growing balance-of-payments deficit, even in the face of increased export earnings.

Given the importance and respectability of foreign trade, however, it is essential that sympathetic examination be given to:

(a) Policies that the United States could adopt, alone or in concert with other industrialized countries, to provide low income nations with opportunities to earn more from foreign trade; and

(b) Policies and programs that the less developed countries might adopt, with or without foreign aid, in order to capitalize more fully on existing and future opportunities in international trade.

Tariff barriers to international trade are slowly but steadily being reduced. Their full elimination (zero tariffs) for imports into industrialized countries has become a practical goal of economic policy. Nominal, or legal, U.S. tariff rates are, on the average, already rather low -- around 10 percent of wholesale prices on dutiable imports of manufactures after the Kennedy Round reductions become effective. The average, however, is a composite figure and many of the individual rates are well above the average. It is in some of these latter products that the less developed countries are most interested. Moreover, the nominal tariff rates usually understate substantially the true protective effect of the tariff. _/

_/ Refer to work of Bela Balassa, Harry G. Johnson and others on effective tariffs.

Tariff rates tend to rise with the amount of processing done abroad. Noncompetitive raw materials enjoy the most favorable rates, semi-finished goods come next, while products manufactured abroad are subject to the highest tariffs. The labor-intensive manufactured products in which the less developed countries would appear to have the greatest comparative advantage, at least during the initial stages of their industrialization, are the most heavily protected.

It would be infinitely preferable for all of the more developed countries to move in unison toward the complete elimination of tariff barriers in high income countires. If it is true that the present tariff structure is rigged against the less developed countries, then elimination of tariffs should be of particular benefit to them, even if no special preferences are granted to them. The less developed countries appear to believe, however, that with respect to processed goods, they need better terms than equality with countries that are already highly industrialized, in order to obtain a foothold in international markets.

The trade proposal that has evoked the most enthusiasm in the low income world is for temporary tariff preferences in all the industrialized countries for processed products from all of the non-industrialized, less developed nations. This assumes that complete elimination of tariff barriers is unlikely within the next five to ten years. Therefore, if the duty on bicycles is now, say, 10 percent, it might be reduced, for less developed countries only, to zero, either in advance of a phased reduction negotiated among industrialized countries or for a fixed number of years. In principle, the United States has accepted the proposal. Moreover, if agreement on product coverage could have been obtained at the second U.N.Conference on Trade and Development held in New Delhi in the spring of 1968, the gap between principle and practice might by now be narrower than it is.

The interval could perhaps be used advantageously to complete a careful study of zero tariffs versus tariff preferences. Is the full elimination of tariffs by the industrialized countries of the world a practical policy goal for the 1970's? Would the complications of negotiating and administering a preference scheme hasten or impede attainment of that goal? What would be the advantages and disadvantages to less developed countries of a fairly rapid general lowering of tariff barriers, particularly the relatively high tariffs on products reported to be of special interest to less developed countries, as compared with temporary preferences which might or might not be followed by re-imposition of the pre-preference rate at the end of the preference period? What would be the costs and benefits to the industrialized countries?

Of course, if tariff barriers were lowered only to be replaced by non-tariff barriers -- arbitrary quotas, costly labelling requirements, unnecessary health and sanitation regulations, and "arrangements" as questionable as the Long-Term Cotton Textiles Arrangement -- the incentives to the less developed countries to export more processed goods to the industrialized countries would be vitiated. _/

_/ Whatever temporary justification they may have had, the tendency of the cotton textile restrictions to become permanent features of the commercial landscape and ever-present models for proposals restricting imports of other products is distressing. If the United States were appropriately serious about development of the low-income countries, it would have given much higher priority to easing the transfer of American resources out of fields in which they no longer enjoy a comparative advantage and into fields in which goods made in America can be fully competitive without special protection.

"Buy American" restrictions represent a special internal tariff. They include both the Federal "Buy American" Act adopted in 1933 as an anti-depression measure and the laws and regulations of more than twenty states which impose significant additional restrictions on the purchase of foreign goods for public projects. Where foreigners are not prevented entirely from bidding on the billions of dollars worth of goods bought by public authorities, they are required to underbid Americans by substantial percentages in order to be awarded contracts.

Authorization for foreigners to compete on the same terms as domestic producers would benefit other industrialized countries more than less developed countries. Concessions to less developed countries only would be analogous to tariff preferences for them and justifiable on the same grounds. Without a careful analysis of government purchases and of the ability of less developed countries to supply the items needed -- particularly in circumstances more "normal" than when so many American troops are engaged in combat in Asia -- it is impossible to estimate the economic importance of revised "Buy American" regulations more favorable to the less developed countries.

The psychological effect of putting them on the same footing as domestic bidders would be considerable. _/

_/ Under Executive Order 10582 of December 17, 1954, covering Federal but not state and local procurement, domestic bids are considered unreasonable if they exceed the foreign bid price by 6 percent -- or 12 percent if the domestic product is made by a small business firm or in an area of substantial unemployment. Since July 1962, however, the Defense Department (by far the largest purchaser) has been using a "national interest" exception in the Executive Order and applying a differential of 50 percent, in order to protect the United States balance of payments. The "Buy American" Act applies only to procurement for use in the United States, but the Defense Department also gives the 50 percent price preference to domestic producers in its procurement for use overseas. The A.I.D. does permit a limited amount of procurement in less developed countries but has been going to great pains to show that the proportion of A.I.D.-financed goods purchased in the U.S. is closer and closer to 100 percent. [Check with Bob Baldwin and others, Most of this footnote is from William B. Kelly, Jr. "Nontariff Barriers" in Studies in Trade Liberalization, Bela Balassa (Editor), Johns Hopkins Press (Baltimore 1967), pp. 278-279.]

Better access to the American market for processed goods and manufactured products of less developed countries will benefit primarily the most advanced among the low income nations, some of which are penetrating the market admirably without special concessions. Preferences cannot be expected in the short run to reduce significantly the total aid requirements of the less developed world.

Since 80 - 90 percent of the export earnings of the less developed countries still come from primary products, measures that enable such exports to be increased would have the greatest immediate effects on foreign exchange earnings though not necessarily on the industrialization of the exporting country. With certain exceptions among the minerals and metals, however, the market for exports of primary products is not dynamic. It grows slowly and sluggishly and is subject to considerable price fluctuations. Most of the primary products exported by poor countries have to compete with commodities produced and exported by rich countries.

In the rich countries, agriculture has until recently been virtually exempt from the trade liberalization movement of the postwar years. Domestic producers of sugar beets and sugar cane, cereals, and many other primary products are sheltered from foreign competition. Elimination of agricultural protection in the highly developed countries could be an enormous stimulant to the exports of the less developed countries. Full elimination during the foreseeable future is unlikely, but a prompt follow-up on the beginning made in connection with the 1963-1967 Kennedy Round of tariff negotiations would be helpful. In New Delhi the less developed countries shelved their previous insistence on the elimination of agricultural protectionism and asked instead for a share of the increase, if any, in domestic demand for primary commodities in industrialized countries. [Is the U.S. moving toward income-support rather than price-support programs and, if so, is this of real importance to the LDC's?]

Pending genuine diversification of production and exports by the less developed countries — i.e., pending development — one of the remedies they have sought most persistently is a series of international commodity agreements to stabilize and step up earnings from those primary products that they do export in quantity — coffee, cocoa, tea, bananas, rubber, tin, copper, lead and zinc, among others. The list of commodity agreements in operation is very short; sensible arrangements are inordinately hard to work out and seldom very successful after having been put into effect. The International Coffee Agreement, with its proposed fund for diversification, does represent something of a breakthrough, however. A cocoa agreement is in the offing. The previously-mentioned International Cotton Textiles Arrangement, though disadvantageous to low income countries that export textiles and to consumers in the countries that import them, does at least illustrate the fact that many inherent technical difficulties in working out agreements vanish when powerful countries are determined to surmount them.

During the 1950's and early 1960's, the less developed countries were, on the whole, more interested in import substitution than in export promotion. Import substitution meant producing at home, behind a hastily-erected tariff wall and almost regardless of cost, goods that previously were purchased abroad. By the mid-1960's, however, import substitution had run its course in a number of countries and many of the more obvious opportunities had been seized. In a number of cases, the new monopolies were making a questionable contribution to development.

The literature on economic development contains little advice on what constitutes a rational tariff structure and domestic anti-trust policy for a country desiring to increase the number of its citizens employed in industry without undue sacrifice of the principle of comparative advantage. Technical assistance presumably could be helpful in devising suitable tariff schedules and represents one more way in which trade and aid could be better integrated.

Not only had import substitution run its course by the mid-1960's, but analysis of successful development programs had revealed that success was rare without sizable absolute increases in export earnings The expansion of exports had become more important than the contraction of imports, and various proposals were being made to stabilize and increase the export earnings of less developed countries.

> The shift of focus from imports to exports as the important trade factor in economic development has occasioned a parallel policy shift from measures applied by an individual country to international action. There is a new general awareness that the problems of expanding exports of developing countries, except for temporary and unusual circumstances, can be tackled only as a cooperative venture...._/

_/ Margaret G. de Vries, "Trade and Exchange Policies for Economic Development," Finance and Development, Vol. IV, Number 2, June 1967, p. 116.

Although concerted action to lower tariff and nontariff barriers to exports from less developed countries would be preferable, unilateral reductions on the part of the United States should not be ruled out. Unilateral action would help the United States politically in the less developed world. At home, American consumers would benefit from lower-priced supplies, to the extent that the less developed countries succeeded in taking advantage of the enlarged opportunities for sales abroad.

