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Spotlight on

Foreign Aid

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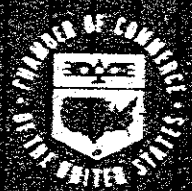

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THE CHAMBER OF COMMERCE
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WASHINGTON D. C.

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FOREWORD

For more than a decade, Congress has authorized a program of foreign aid designed to promote the security and foreign policy of the United States. This program has cost American taxpayers more than $100,000,000,000 since 1941.

The foreign aid program has undergone a constant process of change and growth.

This booklet was prepared by the International Relations Department of the National Chamber to aid business and community leaders in reviewing the changing character of the foreign aid program, major aspects of the current program, and the relation of the program to the over-all foreign policy of the United States.

The primary purpose of the booklet is to provide background information that will aid in developing a wider understanding of the foreign aid program.

It is hoped the booklet will stimulate informed discussion of legislative proposals for further changes in the program, and encourage business and community leaders to express their personal views to members of Congress, and others, on how foreign aid can more effectively promote the national security of the United States.

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SPOTLIGHT ON FOREIGN AID

BEN FRANKLIN WAS NOT ONLY a philosopher, an inventor, and one of the world's great statesmen, but also a good businessman. He was the No. 1 salesman for the American Revolution. He spent years in Europe winning friends for the colonies, attracting allies, and persuading Europe's rulers and intellectual leaders "that our Cause is *the Cause of All Mankind.*"

Franklin's leadership serves to emphasize the fact that our experience with "foreign aid" dates from the birth of the United States as a nation. Foreign support—diplomatic, military, economic—played an important, if not decisive, part in our struggle for independence. We were then on the receiving end. Today, the tables are turned. Now we are aiding others.

Over the past few years we have spent something like $4 billion a year on various programs of foreign aid. Annual foreign aid appropriations succeed each other as if they were being consumed by a giant chain smoker who lights new billions with whatever is left of the old.

Like a series of great conveyor belts that straddle the globe, geared to innumerable cogs, gears and levers, our foreign-aid-program machinery delivers to the rest of the free world everything from jet planes to combat boots; from tractors to surplus wheat; and from life-saving drugs to movies that show how to spray against mosquitoes.

Carrying out this big and varied program means spending money —lots of it. It means thousands of Americans, bringing to other peoples their knowledge, skills, and brains. It means sweat for an American military instructor in Korea, an American doctor in Libya, an American engineer in India, and an American teacher in Cambodia. It means headaches for administrators and planners in Washington, who must juggle huge sums of money and get all the gears of the foreign aid machinery to mesh.

This outpouring of wealth and energy for a multiplicity of purposes has one basic objective: *to promote the security and foreign policy of the United States.*

Primary Goals

The foreign aid program is based on the premise that the strength, independence and economic well-being of the countries of the free world are vital to our own security and progress. Its primary goals are to prevent any more of the material or human resources of the world from falling under Soviet domination, and to build the foundations for a just and durable peace.

To meet these goals, foreign aid helps friendly nations equip and support armed forces for their own and our defense, and helps newly independent and less developed countries grow in economic strength so that they can achieve a better life under conditions of freedom and independence.

These goals, however, have been much easier to state than to fulfill. A decade of United States foreign aid has not eliminated international dissension, assured the economic health and stability of all nations, or brought security and peace to the world.

While there are many reasons for failure to attain such goals—including the unrelenting Soviet drive for world domination—the shortcomings have helped focus attention on serious faults in the administration of foreign aid. Because billions of American taxpayers' dollars are involved, inefficiency and waste in this vast and complex program have aroused considerable concern.

In appraising both the shortcomings and the achievements of our foreign aid program, a review of how it began, what it is today, and how it works will be useful.

How It Began

FOREIGN AID, as we know it today, came about as a response to economic and political threats to world peace—particularly the threats of militant Soviet communism—in the years immediately following World War II.

Motivating this response was a conviction that the security of the United States was vitally affected by the security, development and independence of other free nations; and that effective resistance to the Soviet threat would require the mutual efforts of free nations.

Precedent

The dependence of the United States upon other nations for its security and well-being is not new in American history.

During the Revolutionary War, for example, the very existence of the United States depended on political and military assistance from Europe. The final victory of Yorktown was brought about by a combined American and French army of sixteen thousand troops and a French fleet of 4,000 men, which cut off Cornwallis' escape by sea.

America's economic dependence on others is illustrated by its early economic development. Foreign investors provided a large part of the long-run capital investment needed for this development. Canals and railroads were built with foreign money. For a time, several of our railroads were practically owned by British investors.

Eventually, of course, we became ever more self-sufficient with respect to our capital needs. Blessed with great natural resources and protected by two oceans, the United States developed into the world's greatest industrial nation—without becoming deeply involved in international politics.

