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THE HUBERT H. HUMPHREY  
INSTITUTE OF PUBLIC AFFAIRS  
University of Minnesota

# THE U. S. INTEREST IN INTERNATIONAL DEVELOPMENT

*A Basis for Building Long-Term Collaborative  
Relationships with Developing Countries*

**A Summary of a Report of a Special Task Force on  
Development Assistance and Cooperation**

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## PREFACE

Reforming foreign aid has been the subject of a number of studies, reports and legislative initiatives in recent years. Although there are many differences in recommended solutions, there is remarkable unanimity about the need for change and the obsolescence of existing laws, programs and modus operandi.

In the fall of 1989, when it appeared that several major reform efforts of the previous two or three years were losing momentum, the Board for International Food and Agricultural Development (BIFAD), in response to its legislative mandate to advise the President and the Congress, initiated a new effort to re-examine agricultural development assistance in the context of overall need for change in our approach to foreign aid.

After soliciting cooperation and support from a number of interested individuals and organizations, an informal organizing committee agreed to commission a Blue Ribbon Task Force of distinguished development scholars to take a new look at development strategies for the future and continue efforts to build a viable coalition for reform. Dr. G. Edward Schuh, Dean of the Humphrey Institute of Public Affairs, University of Minnesota was selected to head the Task Force and the Humphrey Institute agreed to become the "implementing organization" for the project, which initially became known as "Agriculture 2000."

It is a testament to the importance of the issues that we were able to assemble such an outstanding group of scholars to serve on the Task Force and to devote a significant amount of their time without compensation for over a year. We are deeply indebted to them for their tireless efforts and to the institutions with which they are affiliated for allowing them to serve.

We are also indebted to members of the Advisory Committee who met regularly with the Task Force and offered advice and support. They also served as an important link between the Task Force and policy makers and opinion leaders whose support will be required if the Task Force recommendations are to have any impact on programs of the future.

We are also grateful to the Ford and Rockefeller Foundations, the U. S. Department of Agriculture and the U. S. Agency for International Development for supporting this effort financially through grants to the Humphrey Institute. The BIFADEC Staff provided an important Washington headquarters for the project and supplied staff, secretarial and other logistical support as well as counsel and encouragement.

William E. Lavery  
Chairman of the Advisory Committee  
to the Task Force

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## FOREWORD

U.S. Foreign Economic Assistance as we now know it began in the late 1930s with a small program of collaboration in Latin America. This was part of President Roosevelt's Good Neighbor Policy towards that region.

Foreign Economic Assistance took on a new life at the end of World War II when there was an urgent concern that the countries of Western Europe would slip into the orbit of the Soviet Union. The countries of this region were in a sad state of disrepair, and social and political pressures were growing rapidly. In addition, there was a severe dollar shortage in the international economy, which limited what these countries could do to help themselves.

The U.S. responded with an unusual act of generosity with the Marshall Plan, a program that for a couple of years transferred the equivalent of slightly over 3% of our gross national product (GNP) to the countries of Western Europe. This act of benevolence kept the countries of that region from slipping behind what was later called the Iron Curtain. But it was also an act that served U.S. interests quite well. It is difficult to imagine what the international community would be like today if those countries had fallen into the Soviet orbit, or if there had not been that infusion of dollars into the international economy.

Unfortunately, most Americans have forgotten the lessons of that early set of events. What we remember is that it was a period, albeit short-lived, of unusual generosity on our part. We don't like to be reminded that for some time now we have provided little more than 0.1 % of our GNP in economic assistance to the poor countries, nor that we rank 18th out of the 18 developed countries in the share of our GNP we provide as assistance to those countries. Neither do we like to recognize that Japan, a country with half of our GNP, last year provided more economic assistance in absolute terms than did the U.S.

The premise of this report is that the U.S. should return to first principles as it thinks about its economic assistance to poor countries. It should seek to identify what is in its own best interests and act accordingly. Moreover, it should do that in the context of an international economy that has undergone enormous change these past 30-40 years. Perhaps the one thing that differentiates our report from others of its genre is this attempt to identify the changes in the international economy that are of significance to economic assistance programs.

A corollary premise of the report is that we should think about these programs as true economic cooperation, and forget the past patron/client relationship implied by the concept of foreign aid. That will make it clear that what we do is done in our best self-interest and not as an act of benevolence.

Although I owe thanks to many people who have made this study possible, I especially want to single out John Stovall who has been a superb staff director, Kathy Bahma who has helped keep my schedule clear enough so that the study would be complete, and Maria Ignez Schuh, who continues to tolerate amazingly well the piles of paper I leave scattered around our home and the interminably long hours required to do a project such as this.

