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DEVELOPMENT ASSISTANCE IN THE NEW ADMINISTRATION

Report of the

PRESIDENT'S GENERAL ADVISORY COMMITTEE  
ON FOREIGN ASSISTANCE PROGRAMS

October 25, 1968

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## CONTENTS

I.	Recommendations in Brief	1
II.	Development Assistance and U.S. Foreign Relations	4
	The world setting in the seventies	4
	U.S. interests in development cooperation	6
III.	Present Programs	8
IV.	Major Challenges to Development Assistance	8
	Can the U.S. afford to assist less developed countries?	10
	Does development assistance lead to military entanglement?	12
	Can development assistance be effective?	13
	Can development assistance be managed soundly?	15
V.	Recommendations in Detail	16
	1. A strong new agency	16
	2. Expanded multilateral assistance	21
	3. Separation of development assistance and military assistance	24
	4. Overseas Investment Corporation	26
	5. Program emphases: food production, family planning, science and the professions, education, popular participation	28
	6. An expanding flow of development assistance	33
	7. Innovations for the longer term	40
VI.	Building Public and Congressional Support	42

## I. RECOMMENDATIONS IN BRIEF

The President's General Advisory Committee on Foreign Assistance Programs is profoundly convinced that vigorous cooperation with the developing countries of Asia, Africa, and Latin America in their slow climb toward better living conditions is in the basic interest of the United States. Yet in America today a mood of malaise and withdrawal is enfeebling U.S. development assistance efforts. In our judgment, reestablishment of the U.S. role as a pace setter in peaceful development cooperation is a historic imperative.

Accordingly the Committee recommends that the new Administration coming to office in January 1969 take steps to reorganize and revitalize U. S. development assistance. The Administration should offer a fresh program of new activities and new emphases, while building on the demonstrated strengths of the present system. We believe that the following elements provide such a program.

1. The U.S. will continue to need a strong development assistance agency. The Administration should propose to the next Congress a new authorization act for a streamlined successor to the present Agency for International Development. A new name in keeping with our recommendations might be the Development Cooperation Fund. The new agency should be authorized to use three main instruments: long-term loans on liberal terms for capital assistance, grants for technical assistance, and grants for reconstruction and emergency assistance. We urge that in using these instruments the new agency carry forward three features of present A. I. D. policy: comprehensive country analyses as the basis for providing U.S. assistance and encouraging self-help, integration of capital and technical assistance tools, and coordination of sales and grants of agricultural products with other forms of assistance.

2. The U.S. should expand contributions to multi-lateral agencies as rapidly as their managements can handle additional resources competently, and as other industrialized countries can be persuaded to go along. Contributions to Special Funds of multilateral banks, and transfers of funds for particular countries to be administered by multilateral agencies, are attractive arrangements for doing so. Closer coordination of all assistance to individual developing countries through consultative groups of donor countries is also highly desirable. The U.S. should welcome the leadership of a strengthened World Bank in providing more assistance and coordinating bilateral programs.
3. Military assistance should be separated from development assistance by transfer to the Defense Department budget, while remaining under the policy guidance of the Secretary of State. Reconstruction and emergency assistance grants should be provided for Vietnam, Laos, and Thailand for the duration of hostilities, and for early reconstruction in Southeast Asia. Beyond this, such funds should be available for only a limited number of countries where there is an emergency or security rationale, and for a limited period of transition to a development effort.
4. An Overseas Investment Corporation should be established to take over the present investment guarantee and investment promotion functions of A. I. D., and to undertake new initiatives for more rapid expansion of private investment in less developed countries. The corporation should have authority to raise capital funds at government-guaranteed rates, and to lend directly to high-risk private ventures which are important for development and which have the potential to be commercially viable. At the same time, the U.S. should liberalize present balance of payments restrictions on direct investment in manufacturing and processing industries in less developed countries.

5. U.S. assistance should focus on support for these important movements in the less developed world: (a) extending the "green revolution" in food grain production through all areas of agriculture and marketing; (b) expanding population and family planning programs to the limit of host governments' ability to proceed; (c) strengthening scientific and professional personnel and institutions; (d) increasing individual opportunities for education and improving the relevance of education for national needs; (e) broadening participation by the general population in both responsibilities and benefits of development.
6. The U.S. should, in its own interest, undertake to restore total development assistance in all forms to at least the share of our national income reached in 1965, and to expand assistance in the future as our income and tax revenues rise. Reasonable estimates of needs are well above these levels. The largest increases should be achieved by expanding flows through competent multilateral institutions and private investment. To meet the over-all objective, however, appropriations for the new development assistance agency ought to rise above those A. I. D. received prior to the deep cuts of Fiscal Years 1968 and 1969. Moreover, greater international attention should be focused on fitting assistance terms to individual countries' debt servicing capacities.
7. The Administration should give prompt study to longer-term innovations, which go beyond measures recommended here. Among the possibilities are: devoting to development assistance some of the Special Drawing Rights which will be created by the International Monetary Fund; government commitments to subsidize interest payments on bonds issued for the International Development Association; and additional funds in the World Bank family for commodity diversification programs in countries whose primary export earnings are seriously depressed. The U.S. should intensify international discussions of such possibilities, with the aim of putting the world's development assistance system on a firmer foundation.

## II. DEVELOPMENT ASSISTANCE AND U. S. FOREIGN RELATIONS

### The World Setting in the Seventies

The new Administration will face a complex set of international relations problems. It will need to have effective instruments for U. S. relations with:

- the communist world, where the uneasy balance of nuclear deterrence continues amid growing diversity within the bloc;
- the industrialized democratic world of Europe and the Pacific, where a creaky monetary system poses new challenges;
- and the less developed world, where some two-thirds of the world's people are struggling with post-colonial instability, racial bitterness, and massive poverty.

During the decade of the seventies relations with this third world are likely to occupy an increasingly important place in the Administration's concerns. Some ninety countries in Asia, Africa, and Latin America are straining to raise their pitifully low living standards. Societies are caught in the swirl of rapid social and economic change. The colonial system has been replaced in many countries by inexperienced and unstable governments. Most of the military crises of the last two decades have erupted in this tense environment, and more may be expected in the future.

Moreover, the nations of Asia, Africa, and Latin America have become self-consciously independent in their foreign relations, and they now constitute an international political force that demands respect and attention. Despite their present economic and military weaknesses, their significance is magnified by the U. N. system, by competition between and within the democratic and communist blocs, and by the sheer weight of their multiplying populations.

What this vast and variegated third world has most in common is an overriding urge for faster material and social progress. Economies are moving ahead, but improvements in per capita income still are slower than in the industrialized nations.

The instruments of U.S. policy toward the less developed regions include development assistance, trade and monetary policies, diplomatic and cultural relations, military alliances and assistance, and military intervention. Of these, military intervention is much the most costly in every way, and any significant reduction in the likelihood of future military actions is worth substantial expenditures on the other instruments. Development assistance, on the other hand, has the great advantage of meeting the most deep-felt need of those countries, in a field where their interests and U.S. interests are overlapping.

Culturally the United States has less in common with most of them than with European countries, and racial differences interfere with understanding. Most of their governments resist alliances that may involve them in great-power rivalries, and are vocal about neo-colonialism in trade. In their development efforts, however, we have resources and experience that are clearly helpful, and working together brings comparatively few conflicts. Friendly and mutually beneficial relations with the less developed world in the seventies will depend, more than on any other factor, on how the new Administration uses the instrument of development assistance.

But the new Administration faces a grave danger that the Congress and the general public will turn so far inward that they will disavow concern for the less developed world. The tendency to do so has increased in the last few years--partly because of the strains from the Vietnam War, partly because of a newly vivid recognition of urgent racial and social problems in American life, and partly because of an altered political balance between the President and the Congress. Witness the reckless cuts in A.I.D. appropriations in Fiscal Years 1968 and 1969, and the prominently discussed idea of a complete moratorium on development assistance. The U.S. -- the richest country in the world--has by now fallen behind many other industrialized countries in the proportion of our income devoted to development assistance.

If the new Administration is to have the instruments for effective relations with the less developed world in the seventies, it should move promptly. Somehow we Americans must restore among ourselves a feeling of right and confidence and pride in playing a constructive role as a leader in world affairs.

The new Administration's freedom of action will of course be constrained by the fighting in Vietnam and the rate of movement toward a settlement. This report is based on the assumption that the prospect in January will be for a negotiated settlement within perhaps a year, while hostilities continue on a diminishing scale. In these circumstances the budgetary resources available for new initiatives in FY 1970 will be tightly limited, and only gradually during the succeeding years will they become more abundant. Modifications in policies toward the communist world, the industrialized democratic world, or the less developed world will also be difficult while negotiations drag on. But it should be possible (and essential for the new President) to make some innovations with an eye to greater freedom of action in the future.