Wars Brought Involvement

But two world wars shattered our dream of detachment from the quarrels of other nations. As one of the largest and most powerful nations of the world, we found that our security and welfare were greatly affected by the pattern of power on the continents that encircled us.

During World War II we shipped immense quantities of arms, equipment, food and other goods to nations that looked to America for leadership and help. And in cooperation with desperately needed allies, the United States fought for its survival. As never before, our

fate and the fate of others had become tightly bound up together.

We hoped that once peace was restored our international troubles would be over. But it soon became clear that the end of the war did not mean a durable peace. Soviet Russia, though mauled and bloody, embarked upon a policy of expansion which exceeded the wildest ambitions of the Tsars. It was apparent that if we did not help other nations achieve stability, and resist communist penetration, that we ourselves would suffer disaster.

In 1947, the United States began a series of major foreign aid programs designed to meet this threat: the Greek-Turkish Aid Program, the Marshall Plan, the Mutual Defense Assistance Program, the Point Four Program. These and other programs were designed to help nations rebuild their economies in the wake of World War II, relieve the suffering of people in areas devastated by war and natural disasters, strengthen the armed forces of allied and friendly nations, and supply technical "know-how" to underdeveloped countries.

The Marshall Plan

The emphasis at first was mainly on economic aid. The objective of the Marshall Plan, for example, was European recovery to forestall what was then recognized as the principal danger—Soviet political exploitation of Europe's economic weakness. This program, proposed by Secretary of State Marshall in June 1947, and approved by Congress in April 1948, was scheduled to last four years, and to cost $17 billion. By 1951 Europe's production had been raised to the point where the program could be terminated nine months ahead of the scheduled time, at a total expenditure of $4.5 billion less than that originally planned.

Point Four Program

The purpose of the Point Four Program—named after the fourth point in President Truman's inaugural address of January 20, 1949—was to make training in skills and technology available for the improvement and growth of underdeveloped nations. This tech-

nical assistance was meshed with programs of economic development to provide newly developing countries with the trained manpower and capital necessary for their orderly growth and stability.

Shift In Emphasis

By 1951, however, the emphasis in our total foreign aid effort had shifted from primarily economic aid to defense objectives. Several developments had given the communist danger an increasingly military cast: defeat of Nationalist China in 1949, the Soviet explosion of an atom bomb in September of that year, the worsening situation in Indochina in 1950, and the aggression in Korea.

Military aid now moved into the forefront of the American foreign aid effort. We supplied arms to our allies in the North Atlantic Alliance, and helped create the NATO shield which is designed to prevent Soviet military aggression in Western Europe. While the build-up of conventional forces in Europe as a deterrent to Soviet attack was given first priority, programs of military aid were soon broadened to all areas of the free world where our security was involved.

In more recent years, renewed emphasis has been placed on the economic and technical assistance phases of United States foreign aid—principally to counter a communist economic drive aimed chiefly at the less developed countries of Asia, Africa and the Middle East. At the same time, a program to equip our allies with new weapons of advanced design has been established to meet the new Soviet challenge in the form of missiles, supersonic aircraft and other advanced weapons.

Thus, the history of American foreign aid since World War II is one of constant adaptation and growth in the face of changing world conditions and new challenges. Over the years, numerous special programs were developed to meet specific problems. A whole series of governmental agencies was created to administer and operate different phases of the foreign aid effort.

The result has been an evolution from various foreign aid programs administered independently on a stopgap basis to a compre-

hensive global program of economic and military aid that has become an integral feature of United States foreign policy.

Today's Foreign Aid Program

TODAY, VARIOUS TYPES OF foreign aid operate under one legislative authorization—the Mutual Security Act of 1954, as amended from year to year.

The official title of foreign aid is the Mutual Security Program. As this title indicates, United States aid to other countries represents a mutual effort, and contributes to our own security as well as to theirs.

In a broad sense, the aid furnished under the Mutual Security Program consists of grants and loans to military allies and friendly countries for both military and non-military activities.

Under this Mutual Security Program come such varied activities as the expense of training Allied troops in the use of American weapons; making those weapons available; constructing a road to permit transport of the weapons to a strategic location; constructing irrigation works in a friendly country trying to maintain its independence against communist subversion; sales and occasional gifts of large quantities of our surplus farm products; and training of native peoples by American technicians in such fields as agriculture, education and sanitation.

This enormous and incredibly complex program is used for a great variety of purposes:

—To secure base rights for American forces in foreign countries—thereby strengthening the U. S. defense effort by increasing the striking power of those forces and their ability to defend the United States.

—To support American military alliances with over 40 nations in order to discourage local aggression short of all-out war.

—To assist in the economic development of underdeveloped countries in order to promote their independence and stability and to lay the groundwork for more private investment abroad.

—To stimulate U. S. and world trade and to protect our supply of strategic materials.