The export opportunities thus provided could not translate themselves into export earnings unless the underdeveloped countries were in position to take advantage of them. This requires realistic exchange rates that do not artificially over-value exports. It also requires control of the kind of domestic inflation that provides a ready market for the national output and reduces drastically the residue available for export. In addition, it usually requires a positive program to promote exports. The problem is to make production for a world market profitable and attractive without extending the array of subsidies that, if present trends continue, will make it cheaper for the whole world to import than to produce at home. Technical assistance and other forms of foreign aid could be more helpful than they have been in generalizing the postwar experience of Japan, Italy, Hong Kong, Taiwan, and Korea.

Safeguards against flooding the American market could be erected and American producers whose future was threatened could be helped by better adjustment assistance programs or other means.

What I have tried to suggest in this section is that, on the one hand, more rational trade policies on the part of the industrialized countries can facilitate in thoroughly respectable way the economic development of the less developed countries and, on the other hand, reduce to some extent their need for foreign aid. I am not under the illusion that the American Congress or the American public is at the moment any more inclined to meet the needs of the less developed countries through trade concessions than through aid. In both fields, strenuous efforts are being made to repudiate or retreat from the policies of the first two postwar decades. _/

_/ For a vivid recent example of such an effort, see U.S. Government Printing Office, Economic Aid for Development of Foreign Fishing Industries in Competition with Domestic Industries, Hearing before the Subcommittee on Foreign Aid Expenditures of the Committee on Government Operations, U.S. Senate, 90th Congress, Second Session (Washington, D.C. 1968). The Agency for International Development had encouraged Korea, a major recipient of U.S. aid to invest in fisheries in the plausible belief that expansion of Korea's high-seas fisheries would help that low-income country forge ahead. As Senator Gruening put it in a letter to Secretary Rusk:

"Data obtained from the Agency for International Development disclose that the Government of Korea has developed a second Five Year Plan which envisages a substantially increased investment for fisheries...

I need hardly point out the adverse effect this tremendous growth in Korea's deep-sea fishing capability will have on our country's fishing industry when Korea sends its fishing fleets to the salmon and other fishery grounds of the North Pacific. I am particularly disturbed by evidence that the Agency for International Development is supporting Korea's plans for expanding its deep-sea fishing. It appears that AID has approved or otherwise endorsed the second Five Year Plan of the Korean Government and has specifically endorsed Korea's plans to expand its high seas fishing...

I also noted that AID has given the Koreans a considerable amount of Assistance in past years for the development of that country's fishing industry. Some $5 million has been given to Korea in the last twelve years for a variety of purposes connected with the development of its fishing industry. This included $3.4 million for construction of fishing boats; $300,000 for research; and over $1 million for plants, markets, and processing facilities. Current economic assistance to Korea for its fishing industry amounts to over $200,000 for 1966-68 and includes a team of United States technicians to "provide technical advice on processing and management to various agencies and organizations in the fishing industry." It is also planned to assist the Korean fishing industry by a program of training Koreans, at U.S. expense, in various aspects of fisheries management...

I suggest you reappraise AID's present policy which supports expansion of the Korean deep-sea fishing industry and consider terminating any assistance to that industry unless firm assurances are received that such expansion will not be in competition with the United States." (p. 3).

The reply written on behalf of the Secretary of State said that since the Department had become aware that the Republic of Korea might be entering the North Pacific salmon and halibut fisheries, it had been "very active in pointing out to the Korean authorities the severe difficulties that would arise from such action on their part." (p. 4) It had invited the general who headed Korea's fisheries to the United States for face-to-face talks and sought to steer Korea away from the salmon and halibut stocks of the North Pacific toward tuna and mackerel. One difficulty was that the Koreans were finding it possible to secure capital in Europe and Japan. "The Korean fishing industry, therefore, will expand with or without our help. We believe that we will have greater influence on the direction of Korean fishing policy by assisting it than by withdrawing and leaving assistance to other nations (whose influence might lead the Koreans in other directions than we would wish)." (p. 4).

Two letters from Howard W. Pollock, the Congressman from Alaska, reporting on his negotiations with key Koreans indicate that the story might have a happy ending: Korea would provide economic aid to Alaska!

"My primary concern in these negotiations has been twofold: (1) to divert the Korean fishing fleets from fishing for salmon, king crabs, halibut, shrimp, and other products of the sea which are now being harvested by Alaska fishermen, and (2) to create new industries and new jobs in Alaska by encouraging the Koreans to invest in new business ventures in our State...

As you will note, the Chairman has agreed not to fish in Alaskan waters for salmon, king crab, halibut, shrimp and scallops (which are now being newly harvested by Alaska fishermen), but instead to purchase these seafood products from Alaska fishermen at prevailing market prices. This is a major victory. In addition, Chairman Choung evidenced an interest in building a fish protein concentrate plant in Alaska, and to use Alaska bottom fishermen to supply the fish resources. The Koreans also showed interest in a number of other possible new businesses in Alaska, utilizing Alaskan labor and Korean financing. The prospects are bright indeed, and I urge that we render every possible assistance to this international friend." (p.9.)

The "assistance" was supposed to include port privileges in Kodiak for the Korean fishing fleet. Senator Gruening and the fishermen of Kodiak, however, agreed "that it would not be in the interests of the Alaska fishing industry to invite the South Koreans to establish a base for fishing operations in Alaska in competition with the fishing industry of our own State." (p. 10) The agreement negotiated by the Congressman was, therefore, jeopardized. (Check with Boats or someone on final outcome.)

<u>Trade-Related Measures: Compensatory and Supplementary Financing Schemes</u>

All countries suffer fluctuations in export earnings, but shortfalls in anticipated earnings due to circumstances beyond the control of the exporting nations are more serious for the less developed countries. Development programs on which people are counting heavily may be interrupted or slowed down.

Foreign aid can compensate for the shortfall, but so can drawing rights from an international fund or an insurance scheme. There is a trend toward these latter, more business-like techniques.

Because of historical accident rather than logic, the problem of dealing in business-like fashion with shortfalls in export earnings has tended to become two problems, one short-term and the other long-term.

The International Monetary Fund, established in 1946, has as one of its principal functions, the provision of short-term credit (3-5 years) to countries in temporary balance-of-payments difficulties. It created a special "facility" in 1963 to provide a more automatic access to credit for less developed countries suffering foreign exchange deficits due to reductions in export proceeds below the level of the medium-term trend and beyond the control of the exporting country. Originally, such compensatory drawings could not normally exceed 25 percent of the country's quota in the IMF and were repayable within three to five years. In 1966, "the amount of drawings that could be outstanding under this policy was increased from 25 to 50 percent of a member's quota although the second 25 percent would be available only if the IMF was satisfied that the member was cooperating in an effort to find an appropriate solution for its payments difficulties." _/

_/ Edward M. Bernstein, "The International Monetary Fund," The Global Partnership, edited by Richard N. Gardner and Max F. Millikan (Frederick A. Praeger, New York, Washington, London, 1968), p. 141.

As of July 31, 1967, New Zealand and seven less developed member countries had qualified for compensatory drawings. More than a third of the nearly $180 million drawn was represented by the drawing of Brazil in 1963.

The IMF scheme assumes that the adverse export trend will be relatively brief and can consequently be financed on a short-term repayable basis. There is also a problem of long-term declines in the projected export earnings of less developed countries. Pursuant to a request made by the United Nations Conference on Trade and Development in 1964, the staff of the World Bank devised a scheme that would help to relieve commodity agreements of the responsibility they have been least successful in meeting, namely, the maintenance of the total export earnings of producing nations. The scheme would provide less developed countries with an accessible source of foreign exchange to enable them to maintain internationally approved development programs in the face of unforeseen adverse export movements that are beyond their control and beyond their ability to offset from reserves or to finance on three to five year terms. Isaiah Frank has suggested that the Bank's proposal might be adapted to cover not only unanticipated export shortfalls but also unanticipated increases in import requirements due to drought or other adverse conditions beyond a country's control. _/ The World Bank's plan

_/ Isaiah Frank, "Foreign Trade Policies and Latin American Development," Statement of March 1, 1968, to Subcommittee on American Republic Affairs, Senate Foreign Relations Committee, p. 14. (mimeograph version).

is predicated on the assumption that it would be supplementary to, and not a substitute for, existing forms of aid.

France has opposed the plan on the ground that "market organization" is a superior method of averting shortfalls in the export proceeds of developing countries. The United States, for quite different reasons, has been less than lukewarm to the proposal. If a separate supplementary financing program seems at the moment a questionable proliferation of international machinery, would it not be possible to experiment with the idea through "existing forms of aid"? In other words, make program lending flexible enough in some carefully-selected cases to encompass the kind of foreign exchange difficulties the supplementary financing scheme is intended to overcome.

The compensatory financing facility of the IMF and the supplementary financial measures designed by the World Bank staff (but not yet adopted by governments) strengthen the case for a line of action that seems inevitable anyhow: an international review of country development programs and some consensus, not only about each country's needs, but about the policies it will follow to attain its goals. However highly nation states may value their sovereignty, if they desire outside assistance on a significant scale, they are going to have to satisfy potential sources of assistance that they can make good use of the available resources. The process of presenting and defending a development program need not be demeaning or humiliating if aid-receivers as well as aid-providers have had a voice in developing the ground rules for the review.

