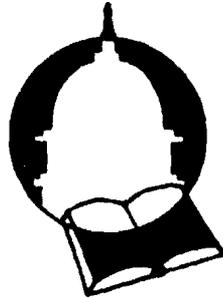


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INTERNATIONAL ECONOMIC ASSISTANCE IN THE FREE WORLD:
CURRENT POLICIES AND EMERGING PROBLEMS

(Revised Edition)



Arthur H. Darken
Analyst in U. S. Foreign Policy
Foreign Affairs Division
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INTERNATIONAL ECONOMIC ASSISTANCE IN THE FREE WORLD:
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Introduction

Foreign economic and technical assistance in the free world has ceased to be a matter of isolated national attention. Many now view it as a cooperative effort by the free world; it is the subject of frequent and intensive international negotiations. This study examines the current aid policies and programs of the major capital exporting nations to answer the following questions:

1. What is the current volume of economic assistance and which are the major donor and recipient nations?
2. What are the principal reasons for each of the major national aid programs? Is there a sense of common purpose among the donors that would support the view that free world foreign aid is a cooperative effort?
3. Are the developed nations assuming relatively equal responsibilities in their aid programs or are there marked disparities? How can these efforts be measured equitably?
4. What kinds of public and private aid are being provided and under what conditions?
5. To what extent is aid being channeled through multilateral agencies? Under what conditions do the capital exporting nations usually agree to provide significant amounts of aid through these agencies?

6. What are the major problems of using economic aid to spur the development of the less-developed nations?

The Problem of Defining Aid and Securing Adequate Statistics

The analysis of international economic aid is hampered by disagreement over what constitutes aid and by the inadequate and often contradictory statistics currently available. The United States uses the term "foreign aid" and provides all of its aid to foreign countries, but some donors provide the bulk of their aid to their own dependencies and thus do not regard it as "foreign aid." Some Americans therefore may be skeptical of including aid to such areas as Algeria in the French totals, when the United States does not include its grants to Puerto Rico and the Virgin Islands. The dependencies of the European powers are, however, all less-developed areas and expenditures there do constitute a burden on the donor. Moreover, the fact that the United States initiates aid programs to most of the new nations as soon as they become independent, and frequently even earlier, suggests that this country has a strong interest in the continued provision of aid by the European governments to their dependencies.

The distinction between "aid" and "foreign aid" may soon be largely a semantic one because of the rapid pace at which dependencies are receiving their freedom. For the present, however, the difference is a real one. The United States Government and the Organization for European Economic Cooperation (OEEC) both include aid to European dependencies in their tallies of international economic aid and sometimes

the figures do not specify what portion of a nation's aid has been provided to its dependencies. The present report is based principally on the OEEC and United States figures and attempts whenever possible to allocate aid between dependencies and non-dependencies, but includes both in the overall national totals.

A more perplexing problem is to determine which types of capital should be considered aid. Capital flows from the advanced to the less-developed nations through a variety of channels. These include public grants and loans on both commercial and non-commercial terms, export credits, skilled manpower, sales of surplus agricultural commodities on concessionary terms, private loans, investments and reinvested earnings, as well as regular export earnings. Some less-developed countries also receive World War II reparations and indemnification payments. In addition, the advanced nations provide public and private capital to the growing number of multilateral organizations that in turn make this capital available to the less-developed countries. All of these sources, though varying in degree of usefulness, are important in meeting the needs of the less-developed countries. Clearly, however, all capital cannot be considered "aid."

At present there is no agreed free world definition of "aid." The OEEC's Development Assistance Group (DAG) discussed the nature of aid in March 1961 but the communique issued at the close of the meeting reveals no agreement on which forms of capital may properly be called "aid." The DAG noted the value of private and public finance on commercial terms,

but emphasized that the "common aid effort should provide for expanded assistance in the form of grants or loans on favourable terms, including long maturities where this is justified...." ^{1/} The DAG also warned against providing most aid in the form of short term credits fully repayable in convertible currencies since this places too heavy a financial burden on the less-developed economies. A major obstacle to deriving a generally acceptable definition of "aid" is that the various donors emphasize different forms of "aid," some of which might be excluded by a definition adopted by the remaining members of DAG. The quotation from the DAG communique, however, does indicate the trend of thinking among most DAG participants.

The OEEC reports on economic aid do not take a position on what constitutes "aid" but instead speak of the "flow of financial resources to countries in course of economic development" and list all sources of capital except regular export earnings. The United States Government-prepared table "Official Assistance to the Less Developed Countries by OEEC Countries and Japan," reprinted on page xi of this study, selects only certain forms of capital and labels them "aid." It is restricted to "official" or government-provided capital, and includes: (a) grants, (b) bilateral loans of 5 years or over, (c) contributions and subscription to international organizations, and for the United States also (d) the increase in United States holdings of local currencies derived from Public Law 480 title I sales of surplus agricultural commodities. The evidence of this table suggests

^{1/} "Development Assistance Group Concludes Fourth Meeting." Department of State Bulletin, April 17, 1961. p. 555.

that the United States does not consider the following other forms of capital to be "aid": reparations and indemnification payments, loans of less than 5 years duration, guaranteed private export credits, government purchase of international financial securities, and all forms of private investment and lending.

This study adopts the United States working definition of "aid" in referring to the "aid" programs of other nations. But it also lists all government and private sources of capital provided to the less-developed countries, taking care to distinguish between capital and that capital which may properly be called "aid."

The comparison of international economic aid programs began only recently and comparable statistical data are not available for all donor countries. Developing coordination of aid information through the DAG and eventual acceptance of a definition for "aid" may greatly reduce these statistical problems.

I. Summary of Major Findings

A. Total Flow of Aid and Other Capital

The advanced nations increased the value of their economic aid to the less-developed nations from \$3.0 billion in 1956 to an annual level of \$4.1 billion in 1959, the last year for which complete statistics are available. Although the United States has consistently provided more than half of this aid, its share has dropped from 70 percent in 1956 to 59 percent in 1959, due principally to increasing contributions from other nations.

Foreign aid represents only about half of the capital made available by the advanced nations to the less-developed ones. During the four-year period of 1956-1959, foreign economic aid totaled \$14.5 billion, while additional public and private financing totaled \$13.5 billion.

The less-developed countries have two additional sources of economic aid. The Sino-Soviet bloc, during the years 1954-1960, agreed to provide \$3.45 billion in economic aid to free world countries, but expenditures are reported to have reached only \$735 million. The less-developed countries also provide limited amounts of aid, mostly technical assistance, to each other.

B. Multiple Purposes of Aid

The many national aid programs do not reflect a common sense of purpose, but rather a variety of purposes which may or may not be complementary in the effect they have within a particular receiving country. Some governments supply economic aid to secure military bases, support allied armies, retain acquired political influence, or stimulate economic development to undercut the appeals of Communism. Others with limited international security problems seem more interested in increasing their exports. Finally, there is a widely shared view that the advanced nations have some measure of moral responsibility to share their resources with the poorer, less-developed nations.

Most of the principal donors concentrate their aid in a few less-developed countries where their political, military, or economic interests are centered. Expanding the volume of a nation's aid program under these circumstances usually fails to increase the number of recipients. The United States also provides the bulk of its aid to a few countries. This government's interests extend throughout the less-developed world, however, so that it contributes some aid to more than sixty governments, many of which also receive aid from one of the other advanced nations. By virtue of contributing approximately half of the free world's foreign aid the United States has provided much of the present limited sense of unity and cooperation on foreign aid. Consultation among the donor governments, especially in the recently formed Development Assistance Group, can do much to improve the harmonious operation of these multi-purpose aid programs.

C. A Comparison of Foreign Aid Expenditures by the Developed Nations

Recent interest in making the economic development of the less-developed nations a cooperative free world effort is usually interpreted as requiring equality of sacrifice by all donor governments. It is not clear, however, what are the proper scales in which to weigh the various national aid programs. Aid expenditures are most often compared as a percentage of the gross national product but, by itself, this is inadequate. It fails to take account of other major foreign and domestic claims on the economy. Also the impact upon two countries spending similar percentages of their gross national product

on foreign aid can be vastly different depending on their respective average levels of personal income.

This study evaluates the national foreign aid programs on three different bases. The results are not completely consistent but, on balance, they show that the major European colonial powers and the United States are making relatively comparable foreign aid efforts; the German Federal Republic and the other non-colonial powers contribute considerably less.

D. Major Bilateral Programs

The United States, France and the United Kingdom provide 90 percent of all free world economic aid to the less-developed countries. These three, plus Germany, provide 90 percent of the total of free world capital that goes to the less-developed countries, including aid, other government and private sources of finance.

The European nations with dependencies in the less-developed areas usually center their bilateral economic aid on these present or former possessions.

Most aid is provided in the form of grants, but there is increasing interest in loans. Available evidence indicates that the United States is the only donor that makes some of its loans repayable in the borrower's local currency. The United States is also unique in selling its surplus agricultural commodities in return for the relatively inconvertible currencies of the purchasing countries.

With the exception of United States grants and loans from the Development Loan Fund, most bilateral economic aid has been formally or informally tied to purchases in the donor country. United States grants and loans are now also tied to purchases in the United States.

Economic aid normally has been provided for specific projects rather than to meet general budget deficits, or to support national development programs as a whole. Accurate information is not available on the percentage distribution of aid among the various economic sectors in the less-developed countries. What is available, however, indicates that more than half of the aid that can be identified with particular projects has been used for transportation, industry, mining, and electric power production.

E. The Role of the Multilateral Aid Agencies

The multilateral aid agencies have played and will continue to play a limited though useful role in fostering the flow of capital resources and technical aid to the less-developed countries. During the years 1956-1959 about 90 percent of government aid was provided bilaterally and only the remaining 10 percent was channeled through the multilateral agencies. All multilateral aid, except for technical assistance grants, has been in the form of loans repayable in the currency borrowed. The major donor governments in particular provide most of their aid bilaterally to concentrate it in areas of special interest. But multilateralism is growing in favor, especially in the United States. The agencies are viewed here principally as means

of augmenting the total volume of international credit by eliciting increased aid from the other industrialized nations. An exception would be the Inter-American Development Bank (IDB). The IDB, in which the United States is the major contributor and the only one from among the developed nations, has the virtue of providing a mechanism for distributing and administering aid among the many countries of Latin America without the difficulties of active United States intervention. Here, too, it is hoped that other developed nations may eventually make some capital contributions.

The number of multilateral aid programs has grown rapidly in the last few years and there are now at least ten in operation. The International Bank for Reconstruction and Development (IBRD), formed in 1945, remains the principal source of multilateral credit, and provided over two-thirds of the total in 1956-1959.

To the limited extent that the developed nations provide aid through multilateral agencies they emphasize those like the IBRD and the recently organized International Development Association (IDA) and the Inter-American Development Bank (IDB) that provide for weighted voting. This practice matches voting strength with capital subscriptions and guarantees the major donors proportionate control over lending operations. The United Nations grant technical assistance programs have failed to expand greatly while the United States and many other developed nations have refused to support the formation of a UN development agency to make capital grants or loans repayable

in soft currency. United Nations aid programs usually operate on the basis of state equality, with all members--large and small contributors, capitalist and Communist-governments--having an equal voice in determining fund allocations.

Apart from the formation of new programs, there recently have been two important innovations in the field of multilateral aid. The first is the authorization of "soft loans" by the new IDA and the IDB. The IDA may accept loan repayments in the borrower's own currency. Recent statements by Bank officials indicate that these loans will be the exception, however, and that most loans will be "soft" in the sense of providing for repayment periods of up to 50 years and bearing little or no interest. The IDB has a Fund for Special Operations that is expected to make all its loans repayable in the borrower's own currency.

The second innovation is a device for providing aid that combines significant donor control with a multilateral framework. Sometimes called "ad hoc multilateralism," it requires a special agreement between the interested nations to provide aid to a particular project or country with all contributions being administered by a multilateral agency, usually the IBRD. Support for the Indus Waters Project in India and Pakistan and the five year development plans of these two nations are the most important examples of this new approach to aid. In effect it permits the coordination of multi-nation and multi-purpose aid in support of major programs that would be beyond the means of any single donor.

F. Emerging Issues in International Economic Aid

1. The general trend in the expansion of economic aid is away from grants and toward loans, usually repayable in hard currency over periods of 5-20 years. A serious question is now arising, however, of the ability of the less-developed countries to earn the necessary foreign exchange to service such loans. In some instances, such as India which has already accumulated a large international indebtedness, it may be necessary to make hard currency loans with maturities of 50 to 100 years and perhaps bearing no interest whatever, if hard currency loans are to continue to be a source of development capital. In addition, it may be necessary to reconsider making greater use of grant aid and loans repayable in the local currency of the borrower.