G. Edward Schuh  
Task Force Chairman

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# THE U.S. INTEREST IN INTERNATIONAL DEVELOPMENT

## *A Basis for Building Long-Term Collaborative Relationships with Developing Countries*

### SUMMARY

Far-reaching changes in the global economy over the past few decades have dramatically altered the conditions under which foreign assistance operates. Yet many of these changes are still not reflected in the design and purpose of U. S. foreign aid programs. Many of the changes have not been fully recognized in previous studies.

- o U. S. foreign aid began in the aftermath of World War II in a world short of dollars. The world is now awash in dollars.
- o The old fixed exchange rate made some kind of financial assistance almost an imperative during periods of transition. With today's flexible exchange system, no such imperative exists. Large capital inflows into a country can in fact be counter-productive.
- o The United States was, at the time, the world's main source of capital and technical resources. The United States no longer enjoys the dominate economic position it once did and could itself benefit from new scientific knowledge being produced in other countries.
- o A collection of relatively closed, autonomous economies were involved in a relatively small amount of trade after World War II. The tremendous intervening growth in world trade has resulted in highly sophisticated interdependencies among countries today.
- o A huge international capital market is now a source of funds for developing countries pursuing sound economic policies. It is, not, however a viable source of funding for long-term investments in human capital development.
- o Finally, with the recent breakdown of the Soviet empire and the spinning off of the Eastern European countries, much of the rhetoric that justified U.S foreign aid programs in the past is no longer relevant.

The Task Force concludes that A.I.D.'s main mission should shift from that of providing assistance and significant financial support to one of fostering international cooperation with mutual sharing of knowledge. Human capital development, the creation of knowledge, and new production technology would be the core of U.S. foreign development activities.

For the United States it would mean access to new technology spilling out of research and development efforts in other countries, future export markets, and raw materials needed for U.S. economic activities. Collaborative programs in education, research and technology, and collaborative ventures in health care and environmental problems all have significant mutual benefits.

The words foreign 'assistance' and foreign 'aid' would no longer apply. The new stance would be that of a partner looking for collaborative relationships and shared benefits.

## REORDER PRIORITIES

Fads, congressional earmarks, and rapid shifts in priorities have buffeted A.I.D.'s mission, disrupting staffing patterns and imposing shocks on its programs. The United States has lost a great deal as a result of this state of disrepair, including lost economic intelligence important in an increasingly competitive economic environment, lost opportunity to develop strong research and educational relationships in other countries, and lost prestige and leadership on the international scene. Attention needs to be given to critical mass issues that will foster a more stable and sharply focused program and attract sustained political commitment.

Task Force priorities, with a few exceptions, diverge significantly from A.I.D.'s present and pending priorities.

**Emphasize:** Long-term development and policy reform, such as agriculture, human capital development, market- and service-oriented institutions, population, improved equity and broader access to resources and services, and environmentally sustainable development;

**De-emphasize:** Short-term measures such as cash transfers for balance of payments and budgetary support, large capital infrastructure expenditures, mixed credits and tied aid and other subsidies to U.S. private firms.

Missions in recent years have been discouraged from undertaking institution building, agricultural research and extension, and other human capital investments because of increased emphasis on cash transfers for policy reform, structural adjustments and capital infrastructure projects, where more U.S. dollars can be tied to U.S. procurement. However, A.I.D. does not have a comparative advantage in such activities. It also has limited resources and growing demands.

Policy reform and structural adjustment programs are frequently necessary for economic growth and development, but the indigenous capacity to design, interpret and implement such programs is the foundation for such reforms and is more important to sound economic growth and development than cash support for balance of payments deficits. The latter can reduce the urgency to make difficult policy decisions. They also help cause and support an overvaluation of the country's currency in foreign exchange markets, with detrimental consequences on domestic resource allocation, the pattern of production, and the country's ability to export.

Indirect subsidies of private firms will not make U.S. firms more competitive in international markets; it is likely to make them only more dependent on subsidies. Rather than subsidizing a few U.S. firms, the challenge of development lies in improving the capacity of developing countries to produce so they can pay market prices for a broad range of imports, including U. S. exports. Money spent on questionable cash transfers can better go toward building local human and institutional capacity necessary for long-run success in policy reform. In fact, the most important interventions A.I.D. can make in promoting sound private-sector development is through investment in public-sector educational, research and other service institutions.

Appropriate public sector investments and the development of sound public sector institutions represent important indirect subsidies to the private sector consistent with an efficient use of overall resources.

### ✓ REEMPHASIZE AGRICULTURAL RESEARCH AND DEVELOPMENT-- A COMPARATIVE ADVANTAGE

The United States has a particularly clear comparative advantage among donors in agricultural research and development. This expertise finds a match in the pressing need of developing countries for increasing agricultural production, feeding rapidly growing populations, building a sustainable environment.

The Task Force found that A.I.D. has significantly downgraded agricultural development in plans and programs. Moreover, the kinds of agricultural projects most needed for long-term capacity building has declined sharply during the last few years.