—To support various humanitarian programs of the United Nations.

Although many of the activities supported by the Mutual Security Program today bear little resemblance to those carried on under the Marshall Plan, the basic foreign policy objectives of the program have not changed. These objectives can be summed up in two words—security and peace.

How the Program Works

As an integral part of United States foreign policy, the Mutual Security Program comes under the immediate policy direction of the Department of State.

Technically, the Secretary of State over-sees the entire foreign aid effort. The Under Secretary of State for Economic Affairs, a new office established under the Mutual Security Act of 1958, is responsible for coordinating the various military and non-military parts of the Mutual Security Program.

Most economic and technical aid programs are administered by an almost independent agency within the Department of State—the International Cooperation Administration (ICA). A program of loans for the development of under-developed countries is administered by the Development Loan Fund which was established as a corporate Government agency in 1958. Military assistance programs are administered by the Department of Defense.

Every year, two acts have to be passed by Congress in order to continue the foreign aid program. A Mutual Security Act authorizes the continuance of the Mutual Security Program and sets a ceiling on the new money that can be made available for the coming fiscal year. A Mutual Security Appropriations Act provides the actual money for carrying out the program.

One fact that is emphasized in Congressional hearings on Mutual Security authorizations and appropriations is that, at present, about

80 percent of the money earmarked for various foreign aid programs is spent directly in the United States. The goods and services these dollars buy—tanks and planes, surplus crops, services of technicians, etc.—are shipped abroad. Thus, it is estimated that the Mutual Security Program provides jobs for 600,000 people in the United States, including 421,000 in manufacturing, 99,000 in agriculture and 33,000 in transportation.

Because of the size and complexity of the Mutual Security Program, it is helpful to break it down into its several subsidiary programs or categories: Military Assistance, Defense Support, Development Loan Fund, Technical Cooperation, Special Assistance, Contingency Fund, and a number of miscellaneous programs.

The following table provides an indication of the relative cost of these programs:

MUTUAL SECURITY APPROPRIATIONS FOR FISCAL 1959

Type of Program	*Appropriation*
Military Assistance	$1,515,000,000
Defense Support	750,000,000
Development Loan Fund	400,000,000
Technical Cooperation	171,500,000
Special Assistance	200,000,000
Contingency Fund	155,000,000
Other Programs	106,592,500
Total	$3,298,092,000

In reviewing major aspects of each of these programs, it should be remembered that no program can be completely separated from the others. Each contributes something to the objectives of the Mutual Security Program as a whole.

Military Assistance

The money spent on military assistance is intended to help our allies develop, maintain and train modern military forces. It helps to pay for military equipment such as artillery, tanks, combat vehicles, aircraft, naval vessels, small arms, machine guns, and ammunition. It also meets the expense of modern, efficient and inten-

sive military training for allied forces to insure that the weapons and supplies we furnish are effectively utilized.

Some of the money helps finance an international military construction program of airfields, naval bases, radar systems, ammunition storage dumps, and fuel oil pipelines. Another portion is used to pay the U. S. share of the cost of maintaining certain international military headquarters and agencies, such as NATO and the Southeast Asia Treaty Organization.

As a result of rapid changes in weapons technology, military assistance in providing missiles, rockets, electronic equipment and other complex new weapons is being increasingly emphasized—particularly in the European NATO countries, which rely upon the United States for virtually all such weapons. At the same time, the trend is for these countries to assume a greater share of the cost of maintaining conventional armaments.

Military assistance is the most costly part of the Mutual Security Program. It is based on the belief that military aid to our allies gives us a degree of protection which might not be obtainable at any cost if we tried to do the whole job ourselves.

It is cheaper, for example, to help foreign allies maintain large military forces than to increase the size of our own forces. The cost per year to pay, house, feed and clothe the average military man of an ally is as follows: Greece, $424; Korea, $302; Thailand, $245; Turkey, $240; Taiwan, $147. But if it became necessary to replace an allied military man with an American serviceman, the cost would be $3,515 for the same expenses, plus over $3,000 for transporting and maintaining him abroad. This comparison, it should be noted, is based on one American replacing one foreign soldier. In actual practice it is possible that, with the superior training and reliability of our troops, one U. S. division might replace two or more divisions of foreign troops. Thus, there may not be so great a disparity in costs as these figures suggest.

Over the period 1950-1957, United States military assistance of $19.7 billion has been matched by allied expenditures of more than $122 billion—thus creating and maintaining allied strength totaling

5 million ground troops, 2,500 combat vessels and 32,000 aircraft. The costs in sustaining such power are far less than in producing equivalent strength from our own resources.

There is some question, however, as to whether the emphasis on military aid in the Mutual Security Program is not too heavy. Concern has been voiced about relying too much on allies that might not prove dependable in time of crisis. The wisdom of pouring enormous quantities of weapons into countries that seem to lack the political and economic base to make military assistance effective—in the Near East, the Far East and Southeast Asia—has also been questioned.