2. The ability of the developing countries to service hard currency loans and their general need for foreign aid is sometimes closely related to the changing world market prices of their few principal exports. Declining export prices have sometimes wiped out the value of all the foreign aid received. Also the erection of import tariffs and quotas against these products by the developed countries can sometimes have the same effect.

3. Economic aid can have a profound influence on the distribution of political power within the receiving country because of the social tensions it may create and the help it may provide to certain economic groups and not to others. The donor countries,

however, have given little attention to planning development aid with an eye to its impact on the distribution of political and economic power. This would seem to merit greater attention if aid is to be useful in serving the multiple purposes for which governments now provide it.

4. To date most aid has been contributed in annual installments to specific isolated projects in the less-developed countries rather than to support one segment of an integrated national development program. The result has sometimes been uneven economic development and the failure to use available resources in the most rational manner.

5. The sale of United States surplus agricultural commodities for foreign currencies and the provision of dollar development loans repayable in the borrowers' own currency have greatly expanded the volume of vital imports available to the less-developed countries without use of their usually short supply of convertible foreign exchange. The growing United States-owned accumulations of foreign currency derived from these sales and loans and also the relending of the local currencies once they have been repaid have been of only slight value in fostering the economic development of the less-developed countries. The continued growth of these local currency balances over the years may constitute a substantial United States "mortgage" on these countries and exacerbate political relations.

Some steps have been taken recently to slow down the rate of growth of the United States foreign currency holdings. These include: elimination of the maintenance of value clause in loans made with local currency derived from surplus commodity sales; the provision that up to 50 percent of the "country use" portion of these currencies may be granted to the local government; and the decision not to make any further dollar loans repayable in local currency. The United States local currency accounts will continue to grow, however, and it is quite possible that at least two multilateral agencies will begin to accumulate similar balances from the repayment of hard currency loans in the borrowers' own currency.

II. The Total Flow of Free World Aid and Other Capital to the Less-Developed Countries

During 1956-1959 the developed countries provided an average of about \$3.6 billion per year in economic aid to the less-developed countries. Approximately \$2.3 billion, or 64 percent, was supplied by the United States, with the remaining \$1.3 billion or 36 percent being supplied by Western Europe, Canada and Japan.

During this four-year period the annual aid level rose steadily from \$3.0 billion in 1956 to \$4.1 billion in 1959, with most of the increase accounted for by countries other than the United States. The value of aid from these countries doubled, rising from \$843 million in 1956, or 30 percent of all aid that year, to \$1.7 billion in 1959, which was 41 percent of free world aid. United States aid, during this same four-year period, rose from \$2.1 billion in 1956, or 70 percent of the

total, to \$2.4 billion in 1959, or 59 percent of the total. The Western European countries, Canada and Japan, therefore increased the absolute value of their aid by 100 percent and increased the portion of total free world economic aid which they provided from 30 to 41 percent. Table 1, on page shows the annual aid levels for the Western European OEEC countries, Canada, Japan, and the United States.

United Nations statistics on economic aid, which are not completely comparable to those used elsewhere in this study, indicate that most aid is provided in grant form, but that the importance of loans is increasing. The share of loans in total government aid rose from 27 percent in 1953/54-1955/56 to 37 percent in 1957/58-1958/59, while the share of grants correspondingly declined from 73 percent to 63 percent. ^{1/}

An examination of the multiple sources of capital including all but regular export earnings shows that the less-developed nations received far more capital from the advanced nations than the average of \$3.6 billion in aid each year. The total capital received was \$27.9 billion, or an average of \$7.0 billion per year. Almost half of this total, or \$14.0 billion came from the United States. The next most important capital sources were France, the United Kingdom

^{1/} United Nations. International economic assistance to the less-developed countries. Report of the Secretary-General to the Economic and Social Council. UN Doc. No. E/3395/Rev. 1 (1961), p. 43.

and Germany. Together, these four countries supplied almost 90 percent of all the free world finance made available to the less-developed countries. Table 2, on page xii, lists the capital exporting nations and the total each provided during 1956-1959.

More than half of the \$27.9 billion in free world capital, or \$15.9 billion, was provided by governments, and \$12.0 billion by private sources. The value of "official" or government capital has increased at a steady pace of \$400-\$500 million a year; the value of private capital has fluctuated indecisively, but on balance appears to be declining. Table 3, on page xiii, shows the annual levels of government and private capital received by the less-developed nations.

Governments, as a group, have consistently provided more than half of their capital in the form of grants. Most private capital is supplied as investments and reinvested earnings with guaranteed export credits and the purchase of securities issued by international financial organizations being much less important.

Most private and government capital is provided bilaterally, with multilateral channels receiving only 8-10 percent. Table 4, on page xiv, shows the annual levels of capital made available from the various government and private sources.

III. The Multiple Purposes of Foreign Aid

The provision of international economic assistance in the free world today is not directed toward a common purpose. The various national and multilateral programs have their own specific purposes and operating principles. As a result, some programs complement one another, some are directly antagonistic, while most simply exist side by side. The United States is now attempting to make this a cooperative venture of the free world by increasing the foreign aid contributions of the other industrialized nations. But there is still no agreement on the purposes for which aid will be used. Scholars and public officials in the United States and elsewhere have sought to develop such a sense of common purpose, but to date these efforts have not borne fruit. It is necessary, therefore, to examine the multiple purposes of separate programs in order to understand free world foreign aid.

The Major Purposes of Aid

A survey of free world international economic aid programs indicates that the following are the most prominent motivating forces, though the importance of each varies from one country to another:

1. To speed the economic and other aspects of national development in order to make the Communist alternative less appealing or to avert political chaos in general;

2. To maintain political and economic influence in the colonial or former colonial areas;
3. To increase exports in general and sometimes surplus agricultural commodities in particular;
4. To secure and maintain military bases or to support indigenous armed forces to an extent and in a manner not feasible with the locally available economic resources;
5. To help the people of the newly independent and resurgent nations escape from the bonds of poverty, sickness, and ignorance and to realize the material promises of the twentieth century.

Other motivations might be added, but these tend to be subsidiary benefits flowing from the aid program rather than initiating reasons. This category would include such factors as: increasing employment in the donor country; enhancing the role and security of private foreign investments in the less-developed countries; and assuring access to raw materials.

Undercutting the Appeals of Communism

The first motivation--to undercut the appeals of Communism--is probably the most generally powerful one, but it is especially strong in the United States. It is recognized here as in Europe, however, that belief in the ability of economic aid to accomplish this purpose in the less-developed countries is based on a relatively untested assumption. It is a calculated risk, but the stakes are high and the risks courted by failing to provide "adequate" foreign aid seem even more forbidding.

Maintaining Influence in Former Colonial Areas

France, England, the Netherlands, Belgium, Portugal, and Italy--all colonial or former colonial countries--have used their foreign aid to help maintain economic and political influence in their present and former possessions. The force of this motive is now reenforced by the threat of Communism in the less-developed countries. This is the principal reason why these European powers restrict foreign aid almost entirely to present and former colonial possessions. Consequently, each of these less-developed countries receives most of its aid from a single European government. The United States breaks into this pattern, however, for while it too centers the bulk of its aid in a few countries, it also has interests throughout the less-developed world that lead to aiding countries that also receive aid from Europe.

Almost all French, Belgian, and Portuguese aid is provided to Africa. The Netherlands and the United Kingdom center their aid in South and Southeast Asia, though British aid is increasing in Africa too. The Latin American countries receive almost no aid from Europe.

Export Promotion

All donor states use foreign aid to spur their exports. But it appears to be a particularly important motive for Germany which has had no colonial possessions since World War I and has limited its political interests to Europe. This is changing. During the last year Germany also became concerned with the necessity to undercut the

appeals of Communism in the less-developed countries. Most Japanese aid derives from its World War II reparations agreements, but the remainder appears to be directed largely at export promotion.

The United States and the former colonial powers also use foreign aid to increase exports and often tie this aid to purchases in the donor country. These countries generally provide loans on extremely flexible and non-commercial terms, however, for political interests override export considerations.

Military Bases and Forces in Being

France is a prime example of the interpenetration of political, economic, and military justifications for providing economic aid. Fully 40 percent of French economic and technical assistance now goes to Algeria where since 1954 France has been engaged in military actions to quell the insurgents who demand independence. While France has pursued this military policy of "pacification," however, it has also embarked on the five-year Constantine Plan to provide massive economic aid for the political, economic, and educational development of Algeria. And in more than a dozen countries the United States has long provided economic aid to secure base rights and support local armed forces.

Humanitarian Responsibility

Despite the prominence of political and economic motivations for providing foreign aid, there is often a strong moral-humanitarian sense of responsibility to help the less-developed nations escape from the ring of poverty, disease and ignorance. This is particularly widespread among the general public, but it also influences government policy.

The United States has traditionally given some private and government assistance to the poorer nations for humanitarian reasons. A recent public opinion poll in Germany indicated that more than half of those who favored an expansion of foreign aid emphasized the ethical and moral reasons for doing this. ^{1/} In each colonial country there is a strong sense of responsibility for the well-being of its dependent peoples which usually results in the provision of more economic and technical aid than is required simply for peaceful and effective colonial administration.

In Great Britain, for instance, the tradition of colonial and commonwealth responsibility increases popular acceptance of today's expanded foreign aid program. It is apparent during Parliamentary

^{1/} Forty-seven percent of those interviewed favored increasing aid, 21 percent were opposed and 32 percent were undecided. The 47 percent who favored aid gave the following reasons: ethical and moral--53 percent; economic--13 percent; political--15 percent; and "feeling of solidarity"--9 percent. This poll is reported in West German Attitudes Toward Economic Aid for Underdeveloped Areas, translated from the German by E. W. Schnitzer, January 20, 1961. Translation T-136 published by The Rand Corporation, Santa Monica, California, 1961. 6 p.

debates on appropriations for economic aid that both supporters and opponents of the Government favor development assistance in order to improve the conditions in the poorer countries of the Commonwealth. Appendix A is a detailed study of how this purpose interacts with and reenforces the other purposes of foreign aid in the United Kingdom.

The United States Blend of Purposes

President Kennedy's March 1961 foreign aid message to Congress provides a succinct summary of the many purposes the United States tries to serve by its foreign aid program.

...It is proper that we draw back and ask with candor a fundamental question: Is a foreign aid program really necessary? Why should we not lay down this burden which our Nation has now carried for some 15 years?

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

To fail to meet those obligations now would be disastrous; and, in the long run, more expensive. For widespread poverty and chaos lead to a collapse of existing political and social structures which would inevitably invite the advance of totalitarianism into every weak and unstable area. Thus our own security would be endangered and our prosperity imperiled. A program of assistance to the underdeveloped nations must continue because the Nation's interest and the cause of political freedom require it. 1/

1/ U. S. Congress, House. Message of the President relative to foreign aid. 87th Cong., 1st sess., H. Doc. No. 117, March 22, 1961. p. 3.

Economic Aid As a Cooperative Effort

Only during the last two years has the provision of capital assistance to the less-developed countries been widely viewed as a cooperative venture among the industrialized nations of the free world. From a state of almost completely separate national aid programs the industrialized nations have now begun consulting with each other and concerting efforts to expand aid through the Development Assistance Group of the OEEC. It is still true, however, that the major donors, except for the United States, Canada and Germany, provide bilateral aid to only a few selected countries with which they have a special historical relationship.

The expansion of bilateral aid under these circumstance will result in providing increased aid to the same countries already receiving it. The European governments generally do not accept the principle of increasing the list of recipients beyond those in which they have long standing connections and interests. The United States probably will continue to provide the bulk of its aid to a few countries but also provide aid to those receiving it from other donors when this appears necessary in support of United States vital interests. It is possible, however, that future expansion of the German aid program will have a different result since Germany has no special interests in any of the particular less-developed countries.

Expanding the volume of international economic aid, therefore, does not necessarily imply or require general agreement among the developed nations on the purposes of aid. The United States has urged

all developed nations to accept the provision of economic aid as a common responsibility of free world membership. Increased acceptance of this responsibility may be the result, but the free world lacks a single philosophical economic, or political outlook that would facilitate such a common effort to aid the less-developed members. Even without a "free world philosophy," however, it is apparent that frequent consultations and cooperative planning among the donor governments, especially in the Development Assistance Group, can do much to improve the harmonious operation of the present multi-purpose aid programs.

IV. A Comparison of Foreign Aid Expenditures
by the Developed Nations

During the last two years there has been a growing conviction in the United States that the other industrialized nations should markedly increase their economic aid programs in the less-developed countries of Asia, Africa, and Latin America.

