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SIGNIFICANT ISSUES  
IN ECONOMIC AID  
to Newly Developing Countries



International Industrial Development Center  
Stanford Research Institute  
Menlo Park, California, U.S.A.

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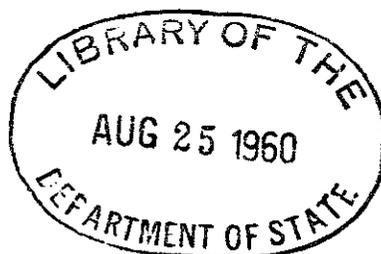
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SIGNIFICANT ISSUES IN ECONOMIC AID  
TO NEWLY DEVELOPING COUNTRIES



A Staff Paper Prepared By

Frank L. Turner, Senior Industrial Economist  
Edward S. Prentice, Director of International Programs  
Guy Benveniste, Assistant Director of International Programs  
William E. Moran, Senior International Economist  
Sperry Lea, Industrial Economist

January 1960

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Part I

IMPORTANCE OF ECONOMIC PROGRESS IN UNDERDEVELOPED COUNTRIES

The goal of promoting development progress in underdeveloped areas will dominate U.S. economic foreign policy for the rest of this century. The goal is of such importance to the United States that over the next 50 years efforts to promote development progress will increasingly subordinate other facets of international relationships. It will be a factor in almost every major foreign policy decision which the United States will make. Few decisions bearing on our external trade and investment policies will be made without a careful weighing of their effect on the attainment of this goal, and decisions on national issues will be influenced by efforts to attain the goal.

Although the importance of development progress in the underdeveloped countries may have seemed somewhat less than clear, and the understanding of methods to promote the goal even less so, U.S. policies over the past decade have been increasingly affected by the problem of attaining the goal. Our preoccupation with issues of the cold war and the urgency of building the armed defenses of the free world have at times blurred our effectiveness in taking action to deal with the problem. On the other hand, the Soviet threat has given added impetus to programs designed to promote the economic growth of underdeveloped areas.

Looking back over the last decade, it is surprising to see how far U.S. policies have consistently sought to promote development progress in the underdeveloped areas. The keynote as well as the direction of present U.S. foreign economic policy was set forth in the Act for International Development in 1950, when Congress declared:

....the policy of the United States is to aid the efforts of the peoples of economically underdeveloped areas to develop their resources and improve their working and living conditions by encouraging the exchange of technical knowledge and skills and the flow of investment capital to countries which provide conditions under which such technical assistance and capital can effectively and constructively contribute to raising standards of living, creating new sources of wealth, increasing productivity, and expanding purchasing power.

With only minor amendments, this remarkable statement is the official policy of the United States today.

The controversies that have revolved around the stated goal of development progress in underdeveloped areas have not raised serious questions over the goal itself. Few informed citizens in the post-World War II period have challenged the basic soundness of the policy. The

controversies and issues that have been debated in Congress have been concerned with the magnitude of U.S. effort, the extent to which its allies should share the burden, and with the techniques and alternative means through which the United States and its allies could most effectively contribute to the goal.

The paper that follows attempts to present a synopsis of programs, trends, and issues which have involved U.S. policymakers concerned with the goal of promoting development progress in underdeveloped areas. It does not purport to treat all issues, but it does pull together and analyze the published thinking on America's role in promoting the goal of development progress.

In putting together this kind of synopsis, several broad conclusions emerge. The major conclusions as a result of preparing this review are the following:

1. For all the trial and error in the program mechanics for promoting the goal of development progress in underdeveloped areas, neither the U.S. government, its allies, nor the international agencies involved in aid programs have as yet discovered highly effective means of supporting this objective.
2. The very multiplicity of aid programs and agencies presents a bewildering array of small and large bureaucracies that cannot possibly attain the administrative efficiency and field effectiveness attainable through a more purposeful and centralized authority.
3. The greatest reservoir of industrial growth talent the world has ever witnessed, American free enterprise, has not yet been successfully enlisted to contribute to the goal. Whether this talent can be harnessed effectively in promoting development remains a pressing and as yet unmet challenge.

## Part II

### BASIC FACTS

#### Why Assistance for Underdeveloped Countries?

Large-scale U.S. government aid programs are a new concept in diplomacy. Other types of aid on a voluntary individual basis go back to historical times. Forms of official government aid have taken place intermittently before. Today, however, official economic aid programs of the free world are serving to transfer capital at an annual rate of nearly \$5.0 billion to underdeveloped countries.

The principal reasons for the post-Marshall Plan mutual security programs bearing on the goal of promoting development progress for underdeveloped areas are: America's world interests, the cold war, the revolution of rising expectations, balance of payment problems, and America's conscience.