VIII. Private Investment

As in various other aspects of international finance, discussion of the role of private investment has covered familiar ground and managed to come almost full circle in the course of 20 years. Public investment in reconstruction and development became necessary because private investment was inadequate for the massive task at hand; now private investment is being lured with renewed vigor because public investment is inadequate. Both have been needed throughout the postwar era and knowledgeable people have always urged that both channels be used. As additional devices to stimulate private investment have gained acceptance, the line between private and public finance has grown dimmer. The problem at present, as I see it, is:

(1) How much more can governments of aid-giving countries do to stimulate, encourage, manage, or underwrite productive private investment in less developed countries without favoring special interests at home, loading the receiving countries with insupportable debt burdens and remittance obligations, creating fresh political tensions, or otherwise betraying the public interest they are expected to protect?

(2) Because full responsibility for promoting private foreign investment in less developed countries cannot soon be transferred to multilateral auspices, should U.S. responsibility be lodged in a public corporation — thereby permitting a more flexible, long-range approach to the problem than can ever be taken by a subordinate unit (the Office of Private Resources) of a government agency (the Agency for International Development) which is unlikely to survive unless it is shorn of most of its operating functions?

For purposes of discussion, it is useful to separate the task of enlarging the flow of funds from the private sector in rich countries to poor countries from the closely related problem of freeing up the private sector in poor countries, encouraging entrepreneurship in the low-income world and relieving overburdened governments of responsibilities they need not carry. This section is addressed primarily to the problem of facilitating the export of capital from rich countries to needy poor countries.

Despite the hopes expressed during World War II, there is as yet no procedure whereby a bond issue can be floated in the New York capital market by a less developed country, with the backing of a World Bank or U.S. Government guarantee. In his closing address to the Bretton Woods Conference in 1944, Henry Morgenthau, Jr., Secretary of the U.S. Treasury and President of the Conference, said:

> ...The chief purpose of the International Bank for Reconstruction and Development is to guarantee private loans made through the usual investment channels. It would make loans only when these could not be floated through the normal investment channels at reasonable rates. The effect would be to provide capital for those who need it at lower interest rates than in the past, and to drive only the usurious money lenders from the temple of international finance. _/

_/ Closing address to the United Nations Monetary and Financial Conference by Henry Morgenthau, Jr., July 22, 1944, U.S. Department of State Bulletin, Vol. 2 (July 30, 1944), p. 113.

Private investors, still smarting from the experiences of the 1930's with defaulted foreign loans, and distrustful of governmental and intergovernmental institutions, were not noticeably interested during the 1940's in lending money to foreign governments, even with the safeguard of a guarantee by the Bank. The World Bank, on the advice of its management and without objection from its membership, therefore decided instead to sell its own bonds and to devote the proceeds to project loans.

The purchasers of World Bank bonds are private investors, and the Bank has gradually become a kind of publicly-managed investment fund whereby money raised in the private capital markets of the United States, Canada, and Western Europe is invested for productive purposes in other regions. The World Bank today engages in joint operations with investment banking houses, floats bond issues in the capital markets of industrialized countries to obtain resources for its public loans, and sells to institutional investors the early maturity portions of previously-made loans. The Inter-American Development Bank engages in a similar range of activities.

The guarantying of private investment -- direct investment by American firms rather than portfolio investment -- was pioneered by the United States Government. The rationale is simple. Private foreign investment can play a big role in the development process. Investment in less developed countries, however, carries greater risks of loss due to currency depreciation, nationalization, civil war, etc., than investment in developed countries. For a relatively modest premium, the risk can be made bearable. The program can be financed by the premiums paid; it need not depend on appropriated funds.

The United States has accordingly developed both Specific Risk Insurance and Extended Risk Guaranties. Under the former program, the AID may insure investors in developing countries against the risks of expropriation, inconvertibility, and damage due to war, revolution and insurrection. The Specific Risk Insurance Program was in operation in 81 countries as of December 31, 1967. Between the end of 1961 and the end of 1967, outstanding coverage rose from \$479 million to \$4.9 billion. "Fees received in 1966 amounted to \$8.3 million while three claims totalling \$217,000 were paid, two for inconvertibility, one for revolution damage." _/ [Check figures and update.]

_/ Agency for International Development, Proposed Foreign Aid Program, FY 1968, Summary Presentation to the Congress, pp. 68-69. [Does program still apply only to U.S. individuals or business enterprises and their wholly-owned foreign subsidiaries?]

Under the program of Extended Risk Guaranties, the AID may protect 75 percent of investments against loss for any reason not due to investor fraud or misconduct. Risks for which commercial insurance is available are excluded, however. Guaranties are available for loans as well as equity investments and the "AID has used its Extended Risk Guaranty Program to attract long-term credit financing from American institutional lenders such as pension funds and insurance companies." _/

_/ Ibid., p. 69. [Check further; it doesn't seem to have "attracted" very sizable amounts yet. As of 12/31/66, AID "had thus guaranteed part of the financing of eight projects with coverage totalling $55 million," in which "total investment will be $310 million." (p. 69)]

Larger guaranties are available for the construction of new housing projects that would not otherwise have been undertaken. The AID "may not fully guarantee an investment, and, in fact is now guaranteeing a maximum of 90 percent of an investment. The investor, however, may obtain from other sources security for that part of the investment not guaranteed by AID." _/ In Latin America,

_/ <u>Summary Presentation, FY 1964</u>, p. 75 [Is this up to date?]

as of December 31, 1966, housing guaranties totalling $200 million had been authorized. _/

_/ For balance-of-payments reasons and because of the legislative history of the proposal -- it was intended to encourage housing efforts in Latin America -- its use for housing construction outside the Western Hemisphere has been severely restricted.

There is also an equity insurance program providing "all risk" coverage of up to half of any loss of equity investment realized through bankruptcy or sale. This program is new and does not yet cover any significant amount of investment.

In 1964 the AID requested increased authority for investment guaranties -- $1 billion for each of the next two years, as well as authority to expand war damage to include "civil strife". The latter request was denied by the Congress. The overall ceiling, however, for the face amount of guaranties outstanding at any time under the program has by now been raised to $8.5 billion.

The AID stimulates private investment in less developed areas also in various other ways. It persistently seeks to improve the overall climate for such investment. It encourages completion of the necessary economic and social infrastructure in transportation, communication, banking and credit institutions, employment services, and other essential facilities. It provides program loans which, as previously mentioned, ease access to materials and supplies for the indigenous private sector in less developed lands. It assists local development banks and rural credit banks which, in turn, make loans to the private sector. From local currency holdings, it has loaned the equivalent of more than $250 million during the 1960's to private enterprises in less developed countries, almost all of them US-owned or affiliated enterprises. It finances, in whole or in part, feasibility studies, and acts as "honest broker" in bringing opportunities to the attention of potential investors. The Investment Insurance and Guaranty Program, however, is now its most important and fastest-growing technique for promoting American private investment.

The whole concern with private enterprise was given considerable impetus by the first class report issued in 1965 by the Advisory Committee on Private Enterprise in Foreign Aid authorized by an amendment to the Foreign Assistance Act of 1963. Better known as the Watson Committee after its chairman, Arthur K. Watson, its 33 recommendations provided a concrete program of action for administrative and legislative consideration. _/

_/ See Foreign Aid Through Private Initiative, Report of the Advisory Committee on Private Enterprise in Foreign Aid, Agency for International Development, (Washington, D. C.; July 1965).

At the time of its report, the statutory ceiling on outstanding guaranties against inconvertibility, expropriation and military hazards was $2.5 billion; a substantially higher ceiling was recommended. (The present ceiling, as noted a moment ago, is $8.5 billion.) The Watson Committee also recommended that the law be relaxed to permit coverage of foreign corporations jointly owned by more than one U.S. company, and this has been done. On the administrative side, the Committee urged that the AID be permitted to use income from the guaranty program not only for the management and custody of assets but also for certain other operational costs associated with the guaranty program. This, too, has been done.

> The early caution exercised by AID in administering extended risk guaranty authority is understandable, [said the Committee] especially in cases where the business commitment involves a direct investment (that is, an investment coupled with management and control). Businessmen managing the enterprises in which they invest cannot expect to be protected from all the hazards of their operation. Nevertheless, the Committee believes that a really significant potential may be in the extended risk idea. Through it we can see a way to make investment in less developed economies attractive, or in many cases even legally possible, for many United States institutional investors. The Committee recognizes that such insurance may one day result in large claims against the U.S. Treasury. It accepts this as preferable to alternative ways in which development can be stimulated. _/

_/ Ibid., p. 17.

Its recommendations for expansion of the extended risk guaranty program have in large degree also been accepted. The proposal that portfolio investors be offered extended risk guaranties which would make selected securities of private enterprises in less developed countries competitive with the alternative opportunities open to such investors has foundered upon the desire of the institutional investors for 100 percent coverage.

Guaranty authority transfers to the U.S. Government risks that would otherwise be borne by private investors. While most citizens are by now reconciled to a government role in underwriting income losses from unemployment, sickness, fluctuating agricultural prices, and other adverse developments, they are still understandably squeamish about underwriting risks directly associated with the search for private profit in foreign lands. The question, how far to carry the investment guaranty program, deserves careful consideration. The device appears capable of mobilizing much more capital than would otherwise be forthcoming. It reduces the pressure to appropriate public funds for the same purpose and is in accord with a time-honored principle of American politics that appropriations should be avoided if the same end-result can be achieved by other means.

