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DEVELOPMENT ASSISTANCE POLICY: A HISTORICAL OVERVIEW

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April 6, 1988

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ABSTRACT

This report sets out the beginnings and evolution of a series of U.S. development aid programs since the end of World War II. The origins and criticism of the 1973 "New Directions" changes in development policy are highlighted, as well as the continuing congressional dissatisfaction with foreign aid.

ACKNOWLEDGEMENT

This report is based on a briefing for the Foreign Operations Subcommittee of the House Committee on Appropriations on March 9, 1988. The Congressional Research Service and the author appreciate the permission of the subcommittee to have it revised and presented as a CRS report.

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DEVELOPMENT ASSISTANCE POLICY: A HISTORICAL OVERVIEW*

The United States has provided large-scale foreign economic aid through various programs for over 45 years. This paper will concentrate upon the beginnings and evolution of U.S. development assistance policy.

BASIC LEGISLATION AND ADMINISTRATIVE ENTITIES

Basic legislative authority for postwar U.S. economic aid programs has been derived from three bills: the Economic Cooperation Act, 1948-50; the Mutual Security Act, 1951-61, and the Foreign Assistance Act, 1961 to the present. Major revisions regarding economic assistance policy were made in the Mutual Security Act in 1954 and 1959, and in the Foreign Assistance Act in 1973 and 1975.

Since 1948, primary administrative responsibility for foreign aid has been given to a series of what were established to be special agencies, but were in fact the same agency as reorganized by successive national administrations. The Economic Cooperation Administration (ECA) administered the Marshall plan and parts of the first development assistance programs in less developed countries in conjunction with the Technical Cooperation Administration inside the Department of State. This was followed by the Mutual Security Agency (MSA)

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* Portions of this paper are taken from or based upon work appearing in: U.S. Congress. House. Committee on Foreign Affairs. Soviet Policy and United States Response in the Third World. Report Prepared by the Congressional Research Service, The Library of Congress, 97th Cong., 1st Sess., March 1981. Washington, G.P.O., 1981; and U.S. Congress. House. Subcommittee of the Committee on Government Operations. AID's Administrative and Management Problems in Providing Foreign Economic Assistance. Hearing, 97th Cong., 1st Sess., Oct. 6, 1981. Washington, G.P.O., 1981.

1951-53, the Foreign Operations Administration (FOA) 1953-55, the International Cooperation Administration (ICA) 1955-61, and the Agency for International Development, 1961 to the present.

LEND-LEASE

The first large-scale foreign aid program undertaken by the United States was Lend-Lease. Begun in March 1941 as a device for providing primarily military aid to Great Britain in the conduct of the war against Germany, the program was effectively terminated in August 1945. However, this country continued to deliver lend-lease civilian supplies well into 1946.

From a program intended to aid one country, Lend-Lease eventually grew to provide military and civilian supplies to over 40 countries. By the time it was concluded in 1946, some $52 billion in military and civilian commodities had been provided through lend-lease appropriations. The two largest recipients were the Soviet Union and Great Britain. In addition, lend-lease transfers of over $40 billion of military equipment had been authorized from the War and Navy Departments.

The distinction between the eventual civilian use of many of the lend-lease commodities and their direct wartime application was a source of controversy during the life of the program. With the progress of the war, the need for relief and rehabilitation because paramount, and many questions were raised in Congress as to whether the United States should continue Lend-Lease as a war-relief measure. An examination of the first Emergency Lend-Lease French Program, set up in October 1944, shows a request for some 270,000 metric tons of commodities, consisting entirely of food, medical equipment, and other supplies needed by the French economy for survival.

While Lend-Lease terminated at the end of the war, the need for commodity aid in Europe continued. Between 1945 and the start of the Marshall plan in mid-1948, a number of relief and rehabilitation programs were undertaken. These included Government and Relief in Occupied Areas (GARIOA) (approximately $6.1 billion from 1943 to 1951); the Greek-Turkish aid program in 1947 and 1948 ($650 million); the multilateral United Nations Relief and Rehabilitation Administration (UNRRA) from 1944 to 1947 ($2.6 billion); and the Interim Aid program of 1947-48 ($597 million). In addition, other programs, such as the 1946 special British loan, Export-Import Bank activities, and parts of the Marshall plan involved credits that were eventually to be repaid.

MARSHALL PLAN

The Marshall plan became necessary because the economies of Europe, some two years after the end of the war, were still suffering seriously from the dislocations of the war. It became obvious to U.S. policymakers that some form of long-term economic aid was going to be necessary in order to establish the conditions for the revival of healthy economies in Western Europe. The combination of continuing economic stagnation, extremely bad weather, labor unrest, and potential gains by Communists all impelled Congress to respond to the request by the Truman Administration to create a European Recovery Program--called the Marshall plan after Secretary of State George Marshall who proposed its outlines in a June 1947 speech. A separate agency, the Economic Cooperation Administration (ECA), was established to implement the program.