Deemphasizing agricultural development over the past decade has been a serious mistake. The world food problem is not solved and the consequences mean more malnourished people, constrained economic development in countries that have the most potential for growth, and a rise in food prices for developed countries such as the United States.

More serious, however, is the failure to recognize the extent and way in which agricultural productivity contributes to economic growth. Agriculture is important not just because it employs a large percentage of the work force in many developing countries or because of the share of GNP it represents. Agriculture is important because everybody eats food. The modernization of agriculture and the consequent reductions in real food prices distribute benefits broadly, and in favor of low-income groups. Increasing agricultural productivity induces secondary development, makes domestic industry more competitive in the international economy, and generates broad employment effects.

Developing countries with economic policies that discriminate against agriculture have driven people to the cities in premature migration, stripping the rural areas of the most developed human capital. Subsidization of economic activities in urban areas promotes the rural-urban flow. A different development strategy is needed that focuses more on decentralizing the industrialization process to keep it occurring in rural areas.

The key to sustained agricultural development is the capacity to do research (including policy research) and provide a sustained supply of new production technology and new knowledge. Technology development should thus receive a significantly higher priority in A.I.D.'s agricultural programs.

## **CREATE A CENTER FOR SCIENTIFIC COLLABORATION**

A coherent program in scientific and technological cooperation is unlikely to emerge from the aggregate of projects coming from field missions, given the short-term, politically-driven perspective and constant pressure for immediate results that the Agency faces. With its decentralized mode of operation, there is no focal point in A.I.D. for providing leadership and direction in this important area. Short-term operational needs will almost always overwhelm priorities for longer-term scientific research and technological development unless the latter are protected and insulated from the expediencies of the day.

U.S. scientific and technological leadership has declined on the international scene and not much thought is being given on how to capture and build on research and development investments being made in other parts of the world. An ever larger share of the world's expenditures on research and development are made in other countries. The United States needs to be accessing it. The interests of the developing countries have changed as well. They are looking for scientific and technical collaboration.

A semi-autonomous Center should be created within A.I.D. to promote scientific and technological collaboration between educational and research institutions in the United States and other countries and to access knowledge as well as to share it.

The Center, a grant-making institution comparable in prestige to the National Institutes of Health, would make resources available to the U. S. university and research communities on a long-term, competitive, collaborative-funding basis. A requirement for matching monies from the participants--both at home and abroad--would aim at mobilizing local funding in the developing countries along with the entrepreneurial ability to develop such funding. The amount of the match would, of course, have to vary, depending on the resource base of the institution.

The Center would be the recipient of a significant share of the U. S. appropriation for international economic assistance. Some part of the grants would be for collaborative research efforts. Another part would be for collaborative educational programs, to include faculty and student exchange and the development of international educational endeavors.

## **REBUILD A.I.D.'S TECHNICAL CAPACITY**

The decline of A.I.D.'s technical staff is one of the reasons the Agency no longer enjoys the distinction it held 20 to 30 years ago. A.I.D. does not now have sufficient capacity to support long-term research and technological collaboration, scientific training, institution-building, and

permanent linkages between U. S. institutions and those in developing countries. These activities are clearly of benefit to the United States.

The Agency must acquire a staff technically competent to move the Agency toward long-term collaborative development priorities. The required competence ranges from development economists, sociologists, political scientists and lawyers to scientific and technical specialists in agriculture, education, health, population and other sectors.

### **CREATE AN INSTITUTE FOR PRIVATE VOLUNTARY COOPERATION**

Private Voluntary Organizations (PVOs) and Non-Government Organizations (NGOs) have played a central but not widely recognized role in the development process in the United States.

Working in collaboration with counterpart organizations in developing countries PVOs and NGOs also help build and sustain necessary indigenous local-level capacity. They have also been effective in dealing with refugee and humanitarian problems caused by international conflict, domestic political turmoil and natural disasters.

An Institute for Private Voluntary Cooperation is proposed as a more systematic way of linking the PVOs, NGOs, universities and the private sector in this country as well as in other countries. The Institute would plan and coordinate private voluntary activities, dispense funds on a competitive basis, and facilitate cooperation. universities.

### **INCLUDE A BROADER ROLE FOR USDA**

Prior to the 1975 Farm Bill, the USDA had few specific authorizations for international development work. Subsequent farm bills have strengthened authorizations for a USDA role in the international arena. The 1990 Farm Bill further defined its international role, giving the Department authority for cooperation and collaboration with agricultural research and extension institutions around the world.

USDA's primary interest has been to help U.S. agriculture become more competitive in world markets. It thus has an interest in world economic growth and improving the economies of developing countries with the expectation of increasing future markets for agricultural products.