With respect to development assistance, the Committee feels that it would be highly desirable to define new arrangements and new emphases which can be initiated in the first year, make a first step in FY 1970 in the direction of providing adequate resources, and lay out a firm plan for the future as policy and budgeting pressures ease. The tide of withdrawal is now so strong that the new Administration cannot simply hold still until a more propitious time.

#### U.S. Interests in Development Cooperation

The United States has two basic interests in the less developed world, and therefore in programs of development assistance.

First, the United States as a nation has an interest in a peaceful and progressive world environment in which to live. More rapid material progress in less developed countries will tend to lower tensions caused by hunger and other misery, and to reduce the risk that violent government instability will disturb world peace. It will tend to absorb the energies of leaders and people into constructive development activities rather than into international grievances and adventures. It will tend to evolve open and pluralistic societies congenial to our own. Moreover, working with poor countries for development will provide opportunities to improve understanding of our interests, and to encourage positive responses to problems of mutual concern.

Second, the people of the United States have an interest in helping other people achieve adequate levels of nutrition, education, and health. This humanitarian interest has been forcefully expressed by religious

and civic groups, and springs from our deepest sense of what is right. We ought to try to help poor countries and poor people improve their lot, and because we are wealthy we can do something about it. If we failed to cooperate in the drive to improve the lot of two-thirds of the world's people, we would deserve to lose the respect of both poor and rich nations for having forsaken our responsibilities.

Our mutual interests with less developed countries vary, depending partly on their different stages of development. Near the lower end of the scale, the main benefit that we can offer is development assistance, first chiefly in the form of technical assistance and later in the form of large-scale capital inflows -- mostly loans on liberal terms. The main benefits that they can offer are to act as responsible nations in their domestic and international affairs, and to engage in trade -- particularly, at that stage, of primary products for capital goods. Near the upper end of the scale, countries which succeed in developing rapidly may graduate from the need for capital assistance on liberal terms, though many will still need technical exchanges, as well as capital on commercial terms. The benefits which they can offer at that time include participation in trade in a wider range of products, active opportunities for private investment, continuation of congenial diplomatic and cultural relations, and constructive leadership in the family of nations. Over a time span, measured in decades, we can hope that the movement of individual countries through this spectrum will contribute to the building of a viable, integrated, and peaceful world.

The Committee feels compelled to point out that it would be dangerous for the U. S. to ignore the development concerns of the less developed countries. In American cities we have seen the costs of permitting the frustrations of poverty to drag on. Looking ahead to the long future, the Committee does not believe that the U. S. can live securely in a world in which the poor countries are unable to raise living standards at least as rapidly as the rich countries -- whatever the absolute gap in incomes.

### III. PRESENT PROGRAMS

There are several types of U. S. development assistance. Table 1 shows the types as measured in the standardized statistics of the Development Assistance Committee (D. A. C. ), which is made up of the sixteen industrialized democratic countries supplying development assistance. A. I. D. bilateral programs are the largest, but are still only about two-fifths of the total. Note that the figures are disbursements, not appropriations, and hence do not yet show the effects of the deep budget cuts in FY 1968 and FY 1969. Shipments of U. S. farm products under Public Law 480 are the other large official flow, in the order of a fifth of the total. Official contributions to multilateral agencies are much smaller, though they are supplemented by private purchases of multilateral securities. Export-Import Bank net flows are quite modest, after netting out repayments, which offset two-thirds to four-fifths of gross lending. Finally, private investment in all forms, which varies greatly from year to year, may amount to over a quarter of the total in good investment years.

These various types of development assistance differ in organizational arrangements, in the kinds of goods or services provided, in domestic political support, and in whether they are offered on liberal terms (all of the official flows except the Export-Import Bank) or commercial terms. Adding them together is inevitably somewhat arbitrary, but in this report we shall consider them all as parts of development assistance.

### IV. MAJOR CHALLENGES TO DEVELOPMENT ASSISTANCE

In today's atmosphere of fatigue many critics question whether the United States should have development assistance programs at all. The Committee has identified four major challenges, all of which deserve straightforward answers.

TABLE 1  
 U. S. DEVELOPMENT ASSISTANCE FLOWS  
 TO LESS DEVELOPED COUNTRIES  
 (Disbursements, net of repayments, in \$ millions)

	Calendar years		
	1963	1965	1967
A. I. D. bilateral programs	2,008	2,059	2,134
Official contributions to multilateral agencies	142	164	310
P. L. 480 <sup>1/</sup>	1,421	1,263	1,051
Export-Import Bank <sup>2/</sup>	72	56	160
Peace Corps	47	82	108
Other <sup>3/</sup>	18	50	50
Recoveries <sup>4/</sup>	- 7	- 48	- 91
 TOTAL OFFICIAL	 3,699	 3,627	 3,723
 Private purchases of multilateral securities	 5	 144	 255
Private investment <sup>5/</sup>	<u>875</u>	<u>1,749</u>	<u>1,589</u>
 TOTAL OFFICIAL AND PRIVATE	 4,579	 5,520	 5,567
 Percentage of national income <sup>6/</sup>	 0.94%	 0.97%	 0.85%
Percentage of Gross National Product <sup>6/</sup>	0.76	0.79	0.70

(Totals may not add due to rounding.)

1. Excludes repayments and the portion of sales values in local currencies reserved for U.S. rather than host country uses.
2. Repayments which have been netted out were 222 in 1963, 246 in 1965, and 321 in 1967.
3. Includes such diverse programs as the Development and Support of Trust Territories, Migration and Refugee Assistance, and Ryukyu Assistance.
4. Includes recoveries of principal on a variety of earlier grants and loans in foreign currencies which can now be put to U.S. uses.
5. Includes direct investment, reinvested earnings, net private export credits, and portfolio investment.
6. National income differs from gross national product largely in that it nets out depreciation on capital and excludes indirect taxes such as excise and sales taxes.

Can the U. S. afford to assist less developed countries?

Development assistance programs have been under heavy attack, particularly in the Congress, on the ground that the United States cannot support development assistance and at the same time meet our overriding defense needs, make long-overdue expenditures on our cities, and stop the drain on our balance of payments.

The Committee feels that domestic budget costs of development assistance programs have not in fact been large relative to other claims. Table 2 gives some specifics for FY 1968. Appropriations for development assistance programs (on a basis roughly comparable to the types of disbursements in Table 1) were only about 2 percent of Federal appropriations for all government programs. In contrast, we spend about 40 percent of our budget on defense, 8 percent paying interest on the national debt, 4 percent for veterans' benefits, and 3 percent for space programs. Moreover, it should be pointed out that the appropriations for P. L. 480, which are classified as development assistance in the table, also support farm incomes in the United States.

Development assistance is now extremely low in its balance of payments costs. Only 6 percent of recent gross A. I. D. expenditures have added to the balance of payments deficit, and they are offset by interest and principal payments on past loans. Virtually all of P. L. 480 expenditures are on U. S. goods and shipping.

The Committee does not wish to understate the importance of the other needs of the country, or to advise on the entire scale of priorities. The Committee does feel that development assistance has a strong claim among the nation's appropriations for living in the world, which include money for defense, military assistance, diplomatic relations, and other international programs. As shown in Table 2, this total was about \$90 billion in FY 1968; development assistance was \$4 billion. The Committee believes that this share should be larger in view of the benefits that the development assistance program delivers.

It is important to remember that the cost of neglecting the economic development and stability of the poor nations may be great. Had we neglected Korea economically after the armistice there,

TABLE 2  
 U. S. APPROPRIATIONS FOR DEVELOPMENT ASSISTANCE  
 AND OTHER INTERNATIONAL PURPOSES  
 (New obligational authority, in \$ millions)

	<u>FY 1968</u> <sup>9/</sup>
A. I. D. bilateral programs	1,765.6
Official contributions to multilateral agencies <sup>1/</sup>	534.0
P. L. 480 <sup>2/</sup>	1,605.5
Peace Corps	107.8
Other <sup>3/</sup>	52.1
TOTAL DEVELOPMENT ASSISTANCE	4,065.0
Export-Import Bank <sup>4/</sup>	865.1
Foreign affairs <sup>5/</sup>	333.9
Foreign information and exchange <sup>6/</sup>	248.3
Military assistance	596.0
Department of Defense	74,280.5
Defense related <sup>7/</sup>	9,645.3
Other <sup>8/</sup>	130.1
TOTAL OTHER INTERNATIONAL PURPOSES	86,099.2
TOTAL DEVELOPMENT AND OTHER INTERNATIONAL PURPOSES	90,164.2
TOTAL FEDERAL GOVERNMENT APPROPRIA - TIONS	189,674.0

1. Includes contributions to international organizations from the Foreign Assistance Act, as well as Inter-American Development Bank and International Development Association subscriptions.
2. Gross appropriations, whereas the P. L. 480 figures in Table 1 are disbursements net of repayments and U. S. uses.
3. Includes Pacific Trust Territories, Ryukyu Islands, Migration and Refugee Act, and Payment for Panama Canal.
4. Budgeted gross lending authority for FY 1968 in all countries, whereas the Export-Import Bank figures in Table 1 are net disbursements to less developed countries.
5. Includes Department of State, International Organizations and Affairs, and International Commissions.
6. Includes U. S. Information Agency and Educational Exchange.
7. Includes Atomic Energy Commission, Selective Service System, and Veterans Administration.
8. Includes Arms Control and Disarmament Agency, Bureau of International Labor Affairs, Foreign Agricultural Service, Foreign Claims Settlement (Philippines), Bureau of Customs, and Tariff Commission.
9. Actual regular appropriations plus estimated supplementals.

we could very well have been drawn back into a military conflict as a result of the economic and political weakness of that country.