By the time the Marshall plan had been concluded in 1952, more than $13 billion in commodities had been granted to the countries of Western Europe. These commodities consisted of the full range of raw and semifinished materials and machinery ranging from food to seeds and fertilizers, medical equipment and pharmaceuticals, minerals, chemicals, and petroleum products. This foreign aid was apportioned to the recipients on the basis of plans they had established linking the receipt of certain commodities to the production of specific products or reconstruction of infrastructure. While the food component in Marshall plan aid was substantial, the primary focus of the program was on economic rehabilitation and growth. The economic recovery of Europe in the 1950s clearly was accelerated by the Marshall plan.

DEVELOPMENT ASSISTANCE: FIRST EFFORTS

In 1949, the idea that economic development in less developed countries (LDCs) could be fostered through foreign financial flows was quite new. At the same time, however, the experiences of the United States, Canada, Australia, and other former British colonies could be seen as providing a preexisting successful growth model for other less developed countries. What was different was the expectation that specific programs affecting limited sectors of recipient country economies would lead to economic development.

The first U.S. development assistance program had its genesis in President Truman's 1949 Inaugural Address. In the fourth major point in the address, Mr. Truman proposed to embark upon a program to make the benefits of U.S. scientific and industrial progress available to less developed countries. To carry out his proposal, the President recommended in a June 1949 message to Congress the creation of a technical assistance program for less developed areas. The technical assistance was seen as a necessary precursor for productive private capital investment in those countries. After some debate, the Act for International Development was passed as title IV of the Marshall Plan Amendments of 1950.

At this time, Congress specifically intended to establish only a technical assistance program. In its report on the 1950 aid bill, the Senate Foreign Relations Committee stated:

> Because some misunderstanding has arisen about the nature of this program, it should be made clear at the outset that it is neither an ECA (Marshall plan) for the world nor in any sense a capital investment program. Because of the limited nature of the program, it will not require the expenditure of large sums of money. Its chief cost will be for the salaries and expenses of technicians and other personnel and not, for example, to purchase machinery, food, and raw materials. [S. Rept. 1371, 81st Cong., 2d sess.]

However, because of the peculiar institutional structure created by the 1950 Act--a Technical Cooperation Administration (TCA) in the Department of State was created, while the separate Economic Cooperation Administration continued in existence in some areas--certain LDCs received technical assistance, commodity import support, and capital assistance because there were ECA missions already established. Other LDCs, with only TCA missions, received technical assistance alone. This confusion had its origins in actions taken by President Truman early in 1949.

On January 1, 1949, some 18 months before the start of the Korean war, the President gave the Economic Cooperation Administration--the agency responsible for carrying out the Marshall plan in Europe--responsibility for administering economic aid in Korea. This marked a major shift in U.S. policy toward Korea from post-World War II relief to economic development. Aid programs were also begun in Burma, Indochina, and Thailand, when the ECA suggested to Congress that funds left over from the mainland China program--and unusable as a result of the fall of the Nationalist government--be expended in the "general area of China."

This conflict in intentions and organization was highlighted in the Joint Report of the Senate Foreign Relations Committee and Senate Armed Services Committee on the Mutual Security Act (MSA) of 1951 where an elaborate six-part division of labor between the Technical Cooperation Administration and Economic Cooperation Administration was set out. Following the presentation of this schema, the committees noted:

> It is also the sense of the joint committee that substantial grant aid programs of the type administered by ECA in underdeveloped areas be regarded as temporary as contrasted with the longer range technical assistance type of programs . . . . [Emphasis added.]

In addition to its concern over administrative confusion, during the first years of the technical cooperation program Congress was also sensitive to the tendency of the program to require commodity imports. The Senate Foreign Relations Committee noted in its report on the Mutual Security Act of 1952 [S. Rept. 1490, 82d Cong., 2d sess.]:

> According to information presented to the committee, the administration plans during 1953 to spend $44 million for technicians and trainees and $183 million for supplies and equipment. Thus for every dollar spent for training more than $4 will be spent for supplies and equipment.
>
> When Congress approved the Act for International Development it did not fix a terminal date for the program largely because it was thought of as a long-range, comparatively low-cost program. Emphasis was to be on assistance in the form of men, not materials.