However, interest in international cooperation and development among USDA agencies is uneven and coordination of programs is difficult. A special paper commissioned by the Task Force notes the ambiguities in the posture of the various USDA agencies toward international development and suggests the appointment of a department-wide coordinator for international programs at the Office of the Secretary level.

The Task Force recommends that USDA's role be broadened and established on a more consistent basis; that it intensify its efforts to internationalize domestic research and education

programs, building on its close historical ties with land grant universities; and that it develop a more clearly articulated policy and rationale for its international involvement.

Although the Task Force did not focus specifically on other agencies, most domestic agencies stand to gain from broader roles in international development activities. The Task Force recommends that their horizons be broadened as well.

## **INVEST IN THE PUBLIC SECTOR FOR HUMAN CAPITAL DEVELOPMENT**

Investments in human capital are the critical, high-payoff means to economic growth in most countries, but the need for a public investment agenda is not generally understood. The Task Force emphasizes the importance of human capital development in all its forms--nutrition, health care, education, training, research investments and the institutional arrangements generally needed in society.

While developing countries now have the international capital markets as a source of funds for investments in physical infrastructure, those same markets are not generally responsive to providing funds for human capital development. Yet collaborative programs with educational and research centers, and collaborative ventures in health care and environmental problems all have significant mutual benefits. Many of the approaches have good track records as well. The Green Revolution was the result of a long, committed research and institution-building effort.

One of the most important interventions A.I.D. could make in promoting sound private sector development would be through investments in human capital and public sector institutions. Failure to distinguish between what the private sector can and will do, and what the public sector must do, has produced fundamental policy errors in past foreign assistance programs.

In pursuing mutually advantageous public sector investments in human capital development, the United States needs to:

- Collaborate with developing countries in institution building, spanning a full panoply of institutions, including feeding programs, nutrition, delivery of health services, family planning, education at all levels, and research and technology. (The set of services embodied in the broad-gauged, diverse U.S. university and college system, including its research system, is also an enormous export opportunity. These services represent a strong comparative advantage in human and institutional development essential for sustainable economic growth and should be thought of in that way.)

- Make the same family planning technology that is available to upper income groups available to the poor and disadvantaged in developing countries. (As per capita incomes rise, families tend to demand fewer children but to invest more in them in the form of higher levels of education, improved health and nutrition. Thus, promoting economic development may be the soundest policy over the longer term to bring population into balance with the natural resource base on a global scale.)

- Join with other developed and developing countries in an effort to assure an adequately nourished population.
- Sustain commitments to international organizations that deal with global health issues, and do more to facilitate the collaboration of domestic health organizations with those in other countries so as to improve the U.S. knowledge base on diseases that threaten world populations.
- Give high priority to encouraging greater investments in training, schooling and higher level education in the developing countries.
- Give high priority to increasing the stock of knowledge generally, especially to increasing the stock of knowledge that is in the U. S. interest.
- Give high priority in international collaboration efforts to improving the lot of certain population groups that suffer economic and political discrimination, including women, children, and disadvantaged ethnic population groups.
- Collaborate with the developing countries and the countries of Eastern and Central Europe in addressing their environmental problems.
- Collaborate on problems involved in acid rain, the release of chloro-fluro-carbons and the accumulation of greenhouse gases that potentially can lead to global warming.
- Sustain and strengthen present programs aimed at developing viable institutions for democratic governance.
- Make more effective use of food aid by using it specifically for the development of human capital. (The Task Force proposes a system to improve the nutrition and health of families while getting children into school who would otherwise be working or begging.)
- Help the developing countries build their own capacity for policy research and analysis.
- Sustain and strengthen present efforts to help the developing countries and those of Eastern Europe shift to market forms of economic organization.

## **PROMOTE FREER TRADE AND POLICY REFORM**

The United States should revitalize its commitment to free trade and re-establish U.S. leadership in promoting trade liberalization as an important means of promoting broad-based economic growth in the international economy at large. (The United States can help developing countries undertake needed reforms in economic policy through collaborative programs. Economic growth expands the range of goods and services demanded as per capita incomes rise, and promotes expansion of international trade. Freer trade promotes economic growth by

expanding income-earning opportunities.)

## **BUILD A NEW POLITICAL COALITION**

The Task Force recommends that A.I.D. work toward a broad-based coalition that recognizes the U. S. domestic interests in many international issues. A growing consensus in the development community reflects a recognition of the basic ingredients needed for successful economic development as well as the mutual interests in important new development issues. The Task Force urges the Agency to adopt program priorities that respond on a sustained basis to this consensus. Priorities need to be set in a way that leads to an integrated approach in various sectors.

The base for such a new coalition is rooted in the changing interests of a number of groups, including the U. S. academic community, the environmental movement, the private voluntary organizations, the private sector and those concerned with sustainable economic development. New models for parallel and cross collaborations can be formed around sets of issues.