The device has other advantages over borrowings by less developed countries, among them the managerial skills, technology, organizational links and special knowledge associated with private foreign investment. In addition to the direct stimulus to the economy of the capital-importing nation, such investment helps integrate that country into the world economy -- the capital markets, trade channels, and institutional links that transcend national boundaries. Furthermore, investment guaranty programs avoid many of the legislative restrictions and administrative regulations that would inhibit government lending for similar objectives.

One kind of guaranty not yet used by the U.S. Government, though successfully employed by the USSR and certain other countries, is the long-term contract guarantying a market for some proportion of the output of a new productive facility in a less developed country. Commercial financing of the facility itself ought to be possible if a foreign market for a reasonable proportion of its output is assured. Another, perhaps more promising, extension of the guaranty principle would be the guarantying by the U.S. Government -- or the governments of other rich countries -- of bonds issued by the governments of poor countries. This, it will be recalled, was envisaged as a function of the World Bank but was impractical in 1946. It does not seem nearly as impractical today and, in fact deserves more serious consideration than it has yet received. I would rather see the World Bank or the regional development banks assume this responsibility than the U.S. Government, but I would favor some pioneering by the United States.

Tax Concessions

Tax concessions constitute another technique for stimulating private investment in less developed areas. In the words of the Watson Committee:

> It is axiomatic that any measure which increases the prospective yield on an investment increases the investors' inclination to make the investment. As a result, there have been numerous proposals to stimulate investment in the less developed areas by reducing the tax burden on the income from such ventures. _/

_/ Foreign Aid Through Private Enterprise, p. 21.

The Committee's first recommendation in the field of tax relief arose out of the fact that, when United States enterprises operate subsidiary undertakings in the United States, they can offset losses in such subsidiaries against gains in their other operations. When the subsidiary venture is located abroad, however, American enterprises are generally prevented by U.S. tax laws from offsetting foreign losses against domestic gains. The Committee recommended that "United States tax laws and regulations be amended so that the United States taxpayer s right to offset losses in subsidiaries against taxable income from other sources would be the same for subsidiaries in less developed countries as it is for subsidiaries in the United States." _/ Although the AID has been

_/ Ibid., p. 22.

sympathetic to the proposal, there are no plans afoot for its implementation.

The Committee also endorsed proposals which would allow the United States taxpayer, in the calculation of his U.S. tax liability, to receive a credit for taxes normally payable to a foreign government, but from which he has actually been "spared" by tax exemption or holidays under the laws of the foreign government. In other words, the U.S. tax system presently includes a tax incentive not to repatriate the profits of foreign subsidiaries; tax sparing would eliminate or reduce this incentive by eliminating or reducing the U.S. tax on repatriated profits. The Executive Branch, which initially favored the principle of tax-sparing, subsequently changed its mind. Tax-sparing provisions would increase the incentives of American corporations to invest in less developed countries. By permitting credits for taxes that have not been paid, they would add to the inequities in the U.S. tax system. They might also encourage unproductive competition among less developed countries in offering exemptions and lead to unnecessary revenue losses to the United States and to the less developed countries. A fresh appraisal of the pros and cons of tax-sparing could be one of the research tasks of the public corporation herein proposed as a successor to the AID Office of Private Resources.

"Among the boldest" of the tax proposals to stimulate United States investment in less developed countries, in the eyes of the Watson Committee, was the proposal to allow American firms to reduce their total tax bill in the United States by an amount equal to 30 percent of certain investments made in a less developed country. This discriminatory device, though opposed by one member of the Committee, was considered justifiable and therefore endorsed by the others because of the "compelling need to increase the flow of private investment to the less developed countries." (p. 23) The Committee furthermore recommended that U.S. tax credits extended to the direct investments of the U.S. investors in less developed countries be extended also to the portfolio investments of United States corporate or institutional investors. (p. 32)

A still bolder scheme has recently been floated by Albert O. Hirschman and Richard M. Bird. _/ Their proposal, in brief, is that every individual

_/ Albert O. Hirschman and Richard M. Bird, "Foreign Aid -- A Critique and A Proposal," Princeton University, International Finance Section, Essays in International Finance, No. 69, July 1968.

taxpayer be permitted to credit some of the federal income tax he would otherwise have to pay, to a special bank account. The fund thus accumulated would then be available for investment in less developed countries. The fund would not belong to the Treasury and could be made to flow to the less developed countries along lines different from either bilateral or multilateral aid as presently known. Their tax credit proposal requires legislation, but not on an annual basis.

The principal agents for disbursing the funds received through the tax credit would be a group of 10 to 12 independent private organizations called "Development Funds". The taxpayer, if he so desired, could indicate a preference as to which fund should receive his tax credit. Each fund would be managed by competent professionals recruited internationally from the growing group in both rich and poor countries who have relevant experience in the problems of investment and development. The principal aim of these Funds would be to transfer available monies efficiently and quickly to less developed countries.

> "In the last resort the [United States] government would of course still be the donor to developing countries, in that its tax revenue would be reduced by the amounts that individual taxpayers were earmarking for foreign aid, but the resulting funds would not belong to the government and their allocation and uses -- and, to some extent, their amount -- would no longer be determined by it." _/

_/ Loc. cit., p. 15.

Financial Intermediaries

Financial intermediaries such as the World Bank and its affiliates, the International Development Association and the International Finance Corporation (IFC), the various national development banks, savings and loan associations, local stock exchanges and other institutions, have been established to mobilize and invest capital, with a view to enlarging the domestic output of low-income countries. Most of them, like the IFC, have been slow to get underway and are only beginning to come into their own. The question is: how much more institution-building in this area is feasible and desirable?

The Hirschman-Bird proposal would substitute 10-12 non-governmental Development Funds for the capital-assistance program of the Agency for International Development. The effect of their proposal on the Export-Import Bank is not clear.

The Export-Import Bank is firmly established and well managed, but it is not a development bank. Its basic purpose is to serve the commercial export interests of the United States. It makes some moderately long-term loans to low-income countries at rates of interest which reflect the cost to the U.S. Treasury of borrowing the funds that the Bank, in turn, lends. The Export-Import Bank normally does not seek to finance projects of the highest priority from the point of view of the low income countries, nor collect data on country development prospects, nor review country development programs. Typically it finances the purchase of fairly sophisticated mining and manufacturing equipment, commercial jet aircraft, and other additions to capital stock. It also finances the purchase of defense articles by the governments of "friendly countries." Thanks in part to the offsetting effects of a rising level of repayments, its net contribution to the flow of resources from the United States to the less developed countries has been very modest during the 1960's. Nevertheless, over the years, it has assuredly contributed to the development of the low income world, though neither as directly nor as generously as if it were a development bank.

The establishment of the Development Loan Fund in 1957 represented an attempt by the Administration to separate the function of making soft loans for development from other aid functions, insulate it somewhat from short-run political considerations, and authorize it on a multi-year basis. Congress refused to cooperate, the attempt was short-lived, and by late 1961 the DLF as an agency was out of business. Development lending again became an integral aspect of AID work, dependent on an annual appropriation from the Congress which, under the Foreign Assistance Act of 1968, will fall below $700 million as compared with more than $_______ billion dollars in FY 1962 and $_______ billion in FY 1963. In practice it has been easier to integrate program than project loans into the annual program planning cycle of the AID. The theoretical advantages of having one agency responsible for technical assistance, supporting assistance, program lending and project lending have to a considerable extent remained theoretical.

> ....It takes a long time to develop a loan proposal to the point where it satisfies technical and economic criteria. In most countries, only a handful of capital projects are ready for financing at any given time... Therefore, in many countries AID is likely to finance a capital project which looks economically and technically sound and for which funds on suitable terms are not available from other sources, even if the project has little or no relation to the goal structure of the rest of the United States assistance program in the country. As a result, six years after the Development Loan Fund has been incorporated into the rest of the United States economic assistance effort, capital project assistance remains poorly integrated with other AID activities. _/

_/ Joan M. Nelson, Aid, Influence, and Foreign Policy, (The Macmillan Company, New York, Collier-Macmillan Ltd., London, 1968), p. 64.

Unless the United States is prepared to move fairly promptly to almost total reliance on multilateral machinery for development lending, there would be advantages in creating an American Development Bank as a domestic equivalent of the Inter-American Development Bank and the World Bank Group. The great advantage of such an institution -- from the point of view of its contribution to development though not necessarily in the eyes of the Congress -- would be its greater freedom from the annual appropriation cycle and from avowed promotion of American exports. Its initial capital endowment ought to be sizable enough to carry it for at least five years and could consist, as has become customary, of a paid-in government subscription and a guaranty provision that would enable it to raise additional funds in the private capital market. John Pincus has also suggested that, for such a bank:

> A modest interest subsidy fund appropriated by the Congress could cover the differential between the Government guaranteed market borrowing rates and the lower rates that some underdeveloped countries could afford to pay . . .
> ... As nations receiving these loans progressively develop their economies, the activities of such a proposed relending agency might be limited simply to guaranteeing bond issues of these countries without subsidy provision, and in the longer run, without intervention by the U.S. authorities. _/

_/ Statement of John Pincus, RAND Corporation, in The Future of U.S. Foreign Trade Policy. Hearings before the Subcommittee on Foreign Economic Policy of the Joint Economic Committee, Congress of the United States, 90th Congress, 1st Session, July 1967, Vol. I, p. 250.

The recommendation made here is that, rather than create an American Development Bank, the United States should move promptly in the direction of almost total reliance on the World Bank, the Inter-American Development Bank, and the Asian, African, and Central American Development Banks as intermediaries for making development loans. The European Development Fund, capitalized by the members of the European Economic Community, is about the only multilateral agency equipped to make grants as well as loans; consideration might be given to transforming it into a similarly-equipped OECD Development Fund in which the United States could participate.