While the problem of how much military aid should be furnished to how many countries cannot easily be resolved, it is apparent that the security of the United States will continue to require substantial expenditures for this purpose.

For example, the development of intercontinental missiles has made the United States vulnerable to direct nuclear attack, and increased its dependence on widely dispersed foreign bases for effective retaliation. At the same time, the threat of "brush-fire" wars continues to require as strong a free world defense as the cooperation of allies can build.

Defense Support

Assistance of the defense-support type is essentially economic and technical aid to help a country raise and support a higher level of military forces then it could afford without such aid.

The great bulk of defense-support aid goes to the nations of the Far East and Pacific region. Their economies are so weak that if they tried to maintain their present defense levels without outside help, they would face the strong possibility of economic and political collapse.

Thus, defense support helps prevent a reduction in living standards which would lead to political instability, deterioration of morale, and other conditions which would hamper the military effort of an ally.

South Korea provides a good example of defense support in operation. This ally has a population of only 22 million in an area the size of Indiana. Yet it maintains the fourth largest army in the world—a half-million-man force with 21 active army divisions and 10 reserve divisions. Without defense support, South Korea would find it impossible to maintain such a force.

Defense support is supplied largely in the form of food, fertilizers, industrial raw materials, fuels and other economic resources, including United States surplus agricultural commodities. These commodities are then sold in the receiving country for local currency, which in turn is used to support national defense and economic activities.

Because defense support is designed to help a country's military effort, it is sometimes lumped together with direct military assistance under the general heading of "military aid." These two parts of the Mutual Security Program—the weapons we send our allies and the economic help necessary to enable them to support military forces of an agreed-upon level—get the lion's share of the money spent on foreign aid.

Development Loan Fund

The Development Loan Fund, authorized by the Mutual Security Act of 1957 as a new activity of the International Cooperation Administration, was established in order to place most of our economic aid program on a loan basis, and to make long-range planning easier. The Fund grew out of proposals contained in several studies of the Mutual Security Program made by both the Executive and Legislative branches of government. It was established as a separate agency under the Mutual Security Act of 1958.

Before the creation of the Fund, appropriations for the economic development of underdeveloped countries were made on a year-to-year basis, largely in the form of outright gifts. It was strongly felt by many who studied the Mutual Security Program that economic development aid should be—to the greatest extent possible—in the form of long-term loans.

The Fund is used only to finance specific development projects or programs. There are no set allocations by countries. Persons, private corporations, nations and organizations are eligible to borrow from the Fund, and proposed projects generally must be located in one of the less-developed, friendly countries.

Requests for loans must be screened against three major criteria:

1. Is financing available, in whole or in part, from other free world sources on reasonable terms?
2. Is the proposed project economically sound and technically feasible?
3. Does it give reasonable promise of contributing to the economic growth of the country involved?

The Fund is intended to help chiefly those newly developing countries that cannot, in their present stage of growth, borrow money from investors or banks. The terms for loans, for example, are less rigid than those of the Export-Import Bank or the World Bank. But as indicated above, loans from the Fund must, by law, complement rather than substitute for loans from other sources. They must also be made on the basis of firm commitments by the borrowers to make repayment, and upon a finding that there are reasonable prospects of such repayment. A considerable time may elapse, however, before actual repayment is made.

An important goal of the Fund is to stimulate development of the private sector of the economy of an underdeveloped country, and to attract foreign and domestic private investment in the country by helping provide, together with technical assistance, a base for economic development—transportation, industrial power, skills and technical knowledge.

The law specifically requires that the Fund be administered so as to support and encourage private investment. Joint projects between private American investors and private investors from abroad are emphasized. Such cooperation has a two-fold advantage: United States participation in a project brings needed production and management know-how to the enterprise, while foreign participation

contributes a knowledge of local economic and political conditions, as well as an understanding of local markets and distribution systems.

Requests for Fund loans by private investors may be initiated by an existing enterprise seeking to expand or diversify, or by a firm or an individual seeking to establish a new enterprise. But before loans for private investment from the Fund can be made, the consent of the government of the country in which the investment is proposed must be obtained.

As to terms, the Fund charges 3½ percent interest on loans for basic development projects such as roads, electric power developments, harbors, and the like. This rate is approximately the same as our Government pays on the long-term money it borrows. The Fund charges the going rate of 5½ percent on loans to profit-making enterprises.

Loans can be repaid over a maximum of 40 years, in dollars or in local currency, depending upon settlement terms. Since the Development Loan Fund is a revolving fund, the proceeds of repaid loans can be loaned out again.