MUTUAL SECURITY ACT

The Act for International Development and the Point 4 program were incorporated basically unchanged into the Mutual Security Act (MSA) of 1951. The MSA was primarily concerned with the completion of Marshall plan aid in Europe and the commencement of military aid to U.S. allies in Europe and Asia. Thus the primary focus of the overall legislation was on defense matters and Europe. At the same time, however, the Technical Cooperation Administration remained in the Department of State, but under the direction of the Director for Mutual Security. The Technical Cooperation Administration was responsible for technical assistance and economic development in Latin America, Liberia, Libya, Ethiopia, India, Pakistan, Ceylon, Afghanistan, Nepal, Iran, Israel, and the Arab countries.

In the Mutual Security Act of 1951, a total of $7.8 billion was proposed for all types of aid. Of that amount, $1.8 billion was for economic aid, including ECA "Technical Assistance and Development" in underdeveloped areas, technical assistance worldwide, and defense support. Thus, in the second year of the program, some 23 percent of U.S. aid was for a program whose purpose was not yet clearly delineated. This ambivalence as to the goals and propriety of providing development assistance was a characteristic of the first two years of the program. Nevertheless, the United States continued to provide development assistance to less developed countries. By 1953, over $288 million in this type of aid was being provided by the United States to a small number of less developed countries.

The House Foreign Affairs Committee report on the 1953 Mutual Security Act section on Special Regional Economic Assistance set out the reasons for the aid. It stated:

> Special economic aid programs are required to help the countries of the region to help themselves and to help one another in accelerating development possibilities where other funds are not available to enable basic development of the local resources to take place. They will be directed to fields where private or public investment funds are not otherwise available, such as projects for water storage, power, irrigation, transport, and the like. In addition, funds are required for general economic support to prevent privation and accompanying political unrest. Emphasis in the expenditure of such funds must be directed to benefit those countries which do not have sufficient other resources for their development.

In the recodification of U.S. foreign aid programs which took place in the 1954 Mutual Security Act, little clarification was made of the goals and purposes of the development assistance program. Title II was named "Development Assistance," and the total amount authorized, some $299 million, was $87 million larger than had been appropriated for the previous fiscal year. But the legislative statement in the new "Development Assistance" authorization (title II) was extremely terse and uninformative and, in fact, contained no "Declaration of Purpose" as did titles I ("Mutual Defense Assistance") and III ("Technical Assistance").

Section 201(a) merely stated for each area of the world given development assistance:

> There is hereby authorized to be appropriated to the President for the fiscal year 1955, not to exceed . . . for assistance to promote the economic development of . . ., and for other types of assistance designed to help maintain economic and political stability in the area;

Of the two authorizing committee reports, that of the Foreign Relations Committee made no separate breakdown or examination of "Development Assistance." While the House Foreign Affairs Committee Report did address the purposes of the new title, the logic of the justification presented was almost circular.

> Development assistance is made available in order to make possible or to accelerate projects or activities which basic U.S. interest requires to be undertaken and which, in the absence of such additional assistance, would not be undertaken or if undertaken, would not be carried out at the rate required by U.S. foreign policy.

Though the initial justification and programs for economic assistance were not particularly focused, the United States continued to provide development assistance to the major less developed regions of the world.

ECONOMIC SUPPORT FUND

The budget category now known as the Economic Support Fund (ESF) began in 1951 as "Economic Support for Defense." In the period between 1951 and 1979, this program was known as Defense Supporting Assistance or Defense Support, and more recently as Supporting Assistance or Security Supporting Assistance (SSA).

From the outset, the justifications for Defense Support were couched in terms of furthering the military efforts of the recipient countries when, in fact, primarily the same types of activities were involved that were financed through economic assistance budget categories: commodity imports, cash transfers, and, to a lesser extent, technical assistance.

The original Economic Support for Defense authorization in the 1951 Mutual Security Act reflected the impact of the outbreak of the Korean war. Aid to Europe that had previously been seen as building a strong economic base on which defense capabilities could subsequently be developed, was now seen as making possible direct and immediate contribution to military strength. The following excerpts from a memorandum inserted in the Senate Report on the 1951 Mutual Security Act capture this rationale:

> . . . The mutual security bill contemplates that in the future the United States will furnish two basic types of aid to Europe, military end-item aid and economic-support aid. Both of these types of aid are to be directly related to the defense efforts of the recipient countries. Inasmuch as all economic-support aid is intended to provide the basic economic strength essential to the undertaking of an adequate defense effort, it is no longer necessary or desirable to preserve a distinction between the segment of that aid which is to be utilized in direct support of military production, and the remaining segment which is designed to provide for the impact of an overall rearmament effort on the general economy . . . .

For 1951, the first year of the Mutual Security Act, Europe was the only region authorized to receive defense support. The following year, 1952, $1.4 billion was authorized for defense support and economic aid in Europe. At the same time, Taiwan and Indochina (Cambodia, Laos, and Vietnam) were also given $202 million in defense support. The rationale for the defense support for Taiwan included all of the economic and political elements which were later to characterize security supporting assistance.