Our conclusion that the United States can afford what is called for in development assistance is reinforced by the fact that other advanced nations much less wealthy than the U. S. are now devoting larger shares of their national income to official assistance than we are. In 1964, two D. A. C. nations surpassed us in the proportion of their income devoted to official development assistance. By 1967 we had become laggards, with both France and Germany ahead of us, as well as Australia, Belgium, the Netherlands, and Portugal, and we were tied with the United Kingdom. The deep appropriations cuts imposed in Fiscal Years 1968 and 1969 will cause the United States to fall still further behind other aid suppliers unless the trends are reversed.

Does development assistance lead to military entanglement?

In reaction to the Vietnam war, some Americans are afraid that development assistance programs may involve the country in dangerous military entanglements.

The Committee finds that the historical evidence does not support the charge. In Korea, military involvement preceded substantial development assistance. In Vietnam, U. S. activities have been security-oriented from the beginning, and the decisions made at each step of the way have not been compelled by simple development assistance relations. In the Dominican Republic our small assistance program to the Trujillo government had been ended before the revolution which led to the landing of U. S. forces.

On the other hand, armed conflicts have occurred between or within countries where we have had substantial economic assistance programs, without our becoming militarily involved. This was the case in the 1965 India-Pakistan fighting, the 1967 Arab-Israeli war, the civil wars in the Congo, and the current civil war in Nigeria. Indeed, the influence gained through development cooperation has helped our diplomats in their efforts to avert or to settle such conflicts.

Fundamentally, the Committee believes that development cooperation provides the U. S. with an alternative to military

involvement for playing a continuing role in the less developed world. Doves or hawks on our military commitment in Vietnam can equally support assistance for development.

#### Can development assistance be effective?

Critics of development assistance often question whether it accomplishes its purposes. Certainly the experience of the last two decades includes many mistakes and disappointments. But the Committee believes that the record as a whole is one of remarkable success for such a difficult enterprise.

Sometimes the challenge of ineffectiveness is made because the goals of development assistance are misunderstood. A frequent criticism, for example, is that major recipients of aid disagree with the United States on particular foreign policy issues. But the goal of having all countries toe the line on all aspects of our foreign policy, besides being infeasible, is not a desirable one for a world community of free nations. The general pattern of our relations with most of the less developed countries has been friendly, open, and cooperative. Development assistance cannot buy agreement when the basis for it -- in parallel national interests -- does not exist, but where interests are not in conflict, development assistance can provide benefits in more cooperative attitudes and better working relations.

A central objective of development assistance is cooperation with friendly countries to achieve self-sustaining economic and political progress. There is by now a great deal of evidence that assistance programs are succeeding in promoting economic development. Gross National Products in Israel, Iran, Taiwan, and Greece have grown at annual rates of 8 or 9 percent in the 1960's, and after receiving large amounts of aid for many years, these countries have graduated from the need for assistance on easy terms. Turkey and Korea have made substantial progress, and are well on the way to self-sustaining growth. The annual growth rate of Gross National Product in all the less developed countries as a group from 1960 to 1967 has been about 5 percent, which is comparable to growth in the developed countries and in line with goals for the Development Decade of the 1960's that seemed highly optimistic when adopted.

Graduation from the need for development assistance is certainly not the only measure of success. Countries are at different stages of development, and achievements must be judged by different standards. In some cases modern institutions must be built before the country can sustain a major development program with large-scale capital assistance. Assistance programs in a good many African countries are devoted mainly to technical assistance projects aimed at building such institutions. The establishment of modern training colleges for secondary school teachers in Nigeria and in Uganda are examples of crucial progress whatever the trend of GNP.

In many countries, particularly in Asia, the race between food and population must be won before self-sustaining growth can be contemplated. U. S. assistance has already had unmistakable effects on this race. Family planning programs in recent years have begun to reduce birth rates in Taiwan and Korea. The dramatic breakthroughs in wheat and rice production in India, Pakistan, and other countries of South and East Asia are perhaps the most exciting accomplishment of all. They are particularly striking because there is an influential body of opinion which holds that nations so tradition-bound cannot progress economically without long-term changes in popular attitudes. The recent experience in Asia of millions of farmers adopting fertilizers, new seeds, and improved methods demonstrates that profitable investments will be undertaken, and older methods changed, even in traditional societies. This too is an important form of success.

In still other countries, development assistance programs have been significant mainly in inducing governments to adopt economic policies that are more congenial to progress. In Brazil, for example, a U. S. - assisted program of monetary and fiscal discipline, import liberalization, and tax and savings reforms has been carried through, and though inflation continues (at lower rates) the economy is now growing again in real terms.

Development assistance is a long-term commitment, however. In a single country, under favorable circumstances, the transition to self-sustaining growth normally takes at least a decade or two. In view of the large number of countries, their diverse circumstances, and the fact that many are not yet able to make full use of capital inflows, the need for development assistance will continue. Moreover, since economic development is a disruptive process politically and socially, there may be interruptions because of political instability as well as because of economic mistakes. When we decide to assist development,

we necessarily open ourselves to the risks of occasional disappointment. The Committee believes that these risks must simply be accepted, and that the over-all record is much more successful than is commonly recognized.

Can development assistance be managed soundly?

Some of the sharpest criticisms of foreign assistance programs have focused on instances of scandal or mismanagement. In February, 1968, for example, widespread press coverage was given to the fact that about \$100,000 of various luxury items was included in A. I. D. shipments to the Dominican Republic. This was true, and deplorable, but the suggestion that it indicated widespread mismanagement was grossly misleading. First, money for the questionable items was already being refunded to A. I. D. when the story broke. Second, the total involved was four-tenths of one percent of a crash program of support to the new government of the Dominican Republic. The Committee has been impressed with the vigorous efforts of A. I. D. to tighten administrative procedures and minimize the possibilities of misuse. These efforts must not flag.

This whole problem of managing the use of aid inputs must be considered in the context of what development assistance is trying to accomplish. It is true that many foreign governments do not manage their resources as efficiently as would the U. S. government if we were entirely responsible. Many do have more corruption. But A. I. D. is not a management agency in the receiving countries, and it cannot be so long as we respect the sovereignty of host governments. Indeed, if we tried to make it so, local management abilities would never be developed. The U. S. must work with host governments, with their vital knowledge of local needs, and an essential part of the process is strengthening local administration.

Economic assistance is used in some cases to assist new governments trying to lead their countries to recover from political or economic turmoil. The risks of waste in such programs are greater than in countries with an established momentum of development. Nonetheless, the Committee feels that external assistance on a proper scale at such critical times can have a very high pay-off. With the best management possible, some of these risks must simply be accepted for the sake of the potential benefits of a sizable and rapidly committed program. There was waste in Korea in the early fifties, but Korea's success since then suggests that it was right to push ahead with a crash program at that critical time.

Development assistance is also sometimes criticized because it appears to benefit largely people who are already well-to-do in the host country. Appearances can be misleading. Rapid economic growth over many years benefits most people in a society even if large wealth differentials continue. The U.S. must deal with countries as they exist--so long as they are committed to economic and social development--and cannot by itself determine how the benefits of over-all economic progress should be distributed. We can, however, seize opportunities to support activities which broaden popular participation, build democratic institutions, and implement social reforms. Increasing emphasis should be given to such efforts in the future.

## V. RECOMMENDATIONS IN DETAIL

### 1. A strong new agency

The Committee believes that to use development assistance most effectively in U.S. relations with the less developed world over the next five years, it is crucial that the government have a strong development assistance agency. An appropriate new name, consistent with our approach in this report, might be the Development Cooperation Fund (DCF).

The Agency for International Development, viewed with all its warts and even without the modifications which we recommend, impresses the Committee as a major asset. A. I. D. has accumulated a store of experience and professionalism that has enabled it to be an innovating leader in the world system of development assistance. Though A. I. D.'s staff has been weakened by lack of Congressional and public support, the Committee has been surprised that so many able personnel have continued their commitment to its program.