The development-loan approach to economic development in the Mutual Security Program has not yet been fully tested. Because ground rules had to be worked out before the Fund could begin operations, there has been a delay in getting started. As of April 1958, however, roughly $1.8 billion in loan applications had been received. The applications pertained to a variety of basic projects such as transport and communication, electrification, agriculture and mining.

Purpose of Economic Aid

United States assistance in the economic development of underdeveloped countries is based on the belief that it is in our own national interest that these countries achieve the economic health necessary for the maintenance of their independence.

The subversion of these nations by communism would represent a great loss to the free world. Some of them are located in

strategic areas which encompass a number of military bases essential to the free world's strength. Others are sources of raw materials that are indispensable to important segments of American industry: industrial diamonds, natural rubber, quartz, graphite, tin, chromite, manganese, cobalt and many other commodities.

It has become increasingly apparent that the less-developed areas of the world may hold the ultimate balance of power between democracy and communism. Millions of people in Asia, Africa and the Middle East are striving for economic, social and political progress in a way that has not happened for centuries. Their dissatisfaction with extreme poverty and disease, added to bitter memories of colonial exploitation, has produced an unrest which has become one of the most powerful forces for change in the world today.

The Soviet Union is energetically trying to use this unrest to serve its own power interests. Frustrated in their efforts to use direct military aggression for expansion, the Soviet leaders have turned to offers of economic loans and credits as a method of paving the way for the eventual communist domination of less-developed nations.

Soviet help is made to appear as a contribution toward the national independence of formerly colonial peoples. No effort is spared to inflame old hatreds and to convince the less-developed countries that Soviet aid can drastically reduce the need for cooperation with the West.

When offering aid to economically weak nations, moreover, the Soviets boast that they have a new and unique formula for rapid industrialization. They point out that Russia itself was a backward country only a few decades ago, and that communism in the USSR built industrially what it took the West over a century to achieve.

There is little question that the Soviet Union hopes to encircle and isolate the United States by taking over more and more of the countries that are now part of the non-communist world through economic and political penetration. A major purpose of United States economic aid to underdeveloped countries, whether militarily allied with us or not, is to prevent Soviet penetration and to show

these countries that they can achieve economic improvement through free institutions.

There is a growing feeling among Administration officials that the demand for sound development projects which could counter communist subversion in the less developed countries far exceeds presently available funds and requires an expansion of the Development Loan Fund.

Technical Cooperation

Technical cooperation, or technical assistance, is a relatively modest part of the Mutual Security Program. It is designed to help the peoples of less developed areas of the free world raise their standards of living through the interchange of knowledge, experience, techniques and skills. This type of assistance works hand-in-hand with economic aid, in that it trains local people in the use of the goods, machinery and plants they need for economic development.

The need for technical assistance is very great. Millions of people in the less developed countries live under extremely primitive conditions. Many still use wooden plows. They lack skills and education. Few have benefited from the profound changes resulting from scientific progress. Ignorance, starvation, and disease are widespread.

The less developed countries today are trying to increase their economic strength so that they can eventually stand on their own feet. But they need improved technology to make their work successful. Technical cooperation aims to fill this need.

Aid is given by sending American teachers and technicians abroad, and by bringing foreign specialists here for training. About 4,300 American technicians, including those under private contract, are expected to be working in more than 50 countries during fiscal year 1959. To date, more than 25,000 foreign nationals have been brought to this country for training. Some 55 American universities are cooperating with ICA in carrying out various technical assistance projects in more than 30 countries.

Technical aid embraces a great variety of fields: industry, mining,

agriculture, labor, education, health, sanitation, public administration, transportation, community development. Through this program much has already been done to help millions of people to improve their way of life. Disease has been cut down. People have been taught water purification techniques. Illiteracy has been reduced. And in many countries farmers are learning how to diversify crops and improve livestock yields.

How Technical Programs Work

Technical cooperation programs are initiated through diplomatic channels, at the request of countries needing this type of aid. A first or "general" agreement may cover operations for a period of years. Later, the details of particular projects—which must be justified—are worked out by American specialists and foreign representatives. The share of the cost to be borne by the United States and the host country must be agreed upon before ICA officials in Washington approve the plans and invest the necessary money.

In working out joint projects, the United States and the host country determine basic needs. Technical skills and knowledge, applied to these needs, may make other improvements possible. A rural health program, for example, may be set up. With improved health, the farmers of an area will be better able to give their full energies to work. Only then can real improvements in agriculture be expected. At the same time, local people must be trained to run the heavy farm equipment such as tractors and harvesting machines needed to develop the country's agricultural resources. As can be seen from this example, one form of technical aid can lead to, and support, another.

Technical cooperation is generally rated as one of the most successful and fruitful forms of American aid. It has done much to spur local countries to make headway on their own. For example, we spent nearly $3 million during 1957 for various educational projects in Cambodia. Cambodians responded to this priming with zeal, and are now putting $10 million per year, or 20 percent of their national budget, into improvement in schooling.