There is a range of functions connected with stimulating and mobilizing American capital for investment in less developed countries which cannot readily be assumed by intergovernmental development banks and funds. Part, but only part, of the gap is filled by the International Finance Corporation. Aware presumably of the existence of the International Finance Corporation, the Watson Committee nevertheless publicized a proposal for a Peace-by-Investment Corporation which would "channel equity funds into less developed countries, using United States Government credit as its source of financing in the initial stages, and relying partly upon funds from private investors in late stages." (pp. 30-31.) Senator Jacob Javits picked up the idea and presented it to the Congress. _/

_/ For a brief summary of the functions, financing and management of the proposed corporation, see <u>The Involvement of U.S. Private Enterprise in Developing Countries</u>, Report of the Subcommittee on Foreign Economic Policy of the Committee on Foreign Affairs, House of Representatives, 90th Congress, 2nd Session, House Report No. 1271, April 2, 1968, p. 31.

More recently, the Subcommittee on Foreign Economic Policy of the House Committee on Foreign Affairs has urged that studies be initiated

> "on the feasibility of establishing a quasi-public corporation dedicated solely to private industrial development work in less-developed countries. Although this corporation would be supported in the beginning by public funds such assistance should be tapered off and, if possible, means should be adopted for making the corporation self-supporting, in whole or in part, including the possibility of funding from private sources... Its activities, though, should be kept consistent with U.S. foreign policy commitments and with development programs." _/

_/ <u>Ibid.</u>, pp. 3-4.

Just as the International Finance Corporation operates as "an affiliate" of the World Bank, so the subcommittee has suggested that the proposed national corporation could be "an affiliate" of an agency of the U.S. Government. Why not assign the function to the often-praised Office of Private Resources in the Agency for International Development?

> "A separate entity would offer greater organizational flexibility, direct involvement of private enterprise, and singleness of purpose,...
>
> As it is, the Office of Private Resources...operates as part of the AID. In turn, AID operates in conjunction with the Department of State.

The Office of Private Resources is only one of the many subfunctions competing for the time and money of the parent agency. Since this office is an integral part of AID, it must justify its existence every year before Congress, and this past year saw the lowest foreign aid appropriation in history. Additionally, from a purely internal operation view, it is governed by agency allocations and by personnel and recruitment policies." _/

_/ Ibid., p. 30.

One of the problems of creating a quasi-public corporation authorized to mobilize private capital for investment in the less developed countries is how to avoid creating exaggerated expectations of what it can accomplish. A corporation can operate with a flexibility, a self-confidence, a lease on life denied to the Agency for International Development. It can publicize new ways for individual Americans to contribute or earmark funds for use by developing countries. It can help less developed countries float bond issues in the American market. It can offer investment guaranties and tax incentives. It can in various ways identify and screen investment opportunities. It cannot "close the gap" in requirements for foreign capital nor vastly increase the opportunities for profitable foreign investment by American companies.

The less developed countries prefer to receive foreign capital in the form of long-term loans and any agency that forgets this does so at its peril. It is true that equity investments have some advantages -- dividends need not be declared unless and until there are profits out of which to pay them. Most low-income countries, however,

> "are convinced that the cost of capital is greater when obtained in the form of foreign equity investments than when secured through long-term loans. Earnings on equity investments continue indefinitely and increase as the investment increases in value. Interest payments are generally less than equity earnings and, after a fixed period, a foreign loan will be repaid with no further obligation." _/

_/ Stefan Robock, "It's Good for Growth, But Who's Swallowing," Columbia Journal of World Business, Vol. II, No. 6, Nov-Dec 1967, p. 18.

There are, to be sure, ways of limiting equity earnings, phasing out foreign management and personnel, and selling foreign holdings to domestic buyers. They tend, however, to operate as disincentives to the investment that one is trying to promote.

Resumé on Private Investment

The private investment question in the development context involves more, of course, than the question how much capital can be raised in the United States and other rich countries for investment in poor countries. Much has been written about the ambivalence and the hostility at the receiving end, the political and economic problems associated with high rates of foreign investment, and the techniques for overcoming specific difficulties. Representatives of capital-exporting and capital-importing nations have spent endless hours in efforts to develop acceptable multilateral codes for the treatment of private foreign investment. There appears, however, to have been very little high-quality empirical study of the role private foreign investment is in fact playing in countries that are reasonably hospitable to it. Is it inevitably heavily concentrated in a few export industries with little spillover to other sectors of the economy? What kinds of backward and forward linkages does private foreign investment tend to have at the receiving end? What standards of performance is it setting? What political problems does it create? Here is a field for further study.

Analysts of the world scene have noted a decline in ideology which is producing a generation of leaders more pragmatic and less dogmatic about how to develop an economy than were their predecessors. This is resulting in larger roles for the private sector of the domestic economy, new ways of associating domestic capital and management, private and public, with foreign capital and management, and less hostility to private foreign investment.

Despite some improvement in the climate, thunder and lightning continue to strike. International investors in the 1970's will have to continue to put up with restrictions that would have been deemed intolerable before World War II.

The less developed countries tend to want funds that they can draw on for the fulfillment of their development ambitions as they see them. Private investors want opportunities for profit attractive enough to justify investing abroad rather than at home. Many of them take a very long view indeed; others are looking for quick returns. Given a modest amount of good will, numerous compromise arrangements that would raise the flow of private capital can be envisaged.

The fact that the World Bank and comparable regional institutions obtain funds in the developed countries from private bond-purchasers and institutional investors rather than from government appropriations creates relatively few problems at the receiving end. The "private capital" can be invested in the public sector (just as public, appropriated funds can be used to strengthen the private sector). Interest payments on borrowed capital have to be met, of course, and amortization of principal is required; many less developed countries face major debt-servicing problems (which would be less formidable, however, at higher rates of economic growth).

Were the private capital raised through foreign bond issues by the less developed countries instead of by an international agency, the situation would be similar. In the process, moreover, the issuing government would become more familiar with and better integrated into the principal capital markets of the world and it might -- though this is uncertain -- have greater autonomy in spending the proceeds of the loan.

Investment guaranty schemes also create relatively few problems at the receiving end; they are unilaterally undertaken by the capital-exporting nation and involve a public and private partnership in sharing certain risks inherent in investment in the less developed lands without significantly changing the obligations of the capital-importing nation. Direct investment, which has largely superseded portfolio investment, does cause problems not inherent in portfolio investment.

The flow of private capital, moreover, is almost inevitably erratic. During the period 1956-1966, net new United States direct, private, long-term investment in less developed countries reached a high of $1.29 billion in 1957 and a low of $192 million two years later, in 1959. The average per year during 1956-1960 was $577 million but dropped to $494 million during 1961-1965. Exclusive of investments in petroleum, the averages were $222 million for 1956-1960 and $281 million during 1961-1965; i.e., petroleum accounted for more than half the total, but the trend in investment in other than the oil industry was modestly upward. The upward trend continued in 1966. Reinvestments of earnings result in larger totals for changes in gross direct investment. The average annual increase in gross U.S. direct investment was approximately $750 million during 1956-1960, slightly over $800 million during 1961-1965, and over $950 million in 1966.

Until quite recently, usable figures on the net outflows of U.S. funds for portfolio investment in less developed countries have not been available. The average during the 1960's has been below $200 million per year. [Check the private capital figures in <u>Statistical Abstract of the United States</u> or <u>Survey of Current Business</u>; I may have been careless in using the figures Joel Bernstein gave me.] As of the end of 1966, direct investments of U.S. business in less developed countries totalled $____billion (as compared with $____billion in Canada and Europe). Of the total, $____billion was in manufacturing, $____billion in petroleum and mining, and $____billion in other branches of activity. The conclusion is inescapable that the level of U.S. private investment in less developed countries is increasing quite slowly. According to Robock's analysis, moreover, the income received by the United States on foreign investments in the less developed countries totalled $23 billion during the years 1950-1965, against an outflow over the same period of only $11 billion. _/ The $11 billion represents new investment; i.e.,

_/ Stefan Robock, loc. cit., p. 14. "The inflow and outflow of foreign exchange which results from the original investment and its subsequent service in the form of dividends, interest and amortization are often taken as primary measures of its value [to the less developed country]. While the cost of this service tends to be higher than for corresponding amounts of public aid, the comparison is not generally valid, if only because for most projects there will not be a ready choice between one or the other form of financing. Moreover, the balance of payments effect of private investment includes the additional foreign exchange earnings or savings resulting from the production of the enterprise -- a result many public-aid-financed infrastructure projects reach only over the long term. It is thus difficult to draw meaningful conclusions from a straight comparison of over-all foreign investment inflows and service-payment outflows." [United Nations Department of Economic and Social Affairs, Foreign Investment in Developing Countries (New York, 1968), p. 17]

net capital outflows from the United States plus undistributed earnings of subsidiaries, whereas the income of $23 billion represents the sum of dividends, interest and branch profits after foreign taxes but before any applicable U.S. taxes.

In summary, a good case can be made for a stepped-up, imaginative approach to the problem of increasing the outflow of U.S. private long-term capital to the less developed countries on terms politically acceptable to those countries. A quasi-public corporation could devise new approaches and experiment with incentives, but it would be naive to think that private investment will provide more than a very partial answer to the foreign exchange needs of the low-income countries.