A. I. D. as now organized has a broad range of aid instruments to meet the needs of individual host countries -- notably long-term development loans on liberal terms for capital assistance, development grants to cover the costs of technical assistance, and supporting assistance in grant or loan form for countries of security interest. It has the field structure to work effectively with host government officials in using aid and to exert continuing influence on self-help policies affecting productive use of the country's own resources. The position of A. I. D. within the State Department and under the Ambassador abroad gives

needed foreign policy guidance; yet its autonomy permits expression within the U. S. Government of its special concern for long-term development.

With the modifications indicated in other parts of this report, the Committee recommends that the new agency build on the strengths of A. I. D. during the next five years. There should, however, be a completely new authorization act to establish the organizational changes and policy emphases of the new President. It should simplify as much as is politically possible the present brier patch of specific legislative requirements, which now require, for example, 77 statutory conditions for a loan to build rural roads in Liberia. It should provide guidelines of Congressional policy upon which the President is requested to report; such guidelines are generally more constructive than specific requirements. It should provide for two-year authorization of all elements of the program, to relieve both the agency and the Congress from repetitive wheel-spinning, while focusing attention on the annual appropriations. It should strengthen the agency's career service by providing for a more flexible and appropriate personnel system, especially as to retirement benefits, which should be put on the same basis as those available to foreign service personnel of the Department of State and USIA.

The Committee urges particularly that three key features of A. I. D. be retained in the new agency. The first is:

-- Country programming and encouragement of self-help --

A. I. D. has increasingly used assistance as an inducement to countries to (a) increase their efforts in mobilizing resources for development, and (b) adopt policies that promote more effective private and public use of resources.

The central approach has been country programming. Each year the agency makes a comprehensive review of each major country's over-all development effort. In principle the review weighs priorities for development goals, examines alternative approaches to attaining them, defines needed self-help measures, and estimates requirements for external assistance. Country programming provides the basis for discussing with the host country its own efforts.

But this discussion is not just an annual affair. Experience has shown that encouragement for self-help is most effective in the give and take of day-to-day working together on development problems. This is a major function of the field missions. Understandings about a government's key policies are negotiated along with major loans. The process must be backed up, however, by willingness to raise or lower assistance as countries do or do not carry through.

It seems clear that encouragement of self-help has had favorable results in many countries. Among the objectives attained have been removal of controls on private industry and foreign trade; improvement in prices received by farmers; and more disciplined fiscal and monetary policies to restrain inflation. Despite some mistakes and disappointments, the Committee is convinced that this is the right approach and should be continued.

-- Integration of capital assistance and technical assistance --

The second A. I. D. feature that should be retained is central management of two major kinds of assistance. Capital assistance and technical assistance are more effective if coordinated with one another and with the host country's own efforts. Partly this is a matter of efficiency. Capital for fertilizer plants makes technical assistance in grain production more powerful, while technical assistance to a highway department increases the value of loans for equipment. Partly it is also a matter of inducement. Host countries are more responsive to technical help if donors are prepared to back their advice by sharing in capital costs. Though the Committee's observations indicate that A. I. D. still has a long way to go, we are persuaded that it integrates capital and technical assistance much more closely than was possible when its predecessors, the International Cooperation Administration and the Development Loan Fund, were separate. This present pattern of coordination should be further strengthened.

Technical assistance should, wherever possible, be provided as part of a package of loans and grants with well-defined objectives. A promising device is the sector loan, in which an agreement is reached to provide a variety of external resources, in combination with the country's own resources and policy changes, to attain

development objectives in an entire sector such as agriculture or education. In Chile, for example, loans for imports of fertilizer, farm machinery, seeds, and pesticides from the U. S. were coordinated with technical assistance for adaptive agricultural research and extension services which supported Chile's own agrarian reform law.

Some people have made proposals that would fundamentally disrupt the integration of capital and technical assistance. One is to distribute responsibilities for technical assistance to regular U. S. Government departments -- agricultural technical assistance to the Department of Agriculture and so on. We are convinced that this fission -- among types of technical assistance as well as between technical and capital assistance -- would seriously reduce the acceptability and effectiveness of technical assistance in host countries abroad. The present arrangement by which A. I. D. contracts for project staffs from other government departments is much preferable.

Another is to ask an expanded Peace Corps to absorb the technical assistance functions of A. I. D. Though the Peace Corps has been a success in its present role, we do not believe that separate provision of skills and enthusiasm through middle-level volunteers can adequately substitute for packages of capital assistance and technicians having greater training, experience, and skills.

A third proposal is that all forms of technical assistance should be withdrawn from the capital assistance agency and placed in a separate foundation or corporation. This foundation would be staffed insofar as possible by scientists and educators. It would operate with substantial autonomy, controlled neither by departments in Washington nor by the Ambassador or the capital assistance agency in missions abroad. The merits in this proposal are that it might attract technical personnel of higher quality and might improve working relations with leading U. S. scientific and educational institutions. The demerits are that it would tend to release technical assistance from the discipline of contributing to the growth of production in particular sectors, would give up integration with capital assistance as an inducement and as a related input, and would pose serious coordination problems at home and abroad. The Committee believes that these losses would more than offset the potential gains. We urge

in Recommendation 5, however, that the new development assistance agency make special efforts to strengthen scientific and professional aspects of its technical assistance.

-- Coordination of food aid with other assistance --

Farm commodities sold on credit or given away under P. L. 480 have usually been at least a fifth of total U. S. development assistance. More and more in recent years these commodities have been programmed not simply to dispose of U. S. surpluses but to support the development efforts of less developed countries. In particular, P. L. 480 has been used as an inducement to host countries to promote their own agricultural production. Countries such as India and Pakistan have been assured of food supplies on condition that they increase development expenditures on agriculture, expand use of new seeds and fertilizer, and raise prices received by farmers.

The Committee is convinced that this is a sound trend, and should be continued. At the same time we note with concern that credit terms for P. L. 480 sales have become distinctly harder than terms on development loans, and we suggest that the terms of all forms of development assistance should be based on the debt-servicing capacity of the individual country.

Administration of P. L. 480 at the U. S. end is largely a responsibility of the Department of Agriculture, and in view of the U. S. agricultural and trade interests involved and the experience of the department's personnel, this is sensible. A. I. D., however, has a responsibility for assuring that food aid and A. I. D. assistance both contribute to country development goals. Other Washington agencies also participate in sales decisions. Overseas negotiations with host governments and coordination with other forms of assistance are largely handled by A. I. D. field missions. The complexity of the interagency framework has not prevented increasing coordination of food aid with capital and technical assistance, both in Washington and in the field. The Committee feels that such coordination is extremely important. The new Development Cooperation Fund -- or whatever it is called -- should retain A. I. D. 's present responsibility to assure coordination.

If the present revolution in food grain production fully succeeds -- supported by many kinds of development assistance over the years -- some countries which now must import large tonnages of

grain will become more nearly self-sufficient, and other countries will become exporters. Despite these dramatic innovations, however, the Committee believes that agricultural commodities should continue to be used as an important part of development assistance in the 1970's. First, the U. S. has a competitive advantage in many agricultural products. Second, even optimistic projections of food production and demand suggest that less developed countries will need large food imports in the foreseeable future. Third, though food grain production in less developed countries will increase, there will be rising needs for other types of farm commodities, such as cotton.

## 2. Expanded multilateral assistance

The Committee recommends that the United States enlarge the share of its development assistance provided through multilateral agencies as rapidly as larger flows can be managed effectively and as other industrialized countries will participate.

The role of multilateral agencies in the development assistance process has grown in recent years. Cost-sharing among advanced countries through those agencies has been promoted by the United States, and the contributions of the other countries have increased. As shown in Table 3, net multilateral flows are now about \$1.3 billion, approximately a sixth of the combined total of multilateral and official bilateral assistance. Only about two-thirds of the multilateral total comes from current official contributions, however, the remainder being provided from private borrowings and drawing down past contributions.

The World Bank family provides over half of net multilateral flows, divided more or less evenly between hard-term loans of the Bank itself and easy-term loans of the International Development Association (IDA). The UN agencies provide about a quarter, almost all of it for technical assistance. The rest goes through the Inter-American Development Bank, supported largely by the U. S. and limited to the Latin American countries, and the European Economic Community institutions, limited to associated countries in Africa and Europe. The Asian Development Bank and the African Development Bank are just getting into operation.