Our technical aid is not only helping others to help themselves, but is enabling them to make technical contributions of their own to other countries. A special training center set up in one country becomes available to other countries of the area. For example, the Institute of Public Administration in Manila is attended by students from several Asian countries.

Foreign participants in technical cooperation programs have made valuable contributions to research projects in the United States. Specialists from Taiwan and Iran, for example, have shown us their laboratory methods in straining bacteria and making vaccine. A new virus disease of tomatoes in California was recognized by a specialist from Brazil. Useful information on extraction of oil from oil seeds has been contributed by scientists from India, Thailand, Lebanon and Venezuela. Another benefit from technical cooperation has been the expansion of crops important to international trade—coffee, cacao and others.

The bulk of mutual security money appropriated for technical cooperation is used for bilateral programs—programs undertaken directly with an individual country. Some of the money, however, is earmarked for multilateral programs—those undertaken in conjunction with a group of other countries. Thus, the Mutual Security Program helps support programs of technical assistance conducted by the United Nations and the Organization of American States. Both forms of technical aid—bilateral and multilateral—are coordinated to achieve balanced programs and to prevent duplication of effort.

Special Assistance

Programs of Special Assistance consist of economic aid to promote or maintain political or economic stability in situations where such help cannot be provided under other categories of aid. They are designed to achieve a variety of political, economic, humanitarian or other objectives.

Special assistance includes, for example:

—Grants to promote economic development where loan repay-

ment would be impossible.

—Aid of a nondevelopmental character, such as assistance to meet a country's financial problems or to restore or maintain conditions of economic stability.

—Aid to assure the availability of military bases to United States forces in countries—such as Morocco and Libya—where the support of significant military forces is not a key objective of U. S. policy.

—Assistance to West Berlin, where the U. S. is still an occupying power.

—Support of a European technical exchange program.

—Funds for the continuation of a worldwide malaria eradication program.

Contingency Fund

The contingency fund is one set up to meet emergencies that cannot be anticipated by other programs. It can be used to supplement other categories of aid—except the Development Loan Fund—to meet either contingent or unforeseen requirements.

The emergencies may be of an economic, political or humanitarian nature. Past examples of emergency aid include help to peoples afflicted by natural disasters such as floods and earthquakes in Haiti and Nepal, aid to help Iran and Guatemala save themselves from chaos and communist subversion, and relief for Hungarian refugees who had fled their country following the abortive revolt against communist tyranny.

The contingency fund is designed to provide the Mutual Security Program with the flexibility necessary to react quickly to many different and unexpected situations. It makes it possible to extend, when necessary, prompt and adequate aid without seriously disrupting going programs, and to prevent political or economic upheavals from reaching more serious dimensions.

Other Programs

In addition to the major categories of aid described above, the Mutual Security Program includes a number of miscellaneous

projects and activities—mostly of a humanitarian character—which have been developed to meet specific problems and needs without affecting the course of the program as a whole.

Some of these activities are bilateral in nature. Others are carried out in cooperation with other nations through international agencies. They include:

THE ATOMS FOR PEACE PROGRAM. This program is designed to promote the peaceful uses of nuclear energy abroad. Friendly nations are given help in establishing research reactors, and their scientists are provided with training and research equipment.

Some 34 countries have entered into, or completed, agreements for cooperation with the United States in this field.

UNITED NATIONS CHILDREN'S FUND (UNICEF). The United States contributes to this fund to help carry forward the efforts of the United Nations to improve the health and welfare of mothers and children in the newly developing areas.

The fund operates in 98 countries and territories, and 81 other countries contribute to it. It has helped provide equipment and medical supplies to some 13,400 maternal and health centers in rural areas, mainly in Asia.

INTERGOVERNMENTAL COMMITTEE FOR EUROPEAN MIGRATION (ICEM). Organized in 1952 on the initiative of the United States, this Committee helps to resettle persons from the overpopulated countries of Europe to countries which can use additional manpower—such as Canada, Australia and various Latin American countries. About 175,000 people annually are moving out of Europe and finding new homes and opportunities through this program.

UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES (UNHCR). The United States contributes to the completion of programs formerly carried on by the United Nations Refugee Emergency Fund (UNREF). These programs have helped millions of refugees—in Europe and parts of the Near East and Far East—to become self-supporting members of the free world. Emergency

aid is still given to those who are destitute. Chief recipients at present are refugees from Eastern Europe who continue to be detained in European refugee camps.

UNITED NATIONS RELIEF AND WORKS AGENCY (UNRWA). By contributing to UNRWA, the United States participates in the relief and rehabilitation of Palestine refugees—a major and potentially explosive political problem in the Middle East today.