> . . . Direct support will be furnished to the U.S. military assistance program through the financing of common use imports directly required by the Armed Forces, such as petroleum, uniform, and bedding materials, food for troops, construction materials, hospital equipment, et cetera. Likewise, local costs connected with these items will be financed from counterpart funds. In addition, the strengthening of transport and power systems, assistance in maintaining livable economic conditions throughout the rural areas, and the contribution of our program to economic stabilization are basic to the success of the military assistance effort.

> . . . Projects directed toward increasing the capacity for self-support through increased agricultural and industrial production will include importation of industrial raw materials and fertilizer; exploration and development of minerals such as coal and copper; expansion of facilities for manufacturing chemical fertilizers; and supplies, equipment, and technical assistance for maintenance and expansion of power, highway, and railway facilities.

In the more recent past, what is now the Economic Support Fund has been the most visible portion of the Foreign Assistance Act to be used for the achievement of specifically political purposes. During the Vietnam war, security supporting assistance was a major source of financing for commodity import programs to buy needed raw materials for the South Vietnamese economy. Because the imports were not for specific development projects, it was necessary that they be financed through security supporting assistance. Beginning in 1975, the Middle East conflict increasingly became the focus for SSA/ESF funding.

EVOLUTION OF DEVELOPMENT ASSISTANCE

Following the establishment of development assistance as a separate entity in the early 1950s, a series of changes were made over time in the program. Perhaps the best way to examine this evolution is to focus on the changes in three major areas: the overall strategies to be followed, the reasons used to justify development assistance, and the target groups or populations.

Changing Strategies of Development Assistance

Since the end of World War II a series of different approaches or strategies for development occupied development economists. Among these were capital accumulation, the view that the provision of adequate capital would engender economic growth; the bottleneck theory, which assumed that the main impediment to economic development was the lack of foreign exchange; strategies favoring industrial growth, either to substitute for imports or to be sold in export markets; and rural development, which posited that economic growth in rural areas would lead to overall self-generating growth. More recently, export-oriented growth, and redistribution with growth, or growth-with-equity strategies have been the focus of attention.

It should be emphasized that only parts of these strategies were incorporated into U.S. aid policy at any one time. Actual aid policy has always consisted of a mixture of several different, and not necessarily exclusive, "strategies." This mixture was a reflection, not only of the lack of agreement among development economists, but also of the several economic and political goals of the U.S. development assistance program.

Changing Justifications for Development Assistance

The ambiguous initial justifications for the provision of development assistance remained unchanged for the first years of the program. In 1956, President Eisenhower asked Congress for authority to make commitments up to 10 years to assist LDCs with long-term development projects. There was no support in Congress for the proposal. The first coherent justifications for long-term development aid were both presented in 1957. One was a study done at the Massachusetts Institute of Technology (MIT) as part of a series of research efforts sponsored by the Senate Special Committee to Study the Foreign Aid Program. The MIT study, "The Objectives of U.S. Economic Assistance Programs," concluded that a policy of deterrence against a Soviet military threat was not in itself adequate to achieve a world environment favorable to the United States. In the view of the authors, the United States had the opportunity "in the next two or three decades" to resolve the Cold War and to promote a more congenial international environment. According to the MIT study, a sustained, comprehensive development aid program was in the U.S. interest. U.S. aid could lead to economic growth in LDCs and could be a weapon against the Soviet Union. However, that aid should be given according to "objective economic criteria" and not be used for tactical foreign policy purposes. A second source was the report of the citizen advisers appointed by President Eisenhower to examine foreign aid policy. While disagreeing with the MIT study in several respects, the Fairless Report, named after Benjamin Fairless the head of the advisory group, supported the need to channel significant amounts of development lending into the newly independent countries of Africa and Asia.

The MIT and Fairless arguments soon began to appear in congressional and executive branch documents and eventually provided the intellectual basis for the policy sections of the Foreign Assistance Act of 1961. These justifications remained in the policy sections of the Foreign Assistance Act basically unchanged until the 1973 "New Directions" revisions.

Partly in response to these studies, Congress approved a Development Loan Fund (DLF) in 1957 and appropriated $300 million for it. In the 1961 Foreign Assistance Act, the DLF was increased to $7.2 billion over five years.

NEW DIRECTIONS: CHANGES IN TARGET POPULATIONS

The New Directions changes were made in the Foreign Assistance Act in 1973 on congressional initiative. Congress stated that development assistance was now to focus primarily on reaching, directly, the poor, usually rural majorities in the developing countries. More emphasis was to be placed on technical assistance and less on large-scale capital transfers.

The philosophical origins of the New Directions legislation, which directed that development assistance be devoted to meeting the basic human needs of the recipients, stemmed largely from two basic sources: a perception on the part of some observers that the traditional economic growth strategies had not adequately met such needs; and evidence from a select number of countries, predominantly in East Asia, that basic needs could be met through alternative development approaches.