There are some significant differences among these agencies. The World Bank family has a very high quality staff, well-established

TABLE 3  
 MULTILATERAL DEVELOPMENT ASSISTANCE FLOWS TO  
 LESS DEVELOPED COUNTRIES  
 (Disbursements, net of repayments, in \$ millions)

	Calendar years		
	1963	1965	1967
Official contributions <sup>1/</sup>	364	450	770
Private purchases of multilateral securities	- 31	247	280
Other multilateral outflow <sup>2/</sup>	<u>469</u>	<u>349</u>	<u>238</u>
<b>TOTAL MULTILATERAL FLOWS</b>	802	1,046	1,288
Official bilateral, D. A. C. Countries	<u>5,707</u>	<u>5,753</u>	<u>6,203</u>
<b>TOTAL MULTILATERAL PLUS OFFICIAL BILATERAL</b>	6,509	6,799	7,491
Private investment <sup>3/</sup>	<u>2,575</u>	<u>3,980</u>	<u>4,110</u>
<b>TOTAL DEVELOPMENT ASSISTANCE FLOWS</b>	9,084	10,779	11,601

MULTILATERAL FLOWS BY AGENCY

World Bank Family	431	569	694
Inter-American Development Bank	75	109	146
Asian Development Bank	-	-	-
African Development Bank	-	-	-
European Economic Community Institutions	67	116	143
United Nations	<u>229</u>	<u>252</u>	<u>305</u>
<b>TOTAL</b>	802	1,046	1,288

1. Net of principal repayments only; excludes contributions from non-D. A. C. members.
2. Difference between disbursements and receipts of multilateral organizations, largely disbursements out of prior years' official contributions and private investments, but net of contributions, investments and repayments from less developed countries.
3. Includes direct investment, reinvested earnings, net private export credits, and portfolio investment.

standards of operation, and a clear capacity to expand its operations if additional funds were available, particularly for IDA. The UN has difficulties in coordinating independent agencies and allocating funds objectively -- difficulties that are only gradually being overcome. The regional development banks face in different ways the problem of accommodating sound standards with borrower control, and the Asian and African Banks must still build staff and experience.

The Committee believes that the United States should increase its contributions to competent international banks, along with other contributors, as rapidly as the banks are prepared to undertake the additional responsibilities. This approach will take advantage of the experience and acceptability of the multilateral agencies, avoid some of the Congressional and diplomatic tribulations of A. I. D., and put pressure on all advanced countries to share in the development assistance system.

A particular problem arises because of the size and wealth of the United States. Our share in the GNP of the D. A. C. countries exceeds 50 percent, but if our share in the financing of the multilateral banks increased to more than half, their multilateral character would be weakened. The Committee endorses three possibilities for meeting this problem. First, the United States should offer to raise its share in the next replenishment of IDA from 40 to 45 percent, and to forego special balance of payments protection. Second, the U. S. should be willing to contribute shares at a proportion higher than 45 per cent to Special Funds administered by the regional development banks. Third, if the World Bank and IDA will agree to accept Special Funds for particular countries, the U. S. should be prepared to make transfers of bilateral assistance funds in appropriate cases, where the advantages of multilateral administration are strong.

The Committee recognizes that bilateral assistance has important special strengths which make a combination of multilateral and bilateral programs desirable in the world system. As noted above, A. I. D. has played a leadership role in relation to both the other advanced nations and the multilateral institutions. Other larger donor countries, particularly Germany, France, Japan, and Italy, are committed to bilateral programs, because of distinctive geographical interests and problems of domestic political support. The United States has mutual interests with most of our present large-

scale aid recipients that are better developed on a bilateral basis. Our ability to work with them in the future is an important part of the rationale for development assistance. Finally, starting from where the multilateral agencies now are, doubling their rate of disbursements over the next five years would be a considerable management achievement. But as shown in Table 5 below, even this would still leave a need for bilateral assistance programs larger than at present.

The Committee emphasizes that an equally important aspect of multilateralism is closer coordination of all assistance to individual countries through various forms of consultative groups of aid-supplying countries. There are now eighteen such groups -- in India, Pakistan, Ceylon, Turkey, Greece, Morocco, Tunisia, Nigeria, Ghana, Sudan, East Africa, Colombia, Ecuador, Peru, Malaysia, Thailand, Indonesia, and Korea. They cover close to half of worldwide development assistance. Some are still weak. But where the staffs of multilateral institutions have provided leadership, supported by the U. S. , such groups have permitted reasonably objective negotiation of the types and amounts of assistance that are most needed, the terms on which it should be made available, and the economic policy measures that should be adopted.

The multilateral agencies, however, need to strengthen themselves as development agencies to take full advantage of these opportunities. In particular, the World Bank should play a more energetic role as leader in consultative groups, provide more program loans, and encourage self-help through country programming. It should take the lead in debt rescheduling negotiations, offer more high-level technical assistance to the planning process in host countries, and establish small field staffs in major aid-receiving countries. It would be helpful if it modified its procedures to accept Special Funds for individual countries. Under its new president the Bank is moving along several of these lines. Further steps would strengthen the promising trends in multilateral cooperation already under way.

### 3. Separation of development assistance and military assistance

Development assistance and military assistance should be legislatively separated from one another. Separation would enable the U. S. to employ each more effectively where its use is desirable.

The Committee suggests the following pattern of separation. All grant military assistance programs should be taken out of the development assistance budget and made a line item in the Defense Department budget. A major advantage of this change is that U. S. defense expenditures overseas and expenditures on the defense efforts of allies could be examined in the same context. Special arrangements should probably be made for consideration of this line item by the foreign affairs committees of the Congress, however. Grants should be gradually reduced, as countries are shifted to credit purchases of military equipment.

Grant economic assistance for security purposes in Vietnam, Laos, and Thailand should be provided within the development assistance budget for the duration of hostilities. Grant economic assistance should continue to be available for early reconstruction in Southeast Asia. It should be combined with the remaining security programs, which are small, and with the contingency fund, which is available for unexpected aid needs after Congress has passed the budget, in a new line item for Reconstruction and Emergency Assistance. Policy provisions should make clear that these grant funds are available (a) for Southeast Asia reconstruction, and (b) for a limited number of countries with a security or emergency rationale, but only on a one-time basis or for a limited number of years. Keeping responsibility for Reconstruction and Emergency Assistance in the new development assistance agency would facilitate evaluating benefits of alternative packages of emergency and development assistance in a particular country, and arranging a prompt transition to development-oriented efforts.

The sharper separation of military programs would leave development assistance in a legislative and policy framework where the criteria under which it operates are clearer, and where it could more effectively pursue its central purposes. Development assistance is a tricky enough business without combining it with major military cooperation or assistance for security reasons. If the development assistance agency is to have credibility, the influence which it tries to exert on the key development policies of host countries must be visibly devoted to the economic well-being of their citizens. It must try to make its judgments about aid levels stick on objective grounds unencumbered by leverage for defense cooperation.

#### 4. Overseas Investment Corporation

The Committee is convinced that more rapid expansion of U. S. private investment in less developed countries is an essential complement to public development assistance. An Overseas Investment Corporation should be established to strengthen and extend A. I. D. 's present investment guarantees and investment promotion activities, and to undertake new initiatives in direct lending with capital funds raised at government-guaranteed rates. A government corporation is appropriate for these programs, because they are predominantly of a business nature, are revenue-producing, and call for considerable flexibility of administration and funding.

The Committee affirms the U. S. commitment to private enterprise in development, and is convinced that a decentralized economic system guided by market forces is the right approach to promoting development. An expanding flow of U. S. private investment in less developed countries seems to us essential. It will provide capital, introduce technical and managerial skills, and help assure markets for the host country. It will enable U. S. private businesses to contribute to the progress of economies abroad.

Unfortunately, the present share of U. S. national income devoted to private investment in less developed countries is comparatively low. In recent years the private sectors of from seven to ten of the sixteen advanced countries in D. A. C. have invested larger shares of their national income in the less developed countries than the United States has. This is contrary to what one would expect on the basis of our wealth and the vigor of our business community. The Committee is convinced that more can be done by private business with U. S. Government encouragement. Five years from now U. S. business should be investing a higher share of our national income in Asia, Africa, and Latin America.

We emphasize that public development assistance is needed to support the framework within which private investment can do its part. The vast majority of less developed countries will continue to need public grants and loans on liberal terms, and cannot yet afford to rely entirely on private capital or loans on commercial terms. Public development assistance is needed to support a transportation and power base, progress in agriculture, an improving

educational system, and availability of essential imports. Moreover, public assistance can help to encourage sensible economic policies of host governments to provide a healthy investment climate.

A. I. D. 's programs to promote private investment have clearly increased in effectiveness in recent years. Over \$6 billion of Specific Risk Guaranties against currency inconvertibility, expropriation, or damage from war or revolution are presently outstanding; four years ago the total was only \$1.5 billion. The Extended Risk Guaranty program, which can insure against commercial risks up to 75 percent of loan investments and 50 percent of equity investments in carefully screened projects, is just getting into high gear. Perhaps \$25 million in such guaranties will be authorized in FY 1969. These and other A. I. D. efforts, such as cost-sharing in investment feasibility studies, are working well, and are showing what can be accomplished.