Many Americans reason that Western Europe, because its recovery was partly financed by the United States Marshall Plan, has a duty to provide more economic aid to the less-developed countries now that the United States appears to be having international financial difficulties. From this point of view, the European effort would demonstrate gratitude for the United States aid provided to Europe in her hours of need, or at least constitute a type of "re-payment" for the Marshall Plan grant aid. In either case, this

implies that Europe would provide economic aid primarily to safeguard United States interests in Asia, Africa, and Latin America rather than to protect its own interests.

Other Americans emphasize that the prosperous European NATO partners should provide economic aid as one of the responsibilities of membership in the NATO alliance because the Sino-Soviet bloc uses foreign aid and trade to expand its control in the less-developed countries. This assumes that the member governments have a common interest in preventing increased Sino-Soviet penetration into these areas that are outside the territory covered by the North Atlantic Treaty. It also assumes agreement on the theory that economic assistance is an effective means of undercutting bloc influences in the free nations of Asia, Africa and Latin America.

There is also a widely held belief that the developed nations have a moral responsibility to share at least a portion of their resources with the poor, less-developed countries in their new struggle for dignity and national development. Though strongest among some private non-government groups, it is also a persistent undercurrent in official policy statements and was eloquently expressed by President Kennedy in his inaugural address when he said:

To those people in the huts and villages of half the globe struggling to break the bonds of mass misery, we pledge our best efforts to help them help themselves, for whatever period is required--not because the Communists may be doing it, not because we seek their votes, but because it is right. If a free society cannot help the many who are poor, it cannot save the few who are rich.

In general, the first of these three approaches to increasing the foreign aid effort by the developed nations starts from the need to reduce the United States foreign aid burden or at least the percentage of the total burden carried by this country. The other two approaches, however, appear to have different bases. They seem to start from the twin convictions that the magnitude of the problems in the less-developed countries demands a sharp increase in the overall level of economic aid and that the European countries and Japan must constitute the principal source of this additional aid.

How should a nation's foreign aid program be judged in comparison with those of other nations? Several standards have been used but none appears adequate by itself.

Foreign Aid As a Percent of the Gross National Product

The percentage of gross national product devoted to foreign aid is the most commonly used yardstick to compare national efforts, though it fails to take account of many other important claims on the national economy such as servicing the national debt, military and other security expenditures, fixed domestic welfare costs, etc. By itself, therefore, it is not an equitable measure.

During the years 1956-1959, the average percentages of gross national product (GNP) devoted to foreign aid ranged from a low of 0.02 percent for Switzerland to a high of 1.61 percent in the case of France. The United States and Portugal were second and third with respective totals of 0.52 percent and 0.47 percent.

Table 5, on page xv lists aid expenditures as a percentage of the gross national product in the case of all the OECD countries and Japan.

The foreign aid expenditures by most countries fluctuated both in dollar value and as a percentage of the GNP. France, Germany, Norway and the United Kingdom, however, all expanded their programs steadily in both these respects. United States dollar expenditures rose steadily from \$2.1 billion in 1956 to \$2.4 billion in 1959, but in both years the economic aid program accounted for only 0.51 percent of the gross national product.

Only the United States, Canada, and Japan among the non-colonial developed nations spent a significant portion of their gross national product on economic aid. The colonial countries--Belgium, France, Netherlands, Portugal, and the United Kingdom--all spent 0.25 percent or more for economic aid. The non-colonial countries, with the three exceptions mentioned, spent no more than 0.12 percent on economic aid, or less than half the lowest percentage for any colonial country.

Defense and Foreign Aid Expenditures

Should military aid and other defense expenditures be included with those of foreign economic aid in comparing national efforts? Many European governments, especially those that provide only economic aid, separate these expenditures from defense and refuse to acknowledge economic aid as a security measure. Those that do provide foreign military aid usually include the figures under general defense or

colonial administrative expenditures and fail to indicate how much is spent for military aid or even how much is spent overseas. In short, Europeans tend to view aid as only economic aid.

The United States, however, provides military and defense support economic aid as well as several categories of economic aid for development purposes and often regards the entire foreign aid program as a security expenditure. Americans therefore often add the total for defense and all kinds of foreign aid in judging both our own and other countries' aid efforts. When this is done, the United States moves to the head of the list with expenditures totaling 10.2 percent of the gross national product in 1959. France and the United Kingdom are second and third, respectively, with percentage expenditures of 8.97 and 7.74 percent. Most other developed nations in the free world spend less than 5 percent of the gross national product on defense and foreign aid. Table 6 on page presents comparison figures for selected developed nations.

The Impact of Defense and Foreign Aid On Personal Consumption

Another means of judging national effort is to compare the per capita gross national product with the percentage of that product expended on defense and foreign aid. This shows how deep a cut these expenditures make into the resources available for personal consumption and thus the measure of national sacrifice which is involved. This comparison shows, for instance, that the United States with a per capita GNP of \$2,538 spent 10.85 percent of its GNP on defense and aid, while

the United Kingdom had a per capita GNP of only \$1,224 and spent 7.82 percent of its GNP on defense and aid. Also, Germany had a per capita GNP of \$1,035 and spent 3.25 percent of its GNP on defense and aid while Portugal, with a per capita GNP of \$230 spent 4.39 percent on defense and aid.

How does one evaluate the expenditure of approximately the same percentage of GNP on defense and aid by two countries that have radically different amounts of money available for the use of their citizens? Even if there is no simple way to include these calculations in an estimate of national effort, it is clear that the country with a much lower per capita GNP is making a greater sacrifice than the wealthier country.

Or to put it another way, if one's income is only \$1,224 it may be a greater deprivation to commit 7.82 percent of that income to defense and foreign aid than it would be to commit 10.85 percent to the same purposes if the income was twice as much, or \$2,538 a year. For the same reasons it may be much more difficult for the government of a poor country to increase the tax rate by one percent than it would be for the government of a comparatively rich country to increase its tax rate by 2 or even 3 percent. Table 7, on page shows a comparison of per capita GNP with defense and foreign aid expenditures for selected developed countries.

There are other indices of effort that might be used such as the size or cost of servicing the national debt, the percentage of national income absorbed by taxation, the rate of increase in the gross national

product during recent years, or perhaps the balance of international payments. All are useful but the three actually used in this study appeared to be the most appropriate. They do not provide accurate results, however, because of the differing concepts as to what constitutes aid and what weight is to be given to the variety of major claims on the national economy. With these reservations considered, it appears that the major European colonial powers and the United States have made relatively comparable foreign aid efforts. The German Federal Republic and the other non-colonial powers have contributed considerably less.

V. Major Bilateral Programs

This section provides brief summaries of the aid and capital export programs of the major free world countries. It highlights important program trends, the relative balance between private and government sources of capital, and the extent to which this capital may be considered "aid." It also indicates the principal recipients of each nation's aid program.

A. Canada

During the four fiscal years of 1956-57 through 1959-60, the Canadian Government provided \$198.9 million in bilateral aid to the less-developed countries and \$54 million in contributions to the multilateral assistance agencies. Grants constituted most of the aid, with loans totaling only \$34.5 million. An additional \$243 million of Canadian capital flowed to the less developed countries through

Canadian private investments, reinvested earnings, export credits, and the purchase of International Bank securities. Private investment has centered on Latin America. ^{1/}

Canadian grants and loans are provided to about ten countries, mostly in South and Southeast Asia. Available reports suggest that at least 90 percent of the aid is concentrated in India and Pakistan. From 1950 through 1959 Canada expended \$218.9 million on aid to the countries of this area and of the total, India received \$124.9 million and Pakistan \$74.4 million. Most Canadian government aid consists of industrial metals, wheat, and fertilizer. Two major projects have also been constructed, however, a \$37 million hydroelectric station in Pakistan and one in India costing \$25 million. Canada, like the United States has a surplus of agricultural commodities and has sought to dispose of them through various foreign aid arrangements. More than \$70 million in the Canadian aid total from 1950 to 1959 consists of grants and loans for the purchase of Canadian wheat and flour. ^{2/}

Recent years have seen an expansion of both the scope and magnitude of Canadian aid. In 1958 the Parliament increased the annual foreign aid appropriation from \$35 to \$50 million and has since maintained this larger flow of capital. At the same time the program was

^{1/} OEEC, op.cit., p. 114, 115.

^{2/} United Kingdom. H.M. Treasury. The Colombo Plan for Co-operative Economic Development in South and South-East Asia, ninth annual report of the Consultative Committee. January 1961. Cmnd. 1251, p. 173.

broadened to include a number of African countries and a five year, \$10 million development aid plan was announced for the West Indies. ^{1/}

B. France

Except for the United States, France supplies a greater volume of economic and technical resources to the less-developed countries than any other member of the free world. In the four-year period from 1956 through 1959 France provided an overall total of \$4.9 billion, divided between \$3.3 billion in government aid and \$1.6 billion in private lending, investments, reinvested earnings and the purchase of International Bank securities. French aid is for the most part bilateral, with the multilateral agencies receiving only \$75 million or 2 percent of the government aid during these years. Within bilateral aid the emphasis is upon grants which totaled \$2.66 billion against only \$0.66 billion in loans with maturities exceeding five years. The aid level has been rising in recent years with expenditures increasing from \$633 million in 1956 to \$858 million in 1958.

Almost all French bilateral aid is provided to Algeria, the French possessions or independent states formerly under French control. The leading recipient of this aid is "Algeria and the Sahara," though the various official French estimates differ on the exact totals. According to the OEEC report Algeria accounted for approximately 30 percent of the French bilateral aid in 1958 and for almost

^{1/} U. S. Department of State. Economic assistance as a cooperative effort of the free world. An unnumbered press release, 1959. p. 27, 28.

40 percent in 1959.^{1/} A recent UN report on French aid, however, sets the Algerian figure at 45 percent in 1958 and 46 percent the following year.^{2/} Analysis of the various categories of French aid for "current expenses" and investment in 1958 (OEEC report) indicates the following allocation: overseas Departments, \$93 million; Algeria and Sahara, \$245 million; French Community states and overseas territories, \$396 million; Tunisia and Morocco, \$126 million; Vietnam, Laos, and Cambodia, \$15 million.^{3/} More than 90 percent of all French aid centers in Africa.

French bilateral aid is functionally divided between the categories of "current expenses" and "investment" or development aid. In 1958 the proportions for the two types of aid were 32 percent and 68 percent respectively. In 1959 it was 35 percent and 65 percent. The provision of almost one-third of all bilateral aid in the form of current expenses reflects a continuation of the French practice of meeting budget deficits and providing general administrative services to the African countries that were formerly possessions or protectorates. This general budgetary support is almost completely in the form of grant aid. Both grants and loans are used to finance development aid, although the emphasis is upon loans.^{4/} Investment or development loan conditions vary

^{1/} OEEC, op.cit., p. 45-62.

^{2/} UN, Economic Commission for Africa 1960, International Economic Assistance to Africa, reprinted in Economic Development Aids for Underdeveloped Countries, edited by A.G. Mezerik (International Review Service, v. 7, No. 63, 1961), p. 93.

^{3/} OEEC, Ibid.

^{4/} UN, Ibid.

from case to case. Typical conditions recently have been an interest rate of 2.5 percent and maturity periods of ten to twenty years for loans extended to public authorities and an interest rate of 5.5 percent and maturity periods of seven to ten years for loans extended to private firms. Neither grants nor loans are technically tied to purchases in France, though regulations restricting some types of imports into the franc area have had the effect of tying a substantial portion of French aid.

In addition to the formal programs of economic and technical assistance France provides many valuable economic services to her possessions and to the independent countries within the franc zone. Specifically, France provides credit to meet temporary international balances of payments deficits, creates incentives for increased French private investment overseas, guarantees stable export prices for many African raw materials and permits all franc zone exports to enter France duty free. In addition, there are many Algerian workers in France who transfer a considerable portion of their franc earnings back to Algeria, thus increasing the hard currency available for Algerian development. It is not possible, therefore, to secure an accurate picture of total French aid to the less developed countries merely by computing statistics on loans and grants.

C. German Federal Republic

The total net bilateral flow of German capital to the less-developed countries amounted to \$1.75 billion during the period of 1956-1959. More than half of this, or \$1.086 billion, was private

capital in the form of investments, reinvested earnings and government guaranteed commodity export credits. World War II indemnification payments to Israel made up another \$290 million of the total (\$428 million from end of war to 1959).

The official bilateral aid program, therefore, was limited to \$376 million. New loans constituted \$117 million of this figure, grants, \$30 million, and the balance of \$229 million was provided in the form of consolidation credits--the refinancing of existing debts.