According to supporters of the New Directions changes, until the early 1970s, the primary development approaches emphasized economic growth as the key to overall development: "the more rapid economic growth, the faster the overall development process." Furthermore, according to New Directions advocates, it was believed that the most effective means of maximizing economic development was through capital-intensive industrial production in urban centers. Once this growth process was generated and sustained, the benefits from it would disperse, or "trickle down," throughout the economy, gradually developing great momentum. In time, the rural poor would be beneficiaries of the development process.

In certain respects, conceded by some proponents of the New Directions changes, the results of the traditional development approach in the LDCs were positive. Economic growth rates among the LDCs as a group had been quite impressive during the 1950s and 1960s. During the 1960s, the developing countries averaged a 5.5 percent annual increase in Gross National Product (GNP) and an annual per capita GNP increase of 3.2 percent.

Yet, according to supporters of the 1973 changes, accompanying this impressive economic growth was evidence that the poorest inhabitants of many LDCs had been excluded from the development process, and in some cases, adversely affected by high growth. The consensus of a number of studies which appeared in the late 1960s and early 1970s was that in many instances the gains of the conventional development approach had so far failed to trickle down. The International Labor Organization (ILO) found that despite the significant increases in per capita incomes, unemployment in various developing countries was also increasing during the 1960s. Other studies showed that not only had there been a relative decline in the living standards of the lowest income stratum in the developing countries, but also an absolute decline in income in some circumstances during the 1960s. Later studies maintained that malnourishment and illiteracy had increased among the poor in the LDCs.

According to one witness testifying before Congress in support of the New Directions legislative proposals, the bottom two-thirds of the population within the developing world still had no meaningful access to health facilities. In the rural areas, the majority of the people were still illiterate. It was claimed that foreign assistance, in the form of large capital transfers and commercial loans, had often only exacerbated development problems by helping to engender suffocating debt burdens in the developing world. In addition, significant and steady increases in population and rural-to-urban migration largely negated the beneficial effects that did result from economic growth.

Much of the basis for a new theory of development was derived from the experiences in a number of low-income countries whose development strategies during the 1960s appeared to have been quite effective in meeting the basic needs of the poorest inhabitants. The countries included South Korea, Taiwan, Hong Kong, and Singapore. The experience in these countries seemed to provide evidence that a development strategy could simultaneously create jobs, decrease income disparities, increase access to health and education facilities, improve nutrition, and increase per capita income. It was thought that given the right circumstances, the poor could be productive and efficient and could contribute to the development process. The approach to development in all these countries was similar. Emphasis was placed on maximizing employment via labor-intensive economic activities and insuring access of the poor, usually small, rural producers, to the means of production, the market, the financial system, and technical knowledge. These countries became a model for the development of New Directions Concepts.

REEXAMINATION OF THE BASIC ASSUMPTIONS BEHIND THE NEW DIRECTIONS CHANGES

While one of the basic assumptions behind the proposals of the New Directions policies in 1973 was that the "conventional" development process had not worked for the majority of people in the LDCs, research done after the passage of the changes cast a different light on this issue. In Twenty-five Years of Economic Development, 1/ David Morawetz challenged the thesis that the Third World was a great bottomless pit into which the rich countries kept throwing dollars that were used and wasted by corrupt local elites.

Morawetz demonstrated that there had been spectacular growth of GNP in the LDCs from 1950 to 1975. According to Morawetz, GNP per capita in the LDCs increased 3.4 percent per year from 1950 to 1975. This was faster than today's developed countries grew during their development, faster than the LDCs had ever grown before, and faster than anyone expected them to grow.

The growth rates differed by country and region. The Middle East, East Asia, Latin America, and Africa all had per capita GNP growth of 2.4 percent per annum or higher. Unfortunately, South Asia, with a population of 830 million and a per capita income of only $132, only grew at a rate of 1.7 percent a year. In this region and certain African countries the really difficult, massive poverty problems continued to exist.

Morawetz' most striking findings, however, concerned indicators other than simple growth of GNP. He found that by any measure, overall development from 1950 to 1974 had been successful.

1/ Morawetz, David. Twenty-Five Years of Economic Development, 1950-1975. Washington, World Bank, 1977.

The amount of food available per capita kept pace with a doubling population in the LDCs since World War II. Life expectancy in the LDCs exceeded 50 years. The countries of Western Europe only achieved this level of life expectancy in 1900, after a century of growth and development.

Infant mortality rates in the LDCs also dropped precipitously. Many diseases had been virtually eliminated. The percentage of adults who were literate in the LDCs now stood at more than 50 percent, compared to 40 percent literacy in 1960. Between 1950 and 1960, LDC primary school enrollments trebled and secondary and tertiary enrollments increased sixfold.