The new Overseas Investment Corporation which we recommend would take over the present investment promotion functions of A. I. D. In addition, the corporation should have authority to lend directly to U. S. investors, investment corporations, or private investors in less developed countries. It should be able, on a highly selective basis and subject to a limited ceiling set in the law, to take minority equity participations. Experience suggests that ability to share directly in capital costs can be crucial in making projects jell. A corporation staffed by experts from the private sector would have advantages in dealing with private investors. Its activities ought to be coordinated with those of the new Development Corporation Fund, and the head of the Fund should be the chairman of the corporation's board of directors.

The Committee suggests that the corporation could obtain capital for its operations in several ways: First, the corporation could further liberalize extended risk guaranties -- to, say, 90 percent for loans and 75 percent for equity. Experience with the present system indicates that this change would attract additional capital to guaranteed projects from insurance companies and other institutional investors. Second, the corporation could issue its own government-guaranteed securities on the U. S. market. Third, it could be given borrowing authority from the Treasury

of the same sort the Export-Import Bank now has. Fourth, it could be assigned interest and amortization payments on existing A. I. D. loans to private firms. Fifth, over time it could sell off in the U. S. capital market its loans, equity positions, or participations in its portfolio.

Capital provided by the corporation for private investment should generally move at rates of government-guaranteed securities, and projects assisted should have the potential to be commercially viable. Budgetary appropriations should not be a source of capital, but could be provided to the corporation for supporting investment promotion and technical assistance activities.

In addition, the Executive Branch should ease present balance of payments controls to permit a faster increase in direct investment in less developed countries by U. S. corporations. The present system administered by the Department of Commerce permits individual firms to invest in 1968 up to 110 percent of their average investment of 1965 and 1966 in less developed countries, but because such projects vary greatly from year to year, many firms have had to seek specific authorizations while others haven't used their potential claims. The experience of 1968 indicates that private investment in less developed countries may be held back substantially unless the controls are liberalized. The system should be modified so its target is a continuing increase of at least 10 percent a year in total investment, and greater allocations should be made to non-extractive investment and to small business. The cost to the U. S. balance of payments would be modest, since in 1967 direct investment in less developed countries was only about a fifth of total U. S. direct investment abroad.

5. Program emphases: food production, family planning, science and the professions, education, popular participation

What emphases should the United States stress in its development assistance programs over the next five years? Fundamentally, assistance should be tailored to the needs and conditions of particular host countries, on the basis of country programming. But the Committee feels that the circumstances of the next five years are likely to call for five program emphases affecting many countries.

-- Food Production --

Dramatically improved yields of rice in the Philippines and wheat in India and Pakistan testify to the "green revolution" in food grain production now in progress. Improvements in corn and sorghum are less publicized but similarly dramatic. A. I. D. is now devoting about a quarter of its funds to agriculture. Over the next five years more than that will be required simply to carry through the production revolution in wheat, rice, corn and sorghum in other areas of the same countries, and in lagging countries. This will call for seeds, fertilizers, insecticides, farm machinery, irrigation projects, storage facilities, processing plants, and agricultural services, as at present.

Now that solutions to the technical problems of production are being found, moreover, increased emphasis will have to be given to marketing systems and pricing policies. A. I. D. has already encouraged the adoption of agricultural policies that increase incentives to producers. In the future lower-cost foodstuffs should permit benefits for both consumers and the newly efficient producers. Improved marketing systems will call for additional facilities for storage, credit, transportation, and processing, and for new activities by both public organizations and private traders.

The task of extending the benefits of the "green revolution" will be complex and challenging, but the foundations have already been laid.

-- Population and family planning --

For human and economic reasons now well recognized, the benefits of reduced population growth are very large. Family planning is spreading in many countries - in Taiwan and Korea, India and Pakistan, Tunisia and Kenya, Colombia and Chile. A. I. D. has recently given top priority to family planning programs, increasing its commitments from \$4 million in FY 1967 to \$35 million in FY 1968 and a planned \$50 million in FY 1969.

Over the next five years the new development assistance agency should push ahead to support in every possible way those governments which are prepared to make vigorous attempts to overcome

the obstacles to family planning. The diplomatic risks to the U. S. stemming from host country sensitivities about population programs should be understood, and every effort made to reduce them. The cultural and social obstacles are in many cases formidable. Even apart from such obstacles, the benefits in slower population growth can accrue only in the long run. It should also be recognized that there is a limit to the capacity of less developed countries to absorb external funds for the program. Most of the costs are local-currency expenditures for staff, clinics, transportation, publicity, and locally produced contraceptives. Foreign supplies and technical assistance, although crucial to success, do not involve substantial outlays in foreign currency. But with these cautions, the U. S. should move ahead as energetically as ingenuity can permit.

Possibly the greatest contribution which can be made by the United States is research into new contraceptive techniques. The Committee urges that medical research funds in the federal budget be increased to support the population-restraint activities so crucial to the world.

-- Science and the professions --

An active cadre of scientific and professional personnel, participating fully in the international intellectual community, is crucially important for self-sustaining development. To build the necessary institutional capacity in research and higher education, less developed countries need long-term external assistance. Such assistance, to be effective, involves a delicate balance between the activities of public agencies and private institutions. Even after countries become self-sustaining with respect to capital assistance on liberal terms, they will still need exchanges of scientific and professional personnel with advanced countries to maintain and improve standards of excellence.

There are several reasons for giving special attention to science and the professions within the over-all development assistance effort. First, a central feature of such assistance is continuing participation in the world professional community. Taiwan, Iran, Israel, and Greece have already graduated from the need for A. I. D. capital assistance on easy terms, and Korea and Turkey can be expected to do so. Yet it is highly desirable that technical cooperation continue, even after capital assistance is no longer needed.

Second, government help to higher education and research is a sensitive matter, and activities with a private character may be more acceptable and effective in many host countries. Third, there is a general problem of attracting and retaining high quality scientific and professional personnel for such assistance. A. I. D. has had some recognized difficulty in doing so, and in working smoothly with leading universities at home and abroad. Fourth, the U. S. itself benefits directly from the experience of our professionals abroad, the contributions of foreigners in our universities, and continuing institutional contacts across national boundaries. This is a field for mutually beneficial international cooperation.

The Committee is not certain how best to implement increased U. S. support for science and the professions in less developed countries. We are persuaded that present arrangements in A. I. D. leave a gap, and that this problem should receive high-level attention within the new development assistance agency. This may call for organization of a special office within the agency, or establishment of a suitable advisory committee to the agency head, or both. Still other institutional arrangements may well be considered. But somehow there should be an expansion of technical assistance for leading universities and research institutes in less developed countries -- visiting U. S. personnel, graduate or post-doctoral education for national staff members, modest amounts of equipment and books, and active exchanges of professional personnel. This support should be administered to engage full participation by private institutions, and to continue cooperative relationships after countries graduate from other assistance.

-- Education --

The hunger for education is perhaps the most deep-felt social need of less developed countries. Educational progress is critical for overcoming shortages of skilled manpower which hold back material progress, for broadening opportunities of ordinary people to participate in the development process, and for enabling countries to emerge as modern nations.

The bulk of the resources for quantitative expansion of education clearly must come from the less developed countries themselves. The needs are so vast, and the role of nationals in education so

central, that external donors can at most contribute a small margin. Thus, it is very important that development assistance contribute to qualitative improvements in host country education systems. Major goals are: to relate education to requirements for trained manpower; to mobilize increasing amounts of domestic resources for education; to adopt techniques which reduce education costs per student, so that broader educational opportunities can be fitted within budgetary availabilities; to adjust curricula inherited from the past to be more useful to students in their own societies; and to supplement formal education with on-the-job training and literacy campaigns.

For U. S. assistance to contribute most effectively to these goals, a considerable range of innovative, experimental, research and pilot-project activities should be undertaken. Some may deal with possible applications of modern technology, such as TV. But in all fields the emphasis should be on innovation and testing, so that activities which succeed have a value beyond the projects themselves.

#### -- Popular participation --

Development is much more than the increase of production. An important feature of the development process is broader sharing by the general population in both the responsibilities and the benefits. And for the U. S. assistance program this sharing should be a major objective in its own right.

The means of promoting popular participation are many and diverse. For example, activities should be supported which strengthen independent private institutions, or involve large numbers of people living in comparatively depressed areas, or foster national integration and constructive social reforms. The rural works program in Pakistan, which provided substantial funds through local government organizations for local public works projects, has helped to strengthen local rural institutions and to bring common people into decision making about their country's future. In other countries, technical assistance on tax reform may be the most promising line of action. Participation can be broadened through labor unions, agricultural cooperatives, small private businesses, and local governments. The new Development Cooperation Fund should establish criteria and priorities which would give popular participation greater emphasis in country assistance programs.