* * *

[Not necessarily in the private investment section, though it could be there, should I say more about the possibilities of facilitating the outflow of capital through an interest equalization or subsidy fund? If the World Bank has to pay 6-1/2% or so to raise money in private capital markets, and if the IDA were adequately capitalized, the cost of foreign capital to borrowers could be reduced by a judicious mixing of Bank and IDA funds. If the IDA is inadequately capitalized, however, it could push out more capital by becoming an interest-subsidy fund than by being another loan window.

How quickly would the capital markets of OECD countries be saturated by bond issues of World Bank, regional development banks, and LDC bond issues backed (or not backed) by guaranties?]

IX. Balance of Payments Restrictions

Is there something incongruous about discussing measures to stimulate capital assistance to less developed countries in the midst of a balance-of-payments crisis? Not if one believes that:

(a) through aid-tying and related devices, the United States can escape most of the adverse balance-of-payments effects of its aid efforts;

(b) that the international monetary system is desperately in need of reform anyhow and the appropriate reforms will to some extent relax balance-of-payments constraints on the movement of goods, services and capital; and/or

(c) that new, non-national sources of revenue should be tapped.

Nevertheless, persistent large deficits in the United States balance-of-payments have created a crisis atmosphere which has operated during the 1960's as a progressively greater constraint on this country's development assistance efforts. The deficit has affected both the willingness of the Congress to appropriate funds and the ways in which the Congress and the Executive Branch have permitted appropriated funds and private investment incentives to be used. It has also hampered trade liberalization and strengthened protectionist forces. The Administration has consistently tried to distinguish between its rich trading partners and its poor ones, with a view to minimizing the adverse effects of restrictive measures on those countries most in need of foreign capital, low-cost sources of supply, and export markets. The effort has inevitably been less than successful. In an interdependent world, it is almost impossible to introduce restrictions affecting Western Europe while remaining liberal with respect to low income countries.

The practice of tying aid purchases to U.S. sources of supply, which may appear to the aid-receiving country as an effort to promote American exports irrespective of their relative cost rather than as a device to save the aid program from deeper slashes, has been almost perfected by now. Tying helps to neutralize foreign aid as a factor in our international accounts. If all aid is tied, the Congress and the public can be reasonably sure that foreign aid programs will not reduce United States reserves, or not reduce them by more than the cost of the imports contained in the exported commodities. Moreover, the domestic interests that benefit from the policy will be more likely to support the aid programs than if aid is untied.

For the fiscal year 1961, the net dollar outflow from AID programs is estimated to have been about $850 million. By 1963, it had been reduced below $200 million. By 1967, the leak was a trickle; commodity procurement charged against AID dollar appropriations was confined to U.S. sources, though it _might_ include selected less developed countries. "To qualify for inclusion as authorized sources for AID commodity procurement, the less developed countries must agree to accept payment through U.S. Source Letters of Credit under which the dollars are tied to financing imports from the U.S." As of June 30, 1967 only eight countries -- seven of them in Asia and one in Africa -- qualified as authorized sources: India, Morocco, Pakistan, Philippines, Republic of China, Republic of Korea, Singapore and Tunisia. Excluded were Thailand, Nigeria, Senegal, all of Latin America, and various other aid-receiving areas. _/

_/ Agency for International Development, _Operations Report_, Data as of June 30, 1967, pp. IV.

In mid-1968, the AID reported that its contribution to the dollar drain "had been cut to nothing." _/ Unfortunately, so had its immediate contribution to the

_/ Agency for International Development, _Facts About Aid_, undated attachment to Information Bulletin of August 5, 1968.

expansion of international trade on the basis of comparative advantage.

If all aid-giving nations adhere to the practice of tying their bilateral aid, each will be deprived of the opportunity to earn funds from the expenditures of others, to the detriment of its most efficient producers. The tying process inevitably procures less aid for the same amount of money, or raises the total cost of bilateral aid programs over what they would cost if purchases were made on the basis of international competitive bidding. To estimate the costs of tied aid to the receiver, it would be desirable to make an analysis in a country which obtains all of its assistance from a single source. The most serious study I have seen, however, deals with Pakistan in 1965, when it was receiving aid not only from the United States but also from the World Bank, the International Development Association and other sources. It therefore had greater flexibility and greater bargaining power than a country dependent entirely on French or American aid. The author estimated conservatively that untying the $500 million Pakistan expected to receive in foreign aid that year would have saved Pakistan approximately $60 million.

> "Tied credits come in all sorts of packages -- they are tied to the country of origin, tied to individual projects, tied to specific end-uses. In most cases, all the three forms of tying are applicable. The most important form, however, is country-tying which makes it difficult for the recipient countries to take advantage of the competitive conditions in the international market. All forms of tying result, in one way or another, in higher prices. The adverse implications of tied credits extend, however, beyond the question of prices. Tied credits also limit the ability of the recipient country to choose an appropriate technology or international consultants of its own choice." _/

_/ Dr. Mahbub ul Haq, "Tied Credits -- A Quantitative Analysis," in <u>Capital Movements: Proceedings of a Conference held by the International Economic Association</u> (John H. Adler, Editor, New York: St. Martin's Press, Macmillan, 1967), pp. 326-327. [The $60 million figure immediately preceding the quotation is from p. 331.]

If the higher-priced items are financed by grants, the receiving country would appear to have no complaint. Yet it is the dollar cost of the gift that shows up in aid statistics, and people in both donor and receiving nations tend to expect a larger developmental dividend from $100 million in grant aid than from $85 million. If in fact $100 million from the United States provides no more in goods and services than $85 million from Italy or Japan, is the United States in such circumstances providing any more aid?

As the United States bilateral program has moved away from grant aid and increasingly into loan aid, questions of cost have become more important from the point of view of the receiver, particularly because loan terms have at the same time been hardening. Less developed countries can ill afford to borrow and pay interest on $100 million in order to obtain equipment that could have been obtained elsewhere for $85 million.

> ...it was partly the appreciation of this burdening effect of tying that led to the recommendation at UNCTAD [the 1964 UN Conference on Trade and Development] of reverse tying of repayments, that is, obliging the donor to accept repayment in the goods whose production facilities have been financed by aid. There is a certain element of rough justice in this suggestion, given the prevalence of aid tying and the barriers to imports of industrial products into developed countries from less developed countries. But a more efficient solution would be for the element of excess cost imposed by tying to be given in the form of a grant and charged to some domestic expenditure account (as export promotion, domestic transfer, or domestic production subsidy) rather than against foreign aid. _/

_/ Harry G. Johnson, Economic Policies Toward the Less Developed Countries, (The Brookings Institution, 1967), pp. 124-125.

The last thing Congress wants to do, however, is to reveal the true extent of the subsidies to industry, agriculture and shipping that have crept into foreign aid programs. Quite the contrary. The Food-for-Peace Act of 1966, for example, is very specific in requiring that the President, in presenting his budget, shall classify expenditures under this act "as expenditures for international affairs and finance rather than for agriculture and agricultural resources." _/ The effect is to overstate the international affairs budget by

_/ Sec. 403.

the amount the CCC would have spent anyhow on Food-for-Freedom commodities.

The type of reverse tying of repayments referred to by Professor Johnson is virtually standard practice in trade-aid relations between Communist countries and less developed countries. The Soviet Union regularly accepts goods -- steel, fertilizer, sugar, etc. -- in repayment of loans for steel mills, fertilizer plants, and sugar mills. The United States dismisses this as barter and proclaims its willingness to pay dollars for the imports it needs. But due to an enormously diversified economy and a panoply of protective measures, its import "needs" are modest. The modesty contributes to the difficulties of the less developed countries in repaying loans out of export earnings. In the long run, aid should surely be untied, but in the short run there is some injustice in tying the outflow to relieve the balance-of-payments problems of the lending nations without mitigating correspondingly the balance-of-payments problems of the borrowing nations.

Insofar as the export of private U.S. capital is concerned, the Government undertook, several years before the more acute balance-of-payments crisis of early 1968, to restrict the outflow by: (1) a 15 percent tax on certain types of capital raised by foreigners in U.S. markets; (2) a voluntary program by which U.S. parent companies try to improve the net balance-of-payments effect of the operations of their overseas subsidiaries; and (3) a voluntary program by which American banks would hold increases in their foreign lending to 5 percent per year.

From the start, official policy has sought to make clear that these restrictive measures were not directed at the less developed countries. For those countries, the United States aim of stimulating economic growth was to take precedence over its aim of controlling the outflow of United States capital. Accordingly, the 15 percent interest equalization tax was made applicable only to capital exports destined for the advanced countries. For the same reason, the voluntary program for improving the balance-of-payments performance of United States companies with foreign interests was limited to transactions with the advanced countries.

But the distinction was badly blurred in the Federal Reserve Board's voluntary program for curbing overseas bank lending. Here, the ceiling imposed on bank loan increases was global in nature. The only special recognition given to the less developed countries was a recommendation to banks that, within the global quota, priorities be given first to export loans and, second, to loans for the less developed countries.

A curtailment of this sort defeats the United States objective of encouraging the development of the less developed countries, and above all, of the private sectors in those countries. What is more, there is a real question whether the curtailment does much to help the balance of payments position of the United States. _/

_/ Watson Report, pp. 27-28.

Under the "Action Program" introduced by the President early in 1968 to surmount the heightened United States balance-of-payments crisis, the situation of the less developed countries was made still more difficult. Capital has become more costly, the volume available for foreign investment has been further reduced, and the refinancing of debts has become harder. Yet the Action Program, however successful in mitigating the immediate crisis, will not obviate the need for fundamental reforms in the international monetary system. Meanwhile, the rigidities of the world financial system will continue to operate as a constraint on development assistance programs. The problem, therefore, is both to expedite reform of the system and, in the interim, to minimize more imaginatively the constraints on development assistance imposed or encouraged by that system.