Morawetz presented data for unemployment rates in those LDCs where reasonably reliable data were available: nine countries in Latin America, three countries in East Asia, and one nation each in Africa and the Middle East. These admittedly limited data showed no clear trend toward a worsening of open unemployment.

AID BUDGET RESTRUCTURING

One result of the 1973 amendments was a restructuring of the AID budget. From 1961 to 1973, the Development Assistance budget consisted of two basic categories: Development Loans and Technical Assistance. Development Loans provided concessional funds for LDCs to use to pay for the import of raw materials, equipment, and advice needed for economic development. There were three types of development loans: Project, Program, and Sector. Project loans financed a specific undertaking such as a road, power plant, or irrigation project. Program loans financed the purchase of U.S. goods needed for industrial or agricultural development such as machinery and fertilizer. Sector loans combined financial aid with technical advice to accelerate the development of a particular sector in an LDC, such as education. A separate budget category, the Alliance for Progress was used to keep track of AID's development loans and technical assistance to Latin America.

After 1973, the basic focus of development assistance was to be on what were called the functional budget categories. Originally, these were: Food and Nutrition, Population Planning and Health, Education and Human Resources Development, Selected Development Problems, and Selected Countries and Organizations. The present basic development assistance budget structure--Agriculture, Rural Development, and Nutrition; Population; Health, Education and Human Resources Development, and Energy and Selected Development Activities--has evolved since 1973 as a result of congressional and executive branch concerns.

Responding to executive branch complaints that the functional budget categories required by the Foreign Assistance Act limited AID's operational flexibility too much, in 1987 Congress appropriated the entire amount for Sub-Saharan Africa--$500 million -- through a single account: Sub-Saharan Africa, development assistance. The funds were to be used for "any economic development assistance activities under the Foreign Assistance Act of 1961."

DEBATE OVER THE IMPACT OF NEW DIRECTIONS PROGRAMS

Since the passage of the New Directions legislation in 1973, a number of specific criticisms have been raised about the changes. Probably the most important concerns the universal applicability of the New Directions approach. In some regions, most especially Africa, the major complaint by recipients--and AID personnel--is the pressing need for funding for infrastructure. It is argued that New Directions programs, with their focus on technical assistance, may be appropriate where there are basic road and power networks. But without this basic infrastructure, New Directions programs are unlikely to succeed.2/

The conceptual and practical problems generally cited as a result of attempting to implement New Directions programs can be grouped under three major headings: 1) problems that are inherent in the execution of these types of highly disaggregated redistributive programs; 2) problems that arise in the local environment during or after New Direction project implementation; and 3) problems that are related to the bureaucratic consequences of AID's efforts to carry out New Directions programs. Here the focus will be on a few of the cited problems that appear to be inherent in New Directions projects.

The New Directions policies are to direct benefits to specific economic groups. This means that efforts are often necessary to exclude other--and in most cases, traditionally--influential groups from the benefits.

The decision to favor the least advantaged groups and to try to insure that they benefit from the projects produces continuing high overhead support costs in comparison to other types of development activities. These costs are both economic and administrative. The economic costs are incurred as scarce resources are invested in groups often less capable, or in some cases, perhaps, incapable, of efficiently using them for productive purposes. The administrative costs take the form of additional government employees necessary to make the initial delivery of goods and services and, later, to insure that those resources continue to be received and are not diverted to other social groups.

2/ Examples of these difficulties are cited in U.S. Congress. House. Committee on Government Operations. Sumcommittee on Legislation and National Security. AID's Administrative and Management Problems in Providing Foreign Economic Assistance. Hearings, 97 Cong., 1st Sess., October 6, 1981. Washington, U.S. Govt. Print. Off., 1981. p. 344-374.

New Directions programs can involve efforts to bypass, to a greater or lesser extent, existing political and social structures by a foreign government agency--in this case AID--to deliver services directly to the least productive group in the recipient society. While the intentions of the New Directions programs are humanitarian or development-oriented rather than political, their effects, whether the actual projects are successful or not, go directly to the basic relations among competing social and economic groups in LDC society. Further, the strategy assumes that participation in the political process by the economically disadvantaged groups will generally have a salutary political outcome. While this may well prove true over time given democratic development, the mobilization of a politically aware, economically disadvantaged group can also result in increased demands for services, increasingly unrealistic expectations, and greater instability.

Another problem that has been noted in New Direction projects is their continuing need for economic or bureaucratic support and maintenance. Many of the health programs require levels of staff and material support the host countries seem unable to provide. Neither conceptually nor administratively have New Directions projects been primarily concerned with income generation. Yet this income is necessary if the projects are to continue. The project may be a "success" in terms of delivery of services or technology, but a failure because it is not self-sustaining. Thus, projects are established, but because they are not integrated into the local economic, political, and social system, they are not continued.