Congress has already shown its support for the objective of broadening popular participation by adding Title IX to the Foreign Assistance Act. Greater emphasis on this objective in the years ahead seems likely to strengthen support for development assistance among the American public.

#### 6. An expanding flow of development assistance

The Committee is convinced that U. S. objectives in cooperation with the less developed world cannot be attained without a continuing political and moral commitment to provide development assistance. This means, at a minimum:

(1) restoring development assistance in all forms to the levels which prevailed before the unfortunate appropriation cuts of FY 1968 and FY 1969; and then

(2) expanding it as our national income and government tax revenues rise.

The United States should reverse its recent lagging steps and regain its leadership in the worldwide system of development assistance, in accordance with our wealth, our responsibilities, and our interests in a compatible world environment.

Why are the needs of less developed countries for development assistance likely to be higher over the next five years?

A basic factor is that they are actually succeeding, as a group, in expanding their GNP at around 5 percent a year. This calls for rising imports, rising investment, and rising government services -- frequently more rapidly than national product. They must try to expand their exports, domestic savings, and tax revenues to cover these costs. To attain corresponding rates of increase would be a great achievement in view of how hard it is to broaden export markets in traditional products, to increase savings when people's incomes are low, and to impose and administer modern tax systems. But even if they do attain corresponding rates of increase, their absolute needs for external assistance will continue to expand.

The destinations of development assistance will shift as the requirements of individual countries change, even within rising total

requirements. As we have seen, some countries have already become self-sustaining and the next five years will probably bring additional graduates, such as Korea and Turkey. But nearly all of today's large-scale recipients of development assistance, such as India, Pakistan, Brazil, and Colombia, will still be in mid-stream five years from now. And many countries now at lower levels, such as Indonesia, Morocco, Ghana, Kenya, and Bolivia, are likely to move into a stage where they need and can use effectively large-scale inflows of development assistance.

Finally, goals have a good habit of rising. As goals rise, "needs" rise. The five percent growth rate of all less developed countries as a group has been substantially exceeded by growth rates upwards of seven percent for those countries which have succeeded in becoming self-sustaining. With populations increasing at three percent per year, the difference between five percent and seven percent over-all growth is critical for per capita living standards. A goal higher than the recent five percent for the less developed world would surely call for substantially more assistance.

After the next decade or two, as more countries reach and maintain higher growth rates for a period of years sufficient to become self-sustaining, needs for official assistance on easy terms should decline. Private investment and capital flows on commercial terms should be sufficient. But the time is not yet.

There have been a number of serious attempts to make quantitative estimates of needs for development assistance in the early seventies. Four of these estimates are summarized in Table 4. All were built up from projections for individual countries, but the estimates differ in targeted rates of growth, in their analyses of determinants of assistance needs, and in data and many technical details. The consensus of the estimates, however, is that the less developed world will need something between \$15 and \$20 billion of development assistance per year in the early seventies, compared to the 1967 flow of about \$11.4 billion from all countries in the Development Assistance Committee (D. A. C.).

If the United States and all the aid-supplying countries as a group could carry through into actual public appropriations and private investment their desired objective -- as stated in the D. A. C. and at the UN

TABLE 4  
ESTIMATES OF GLOBAL NEEDS FOR DEVELOPMENT ASSISTANCE  
IN THE EARLY SEVENTIES  
(In \$ billions)

	<u>Approximate Amounts Around 1973</u>
George Woods, former World Bank President <sup>1/</sup>	16.5 - 19.0
UNCTAD Secretariat <sup>2/</sup>	16 - 22
U. N. Centre for Development Planning <sup>3/</sup>	13 - 15.5
A. I. D. staff <sup>4/</sup>	15 - 21
D. A. C. 1% of GNP target <sup>5/</sup>	19.5
Restoring 1965 ratio of 1% of national income	15.6
(Actual 1967 D. A. C. flow = 11.4) <sup>6/</sup>	

1. Statement to Ministerial Meeting of D. A. C., Paris, July 22, 1965. The statement was couched not in terms of achieving certain growth rate targets, but of "what the developing countries could effectively use, on the average, over the next four years." The estimate was derived, however, from projections of 33 individual countries to 1970, with a median GNP growth rate of 5% from 1963 to 1970. The average of an additional \$3-4 billions annually has been interpreted here to imply a gradual increase from a 1962-64 level of about \$8.0 billions to a level of \$14.0 to \$16.0 billions by 1970. The 1970 range has been extrapolated to 1973 at 6% per year. There may have been some omission of unreported technical assistance and of transfer payments on current account.
2. "Trade prospects and capital needs of developing countries," report presented to UNCTAD, 2nd session, New Delhi, Feb. 1, 1968. The estimate is a global 1975 trade gap (sum of deficit countries) derived from projections for 39 individual countries and country groups. The 1975 range has been interpolated back to 1973. The implicit 1963-75 GDP growth rate averages 5.1% for the "low" and 6.1% for the "high" gap. An additional inflow of \$1.5 billion of technical assistance has been added to the 1975 trade gap, but no allowance has been made for

TABLE 4 (Footnotes continued)

countries where the savings gap exceeds the trade gap. Figures are in 1960 constant prices. Trade information is based generally on balance of payments statistics.

3. U. N. Centre for Development Planning, Projections and Policies, "Developing Countries in the Nineteen Seventies: Preliminary Estimates for Some Key Elements of a Framework for International Development Strategy," paper presented to 3rd session of U. N. Committee for Development Planning, Addis Ababa, June 14, 1968. Estimates for 1970 and 1975 are based on projections for 67 countries, and are defined as the sum (for deficit countries) of trade gap or savings gap, whichever is larger. The 1973 estimate is interpolated. For "low" gap there is an implicit 1963-75 GDP growth rate of 5.4% and for "high" gap 5.5%. Trade information is based generally on national accounts statistics. An additional amount of \$1.3 billions in 1970 and \$1.5 billions in 1975 has been added for technical assistance.
4. Estimates for 1970 and 1975 are based on projections for 50 countries, expanded to a global total, and defined as the sum (for deficit countries) of trade gap or savings gap, whichever is larger. The 1973 estimate is interpolated. Gaps correspond to 1962-75 GNP growth rates of 5.2% and 5.9%, respectively, and to "realistic plan" performance. Alternative gaps for "upper limit" performance are smaller by about \$4 to \$5 billions in 1970 and \$6 to \$8 billions in 1975. For computational details see paper by Hollis Chenery and Alan Strout, "Foreign Assistance and Economic Development," the American Economic Review, Vol. LVI, Sept. 1966. For comparability with the other estimates, the 1970 gap has been increased by \$1.3 billions and the 1975 gap by \$1.5 billions to reflect unrecorded technical assistance. Trade gaps are at current dollar rather than constant dollar prices, and assume future price changes working slightly against the less developed countries.
5. D. A. C. projection for 1975 from "Development Assistance - 1967 and Recent Trends," O. E. C. D. press release, Paris, July 4, 1968. Projection implies a 4.3% donor country average GNP growth rate between 1967 and 1975. 1973 estimate has been interpolated back at this rate. Financial flows from the communist countries and from other non-D. A. C. countries, which have recently been about \$400 million a year, are not included.
6. The difference from the total of 11.6 in Table 3 is the item Other Multilateral Outflow, which is omitted here because it is not from current contributions of the D. A. C. countries.

Conference on Trade and Development (UNCTAD) -- to raise net public and private flows to one percent of GNP, this would nearly meet the upper end of the range of estimated needs. If the U. S. and the other D. A. C. countries simply restored net flows to one percent of national income (0.6 percent official flows and 0.4 percent private) as in 1965, and then expanded assistance annually to maintain this ratio, this would meet the lower end of the range of estimated needs. The Committee feels that this lower pattern is the minimum objective which can responsibly be considered over the next five years.

Even this minimum objective has significant budget and policy implications for the new Administration. A reasonable pattern of U. S. assistance flows in 1973, totaling one percent of national income, is shown in Table 5. It assumes that the multilateral agencies can double their total disbursements over the next five years, and that financially this implies something less than doubling multilateral security issues in the U. S. market, and something less than tripling U. S. official contributions. It also assumes that the Export-Import Bank will see its way clear to expanding its net lending by about 10 percent annually (or 75 percent cumulatively) above the recent past; that new promotion activities and easing of present controls will induce a similar 10 percent annual expansion of private investment; and, that net P. L. 480 assistance, after a bulge in the immediate future, will fall back only to approximately 1966 and 1967 levels, as expansion in wheat and rice production in less developed countries reduces their import needs. Finally, even with these relatively optimistic assumptions about other forms of assistance, the implication is that appropriations for the bilateral programs of the new Development Cooperation Fund will have to rise moderately above the levels prior to the deep FY 1968 and FY 1969 cuts. Total official flows would have to expand about five percent per year from 1967.