X. New Sources of Development Finance

The principal sources of development finance heretofore mentioned in this paper have been appropriations of public funds; private capital raised through bond issues, tax concessions, and investment guaranties; and foreign exchange earned by the less developed countries through trade liberalization, tariff preferences, export promotion, and funds or facilities for the compensation of unavoidable shortfalls in export earnings. The most promising additional source is international monetary reform. It could provide $1 billion per year during the 1970's. Another possible source is international licensing of the privilege of exploiting the seabeds and ocean floors beyond the limits of present national jurisdiction.

The Special Account created by the International Monetary Fund for Special Drawing Rights (SDR's) was referred to in the discussion of changes in the international economic environment since the end of World War II. The Special Account owes its origin, not to the export and import problems of the less developed countries, but to the need of the entire trading world for a reserve asset to supplement the gold and dollar balances held by central banks. All IMF members, it is hoped, will become participants in this new account. Each participant will have a quota, which is expected to be the same as its regular IMF quota. Its entitlement to share in any issue of special drawing rights (i.e., to obtain some of the new "paper gold") and its voting power in the Special Account will be based on its quota. Countries receiving SDR's will be able to count them as part of their reserves. Although the creation of the SDR as a new reserve asset constitutes a genuine step forward, and the contemplated arrangements for access to this asset do not discriminate against less developed countries, an almost painless way of favoring them is being missed.

In the circumspect language of the Managing Director of the IMF:

> ...a certain amount of disappointment has been expressed in some quarters that the agreed scheme does not provide for a specific link between reserve creation and development assistance. At one time a great deal of attention was paid to proposals of this sort, associated, in particular, with the name of Maxwell Stamp and elaborated by a committee of experts convened by the UNCTAD. The general conception was that the bulk of any new reserves deliberately created to meet a world need for liquidity would, in effect, be distributed through international investment institutions [for example, the International Development Association] in the form of development assistance and would be acquired by industrial countries—not given to them, but earned by them—in exchange for goods and services supplied to the developing countries.
>
> While there was nothing technically impractical about this way of getting new reserves into circulation among monetary authorities, the idea was generally unwelcome to industrial countries who felt that the provision of aid and the creation of international liquidity called for two distinct decisions, each of which should be taken deliberately on its own merits by appropriate procedures, and that reserve creation should not provide a back door through which aid-giving could be freed, in some measure, from the restraints of parliamentary control over expenditure.[*]

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[*] Pierre-Paul Schweitzer, "New Arrangements to Supplement World Reserves and Their Implications for the Developing Countries," Supplement to International Financial News Survey, International Monetary Fund, December 15, 1967, p. 417 (underlining added).

After the first tranche of SDR's is in circulation and the time has come for a second issue of SDR's, the deliberate forging of "a link between reserve creation and development assistance" may seem more sensible, more urgent, and less sneaky than it does today. Using newly-created SDR's as a basis for IDA credits to poor countries could add substantially to the volume of aid resources — perhaps as much as $1 billion per year — in the form in which they are most needed — under the control of a competent multilateral agency, untied as to procurement sources, and available on a truly long-term, low-interest basis.

Early in 1965, in a report entitled "Guidelines for Improving the International Monetary System," the Subcommittee on International Exchange and Payments of the Joint Economic Committee of the US Congress opposed any close link between the creation of new international monetary reserves and long-term aid to less developed countries, principally because it was thought that connecting them would increase the difficulty of reaching agreement on new monetary arrangements. By late 1965, at least two members of the Committee — Representatives Henry S. Reuss and Robert H. Ellsworth — were urging that there be a link.

> "The World Bank should take the initiative in proposing a plan to link new reserve creation with the provision of additional assistance to the less developed countries.
>
> ...There should be more discussion on how to develop two distinct but complementary sets of foreign aid formulations. One would be based on conventional contributions out of national budgets and financed by domestic taxation. The other would involve setting aside a portion of new reserve creation for the developing countries.
>
> As an experienced and well-regarded multilateral instrument for extending aid, the World Bank should take the initiative in asking the IMF to dedicate some part of reserve creation to long-term aid. Once the IMF and the Group of Ten have tentatively agreed on a new mechanism for creating reserves, the World Bank should propose that the International Development Association be financed in part by the conventional national contributions and in part by IMF purchases of IDA bonds, guaranteed by the World Bank, with a portion of the new reserve assets."[1]

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[1] <u>Off Dead Center: Some Proposals to Strengthen Free World Economic Cooperation</u>, a Report to the Joint Economic Committee, Congress of the United States, by Representatives Henry S. Reuss and Robert F. Ellsworth (December 20, 1965) pp. 16-17.

A similar recommendation was made by a group of United Nations experts in 1965 and by late 1967 the Congressional Subcommittee on International Exchange and Payments was virtually unanimous in urging that the US Governors of the World Bank and the IMF, after activation of the new agreement on the creation of Special Drawing Rights, "should start to direct thought and dialogue in both organizations to the possibility of linking the new reserve creation with the provision of additional assistance to the less-developed countries."/

/ Guidelines for Improving the International Monetary System — Round Two, Report of the Subcommittee on International Exchange and Payments of the Joint Economic Committee, Congress of the United States (December 1967), p. 8. For the recommendations of the UN group, see United Nations, International Monetary Issues and the Developing Countries, Report of the Group of Experts (United Nations, New York, 1965).

In summarizing the case for a vigorous push in this direction, it has been cogently argued that, although not an either-or proposition, it should be easier to persuade governments in developed countries to forego a small part of the massive benefits from monetary reform than it is to accept the obvious costs of appropriated aid funds, or tariff concessions, or higher commodity prices.

> "Resource transfers via monetary reform also are easier because they are much more in the hands of technocrats than of legislators. One has only to contrast the ease of swap arrangements between central banks, an important resource transfer, with the problem of aid transfers to appreciate this factor."/

/ Gustav F. Papanek, "Changes in Aid Strategy," paper prepared for Confrontation convened June 10-15, 1968, by Vienna Institute for Development, pp. 26-27.

To maximize the amount of development assistance via monetary reform and to make the building of international community a cooperative enterprise, all of the richer members of the IMF should agree to an allocation system that distributes the bulk of the SDR's to poor countries or permits them to be used as a basis for IDA credits. Pending a multilateral decision, however, there is nothing to prevent voluntary decisions by individual wealthy countries to increase their foreign aid by an amount equal to their share of SDR's or to some sizable fraction thereof. An announcement to this effect by the United States, which is entitled to about 25% of all the SDR's issued on the basis of the present quota agreement, could have an important galvanizing effect on development financing.

Debt-rescheduling represents another source of development finance worthy of mention. Now that service charges on outstanding loans to less developed countries approximate $4 billion per year, a reduction of only 10% in this reverse flow is equivalent to $400 million in additional aid. The technical problems of working out sensible re-scheduling arrangements are formidable, however. The United States may be willing to help the needy in India or Indonesia, but it has no desire merely to make it easier for those countries to repay short-term commercial credits that never should have been extended or medium-term loans from the Soviet Union and Western Europe that were made on stiffer terms than those of the United States.

In special cases, debt-rescheduling will undoubtedly be resorted to in the 1970's — modest steps in this direction have already been taken — but the procedure will continue to be frowned upon. Substantial rescheduling not only undermines the basis for further lending, it destroys the illusion that loans have character-building virtues lacked by grants.

Vesting ownership of a revenue-producing resource in the United Nations or some other international agency, or conferring upon it the power to tax or license, could do more than provide a new source of development finance. It could represent a real breakthrough in strengthening the international community vis-a-vis national governments and transnational corporations. For that very reason, governments have not been enthusiastic about recurrent proposals to give the United Nations title to the mineral resources of the oceans and ocean beds, the right to levy a tax on international trade or international capital movements, or to tax transnational corporations.

Governments rich or poor, however, can hardly view with equanimity the prospect of a wasteful, anarchic scramble for petroleum and other mineral resources in the oceans beyond the territorial limits established by the 1958 Geneva convention. The scramble is a real possibility. Until 1962, offshore oil and gas drilling was limited primarily to the Gulf of Mexico (off the Louisiana coast) and Lake Maracaibo in Venezuela. It has now spread to the waters of more than 80 countries.

> "Fifteen years ago offshore drilling was within 20 miles of the mainland; today some US wells are more than 75 miles from shore. Fifteen years ago there were approximately 200 offshore US wells in water depths not exceeding 70 feet; today there are more than 6,000 US producing offshore wells, and some of the most recent are being drilled in water over 600 feet deep. ...some large oil and gas producing companies now have more than 50 percent of their lease holdings offshore.
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> ...Total investment of companies in offshore activities, according to some authorities, will have quadrupled by 1980, increasing from $13 billion in 1968 to $55 billion."[1]

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[1] Dresser Industries, Inc.; Third Interim Report, 1968 (Dallas, Texas; August 22, 1968).

If offshore drilling in waters beyond present territorial limits produces a substantial proportion of the world's petroleum output, the less developed countries may suffer doubly — first, through the loss of income from deceased interest on the part of the big corporations in exploiting the more conventional sources, and a second time, from delay by the international community in setting up machinery for licensing deep-water exploitation and using the proceeds for development purposes. Moreover, investment in deep-water exploitation will be unnecessarily risky for the investors without the kind of legal safeguard provided by a license from a recognized international authority.