While these specific criticisms have been raised about New Directions Programs, others--usually in AID--complain that the New Directions requirements and the other limitations specifically stated in the Foreign Assistance Act have made it difficult, if not impossible, to operate a flexible aid program.

It is for these reasons, it is asserted, that ESF funds have increasingly been used for development assistance purposes.

At the same time, many at AID, and also with private and voluntary organizations, would assert that the implementation of New Directions policies is the only way directly to reach the poor majorities in the LDCs, and therefore should be continued.

THE REAGAN ADMINISTRATION AND THE FOUR PILLARS

As was the case with the Carter Administration before it, a statement of Reagan Administration policy on development assistance was not immediately forthcoming upon entering office. In the initial Reagan Administration AID budget for fiscal year 1982 (the amended Carter budget), only two of the themes--a private sector emphasis and concentration upon technology transfer--which were to characterize the Reagan Administration's aid strategy were presented. By the time AID submitted a revised fiscal year 1982 budget in November 1981, a third element--fostering a "sound economic policy framework" in recipient countries through policy dialogue--had been added. 3/ The emphasis on policy dialogue was based upon two factors, one negative and one positive. The negative factor was that poor current and prior economic policies in LDCs had been inefficient, or actually detrimental to economic growth. This, it was argued, hurt the poor in these countries and, in addition, required more foreign aid. Much aid "might well have been wasted." The positive factor, the obverse of the preceding, was that successful economic growth required appropriate macroeconomic policies, and AID had an obligation to get recipient countries to follow them. Favoring policies fostering the

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3/ U.S. Congress. House. Committee on Appropriations. Foreign Assistance and Related Appropriations for 1983. Hearings. Part 4. 97th Cong., 2d Sess. November 5, 1981. Washington. U.S. GPO, 1982. p. 6.

private sector was urged, based upon the concepts of the efficiency of market economics and the relative inefficiency of LDC public sector agencies.

By February 1983, the Reagan Administration had identified the "Four Pillars" which were to undergird its foreign aid programs:

1) Policy Dialogue and Reform, seeking to agree with host country governments on the policy constraints to development and practical improvements that could be made;

2) Institutional Development, focusing on decentralizing institutions and encouraging reliance on private and voluntary, rather than public, institutions.

3) Technology transfer, such as seeking breakthroughs in such areas as biomedical research, agriculture, and family planning.

4) Greater use of the private sector in solving development problems.

During this initial period, the drafting of a series of AID Policy Papers designed to mesh the Administration's emerging overall development strategy with particular sectoral and functional concerns was undertaken. Between March 1982 and March 1983, 13 major AID Policy Papers were released. These were: Bureau for Private Enterprise, March 1982; Food and Agricultural Development, Private Enterprise Development, Nutrition, and Domestic Water and Sanitation, May 1982; Private and Voluntary Organizations, and Population Assistance, September 1982; Pricing, Subsidies and Related Policies in Food and Agriculture, November 1982; Health Assistance, Approaches to Policy Dialogue, and Basic Education and Technical Training, December 1982; and Institutional Development, March 1983.

THE AID BUREAU STRATEGIC PLANS AND THE 1985 AID BLUEPRINT FOR DEVELOPMENT

As the series of AID Policy Papers designed to mesh the Administration's overall development strategy with specific sectoral and functional programs was released in 1982 and 1983, the Administrator circulated a memorandum requesting that each of the regional bureaus draft a strategic plan incorporating stated Administration policy, the emerging Policy Papers, and the specific needs of each region. These were followed by the June 1985 "Blueprint for Development: The Strategic Plan for the Agency for International Development."4/

The Blueprint for Development set out AID's long-term strategic plan. The 77-page document consisted of five major sections: 1) An introduction set out what the document was, how it came about, the major focuses of Administration policy, and the areas of continuity and change compared with earlier policy. One portion of the Introduction stated that AID had broken with any assumption that government was in all areas the most effective agent of development change. AID was to stress the contributions of the private sector to solving development problems. 2) A section on AID's objectives set out the ultimate goal of the program and specific targets for overall economic growth, and also nutritional, health and literacy levels, and population growth rates. The Blueprint had added economic growth to the preexisting New Directions priority areas of concern. Broad based economic growth was seen as essential if the LDCs were to meet the basic needs of their people. 3) A section on AID's approach to development set out the Four Pillars and emphasized that the key element in many AID programs was to be the focus on economic growth and expanding productivity. 4) The largest section, "The AID Program," had two parts. The first subsection concentrated on how AID intended to deal with the problems set out in the objectives section, stated that without economic growth, it would not be possible to deal with hunger, health deficiencies, illiteracy and population pressures in any sustained way. The second subsection set out what were called "Special Initiatives," including Women in

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4/ U.S. Agency for International Development. The Strategic Plan of the Agency for International Development. June 1985. Washington, U.S. AID, 1985. 77 pp.