Germany has provided an unusually large portion of its capital through multilateral channels. From 1956-1959 this totaled \$556 million. The bulk of it went to the International Bank in the form of increased purchases of Bank securities by the German Government (\$381 million), and private investors (\$62 million), and additional subscriptions to the Bank's capital (\$58 million).^{1/} Only the \$58 million capital subscription may properly be called aid. Total German multilateral aid contributions were \$113 million, including the International Bank subscription, The UN technical assistance programs, and the Common Market's African development fund.

German grant aid has been provided exclusively in the form of technical assistance and has totaled only \$30 million in the years from 1956-1959. Since 1956 the Technical Aid Fund has financed 45 training centers, 18 "model institutions," sent 450 technical advisers to developing countries and brought 1,500 trainees and students to the Federal Republic for instructions. The technical assistance

^{1/} OEEC, op. cit., p. 27, 31, 64.

program has not focused on any one economic sector and has included agriculture, industry, education, health and transportation. ^{1/}

German Government loans have been financed principally by borrowings on the private capital market rather than by direct Bundestag appropriations of the amounts loaned. The exception is that the Government is authorized to draw on its European Recovery Program counterpart funds for loans to underdeveloped countries and for export credits up to the limit of \$62 million. Most recent German discussion of expanding foreign aid has centered on increasing the use of counterpart funds for these purposes and drawing additional finance from the private capital market. Some of this would also be used for grant purposes.

The capital export guarantee program also demonstrates the German reliance on private capital sources. The 1960 Budget Law provided for government guarantee of private German capital exports valued up to \$1.2 billion. Private capital exports, of course, are not aid. As a rule the guarantees are for periods of 15 years and occasionally up to 20 years with the charges ranging from 0.75 percent to 1.5 percent per annum of the amount covered.

The commodity export guarantee program is the oldest of the joint government-private financing arrangements. It is useful to the less-

^{1/} West German aid to developing countries since 1957. The Bulletin (Bonn, Germany), No. 15, 1960. p. 3.

developed countries, but cannot be considered aid. Since 1949 the maximum value of exports that could be guaranteed has risen from \$29 million to the current level of \$2.9 billion. The charges are determined by a complicated formula, but in general the rate varies from 0.75 percent to 1.5 percent for the first 6 months and then 0.1 percent for each additional month. At present, about 90 percent of the exports guaranteed are for underdeveloped countries. The guarantees have been used mainly for exports to India, Argentina, the United Arab Republic, Brazil, Iran, Venezuela, Iraq, and Spain.

D. Italy

The net bilateral flow of Italian capital to underdeveloped countries during 1956-1959 totaled \$655 million. Foreign aid amounted to \$326 million while private investments, export credits and other sources of private capital totaled \$262 million and reparations payments came to \$67 million. Italy also contributed \$42 million to the various multilateral agencies, but received \$156 million in loans from the World Bank. This more than cancelled out the resources Italy made available to the multilateral agencies for provision to the less-developed countries. The government program of bilateral aid during this four year period consisted mostly of new loans (\$128 million) and consolidation or refinancing credits (\$161 million). Grants amounted to only \$37 million.^{1/}

^{1/} OEEC, op.cit., p. 72.

Italy has confined grant aid almost completely to its United Nations Trust Territory of Somaliland, which became independent in 1960. From 1950-1959 Italy provided Somaliland with \$96.5 million in budgetary support and development assistance. Italy plans to continue the provision of some aid to Somalia as evidenced by the March 1961 appropriation of \$2.2 million in technical assistance and scholarship aid to Somalia during 1961.

World War II reparations payments (grants) have been a major factor in the totals of Italian capital provided to the less-developed countries. These payments, which amounted to \$181.8 million through 1959 were provided principally to Greece (\$100.9 million) and Yugoslavia (\$60.0 million). ^{1/}

The Italian provision of capital to the less-developed countries has fluctuated from year to year. Official bilateral aid amounted to \$34 million in 1956, \$171 million in 1957, \$52 million in 1958, and \$137 million in 1959. Press reports suggest that Italian aid will increase in the next few years, but the precise magnitude and character of the program has not been clarified.

E. Japan

The Japanese Government provided \$372 million in bilateral aid to the less-developed countries in the years 1956-1959. This was concentrated in South and Southeast Asia. Grants totaled \$182 million, new loans \$127 million and consolidation credits \$63 million. Japan

^{1/} U. S. State Department, op.cit., p. 35.

also provided \$42 million to the multilateral agencies, but borrowed \$162 million from the International Bank to finance her own needs.

Japanese World War II reparations totaled \$209 million from 1956-1959 and the various forms of Japanese private investment in the less-developed countries amounted to \$123 million. ^{1/}

Most Japanese economic aid to the less-developed countries has been provided under the terms of World War II reparations agreements though not necessarily as reparations. Direct reparations payments totaled \$227 million from the end of the war through June 30, 1960, and there are remaining commitments of more than \$770 million. The major recipients have been Burma (\$99.7 million), the Philippines (\$95.6 million), and Indonesia (\$31.6 million). The importance of the agreements, however, extends far beyond the direct payment of reparations. ^{2/} The Japanese Government committed itself to facilitate the extension of more than \$700 million in private loans, mostly to Indonesia (\$400 million) and the Philippines (\$250 million); the Indonesian trade debt of \$177 million was cancelled in lieu of reparations and is included above in the 1956-1959 total of \$182 million in grants; Thailand was to receive \$15 million in cash and \$26.7 million in credits to settle World War II currency problems; and finally,

^{1/} OEEC, op.cit., p. 118.

^{2/} United Kingdom. H. M. Treasury, op.cit., p. 181.

Cambodia and Laos were slated for nearly \$1 million in goods and services in lieu of reparations. ^{1/}

Loans have been provided for the most part by the Japan Export-Import Bank which lends to exporters in cooperation with private financial institutions and occasionally also to foreign governments. Since 1951 the Bank has loaned Japanese exporters \$1.1 billion, most of this repayable in periods of from 5-7 years with interest rates slightly below those paid for long-term Japanese Government bonds. Such export loans are now being provided at the annual rate of \$190 million with special attention to India, Pakistan, Egypt and the reparations countries.

There will be a substantial volume of Japanese aid for some years to come due to the \$770 million balance of unpaid reparations and the largely unutilized Japanese commitment to \$716 million in export loans. Also, the Japanese Diet has established (1958) a Southeast Asia Economic Development Fund of \$14 million which has yet to be utilized. Japanese technical assistance to the Colombo Plan countries has totaled \$1.5 million in the years 1954-1960 and the annual Diet (parliament) appropriations for this have increased from \$36,000 in 1954 to \$850,000 in 1959.

^{1/} U. S. Department of State, op.cit., p. 36-38.

F. United Kingdom

Total United Kingdom capital provided to the less-developed areas on a bilateral basis totaled \$2.9 billion in the period 1956-1959. Government aid constituted \$896 million of the total, with \$555 million of this in grants. Private capital amounted to \$2.0 billion, including investments, reinvested earnings and export credits. In addition, there were net multilateral contributions by the Government equal to \$255 million. ^{1/} These are OEEC figures and are not wholly consistent with the official United Kingdom statistics cited in the following paragraph because the OEEC includes export and consolidation credits which the United Kingdom does not consider as aid to underdeveloped countries.

Bilateral aid expenditures have almost doubled in the last three fiscal years, increasing from \$177.2 million in 1957/58 to approximately \$335 million in 1959/60. The Government has consistently placed primary emphasis on bilateral aid to the colonies and independent Commonwealth countries, with other nations and multilateral agencies receiving much smaller amounts. In 1958/59, for instance, the colonies received \$123.3 million, the independent Commonwealth, \$72.8 million, all other countries a total of \$30.1 million, and multilateral agencies \$65.5 million. India has received approximately \$145 million in aid since 1957, which makes it the leading individual recipient of United Kingdom assistance. ^{2/}

^{1/} OEEC, op.cit., p. 94.

^{2/} United Kingdom. H. M. Treasury. Assistance from the United Kingdom for Overseas Development. March 1960. Cmnd. 974 and interviews conducted by the author.

The major trend in recent United Kingdom economic aid has been the rapid increase in the attention paid to the needs of the independent Commonwealth countries while the aid provided to the colonies has risen only slightly. Grants and (grant) technical assistance is concentrated in the colonies while loans constitute the bulk of the independent Commonwealth aid. As a result of the shift away from the colonies, loans now account for slightly more than half of the total British aid program, whereas only three years ago they constituted less than one-sixth of the total. British loans are repayable in sterling and about one-half are tied to purchases in the United Kingdom. Loans are provided under several programs and involve differing degrees of government participation, but most are made for long terms with interest rates approximately equal to the current rates on United Kingdom Government borrowings. ^{1/}

Colonial grant aid has been provided mostly for education, roads, and agricultural development with the colonial government usually meeting part of the costs. In addition, the United Kingdom provides extensive training, technical assistance and services through regular appropriations for colonial administration.

G. United States of America

According to OEEC calculations the United States has provided a total of \$14.062 billion in all forms of capital to the less-developed countries during the four-year period 1956-1959. This was composed of

^{1/} Ibid.

\$8.63 billion in official grants, loans and the sale of surplus agricultural commodities for foreign currencies, \$4.6 billion in private investments and reinvested earnings, \$248 million in official contributions to multilateral agencies and \$546 million in private purchases of World Bank securities. ^{1/}

In the years 1946 through 1960 the United States, according to official government statistics, made net expenditures of \$53.5 billion for all types of foreign economic aid, including \$48.6 billion in bilateral aid and \$4.9 billion invested in international financial institutions. ^{2/} In the early postwar years the aid went principally to Europe under several successive programs, the most important of which was the Marshall Plan (\$13 billion). Most of the European aid was in the form of grants, except for the British Loan and the Export-Import Bank credits which were long-term loans repayable in dollars. Aid was focused on relief type activities at the end of the war, but soon shifted to helping in the economic reconstruction of industrialized Europe.

United States programs of economic aid have changed in four important respects during the last decade. (1) There has been a steadily increasing shift to non-European and less-developed areas, especially to Asia. (2) Consequent on this shift, the focus of aid has moved away from reconstructing highly technical societies suffering war damage and toward basic economic development activities, including

^{1/} OEEC, op.cit., p. 9.

^{2/} U. S. Department of Commerce. Office of Business Economics. Foreign grants and credits by the U. S. Government, June 1960 quarter. 1960, p. S-5.

technical assistance. (3) Military and economic aid programs deeply interpenetrate in most of the less-developed countries today and this sometimes results in providing economic development aid principally because of its expected contribution to satisfying the immediate demands of national security. (4) There has been a marked expansion in the number of programs and agencies through which foreign economic aid is provided so that the problems of coordination both in the United States and overseas have been greatly magnified over those which existed ten years ago.

Bilateral economic aid is today provided by the United States in four different forms: (1) dollar loans repayable in dollars or local currency through the Development Loan Fund and straight dollar loans through the Export-Import Bank; (2) grants provided through the International Cooperation Administration for essential commodity imports and programs of technical assistance; (3) agricultural commodities provided under the Agricultural Trade Development and Assistance Act (P. L. 480) on a grant basis or in return for local currencies, most of which are used for economic development purposes; (4) the occasional provision of cash grants in dollars to meet crisis situations.

Grant-type aid still predominates, but in the last four years there has been increasing attention paid to the various forms of loan assistance. United States aid is unique in that it permits (Development Loan Fund) the repayment of dollar loans in the frequently unconvertible local currency of the borrower. In the past, economic aid has not been tied to purchases in the United States except in the case

of Export-Import Bank loans. Recent policy changes require, however, that most of the future grants and loans be tied to United States purchases.

The principal recipients of economic aid have been the West European governments (United Kingdom, \$7.7 billion, France, Germany, and Italy) and Japan, but among the less-developed states, where the aid is now concentrated, the largest amounts have gone to Korea (\$2.8 billion), China, or Taiwan (\$1.7 billion), Greece (\$1.6 billion), India (\$1.6 billion), Yugoslavia (\$1.4 billion), Brazil (\$1.2 billion), Vietnam (\$1.2 billion) and Turkey (\$1 billion). There is a varied mixture of forms of aid provided to these countries. Some, like Brazil, have received mostly long-term dollar repayable loans from the Export-Import Bank. Others, like Korea, have received almost entirely grant aid. Most governments, however, have been provided with a mixture of forms of aid.

VI. The Role of the Multilateral Agencies

The multilateral agencies have played a limited though useful role in fostering the flow of capital resources and technical aid to the less-developed countries. During the years 1956-1959 they were the channels for about 10 percent as much aid as the governments provided bilaterally in grants and long-term loans. It appears that in the future the donor nations will make greater use of the multilateral agencies but that the bulk of international aid will continue to be provided on a bilateral basis.