UNITED STATES ESCAPEE PROGRAM (USEP). This program gives temporary aid to persons who have escaped from the Soviet bloc and are awaiting permanent re-establishment. It is designed to cover costs not met by voluntary relief agencies, or by present countries of asylum.

OCEAN FREIGHT CHARGES. This activity supports American voluntary relief agencies by paying ocean freight costs on their relief shipments abroad. Thirty-one private groups cooperate in the program in 17 foreign countries.

CONTROL ACT EXPENSES. Funds are provided for the administration of the Mutual Defense Assistance (Battle) Act—which embargoes the shipment of strategic goods to the communist bloc.

INVESTMENT GUARANTY PROGRAM. Through this program, inaugurated in 1948 and administered by the International Cooperation Administration, the U. S. Government insures overseas investment against the classic non-business risks of blocked profits (inconvertibility of foreign currency receipts into dollars), expropriations and war.

Based on the belief that, in the long run, free private enterprise is the best way to achieve and sustain beneficial economic development, the Investment Guaranty Program is designed to encourage United States businessmen to participate in achieving the purposes of the Mutual Security Act by investing capital abroad.

It is recognized by many people who have worked in the field of foreign economic aid that the underdeveloped countries of the world cannot possibly achieve all the goals they have set for themselves without the help of private foreign investment. But there

are a number of complex factors that limit the attractiveness of these countries to American and other investors:

—Lack of external or internal political stability.

—Poorly operated governmental services with poorly trained personnel.

—Lack of basic facilities such as power and transport.

—Low productivity of labor.

—Limited local markets.

—Chronic balance-of-payments problems.

To these must be added the suspicion with which many newly developing countries regard free enterprise—which they associate with colonial-power domination. Because of this suspicion, it has been tremendously difficult to persuade the governments of these countries to establish conditions which are attractive to private capital.

A major objective of the Investment Guaranty Program is to help make foreign investment more attractive to private business. An agreement between the United States and a foreign government is necessary to institute the program. Any U. S. investor in a country with which the United States has such a treaty can apply for insurance covering the full value of new investments. Policies generally bear an annual premium of one-half of 1%. Guaranty coverage is available for periods up to 20 years. This type of investment guaranty does not compete with the wide variety of protection offered by private insurance companies.

Special treaties to guaranty protection for private investments have been concluded with 37 countries. Over 200 policies covering $207 million worth of foreign investment have been issued since 1948. The amounts of individual investments insured by the program vary widely—from as low as $10,000 to $11 million.

So far, no claims for payments under investment guaranty contracts have been made. Apparently the Investment Guaranty Program has done much to impress participating nations with a sense of responsibility in recognizing the international morality of contracts. At any rate, the presence of agreements has had a healthy

effect on the investment climate. Applications for insurance are not only on the rise, but also coming in for underdeveloped countries once considered too unstable and risky.

The obstacles to a growth of free enterprise in the less developed countries, however, remain formidable. To some extent, moreover, large scale U. S. foreign aid has helped to produce consequences which conflict with the intention to facilitate a greater flow of American private investment overseas.

Our aid, for example, most frequently goes to governments. This strengthens the role of the state in a recipient country, and tends to deter the growth of private enterprise and to reduce the incentive to attract private foreign capital.

In the long-run, however, it is hoped that the economic resources and technical know-how supplied in U. S. aid programs will help to create economic conditions and a political climate favorable for and attractive to sound investment. Many feel that once the less developed nations have developed the basic facilities of an industrial economy, for which private capital is seldom available, they will then be able to mobilize both foreign and domestic private investment for further economic development.

Under such circumstances, the Investment Guaranty Program may grow in importance as a means for helping to substitute private investment for tax-supported foreign aid.

Evaluation

IT IS EXTREMELY DIFFICULT to evaluate the Mutual Security Program on a business-like basis. Apart from its enormous size and complexity, the program is so weighted with political and military considerations that normal economic criteria often cannot serve as a measure of its effectiveness.

The accomplishments of the aid program during the past decade are usually summarized along the following lines:

—Western Europe has recovered in large measure from the economic ravages of World War II.

—Turkey, Greece and Iran have been saved from Soviet indirect aggression.

—Communist aggression in the Far East—against Korea, Formosa and Vietnam—has been halted or prevented.

—A large growth in free-world defense strength has taken place at less cost than if we tried to create a similar strength without the cooperation of allies.

—Political chaos in many newly developing nations is being averted.

—The United States continues to have access to world sources of supply and world markets.

—In terms of resources and power—land, people, industry, materials, strategic locations, and armed strength—the free world is still vastly superior to the Soviet bloc.

—The free world remains free and can still hope to work out its problems of defense and development in the interests of a just and durable peace.

These achievements are balanced by a great variety of shortcomings and deficiencies:

—There is always the risk that certain allies may withdraw from, or revise, their commitments, or that underdeveloped countries now receiving aid may some day succumb to communist subversion.