XI. Concluding Thoughts

Projections of the requirements of less developed countries for net inflows of long-term capital are forever being made and it has become fashionable for knowledgeable Americans to dismiss them rather airily. The techniques for making projections are improving steadily, however, and the results of recent estimates do not differ astronomically. Most of them are based on lower *per capita* growth rates in poor countries than I consider attainable or desirable. But with reasonably good management, the broadly-shared 4 percent per year *per capita* growth rates that I favor for poor countries during the 1970's can be obtained with inflows in the range of 1 percent of the GNP of rich countries.

Not all of the 1 percent, moreover, needs to be obtained by resource transfers from rich countries. New sources of assistance not now the property of any national government — income from licensing the exploitation of petroleum reserves beyond the continental shelf and, in the monetary field, paper that is as good as gold — constitute potentially important alternatives or supplements to "levies" on national governments. For the portion that ought to come by way of transfer from the United States, more could come from the private community if mechanisms were set up to guarantee bond issues floated by less developed countries or by an American Development Bank, and if various other incentives to foreign investment by individuals and corporations were adopted. The government contribution could go farther than it does if, instead of being available only for grants and loans, part of it could be used as an international subsidy, thereby permitting less developed countries to borrow, at interest rates of 2 or 3 percent, money that costs considerably more than that to raise.

At present, the obligation of rich countries to come to the aid of poor countries is at most a moral obligation; there is little in international law that requires them to do so. With all of the rich countries, most of the middle-income countries, and many of the poor countries themselves in the aid-providing business, the moral obligation may gradually be transformed into a legal one via the adoption of an international development charter that has some binding force or by the strengthening of existing institutions and arrangements such as the Alliance for Progress. As development takes root and more countries move into the middle range of the spectrum with respect to at least some aspects of development, the burden of helping those in lower ranges will be more widely shared.

Prevailing concepts of national sovereignty and national interest appear to require distinctions, not only between needy fellow men within one's country and those beyond its borders, but also additional distinctions among those beyond its borders. In bilateral programs, inhabitants of countries having historic ties, friendly relations, or special claims on aid-giving nations receive preference over equally needy inhabitants of countries without special claims. Since multilateral programs cannot be expected to play favorites on these grounds, bilaterally administered contingency funds and special assistance may be needed to finance bonuses to particular governments after the bulk of American aid has been put under multilateral auspices.

Fellow-feeling between man and man is a concomitant of development. It is conspicuously absent <u>within</u> many of the less developed countries. There, the few who are rich are often very rich indeed and distressingly reluctant to pay taxes or decent wages, or to assist in other ways the many who live in abject poverty. So long as rich citizens in poor countries remain blind to their obligations, average citizens in rich countries will find it difficult to support ungrudgingly programs for the transfer of resources to poor countries. In this respect, tax reform, social justice, and concentration of benefits upon the neediest elements in less developed countries deserve high priority. However, since less developed countries almost by definition have been neglecting actions that would speed their development and reduce disparities in privileges and income, it will always be easy for more developed countries to cite reasons for niggardliness in aid giving. Whereas no physician in his right mind would administer penicillin to an ailing patient in half doses, insufficient aid for an ailing nation has been a frequent prescription.

On the basis of the most relevant criteria — capability of the United States to supply development assistance without denying itself resources needed for higher priority purposes, requirements for those resources to expedite growth and change in the low income world, probability that they will be put to productive use, that the efficiency with which they are used will increase as we learn more about the development process and how to influence it, and that the end results will be less detrimental to the interests of the United States than refusing to give assistance or supplying it sporadically and in inadequate volume — the US effort should be considerably larger in the 1970's than it was in the 1960's. In proportion to GNP, however, foreign aid can be less than half as large as it was in the late 1940's and early 1950's and still be "large enough."

The public sector, it seems, is consistently short-changed. Urgent social needs go unmet, while marginal private needs — for second and third family cars, color television sets, summer homes at the beach — can be indulged. Because of parochial attitudes about the size of the public sector and the purposes for which public funds may be spent, the war on poverty at home is being waged penuriously and inconclusively. While this is so, the war on poverty abroad is bound to suffer. Even a generous and vigorous prosecution of the domestic war will not secure a generous flow of foreign aid but, initially at least, will simply increase the competition for available resources within the perennially short-changed public sector.

Assuming that as much as possible will be done on the trade and private investment fronts to help less developed countries, what changes in the foreign aid program are most urgent? The first, of course, is to step up the total net flow of resources to less developed countries to a level closer to their absorptive capacities. In part this means easing the debt service burdens of countries such as India so that less of what they now receive will be needed for interest and amortization payments on previous borrowings. Even more so, it means an increase in new grants and loans. Within the capital assistance category, more program assistance is required for countries that are no longer at the earliest stages of development. This should not mean abandoning project aid, but rather allocating more of the increase in capital assistance to program aid.

.e pay-off on high quality technical assistance — the kind that has been provided by the Ford and Rockefeller Foundations, the Government of Israel, and many individual United States Government employees — has been greater than is generally realized and an increase in good technical assistance deserves a high priority. Neither the international agencies nor the US Government seem yet to have found satisfactory arrangements for administering technical cooperation programs. This has led me to endorse the idea of a quasi-public foundation or corporation which can focus on the long pull, offer career services to certain of its employees, and operate much more flexibly than public agencies. The risk, of course, is that the creation of the new agency may only fragment the development drive that needs to be integrated.

For how long should the United States continue supporting a sizable development assistance effort? A real push in Latin America, I suspect, could break the back of the problem there during the 1970's. Self-sustaining growth in the least developed portions of Latin America, Asia and Africa is probably farther away. While the initial objective of development assistance should be to help poor countries reach the point where they can grow at close to maximum rates without encountering balance of payments crises, it hardly seems probable that in the long run the United States will be satisfied — or indeed permitted — to leave to their own devices countries that are still quite poor.

Poverty, like development, is relative. A per capita income of $1,000 today is enough to put a nation into the upper middle income group. A nation that now has a $200 per person per year income and increases that at the excellent rate of 4 percent per year will take more than 40 years to reach the $1,000 level. By then, however, a nation now at the $1,000 level growing only half as rapidly, will have surpassed the $2,200 level, thereby widening the dollar gap and leaving the first country still poor not only in relative terms, but probably in absolute ability to ensure the survival, in good physical and mental health, of its inhabitants. The same forces that result in income transfers from richer to poorer citizens and from richer regions to poorer regions within a progressive nation-state like the United States will work toward institutionalizing income transfers in the world as a whole and reducing the extremes between nations.

The larger, longer-lasting, outflow of development aid from the United States that I consider essential faces almost insuperable domestic political hurdles. The American public appears massively indifferent, perhaps because its humanitarianism and fundamental decency have not been properly appealed to. The Congress has no desire to authorize "back door" financing and has become increasingly hostile to "front door" financing. How can a Congress that considers the present program too big and open-ended become reconciled to the larger effort that is needed?

For believers in democracy, there can be only one answer: education, not necessarily of the masses — the mass market for detailed information on foreign policy issues is practically non-existent — but of opinion-leaders and key Congressmen. Because the public at large is indifferent, the individual legislator has great latitude on foreign aid. If he is educable at all, he can be influenced by the views of a few people whom he genuinely respects.

Since the demise of the Center for International Economic Growth, there has been no national, non-governmental, independent citizens' organization engaged on a full-time basis in research and education on the problems and needs of the less developed countries and the US response thereto. No public support group is dedicated to evaluating development assistance programs and making policy recommendations; preparing educational materials on these matters and disseminating them; or maintaining liaison with opinion-leaders in the executive and legislative branches of the US Government, as well as with those in international agencies, mass membership agencies (churches, labor unions, business groups, etc.), universities and private organizations at home and abroad. An effort to launch such an organization under the name Overseas Development Council is now being made.

If the Council is launched, it could study recommendations such as those made in this paper and build up backing for those that appear to deserve support. This should apply not only to the overall thrust — a transition to multilateral assistance via strengthened multilateral mechanisms — but also to the specific measures suggested. Can public and congressional opinion be prepared for making the second issue of SDR's a basis for the extension of credits from the International Development Association to the less developed countries? What other independent sources of revenue can most appropriately be assigned to international agencies for development purposes? Would the creation of a private investment corporation and a technical assistance foundation merely confuse an already confusing situation?

To what extent should future income transfers be a part of a "foreign aid" program? Can one appropriately think of the "foreign aid period" as the more heavily subsidized era preceding achievement of five to ten years of growth at an overall average rate of 6 percent or more per year, and the subsequent period (in which the principal need may be for loans at less than commercial rates, topped-off technical assistance, more sophisticated industrial processes, and a larger influx of tourists) as somewhat different in conception and financing?

How far ahead should one attempt to see? In the perspective of human history, the 20-odd years since the close of World War II constitute but a moment. A beginning has been made on the promotion of orderly growth and evolution in a disorderly world. Much has been learned but much remains unknown. The glamor of aiding exotic lands is wearing off. The voices crying for action on the home front to make our cities habitable and enable our people to live in harmony are loud and clear.

Ignored for far too long, they are now drowning out the claims of lands across the seas. If we can hold down the defense budget after extricating ourselves from the morass in Vietnam, we can devote more of our resources, ingenuity and know-how to the solution of urgent domestic problems. We can also, if we consider it important enough, devote more of our growing GNP to the relief of poverty and the reward of self-help in low income countries beyond our borders. But have we the wit and the will to make that decision?