Bilateral vs. Multilateral Channels of Aid

The major donor governments in particular channel almost all foreign economic aid through direct bilateral arrangements because they wish to concentrate their resources for political or economic effectiveness. The politics of an international organization such as the United Nations, however, requires that economic aid be distributed with relatively equal attention to worthy projects in all the less-developed areas, including countries that may be political opponents of the governments supplying most of the aid. In addition, national governments are always uneasy about resigning the expenditure of their own taxpayers' money to an international organization in which they are not free to control the administration of the funds.

Yet there is growing support in the United States for increased multilateralism in order to augment the volume of international credit and elicit greater assistance from the other developed nations. Moreover, in some areas the donors may wish to make special use of multilateral aid channels to avoid the charge that economic aid is being used as a weapon in the cold war. In addition, some believe that sensitive nationalistic feelings in the newly-independent countries make it easier for an international agency than for an individual donor government to insist upon the efficient administration of aid funds. The result has been a sharp increase in the number of multilateral aid agencies and special arrangements with emphasis on those that provide for a large measure of control by the donor countries.

The Expanding Number of Multilateral Agencies

Immediately after World War II the only multilateral sources of aid were the UN's small technical assistance programs, the International Bank for Reconstruction and Development (IBRD), that provides technical advice and long-term, hard currency loans, and the International Monetary Fund (IMF), limited to short-term capital loans to correct temporary balance of payments deficits. The Organization of American States (OAS) initiated a small technical assistance program in 1948. The United Nations now has three technical assistance programs in addition to the original one. These are the Expanded Program of Technical Assistance (EPTA) (1950), the Special Fund (1959) and the organization for the provision of operational and executive personnel, known as OPEX (1959). The advanced countries now contribute a total of about \$100 million a year to the group of the UN technical assistance agencies. In addition, there is also the International Finance Corporation (1956) which is part of the IBRD and provides loans to private enterprise in the less-developed countries. It disbursed a total of \$14.2 million in the four years from 1956-1959.

The European Economic Community (Common Market) has established a Development Fund for the Overseas Countries and Territories (1958) that is in effect a regional program for Africa with intended expenditures of \$581.25 million in the five-year period of 1958-1963. The two most recent creations are the Inter-American Development Bank (1959) and the International Development Association (IDA) (1960) which

is also under the IBRD. Each has a capitalization of \$1 billion equivalent.

There are also two important consultative arrangements. The Colombo Plan for Cooperative Economic Development in South and South East Asia (1951) includes the United States, the United Kingdom and Canada, as well as the area countries. It is not an agency that provides aid directly, but its annual consultative meetings of all member nations have helped stimulate economic development planning and elicited additional resources among the members on a bilateral basis. The Development Assistance Group (DAG) (1960), associated with the Organization for European Economic Cooperation (OEEC), was initiated at the suggestion of the United States and is composed of the ten leading capital exporting nations of the free world. The group is designed principally for sharing information among the major donor nations and eliciting a greater and more equal foreign aid effort on their part. The DAG is scheduled to be included in the OEEC's successor, the Organization for Economic Cooperation and Development (OECD), whose treaty is now before the member governments for ratification. One of the OECD's major concerns will be the expansion and coordination of the members' programs of international economic aid.

The general multilateral agencies are now able to provide all types of economic assistance to the less-developed countries, with the one important exception of grant aid for capital developments. The IBRD supplies large-scale, long-term, hard currency "banker type"

loans; the International Finance Corporation stimulates private enterprise and investment; under certain circumstances the IDA is able to accept loan repayments in the relatively inconvertible currencies of the borrower and in general is to provide loans "on terms which are more flexible and bear less heavily on the balance of payments than those of conventional loans"; and the UN has several programs that provide grant technical assistance.

The International Bank for Reconstruction and Development

The International Bank has been the source of about two-thirds of all the multilateral aid provided to the less-developed countries in recent years, or about \$930 million from 1956-1959. Interest rates are now about 6 percent, or 1 percent higher than the bank has to pay for the capital it secures on the world market. Most loans mature in fifteen to twenty-five years and are provided either to governments or to private enterprise, and usually for specific projects. Recently it was voted to double the Bank's capitalization, and thus its own borrowing and lending capacity, to \$21 billion.

The Bank has received strong support from the United States and the other major capital exporters because of its carefully nurtured reputation for fiscal responsibility and project by project selection which keeps it relatively free of domestic politics in the recipient countries. The International Bank has constituted a sound investment from a banking standpoint.

In understanding the dominant multilateral role played by the Bank it is perhaps even more significant to note that the Bank's operations are determined by weighted voting. Each member country has a vote that is equal to its share of the Bank's subscribed capital. As a result, the United States ballot is equal to 31.38 percent of all votes cast; the next largest contributor, the United Kingdom, controls 12.92 percent of the vote. The Bank is required to make loans on the basis of economic considerations only and is specifically prohibited from making politically motivated loans. Yet the provision for weighted voting gives the major donor countries the opportunity to determine in large measure how the funds will be used within these general guidelines. This often makes the Bank more useful to the major donors as an instrument of national policy than it would be if all donors, both large and small, had an equal voice in deciding how funds would be allocated. In this regard it should be noted that the new IDA and the regional Inter-American Development Bank, potentially the most important multilateral sources of capital outside the IBRD, also operate on the principle of weighted voting.

The Importance of Weighted Voting

This indicates that the major donor countries, to the limited extent that they have provided aid through multilateral agencies, have emphasized those operating on a system of weighted voting that matches capital subscriptions with voting strength. This should not imply that the industrialized nations of the free world are opposed to the economic development of some of the less-developed free nations of Asia, Africa,

and Latin America. The emphasis on weighted voting derives rather from the fact of limited capital resources in terms of the multiple demands placed upon them. This requires the donors to husband their resources carefully and allocate them first of all to those less-developed countries where they are most interested in speeding national development or supporting other political and military policies. The major capital exporting countries are thus most apt to use multilateral aid channels when these channels operate so as to support the priorities in their own national aid programs.

SUNFED and UN Technical Assistance

The case of the Special United Nations Fund for Economic Development (SUNFED) and the UN's technical assistance programs offer negative proof of this line of argument. Since 1952 the less-developed nations have been urging that SUNFED be established to provide capital assistance in the form of grants or loans repayable in the (often inconvertible) currency of the borrower. The United States, the United Kingdom, Canada, and some of the other developed countries (including the Soviet Union until 1954) have usually opposed this on the ground that sufficient funds would not be available until savings could be effected through general disarmament. ^{1/} SUNFED would have been part of the United

^{1/} See the 1952-1958 annual reports entitled, U. S. Participation in the UN. Report by the President to the Congress for the year ... also Rubinstein, Alvin Z., "Soviet policy toward under-developed areas in the Economic and Social Council," in International Organization, (v. 9, no. 2), May 1955. p. 242-43.

Nations itself, under the Economic and Social Council, and like the UN technical assistance programs it would have been operated on the basis of state equality with all members having at least an indirect voice in determining fund allocations. In the United States it was clear that this was an unacceptable principle on which to operate a multilateral grant agency and that it was particularly unacceptable in the case of a United Nations program in which the Soviet bloc was represented along with the free world countries.

The United States, although it has opposed the formation of a UN capital development fund, did take the initiative in 1957 in calling for an expansion of the UN's technical assistance program from the then current level of \$30 million to \$100 million. The United States also proposed a special projects fund within the Expanded Program of Technical Assistance to permit concentration on a few major survey and demonstration activities of a preinvestment nature. These were to include general economic and physical resources surveys and the establishment, staffing, and equipping of agricultural and industrial research and training centers. The plan was introduced to the General Assembly by the United States Representative, Congressman Walter Judd, and a resolution embodying its essential aspects was unanimously adopted.

The UN technical assistance programs demonstrate what may be called the strengths and weaknesses of a United Nations grant aid program in which all members have an equal voice in determining policy. As might be expected, the programs have remained small and all of them together

now account for only \$100 million a year while the United States' own program of bilateral technical assistance totaled \$149 million in 1960. Despite the relatively small funds available the politics of the United Nations requires that an appropriation be made to almost every less-developed territory or nation. In 1959, for instance, the UN Expanded Program of Technical Assistance allocated \$3.7 million to Africa and divided this among 44 different areas with the result that most received less than \$100,000 and only one country, Libya, received more than \$500,000. ^{1/} The UN programs serve the principle of equality and enable each less-developed area to receive some slight assistance, while the major donor nations concentrate their aid in selected countries.

The UN technical assistance programs are therefore particularly welcomed by those countries that are not the recipients of large-scale bilateral aid. All less-developed countries, however, wish to receive aid from multiple sources rather than be completely dependent upon one donor whether it be the former colonial governor, the United States, or even the United Nations. But from the viewpoint of the major donor nations, the UN programs appear not to be worthy of massive support because of this tendency to fragment aid rather than to concentrate it for the sake of economic and political effectiveness.

^{1/} U. S. Congress. House. Committee on Foreign Affairs. Mutual Security Act of 1960. Hearings, part 2, 86th Cong., 2d sess., 1960, table on p. 398.

Ad hoc Multilateralism

An ad hoc form of multilateralism has recently become prominent and indications are that it will be a major factor in the international aid picture during the next few years. This involves an agreement between several industrialized nations to cooperate in providing aid to a particular multi-nation project or to an individual less-developed country, with the total aid package being administered by a multilateral agency, usually the International Bank. Ad hoc multilateralism elicits increased foreign aid contributions and permits the donors to retain greater control than is possible even under the system of weighted voting in the IBRD, IDA, or the Inter-American Bank. This is so because the decision to provide aid in any particular instance is made by the individual donor nations, thus insuring the use of their limited resources for international projects that each considers to have special merit.

Ad hoc multilateralism, as it is called by the State Department, has been used recently in Spain, Turkey, and India, and is currently the basis for the lower Mekong Basin and the Indus Waters Projects. In the case of the Indus Waters Project financing is being provided by six developed nations (Australia, Canada, Germany, New Zealand, the United Kingdom, and the United States), the International Bank, and the two countries in which the project will be located--India and Pakistan--with the Bank serving as administrator for the whole plan. The United States is to provide \$270 million in grants and loans out

of a total of \$513 million. In addition, it will release \$235 million equivalent in United States owned Pakistani currency derived mostly from the sale of surplus agricultural commodities to Pakistan. This project is generally considered to have great economic merit. It is also an important means of helping to resolve the long standing dispute between India and Pakistan, two countries in which the United States has invested more than \$2 billion in economic aid.

Another type of ad hoc multilateralism can be seen in the new Inter-American Fund for Social Progress. The United States chose the 1960 Bogota, Colombia meeting of the Organization of American States to offer to establish this Fund, provide all of its capital and make the Inter-American Development Bank the primary administrator. In the words of the Act of Bogota, the purpose of the special fund is,

to contribute capital resources and technical assistance on flexible terms and conditions, including repayment in local currency and the relending or repaid funds, in accordance with appropriate and selective criteria in the light of the resources available, to support the efforts of the Latin American countries that are prepared to initiate or expand effective institutional improvement and to adopt measures to employ efficiently their own resources with a view to achieving greater social progress and more balanced economic growth. 1/

In May 1961 the Congress appropriated the full \$500 million requested by the President for Inter-American social progress and agreed to provide \$394 million of this total through the Inter-American Development Bank. The Bank will not own this money, but merely act as the

1/ Act of Bogota: Measures for Social Improvement and Economic Development Within the Framework of Operation Pan America, adopted by the Council of the Organization of American States, Special Committee to Study the Formulation of New Measures for Economic Cooperation, Third Meeting, Bogota, Colombia, September 1960, part II, section 2.

administering trustee for the United States. The Bank will be able to provide money from the Fund only by a two-thirds vote of the Executive Directors where the United States casts forty-one percent of the votes.

This Fund is similar to the other examples of ad hoc multilateralism in that it involves multilateral administration of national funds that have been provided for a specific purpose in a specific region. This Fund is different, however, in that the money is being provided by only one government which is given an absolute veto over each allocation by the Fund's multilateral administrator.

VII. Emerging Issues in International Economic Aid

A. The Limited Ability of the Less-Developed Countries to Service Loans Repayable in Convertible Foreign Currencies

The general trend in the expansion of international economic aid is in the direction of loans rather than grants. Most such loans, whether provided by individual governments or multilateral agencies, are repayable in the hard currency of the lender over a period of from five to twenty years. Yet most of the newly-developing nations have little opportunity to accumulate the foreign exchange needed for servicing hard currency loans. Nor can any appreciable change be expected in this situation for at least the next two decades. Not until then will it be practicable for the developing countries to increase their foreign export earnings sufficiently to meet the mounting interest and repayment costs on the international borrowings used to finance the heavy imports

needed for industrialization. The result is to impose definite limitations on the extent to which the less-developed countries can have recourse to the usual types of hard currency international loans to finance their development programs.