Development, the Economic Policy Initiative for Africa, a new emphasis on dealing with the problems of urbanization, and human rights. 5) The last major section, "Making Better Use of Resources," dealt with administrative matters such as the need for coordination among donors and in the U.S. Government, and the need for continuing program evaluation. An appendix set out the specific steps in each of the five areas of program focus which were to be taken as appropriate over the next year, the next two years, and the next five years.

In 1985, the administration convinced Congress to incorporate into the Development Policy section of the Foreign Assistance Act specific language recognizing much of the Blueprint for Development and the Four Pillars approach. At the present time, AID has the legislative authority to pursue either New Directions programs, Four Pillars programs, or both.

CONTINUING CONTROVERSY IN CONGRESS OVER FOREIGN AID

From the beginning, foreign aid has never been popular in Congress. The negative reactions in Congress to the post-war continuation of Lend-Lease are an early example. Except for the first 18 months of the Marshall Plan in Europe and for certain countries at specific times, there has always been significant resistance in Congress to either the provision of military aid or economic aid or both.

At congressional insistence, the first Mutual Security Act contained a three-year termination provision. The creation of Economic Support for Defense in 1951 was a device to obtain greater funding from a skeptical Congress.

The 1957 MIT study mentioned earlier was commissioned in 1956 by the Senate Special Committee to Study the Foreign Aid Program. The Special Committee itself was created because of widespread dissatisfaction with foreign aid. In 1959, partly as a response to the MIT and Fairless reports, some in

Congress began to attack the aid program for being too heavily concentrated on military aid.

President Kennedy's first year in office, 1961, and the year the Foreign Assistance Act was passed, marked a temporary lull in criticism of foreign aid. Significant increases in amounts for foreign assistance were authorized. But, by the following year, many in Congress again expressed their unhappiness with aid and in 1963, Congress cut the Kennedy Administration's aid request by more than one-third.

The level of congressional dissatisfaction was such that by 1965, Foreign Relations Committee Chairman Fulbright recommended phasing the existing aid program out entirely in two years.

From 1966 on, the foreign aid program became the focus of congressional opposition to the Vietnam war. The 1967 aid appropriation was the lowest ever, and final passage of the Conference Report in the House was initially rejected. But in each of the next three years, the appropriation was even lower than the previous year. By fiscal year 1969, the entire aid appropriation was only $1.75 billion.

As a result of the high degree of dissatisfaction with aid in Congress, in three of President Nixon's first four years the aid appropriation was not passed until well into the fiscal year, or not at all. In 1971, the aid program functioned under a continuing resolution for the entire year. The following year, the continuing resolution was for eight months.

The passage of the New Directions changes in 1973 was an attempt by foreign aid supporters to form a new consensus to continue the aid program. In that aim they succeeded since the amounts for the functional program increased steadily over the next years.

But, by 1979, the aid program again operated under a continuing resolution for the entire fiscal year. Since then, the level of disagreement in Congress has been high, and only one session of Congress has passed both an authorization and an appropriation foreign aid bill simultaneously--in 1981.

THE VARIOUS FUTURES OF FOREIGN AID

One reaction to the continuing congressional dissatisfaction with foreign aid has been the establishment of a series of official task forces or commissions to study the entire aid program. The Senate Special Committee to Study the Foreign Aid Program and the Fairless Commission were created in 1956.

In 1963, a report was submitted to President Kennedy on the foreign aid program by a panel headed by retired General Lucius Clay. The Clay Commission recommended a significant sharpening of the objectives of the aid program and a tightening up of its operation.

In 1972, a report to President Nixon by a task force headed by former Bank of America President Rudolph Peterson recommended, among other things, changes in aid organization, a separation of economic and military aid, greater support for multilateral aid, and increased aid funding. The Peterson task force was formed as a response to a provision of the 1968 Foreign Assistance Act directing the President to review the entire foreign aid program. Most recently, the Carlucci Commission performed a similar function in 1983.

The impact of the conclusions or recommendations of these official task forces or commissions on U.S. foreign aid policy has varied greatly. Some conclusions such as those of the 1956 Senate Special Committee to Study the Foreign Aid Program, became U.S. development assistance policy a few years later. The conclusions of others, such as those of the 1963 Clay Commission, were essentially ignored.

The history of development assistance is one of continuity in types of programs implemented but with significant changes in justifications, strategies, and target groups. This evolution has been accompanied by continuing congressional skepticism.