Thus, to repeat, the Committee recommends that the new Administration commit itself to the budget and policy implications of at least this minimum goal of restoring U. S. development assistance to the 1965 proportion of our national income, and then expanding it as our income grows.

The Committee emphasizes that the addition to recipients' resources from development assistance comes from assistance net of repayments

TABLE 5  
 PROJECTED U.S. DEVELOPMENT ASSISTANCE FLOWS TO LESS  
 DEVELOPED COUNTRIES IN THE EARLY SEVENTIES  
 (Disbursements, net of repayments, in \$ millions)

	Calendar years	
	<u>1967</u>	<u>1973</u>
Development assistance agency <u>9/</u>	2,134	2,550
Official contributions to multilateral agencies <u>1/</u>	310	900
P.L. 480 <u>2/</u>	1,051	1,100
Export-Import Bank <u>3/</u>	160	200
Peace Corps <u>4/</u>	108	150
Other <u>5/</u>	50	50
Recoveries <u>6/</u>	<u>- 91</u>	<u>- 50</u>
TOTAL OFFICIAL	3,723	4,950
Private purchases of multilateral securities <u>1/</u>	255	450
Private investment <u>7/</u>	<u>1,589</u>	<u>2,400</u>
TOTAL OFFICIAL AND PRIVATE FLOWS <u>8/</u>	5,567	7,800

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1. Assumes that total financial flows through multilateral agencies can be doubled, that this level of disbursements will be entirely covered by current year official contributions and private multilateral investments, that private investments can be approximately doubled and hence that official contributions must increase about 2.6 times, and that U.S. share in private investments will be on the low side and in official contributions will be on the high side of this over-all pattern.

TABLE 5 - (Footnotes continued)

2. Assumes that marked increases in grain production in less developed countries, and rising U.S. uses and repayments associated with harder terms (which are not included in these net figures), will lead to a reduction from the 1963-67 average of about 1,300, and from levels in prospect for 1968 and 1969, but not below approximate 1966 and 1967 levels.
3. Assumes that the Bank, as a matter of U.S. government policy, will raise net lending to less developed countries about 10% per year cumulatively from the 1963-67 average of about 120, despite rising repayments. The all-time peak of 1967 would have to be exceeded by about a fourth.
4. Assumes a cumulative expansion of about 5% per year.
5. Assumes that other flows will remain constant, as they have more or less since 1964.
6. Assumes that recoveries, which were raised by a special transaction in 1967, will remain at about the average of the years just before 1967.
7. Assumes that the policies recommended for promoting private investment will be effective in supporting a cumulative 10% per year expansion from the 1963-67 average of about 1,370. Past experience in the sixties indicates large year-to-year fluctuations, with 1967 one of the peaks, but no clear trend.
8. Assumes that the U.S., along with other D.A.C. members, will restore the 1965 ratio of 1% of national income, and that national income will expand at 4.3% per year. The U.S. share will remain half of the D.A.C. total.
9. Public development assistance on easy terms is estimated as a residual.

of past loans. To increase the net flow, increasing attention must be paid to maintaining assistance in grant forms and assuring loans of long duration and with long grace periods. The underlying needs of less developed countries and the recent rise in many countries' debt-servicing problems also call for concessional interest rates.

U. S. terms have been hardening noticeably in recent years. By 1967, nine of the sixteen D. A. C. countries provided assistance on terms more favorable than the United States. The Congress has required higher interest rates on A. I. D. loans, though still permitting ten-year grace periods and forty-year terms. P. L. 480 sales are being shifted from grant-like sales for local currencies to dollar-repayable loans, and the loans frequently provide for substantial initial payments, only one-year grace periods, and twenty-year terms. The share of hard Export-Import Bank loans relative to easy A. I. D. loans has risen. The main possibilities for reversing these trends are to adjust P. L. 480 terms toward consistency with A. I. D. development loans, and to lower interest rates during the grace period. Both would require Congressional action.

The United States should at the same time cooperate with the World Bank in consultative groups to induce all countries to tailor their assistance terms to the capacity of each aid-receiving country to repay. Since past terms of assistance have been too stringent in some cases, rescheduling of debt repayments by certain countries is clearly needed. Such rescheduling should preferably take place under the leadership of a multilateral institution such as the World Bank, as in the recent India rescheduling, and this calls for support of Bank initiatives by its principal members. The process of development assistance will be discredited by instances of debt default, and adequate attention to debt-servicing capacity at the time the terms of aid are agreed upon can minimize this risk.

#### 7. Innovations for the longer term

There are a number of ideas for longer-term innovations in the world's development assistance system which the Committee feels are promising, but which we have not examined sufficiently to reach conclusions. We suggest that the new Administration undertake serious study of them, to determine whether negotiations to establish them should be initiated in the near future.

One is the idea of devoting to development assistance some of the Special Drawing Rights (SDRs) to be created by the International Monetary Fund. The immediate objective is to get the SDR system itself into operation. But in a second round of creation of SDRs, the possibility should be considered of allotting a portion of them either to the International Development Association (IDA) as a supplement to its soft lending, or directly to less developed member countries. This would provide a new truly international source of financing for development assistance, and also enable the developed countries to earn new holdings of SDRs in the course of their exporting.

Another possibility would be to finance at least part of a future IDA replenishment through government commitments to subsidize interest payments on IDA bonds sold in private capital markets. This would lessen the burden of replenishments on member country budgets, and thus might permit a substantially larger replenishment than would otherwise be negotiable. If, for example, a government undertook to provide an additional \$100 million a year for ten years in this manner and to reimburse IDA for six percent a year on the amount borrowed, the budgetary burden would grow gradually from \$6 million in the first year to \$60 million in the tenth and succeeding years. If this were done prudently, expanding capital markets ought to be able to absorb both new issues and re-issues of such securities.

A third idea is to provide additional resources in the World Bank family to give medium-term assistance for diversification programs in countries whose earnings from primary exports are seriously depressed. This could take the form of a major liberalization of the present compensatory financing facility of the International Monetary Fund, or of a special fund operated by the World Bank with supplementary contributions of members. In view of the difficulties of international commodity agreements, support specifically for diversification programs is an attractive idea.

The Committee believes that some innovations along these or similar lines are extremely important to reinforce the existing world system of development assistance.

## VI. BUILDING PUBLIC AND CONGRESSIONAL SUPPORT

The essential condition for strengthening the U.S. development assistance program is that the new President commit himself to it as a key instrument of his foreign policy. He will not succeed, however, unless he can persuade the public and the Congress to support it.

The case he must make has two main elements. First, he must demonstrate persuasively that vital U.S. interests are at stake in relations with the less developed world, and that the major challenges to development assistance programs can be candidly answered. The Committee hopes that Sections II and IV of its report may be helpful in doing so. Second, he must offer promptly a revitalized and reorganized approach to development assistance, which builds on the strengths of the present system while making significant improvements. The Committee believes that Sections I and V of its report offer this promise.

The case must then be put across to the public and the Congress. Fortunately there is evidence of extensive latent public support. Churches, business associations, labor unions, civic organizations, universities, and many other elements of American society are concerned about U.S. responsibilities toward less developed nations. What has been lacking is a convincing program of public information about development assistance--its purposes, its justification, its cost, its benefits, its operations, and its achievements.

There are some encouraging recent non-governmental initiatives:

1. George Woods, former President of the World Bank, suggested some time ago that "leading world experts in the field of development meet together, study the consequences of twenty years of development assistance, assess the results, clarify the errors, and propose the policies which will work better in the future." Robert McNamara, the new President of the Bank, has persuaded Lester Pearson, formerly Prime Minister of Canada, to head such an independent commission.
2. The leadership of the Catholic and Protestant churches is joining in a common program of World Cooperation for Development, in which a sustained public education effort in the United States and other advanced countries will be a prominent part.

3. A group of outstanding business, professional, educational, and religious leaders in the U. S. is organizing an Overseas Development Council, which is designed to be the headquarters for research and information concerning development problems and development assistance.

Our Committee suggests that the new President call upon selected leaders in public information, education, and communications to design a program which will lay before the people, simply and clearly, the issues and facts about development assistance. In view of the long history of Congressional opposition to use of appropriated funds for such purposes, the communications industry or one of the foundations could well be asked to undertake the necessary financing as a public service.

Changing the sentiments of the Congress may initially be more difficult. On the other hand, some distinctive domestic and international political circumstances have ruled the 90th Congress, when the unfortunate deep cuts in A. I. D. appropriations were made. The new President, if he carries a more friendly Congress with him into office, begins his term with a somewhat more hopeful prospect in Vietnam, and moves promptly to present a cogent fresh program, would be starting a new inning, if not a new ball game. A burgeoning public information and education effort could bring out essential underlying voter support. In these new circumstances, it is not unreasonable to hope that the Congress would respond to the President's call to give him an essential instrument for our country's foreign policy.