Mr. B.F.H.B. Tyabji, the Indian Ambassador to the German Federal Republic, has stated the impact which he believes this problem will have on his country's future development:

Priority in an under-developed country like India has to be given to the development of the infrastructure, and basic heavy industries, which cannot be expected to pay for the loan in a short period of time.

To put it in another way, a developing country cannot, and should not be forced to repay such basic development debts except over an extended period, and at low rates of interest.

An appraisal of India's existing repayment obligations due during the 3rd, 4th and 5th Plans (i.e. the next fifteen years) leads one inevitably to the conclusion that she simply cannot afford during the next 15 years to contract any further obligations to repay; and that even after that period, such obligations will have to be severely restricted.

For these reasons, the only really genuine "economic aid" which a friendly country can give India must necessarily be in the form of:

- a) Grants;
- or
- b) Extended term loans, repayable in foreign currency, but given under flexible conditions permitting India to utilize it where it can purchase equipment and services most economically, and for projects which she considers most beneficial within the broad framework of her development plans;
- or
- c) Extended term loans repayable in local currency. 1/

1/ Urgency of German aid to India, The Magazine of the Federal Republic of Germany, No. 18 (iv/1960), p. 24-25.

B. The Needs of the Less-Developed Nations for Economic Aid Often Fluctuate With Their Export Earnings

The foreign export earnings of the less-developed countries are often more important than international economic aid in meeting their need for development capital. During the period of 1949 to 1959, for instance, the total export earnings of Asia, Africa, and Latin America (excluding the free world developed nations of Japan and the Union of South Africa), amounted to approximately \$235.4 billion. United States purchases from these areas amounted to \$57.5 billion while its direct economic aid was only about one-fifth as much, or \$11.5 billion.

Periodic adverse shifts in the volume or terms of trade of the less-developed countries have sharply reduced their earnings in recent years. Such a shift occurred in the Far East and South Asia (excluding Japan and Communist China) during the first half of 1958, when earnings dropped \$428 million from the first half of 1957. In terms of an annual rate, this loss amounted to 69 percent of United States nonmilitary aid to the area in the following year. It represented \$208 million more than the total of United States grants of nonmilitary aid to Latin America, Africa, and the Near East combined during 1959. ^{1/}

The reduction in export earnings by the less-developed countries has led to numerous and drastic cutbacks in their imports: seventeen such cuts of over 20 percent in a single year may be found in the period

^{1/} U. S. Congress. Senate. Committee on Interstate and Foreign Commerce. United States and World Trade: Challenges and Opportunities. Final report by special staff on the study of U. S. foreign commerce. 87th Cong., 1st sess., 1961. Committee print, p. 46.

of 1948-1957. These cuts bore heavily, and even predominantly in most cases, on capital goods, industrial materials, and fuels, thereby disrupting development programs. ^{1/}

Most of the less-developed countries have an overall deficiency in the convertible foreign exchange needed to finance imports for economic development, but this deficiency is greatly increased by declining export earnings. Their need for foreign loans and grants to aid development therefore has been enlarged still further by fluctuating and generally declining export earnings. The impact of this problem is often exacerbated because many less-developed countries must depend on the export of one or two commodities for the bulk of their foreign earnings. They are, therefore, more seriously hurt by falling prices for particular commodities than are most developed countries whose foreign earnings usually come from a variety of exports.

Many economists believe that stabilizing raw materials prices would be a key factor in spurring economic progress in the less-developed countries. This suggestion was included in a development program submitted to the European Economic Community in 1959 by Jean Monnet's Action Committee for the United States and Europe. The meetings of the General Agreement on Tariffs and Trade (GATT) have also considered the problems facing these raw materials exports.

To date, the principal means of mitigating the commodity problems have been the special price support and marketing agreements that some

^{1/} Benoit, Emile. Europe at Sixes and Sevens. New York, Columbia University Press, 1961. p. 262.

countries, such as France and the United Kingdom, maintain with their present or former possessions and also the development of generalized international production and marketing agreements for specific commodities such as sugar, wheat and tin. Published materials indicate that international thought on solution of the raw materials problem has centered on negotiating additional commodity agreements, the formation of common markets and free trade areas, and attempts to diversify production in the less-developed countries to minimize the national impact of declining world prices or markets for any particular commodity.

C. The Need For a Better Understanding of the Political and Social Change that May Accompany Economic Development

The level of economic and technical assistance provided by the developed nations will increase during the 1960's. This points up the already critical need for serious study of the impact that foreign economic aid has on the less-developed countries in order to maximize the usefulness of aid in serving the purposes for which it is provided.

There is a vast and growing literature on underdevelopment, but it shows imbalance, major deficiencies, and scholarly disagreement on the process of development and what needs to be studied in planning future aid programs. Gaps appear to be of three kinds: (1) lack of basic data on the economies and economic process in many less-developed countries, much of which can be attributed to the lack of

comprehensive and accurate statistics for these countries; (2) gaps in knowledge and understanding of non-economic characteristics (social structure, value systems, ideologies, law and authority) and of the way they affect social and economic development; and (3) the crude and underdeveloped state of theories about the nature of economic growth, the causes of modernization and social development, the relation of economic development to political change, and of political systems to economic growth.

If aid is provided merely to increase exports it is not particularly important to study its impact on social tension or the distribution of political and economic power within the receiving country. But in fact most government aid is provided for purposes that are ultimately political: to strengthen and maintain friendly relations with governments in power, undercut the appeals of communist or other political extremist groups by helping afford an "acceptable" rate of economic growth or simply to maintain a long standing political and economic position. Under any of these circumstances it is crucial to understand the effect of the aid provided.

To date the major donor governments have given little attention to this kind of deeper policy planning. President Kennedy's foreign aid message to Congress in March 1961, however, did call upon the receiving countries to undertake economic and social reforms that would spread the benefits of United States assistance among all the people. This can be viewed as an attempt to goad the rulers of some less-developed countries into accepting a partial redistribution of

local property and political power to avoid impending revolution. United States economic aid would help these governments finance land reform and other crucial programs to reduce discontent and broaden their bases of popular political support. If the United States does provide aid for these reasons it will apparently become even more important to undertake a major program to study the economic, social, and political impact of United States aid in the less-developed countries.

D. The Provision of Aid for Isolated Projects and Integrated Programs of National Development

To date most foreign aid, whether provided directly, or through a multilateral agency, has been used to support specific projects-- steel mill, railroad, fertilizer plant, or educational institution-- rather than to contribute to the integrated development of the receiving country. This has, of course, been particularly true of private investment which seeks out individual opportunities for secure and reasonable profits. The result has sometimes been the uneven development of the economy and the failure to use available resources in the most rational manner.

It is inevitable that this problem will persist in some measure given the multiple sources and purposes of aid and the fact that the receiving government often insists upon using it in ways that help solve its immediate political crises rather than contribute to the solution of long-range developmental problems. From the viewpoint of

both the donor and the recipient nations, however, it would be useful to attempt a greater measure of coordinated aid planning among the donors and in cooperation with the recipients. The more advanced of the newly-developing nations, such as India, often try to do this through elaborate governmental machinery against the background of multi-year development plans. In effect the donors often fail to support these endeavors, however, because they remain isolated from one another and deal only with the recipient government. To some extent this problem may be ameliorated by the formation of the Development Assistance Group (DAG), which is designed to share aid program information among the donor nations as well as generally to raise the level of aid. It would be useful if the DAG were able to involve private investors in some manner since private foreign investment often provides as much foreign capital as do the official government aid programs.

National Development planning also involves long-term aid commitments on the part of the donor governments. The recipient government cannot make its plans for coherent development unless it has a reasonably certain expectation of how much foreign capital will be available for the next few years. Having received aid in the past, a particular government may assume this will continue in relatively the same measure. This, however, is not a sufficiently sound base on which the government can commit other available resources to a development plan. In practice, most donor governments provide aid on an annual basis due usually to the difficulty of securing multi-year commitments from the respective

national legislatures. Donors must weigh the probable foreign political and economic benefits of multi-year financing against their usual fear of resigning the annual appropriations authority. This power frequently is surrendered in the case of domestic government programs, but rarely with foreign programs of any sort.

E. The Accumulation of Large Local Currency Holdings by the United States and Some Multilateral Agencies

The United States Treasury now holds about \$2.4 billion equivalent in foreign currencies ^{1/} and the figure is gradually increasing. About \$2.2 billion of this total is in currencies of the less-developed countries that are receiving aid from the United States or whose currencies are relatively inconvertible. Most of the present accumulation has resulted from the sale of surplus agricultural commodities for local currency and from the provision of dollar loans repayable in the borrower's currency. ^{2/} The United States is the only developed country in the free world that makes such sales and loans. In the future, however, at least two multilateral agencies, the Inter-American Development Bank and the International Development Association also may accumulate local currency accounts through repayment of

^{1/} U. S. Treasury Department. Fiscal Service, Bureau of Accounts. Foreign Currencies in the Custody of the United States, fiscal year 1960. (Extracted from Part V of the combined statement), table 16, p. 6.

^{2/} An explanation and analysis of the several programs under which the United States accumulates local currencies is available in Asher, Robert E., Grants, Loans, and Local Currencies. Washington, D. C., The Brookings Institution, 1961. pp. 7-14, 99-105.

some of their hard currency loans in the borrower's own currency. The magnitude of their soft currency operations has not yet been determined.

The growth of these large-scale holdings plus the fact that there are no agreements for the ultimate use of most of the money has raised important long-range problems for the United States and the less-developed countries. The entry of the multilateral agencies into the soft currency field can be expected to produce many of the same difficulties. Whether the United States should continue to expand its local currency holdings and whether the multilateral agencies should begin to do so are decisions involving multiple domestic and international factors and are beyond the scope of this study. The intent here is merely to indicate the impact of the accumulation and use of these currencies on relations between the developed and less-developed countries and on the course of economic progress in the latter.

The generation of most of the present United States foreign currency holdings has added significantly to the economic resources of the less-developed countries. The bulk of the currencies derive from the sale of surplus agricultural commodities for foreign currencies under Title I of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480). The sales were initiated to help reduce the growing store of commodities accumulated by the government in support of domestic agricultural programs. Another major effect,

however, has been to provide needed food and other raw materials to the less-developed countries without drawing down their normally short supply of dollars. The sale of surplus commodities for soft currencies under Section 402 of the Mutual Security Act and the provision of dollar loans repayable in local currency, principally under the Development Loan Fund, have been intended to increase the resources available to the less-developed countries beyond what they could finance with their present hard currency earnings.

This purpose of the soft currency loan programs points up the economic dilemma of how to use the growing amounts of United States-owned soft currencies. By definition, the less-developed countries need additional outside resources. Any major withdrawal of their present resources by insisting upon conversion of their currency into dollars or by taking repayment in exportable local commodities, therefore, would have the ultimate effect of proportionately increasing the need for foreign aid. For the same reasons the United States cannot use the soft currencies to provide United States aid to other needy countries except in rare instances.

The sales and loan agreements with the less-developed countries therefore provide that almost all the local currency proceeds and repayments are to be used for mutually agreed purposes within the receiving country. Of the current unexpended total, about \$1.1 billion is reserved for United States uses, such as local embassy

and information program expenses, while the remaining \$1.4 billion is allocated for loans and grants to the receiving countries.

The volume of United States commodities, equipment, or capital provided to the less-developed countries under the sales and loan agreements is not increased by use of the local currency generated by these transactions. This is true regardless of whether the money is used for United States or country purposes.

The funds reserved to the United States obviate the expenditure of additional dollars for operations in the countries concerned, but divert local resources to non-development purposes. Thus an estimate of this practice requires prior choice between two conflicting values--reducing the expenditure of United States dollars or fostering the development of countries to which the United States is providing foreign aid.

The local currency that is loaned or granted to the recipient government has very limited economic value to that government or to securing the interests of the United States. Because the currencies are relatively inconvertible they cannot be used to make additional purchases in any of the developed nations. The loans and grants merely influence the use of part of the existing local resources and therefore do not provide additional resources beyond those available to the government by increasing tax collections or printing more money. Perhaps these uses do have a political value, however, by moderating inflation or by permitting central governments

to mobilize additional local capital without the difficulties of raising tax rates or being more strict in tax collections.