—There is no easy and clear-cut way of determining exactly how much aid is necessary, to whom it should be given, and what kind it should be.

—Our aid has been used for purposes which have not always been consistent with the best interests of the United States or of the recipient countries.

—In some cases, nations have received more aid than they could readily absorb; in other cases, foreign aid has resulted in a great deal of bribery and corruption on the part of officials and friends of officials in foreign nations.

—Political or military objectives sometimes result in an uneconomic use of aid funds.

—Numerous countries, particularly countries in Latin America,

have felt neglected in favor of other regions of the world and have expressed resentment toward the United States.

—The heavy emphasis on military assistance in the aid program has brought about unfavorable attitudes toward the United States among some of the newly developing nations.

—The administration of the program has suffered from numerous instances of bad planning, extravagent programming and wasteful operation.

Better management, tightened administration and control are clear imperatives if the Mutual Security Program is to continue as an effective element in United States defense strategy and an instrument of our foreign policy. While much of the needed improvement is a matter for administrative judgment and procedure, a great deal can be done to correct deficiencies through legislative action.

The Mutual Security Act of 1958, for example, contains a number of new provisions designed to improve the program: one establishes stricter procedures for the planning and carrying out of specific aid programs; another tightens the criteria for military assistance to Latin America; a third calls for a study of the ways and means in which private enterprise can be more effectively utilized and protected in carrying out the purposes of the Mutual Security Program and in advancing the foreign policy objectives of the United States.

Another way that legislators influence the program is through their control of appropriations. One of the thorniest problems annually confronting the Congress and its appropriate committees is to decide what limitations on mutual security funds will discourage extravagence and mismanagement and at the same time provide enough money to fully support the foreign policy of the United States.

It is clear that the Mutual Security Program requires continual evaluation to insure that it effectively promotes the national interest. In part, the need for such evaluation has been met by periodic investigations and studies of the program by Congressional commit-

tees, advisors to the Administration, and private individuals. Recently, a new critical study of foreign aid was launched by a nine-man special Presidential committee, headed by William H. Draper. The Draper Committee will try to evaluate the extent to which future military assistance can advance American national security and foreign policy interests as well as the relative emphasis which should be given to military and economic programs. A preliminary report is expected by March 1, 1959, to help the President shape his request for foreign aid appropriations from the Congress for the next fiscal year.

But evaluation of the program is not the job of Congress or the Administration alone. Business and community leaders have a responsibility for appraising the program, and expressing their views on it.

A clearer understanding of the program by more citizens throughout the country, wider discussion of the merits and shortcomings of specific aspects of it, and expression of informed views to members of Congress by business and community leaders will help assure Congressional action that will best promote the security of the United States.

ADDITIONAL READING

Check with your local bookstore or public library for the following:

Asher, R. E. *The Foreign Aid Expenditures of the United States.* Washington: The Brookings Institution, January 1958.

Brown, Jr., W. A., and R. Opie. *American Foreign Assistance.* Washington: The Brookings Institution, 1953.

High, S. "How the U. S. Has Aided a New Nation" *Reader's Digest,* January 1958.

National Planning Association. *The Foreign Aid Program and the United States Economy, 1948-1957.* Washington: May 1958.

Write to International Cooperation Administration, Washington 25, D.C., for free copies of:

Development Loan Fund. Washington: October 1958.

Investment Guaranty Handbook. Washington: September 1957.

The Mutual Security Program: Fiscal Year 1959. A Summary Presentation. Washington: February 1958.

Technical Cooperation. Washington: February 1957.

Publications listed below may be ordered from the Superintendent of Documents, United States Government Printing Office, Washington 25, D. C., giving catalog number and title:

Collection of excerpts and bibliography relative to United States foreign aid. 1957. 39 p. 15¢ Catalog No. 85-1: S. doc. 62

Foreign aid program, compilation of studies and surveys, prepared under direction of Special Committee to Study Foreign Aid Program, Senate, pursuant to S. Res. 285, 84th Cong., and S. Res. 35 and 141, 85th Cong. 1957. 1582 p. $4.00 Catalog No. 85-1: S. doc. 52

Foreign aid, report of Special Committee to Study Foreign Aid Program, pursuant to S. Res. 285, 84th Cong., and S. Res. 35, 85th Cong. 1957. 38 p. 15¢ Catalog No. 85-1: S. rp. 300

Study prepared at the request of the Special Committee to Study the Foreign Aid Program, Senate (pursuant to S. Res. 285 84th Cong., and S. Res. 35, 85th Cong.):

No. 7. American private enterprise, foreign economic development, and aid programs. 1957. 68 p. 25¢ Catalog No. Y4.F 76/6: St. 9/no. 7

Questions and answers on mutual security program. 1958. 20 p. 15¢ Catalog No. S 7.71:125