In most instances, the United States secures only a marginal influence over the use of local resources by lending and granting the currencies to the government. Where United States and local policies are in agreement, the United States merely ratifies local policy by releasing currency in support of the agreed projects. Where there is a difference of judgment, the recipient government usually can find sufficient projects acceptable to the United States and then use its own funds to carry out those that do not qualify for grants and loans of United States-owned local currency.

The immediate economic impact of the United States-owned local currencies therefore is not great, either for the United States or the less-developed countries. Nor is there evidence to prove that the impact will change perceptibly during the next few decades. Most of the currencies will remain relatively inconvertible and those that do become convertible to some degree will have to be allocated to servicing senior commitments such as International Bank and bilateral loans repayable in hard currency. The negotiation of most such senior commitments is geared to the expected growth rate of the economy and its foreign exchange earning capacity. Diversion of the available convertible currency to repatriate United States-owned local currency accounts would have the effect of destroying much of the security that underlies the senior hard currency commitments. And the negotiation of surplus commodity local currency sales

agreements is not in fact predicated on the eventual ability of the less-developed countries to redeem the remaining local currency accounts in dollars.

While there is little long-term economic merit to be expected from the growing accumulation of most of the United States-owned local currency accounts it is likely that political difficulties will eventuate. This is essentially the problem of maintaining harmonious relations with countries a large share of whose economies are mortgaged to the United States. In a few years the United States will hold such mortgages on half a dozen of the currently less-developed countries unless steps are taken to slow down and reverse the pace at which the United States is expanding its local currency holdings. These holdings now expand each year because deposits exceed the amounts that can be used under present regulations.

The current magnitude of the problem is not accurately reflected in the fact that the foreign currencies from the less-developed countries on deposit with the United States Treasury now total \$2.2 billion. ^{1/} In addition, there are about \$2.1 billion worth of outstanding loans to be repaid in local currency with interest. Beyond this, the United States has signed commitments for an additional \$2.5 billion in local currency or dollar

^{1/} Estimate supplied by the Department of Commerce, Office of Business Economics.

loans that are to be repaid in the borrower's own currency. An undetermined portion of this \$2.5 billion is reflected in the Treasury's present deposits, however, because some of the local currency to be loaned will be withdrawn from these accounts. It seems reasonable, therefore, to place the present local currency indebtedness to the United States at least at \$5 billion. A recent conservative estimate of local currency indebtedness in 1963 (cash balances plus outstanding loans) places the total at \$9 to \$10 billion. ^{1/}

The long-range political impact of the local currency balances is increased by the fact that they are clustered in a few countries rather than being evenly spread throughout the less-developed world. Fully one third of the present foreign currency holdings are in Indian rupees. India, therefore, is the most extreme example of the general political problem that the United States may confront in a few years.

American holdings of Indian rupees are now (1960) approaching the equivalent of \$800 million. In the course of the next three years, these holdings can easily approach \$2.5 billion. Now \$2.5 billion in relation to the Indian national income is roughly equivalent to \$35 billion in this country. Imagine the reaction in the United States if a foreign country, no matter how friendly, held \$35 billion in our currency. The inevitable reaction to the currently much smaller holdings is already in evidence in Asia, not necessarily from governments, but from the Communists and from opposition parties. ^{2/}

^{1/} Asher, op.cit., p. 102.

^{2/} Mason, Edward S. Foreign Money We Can't Spend. The Atlantic, May 1960. p. 83.

Most recent studies of foreign economic aid have argued against the continued unchecked expansion of United States foreign currency holdings because they have little or no economic value to the United States or the less-developed countries, or because of the future political embarrassments they can produce. Some steps have already been made in this direction:

1) Prior to April 1959 all loans made to the less-developed governments with the local currency generated under Public Law 480 surplus commodity sales stipulated that the borrower had to repay the same dollar "value" it had received. The elimination of this "maintenance of value clause" in April 1959 therefore prevented the expansion of United States-owned local currency accounts through inflation in the less-developed countries.

2) Up to 50 percent of the "country use" portion of the local currency generated under the surplus commodity sales agreements may now be granted to the receiving country where this is deemed by the United States to be desirable. Formerly the emphasis had been placed on loans so that these constituted about two-thirds of the total country uses of this local currency and grants averaged only about 20 percent of the country uses. This shift from loans to grants can have particularly important results in slowing down the accumulation of currencies in countries such as India that have been leading recipients of surplus agricultural commodity sales.

3) It is not expected that the United States will negotiate any additional dollar loans repayable in the borrower's own currency under President Kennedy's revised foreign aid program. This legislation provides that all dollar development loans will be repaid in dollars, but may be made "soft" by long-term repayment periods with little or no interest.

These changes will operate to slow down the accumulation of United States-owned local currency accounts, but will not provide a final answer to the long-range problems that may develop with continued accumulations. The ideal solution probably would be to provide in all future surplus commodity sales agreements for the ultimate disposition of the local currencies that are to be paid to the United States. This may not be feasible at this time because there is no general agreement on how these funds should be expended. Much further thought will be required to deal with the local currency problem in ways that do not jeopardize the long-term economic and political interests of both donor and recipient countries.

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Appendix A: The British Approach to Foreign Aid

The British colonial and commonwealth tradition must be recognized in order fully to understand the British approach to foreign aid. Parliament debates how much and what kinds of aid to provide to the colonies, but there is unanimous agreement on the principle that Britain does have a moral responsibility for bettering the living conditions of its dependent peoples. Some of this same feeling also is directed at the less-developed independent countries in the Commonwealth that formerly were colonies, although it is usually assumed that private business investments and government loans can meet a large share of the needs in these areas. This sense of what may be called "imperial responsibility," to which has now been added "Commonwealth responsibility," means that it is generally accepted in Britain as proper that the Government should provide development assistance. Other reasons have been important in the recent expansion of British aid, yet the tradition of colonial responsibility has helped establish an initial popularity for British development assistance quite apart from openly political, economic, or military considerations.

There are, of course, important political and economic reasons for Commonwealth cooperation. The colonies and the independent less-developed Commonwealth countries are areas where Britain has traditionally played an active role, where she has strong trade and financial relationships today, and where she also feels a sense of political

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responsibility. Development assistance therefore while being itself an example of Commonwealth cooperation also is an important instrument for maintaining the many and varied forms of Commonwealth cooperation and Britain's position of leadership within that community. This further helps explain the fact that most development aid goes to the colonies and Commonwealth countries.

The facts of British colonial responsibility and Commonwealth cooperation are usually assumed rather than argued and the chief emphasis in official statements of the aims of development assistance is placed upon improving "the conditions of life" in the poorer countries. For instance, the Queen, in her speech of October 27, 1959 said:

The improvement of conditions of life in the less developed countries of the world will remain an urgent concern of my Government. They will promote economic cooperation between the nations and support plans for financial and technical assistance. 1/

Or as Earl Jellicoe put it in a House of Lords debate on aid to the uncommitted countries:

As we in the West have come to believe that slum conditions in our own societies cannot be tolerated, how can we sit idly by while the rich countries become richer and the poor, if anything, poorer. 2/

In the parliamentary debates both supporters and opponents of the Government favor development assistance in order to improve the

1/ United Kingdom. H. M. Treasury. Assistance from the United Kingdom for Overseas Development. March 1960. Cmd. 974. p. 5.
2/ Great Britain. Parliamentary Debates. Lords. Fifth series 1959, v. 218, p. 227.

conditions in the poorer countries. This purpose of the aid program, apart from the sense of colonial responsibility already mentioned, seems compounded of a moral humanitarian desire to help less fortunate peoples and a desire to help assure the growth of the underdeveloped countries.

The possible relevance of economic aid to overcoming the Communist threat in the less-developed countries is seldom mentioned in official government statements yet the parliamentary debates suggest that it is an important consideration in formulating British policy. British officials sometimes say they talk little about this "cold war" purpose of economic aid because to do so would destroy some of the political impact of economic aid by seeming to compromise the recipient's independence and thus perhaps increasing the internal political opposition to accepting aid from Britain, the former colonial ruler. Some members of Parliament suggest that the Communist threat is the chief "negative incentive" for the provision of aid, but that "more positive and stronger" reasons also exist. The strongest and most positive reason for many of them is quite simply that of helping the less fortunate peoples better themselves.

Another purpose of the British aid program that must not be omitted is that of expanding trade, especially intra-Commonwealth trade. The provision of the great bulk of British grants and loans to the colonies and independent Commonwealth countries and the loose tying of these funds to purchases in Britain helps expand British exports. The aid program is thus added to the preferential trade

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regulations among Commonwealth members, London's provision of central banking functions for the sterling area, and several other devices that multiply lines of economic cooperation within the Commonwealth and thus may increase the normal markets for British goods.

Some members of Parliament, especially among the Labor Party opposition, urge that most British economic aid be provided through multilateral channels instead of bilaterally as at present in order to depoliticize the aid and permit more stringent administration than can usually be enforced by one sovereign government upon another. The prevailing view, however, appears to favor increasing both bilateral and multilateral aid to the extent possible, but maintaining the present emphasis in the program on direct aid to the Commonwealth. ^{1/} The foregoing discussion of aid theory suggests that Britain's political and economic interests in the Commonwealth may well lead the government to continue the present emphasis on Commonwealth aid and therefore on the use of bilateral channels.

^{1/} Great Britain. Parliamentary Debates. Commons. Fifth series. 1959. v. 609, pp. 883-943.

Appendix B: ^{1/} Economic Assistance Provided by the
Less Developed Nations to Each Other

Cooperation among the less-developed countries may be expected to expand. Certain of the less-developed countries have taken the initiative in sharing their experience with others without waiting for full industrialization.

As a part of the technical cooperation program, a small but growing number of less-developed cooperating countries are participating with the United States in the support of training at "third country" facilities located within their territory. These third country facilities ordinarily provide training for participants from other less-developed countries in situations or problem areas akin to those actually experienced in their home countries.

Among the less-developed countries assisting in the third country training operations under the Mutual Security Program are Taiwan, Indonesia, Korea, the Philippines, Thailand, Vietnam, Brazil, Costa Rica, Ecuador, Peru, Mexico, Ceylon, Israel, India, Iran, and Lebanon. Approximately 450 third country participants annually are now undergoing courses of study or receiving practical training in the lesser-developed countries named above. While the principal costs, such as tuition and per diem, are often paid out

^{1/} Excerpted from U.S. Department of State. Economic Assistance As a Cooperative Effort of the Free World, an undated press release, published in 1960. pp. 14-17.

of the Mutual Security Act funds, the receiving or third country training countries are beginning to assume certain other costs which constitute a contribution to the training program.

Israel is playing an important role in extending technical assistance to the underdeveloped countries of Africa and Asia and, in order to operate these programs effectively, has recently established a Department for International Assistance and Cooperation under the Ministry for Foreign Affairs. Assistance to the countries of Africa and Asia is centered in three main fields: (1) provision of Israeli experts, (2) the training of Africans and Asians in Israel, and (3) joint commercial enterprises.

Israeli technicians in various fields are serving in Ghana, Liberia, Sierra Leone, Nigeria, French Sudan, Ethiopia, Burma, the Philippines, Cyprus, and Turkey. In addition, Nepal has recently expressed an interest in receiving technical assistance. These experts are sent at the request of the foreign governments to assist in projects connected with agricultural irrigation and water supply problems, medical, maritime and aviation services, housing, land resettlement, and business management. In most cases the expenses of technicians sent abroad are shared by Israel and the receiving country.

An outstanding example of cooperation involving the less-developed countries is the continuing tri-partite negotiations between the United States and India for the benefit of Nepal as the result of which India, out of its own internal resources, has given technical assistance to Nepal.

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There are about 50 technicians in the Indian Aid Mission to Nepal. Major fields in the past have been construction of the Rajpath Highway into the capital city of Katmandu; and construction of the Katmandu Airfield. Technical assistance services have also been provided. Indian aid is generally provided within the framework of the Colombo Plan.

In an effort to assist Nepal in its five-year plan for economic development, India offered the rupee equivalent of \$26,000,000 for the years 1956-1961. These funds have been drawn down gradually for projects such as regional roads, village development, and Trisuli Power.

In addition, 29 Nepali participants are receiving training in India particularly in the field of education.

On January 28, 1960, it was announced that India agreed to provide financial assistance of \$30,000,000 in rupees to assist Nepal over a five-year period. Of this, about a fourth is a carry-over from previous years. In addition, India has offered to construct the East Kosi Canal in Eastern Nepal and continues to supply assistance to Nepal's military establishments.

There are many other examples of economic cooperation between the less-developed nations. Under the Colombo Plan, for instance, the less-developed countries have given considerable training assistance to others. Burma has provided training facilities for trainees from Nepal, Thailand, and Sarawak. From the beginning of the Colombo Plan through FY 1959, Indonesia has provided training facilities to 85 students from countries which are members of the Plan; Ceylon has

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trained 53 foreign trainees in the fields of medicine and health, food and agriculture, engineering, transport and communications, public administration and co-operatives--and has assisted the Pakistan Government in coconut experimental work at its research station at Karachi, making available coconut seeds and seedlings at a low cost. India provided 1165 training places to students from other less-developed countries, mainly in agriculture, civil engineering, forestry, medicine, statistics, water resources development, poultry management, post and telegraph, community development and radio technology. The services of 26 Indian experts were also made available.

Burma, Sarawak and Singapore have utilized Colombo Plan fellowships offered by the Philippines in 1958-59, in malariology, rural home extension and public administration. The Philippines continues to make other scholarships available for students from South and South-East Asia in education, social and cultural studies and various branches of engineering.

In 1958, a total of 153 trainees from Laos received training in Thailand under programs sponsored by the United Nations Specialized Agencies and various Colombo Plan countries. Such training programs continue.

Appendix C: Sino-Soviet Bloc Programs of Economic Aid

In the period from 1954 through the end of 1960 the Sino-Soviet bloc extended \$3.45 billion in economic aid to the less-developed countries of the free world, with most of it concentrated in five places: India (\$933 million), the United Arab Republic (\$766 million), Indonesia (\$513 million), Afghanistan (\$217 million), and Iraq (\$216 million). Altogether 20 less-developed countries outside the bloc are now receiving aid and it appears the total will increase as the bloc shows increasing interest in Africa and Latin America. Only \$735 million of the \$3.45 billion total aid commitment has so far been utilized due apparently to the difficulties of reaching agreement with the receiving countries on the specific projects to be constructed. To date the only major project completed is a \$134 million steel mill at Bhilai, India, with an annual capacity of one million tons. About one-half of all bloc aid has been in the industrial field. In addition to material aid it is estimated that there are presently about 6,000 Soviet bloc technicians working in the less-developed countries.

Most aid (75 percent comes from the Soviet Union) is provided in the form of lines of credit that can be utilized over a period of years but only for purchases in the bloc country providing the aid. Very little grant aid is provided, but the terms of credit are considered lenient. Interest rates average 2.5 percent,

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repayment is accepted in locally produced commodities or perhaps a convertible currency (subject to annual negotiations), and the first of many annual repayments usually is not due until one year after a project has been completed. ^{1/}

^{1/} United States. Department of State. Bureau of Intelligence and Research. Intelligence Information Brief. No. 348. Sino-Soviet Economic offensive: summary of developments, July through October 1960. Nov. 18, 1960.
Also interviews conducted by the author.

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Table 1

Annual Level of Economic Aid Provided to the
Less-Developed Countries by Governments of the
OEEC Countries and Japan, 1956-1959 ^{1/}
(\$ in millions)

<u>Country</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1956-59</u>
Austria	2	1	6	4	13
Belgium-Luxembourg	17	24	23	52	116
Denmark	3	1	4	5	13
France	487	639	787	954	2,867
Germany	21	46	78	107	253
Ireland	--	1	1	1	2
Italy	16	16	31	17	81
Netherlands	33	34	41	43	151
Norway	1	2	3	4	10
Portugal	7	5	4	21	38
Sweden	3	12	4	10	29
Switzerland	1	1	3	1	5
United Kingdom	208	243	264	356	1,070
Canada	28	46	88	57	219
Japan	<u>16</u>	<u>15</u>	<u>205</u>	<u>41</u>	<u>277</u>
Total	843	1,086	1,540	1,673	5,144
United States	<u>2,144</u>	<u>2,343</u>	<u>2,415</u>	<u>2,438</u>	<u>9,340</u>
Total including United States	<u>2,987</u>	<u>3,429</u>	<u>3,955</u>	<u>4,111</u>	<u>14,484</u>

^{1/} U. S. Congress. Senate. Committee on Foreign Relations.
Organization for Economic Cooperation and Development. Executive
Report No. 1, 87th Cong., 1st sess., 1961, excerpted from p. 16.

Table 2Total Capital Made Available to Less-Developed
Countries and Multilateral Agencies, 1956-1959 1/

(U.S. \$ billions)

<u>Country</u>	<u>Total Capital From all Sources (figures rounded)</u>
United States	14.0
France	4.9
United Kingdom	3.1
Germany	2.3
Austria	(-)
Belgium	0.4
Canada	0.5
Denmark	0.05
Ireland	0.002
Italy	0.6
Japan	0.6
Luxembourg	0.008
Netherlands	0.9
Norway	0.006
Portugal	0.2
Switzerland	<u>0.1</u>
Total	28.0

1/ Organization for European Economic Cooperation. The flow of financial resources to countries in the course of economic development, 1956-1959. Paris, 1961. p. 9.

Table 3

Comparison of Net Value of Government and
Private Capital Provided by OEEC Member and
Associated Countries and Japan, 1956-1959 1/

(U.S. \$ billion expenditures)
(Includes both bilateral and multilateral)

<u>Year</u>	<u>Official</u>	<u>Private</u>
1956	3.2	3.0
1957	3.8	3.7
1958	4.4	2.9
1959	4.5	2.4
<u>Average</u>		
1956-1959	3.9	3.0
<u>Total</u>		
1956-1959	15.9	12.0

1/ Ibid., derived from tables on pp. 11-17. The \$900 million increase in private capital contributions in 1957 was largely accounted for by new United States investments in Venezuelan oil.

Table 4

Summary Analysis of Finance Made Available by
OEEC Member and Associated Countries to
Less-Developed Countries and Multilateral Agencies

(Sum of columns may not equal totals because of
rounding of figures. Does not include Japan)
(U. S. \$ billion expenditures)
1950-1959

	Bilateral Contributions					Multilateral Contributions		Total
	Official	Private	Guaranteed Export Credit	Other New Lending and Investment	Reinvested Earnings	Official	Private	
Average 1950-55	1.2	0.6	0.2	0.7	0.6	---	---	3.5
1956	2.0	0.9	0.4	1.5	1.0	---	---	6.1
1957	2.2	1.1	0.5	2.1	1.0	.2	.2	7.4
1958	2.4	1.4	0.2	1.4	0.9	.3	.4	7.1
1959	2.6	1.6	0.3	1.1	0.8	.3	.2	6.8
Average 1956-59	2.3	1.3	0.3	1.5	0.9	.3	.2	6.9

1/ Ibid., p. 6.

Table 5

Official Government Aid to the Less-Developed Countries
by OEEC Countries and Japan in Terms of Impact on the
Donors' Gross National Product, 1956-1959 ^{1/}

(dollars in millions)

	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1956-59</u>
Austria:					
GNP.....	\$4,238	\$4,665	\$4,938	\$5,264	\$19,105
Aid.....	2	1	6	4	13
Aid as percent of GNP..	0.05	0.02	0.12	0.08	0.07
Belgium-Luxembourg:					
GNP.....	\$10,860	\$11,650	\$11,616	\$12,000	\$46,126
Aid.....	17	24	23	52	116
Aid as percent of GNP..	0.16	0.21	0.20	0.43	0.25
Denmark:					
GNP.....	\$4,461	\$4,769	\$4,918	\$5,270	\$19,418
Aid.....	3	1	4	5	13
Aid as percent of GNP	0.07	0.02	0.08	0.09	0.07
France:					
GNP.....	\$37,513	\$41,867	\$47,532	\$51,000	\$177,912
Aid.....	487	639	787	954	2,867
Aid as percent of GNP	1.30	1.53	1.66	1.87	1.61
Germany:					
GNP.....	\$46,048	\$49,905	\$52,929	\$56,645	\$205,527
Aid.....	21	46	78	107	253
Aid as percent of GNP	0.05	0.09	0.15	0.19	0.12
Ireland:					
GNP.....	\$1,510	\$1,588	\$1,630	\$1,710	\$6,438
Aid.....	---	1	1	1	2
Aid as percent of GNP	---	0.06	0.06	0.06	0.03
Italy					
GNP.....	\$23,414	\$25,088	\$26,638	\$27,970	\$103,110
Aid.....	16	16	31	17	81
Aid as percent of GNP	0.07	0.06	0.12	0.06	0.08

^{1/} U. S. Congress. Senate. Committee on Foreign Relations, op.cit.
p. 16.

	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1956-59</u>
Netherlands:					
GNP.....	\$8,610	\$9,315	\$9,592	\$10,175	\$37,692
Aid.....	33	34	41	43	151
Aid as percent of GNP	0.38	0.37	0.43	0.42	0.40
Norway:					
GNP.....	\$3,725	\$3,950	\$3,894	\$4,100	\$15,669
Aid.....	1	2	3	4	10
Aid as percent of GNP	0.03	0.05	0.08	0.10	0.06
Portugal:					
GNP.....	\$1,945	\$2,015	\$2,071	\$2,135	\$8,166
Aid.....	7	5	4	21	38
Aid as percent of GNP	0.36	0.25	0.19	0.98	0.47
Sweden:					
GNP.....	\$9,470	\$10,245	\$10,623	\$10,850	\$41,188
Aid.....	3	12	4	10	29
Aid as percent of GNP	0.03	0.12	0.04	0.09	0.07
Switzerland:					
GNP.....	\$6,846	\$7,355	\$7,593	\$8,000	\$29,794
Aid.....	1	1	3	1	5
Aid as percent of GNP	0.01	0.01	0.04	0.01	0.02
United Kingdom:					
GNP.....	\$57,960	\$61,328	\$63,484	\$65,700	\$248,472
Aid.....	208	243	264	356	1,070
Aid as percent of GNP	0.36	0.40	0.42	0.54	0.43
Total, above countries:					
GNP.....	\$216,000	\$233,740	\$247,458	\$260,819	\$958,617
Aid.....	799	1,025	1,247	1,575	4,648
Aid as percent of GNP	0.37	0.44	0.50	0.60	0.48
United States:					
GNP.....	\$419,200	\$442,500	\$441,700	\$478,000	\$1,781,406
Aid.....	2,144	2,343	2,415	2,438	9,340
Aid as percent of GNP	0.51	0.53	0.55	0.51	0.52
Canada:					
GNP.....	\$30,182	\$31,773	\$32,509	\$34,700	\$129,614
Aid.....	28	46	88	57	219
Aid as percent of GNP	0.06	0.05	0.74	0.14	0.25

	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1956-59</u>
Japan:					
GNP.....	\$24,650	\$28,050	\$27,750	\$30,000	\$110,450
Aid.....	16	15	205	41	277
Aid as percent of GNP	0.06	0.05	0.74	0.14	0.25

NOTES

- a. GNP figures are at current market prices. The figures for 1959 are estimated.
- b. Both the GNP and aid figures have been converted to dollars at current exchange rates.
- c. Aid figures are based primarily on actual expenditures. Aid listed for all countries includes: (a) net official grants, (b) gross official bilateral loans of 5 years or over, (c) official contributions and subscriptions to international organizations paid during the period (i.e., net IBRD subscriptions, IFC capital contributions, contributions to the EEC Development Fund, net contributions to United Nations technical assistance and relief agencies). For the United States, the increase in U. S. holdings of local currencies derived from Public Law 480, title I sales is included to reflect the transfer of resources. For Japan, the yearly breakdown on gross official bilateral loans of 5 years or over is estimated. Reparations payments have not been included. This definition of assistance has not been accepted by the countries involved and has no international standing.

Table 6

Official Government Expenditures for Aid to the
Less Developed Countries and National Defense in 1959
As Percentages of the Gross National Product^{1/}

<u>Country</u>	<u>Defense Expenditures As % of GNP</u>	<u>Economic Aid Expenditures As % of GNP</u>	<u>Defense and Foreign Aid Expenditures As % of GNP</u>
Belgium- Lumembourg	3.3	0.43	3.73
Denmark	2.8	0.09	2.89
France	7.1	1.87	8.97
Germany	4.8	0.19	4.99
Italy	3.8	0.06	3.86
Netherlands	3.9	0.42	4.32
Norway	3.7	0.10	3.80
Portugal	4.3	0.98	5.28
United Kingdom	7.2	0.54	7.74
United States	9.7	0.51	10.21
Canada	5.1	0.16	5.26

^{1/} Foreign aid percentage expenditures from Ibid.; defense expenditures from U. S. Congress. Senate. Committee on Appropriations, Mutual Security Appropriations for 1961. Hearings on H. R. 12619. 86th Cong., 2nd sess., 1960. p. 215. Defense expenditures are based on current not constant prices and the data are not adjusted for disparities in purchasing power.