#### America's World Interests

Economic and technological progress have made the U.S. economy increasingly dependent on foreign raw materials and foreign markets. The United States imports substantial amounts of petroleum and iron ore, about 15 and 18 percent respectively of the total U.S. requirements. The United States imports 85 percent of its bauxite, 100 percent of its abaca, 100 percent of its tin, 89 percent of its antimony, 81 percent of its cobalt, 85 percent of its manganese, 64 percent of its tungsten, 100 percent of its industrial diamonds, and 93 percent of its nickel requirements. Forecasts of future U.S. raw material requirements indicate that the United States will import an increasing proportion of its raw material needs. These needs will be furnished in large measure by underdeveloped countries, such as Saudi Arabia, Malaya, Indonesia, Bolivia, Venezuela, Belgian Congo, and Ghana.

Although the United States exports only about 5 percent of its total production, this relatively small percent of the total was valued at about \$20.0 billion annually during the period 1956-58. Many industries and agricultural producers are wholly or partially dependent on export markets for profitable operations. Agricultural product sales abroad are especially significant, as shown by the percentages of major 1957-58 crops that were exported--32 percent of the tobacco crop, 42 percent of wheat, 46 percent of rice, and 53 percent of the cotton crop. Substantial quantities of these exports were sent to underdeveloped countries, such as India, Indonesia, Pakistan, Spain, and Yugoslavia.

The plain fact is that America's economic role in world affairs is preponderant, whether it be measured in percentage of imports, exports, industrialization or agricultural production. The requirements of its continued long-term industrial and economic growth impel the United States to encourage development progress on a world scale.

## The Cold War

The Mutual Security Program provides military and economic aid to countries that have already been subject to Soviet penetration, e.g., Korea, Viet-Nam, or Formosa; to countries that border the communist bloc and are outposts of free world defense, e.g., Pakistan, Iran, Greece, or Turkey; to countries that form principal alliances of the United States, e.g., NATO, SEATO, the Bagdad Pact, or the Rio Treaty; to countries prone to communist infiltration, e.g., Guatemala, Bolivia, or Indonesia; and to countries that provide base rights deemed essential to the security of the United States, e.g., Spain, the Philippines, or Taiwan. To have permitted rampant Soviet aggression or domination in all these areas and countries would have led to ultimate national suicide for the United States.

The raw material market requirements of a modern technology would not permit the United States to stand alone, even if strategic and other considerations did not demand that the United States undertake the role of free-world leadership thrust upon her. But the fact is, strategic and political considerations such as the need for foreign bases and the prevention of external or internal aggression by the Soviet bloc have inevitably placed America's front lines of defenses in Europe and along the entire arc of Free Asia from Iran to Korea. U.S. interests are inevitably broadened to include the interests of the entire free world.

## The Revolution of Rising Expectations

The world is in social ferment. Throughout the underdeveloped countries, the demands and pressures to achieve higher levels of living make up one of the principal political forces acting on the governments of these countries. Unfortunately, rapid economic growth in underdeveloped countries can be achieved only at high cost that call for individual sacrifices--costs and sacrifices that totalitarian regimes like those of the communists have usually been able to exact from their people. Aid programs permit allies and "neutral" countries to help underdeveloped areas achieve some degree of advance, lessening in some measure the chances that the distasteful alternative of extreme totalitarian methods will be employed.

## Balance of Payment Problems

To achieve economic growth, the newly developing countries face difficult balance of payment problems. Although Europe and Japan have recently re-established sound payment positions, most of the newly developing countries still have inadequate foreign currency resources to finance the additional capital and raw material imports needed in their programs of industrialization. Quite apart from the need these countries have for help in financing development, their balance of payment problems arising from population growth and attempts to develop are a reflection of the rising demand for an extraordinary input of external resources.

## America's Conscience

The programs for promoting development progress also find their raison d'etre in the traditional, sympathetic, and spontaneous generosity Americans have to share their wealth with others less fortunate.

### Characteristics of Underdeveloped Areas

The newly developing countries are characterized by: population pressures, low levels of consumption, lack of communications, and a widening difference in levels of living.

#### Population Pressures Aggravated by Rapid Population Growth

Two-thirds of the world population (1.9 billion people) live in the underdeveloped countries where, as a result of modern advances, a situation unprecedented in human history has been created. In the western world, the population growth of modern times followed or accompanied economic development. In many underdeveloped countries today, a rapid population growth is preceding economic development. It is now possible, by fairly inexpensive and simple public health techniques, to drop the death rate to low "modern" levels without first raising the economic productivity of a "traditional" society.

Some of the countries where population "explosions" are taking place are already very densely peopled. At present population growth rates of 2 percent or 3 percent a year are quite common in underdeveloped countries. Rapid population growth rates are a heavy handicap in the struggle to provide food, clothing, and education for the people of these countries.

In India the present growth rate of 2 percent means a net addition of 8 million persons each year. Because the rate of population growth is increasing, the net addition will soon be 10 million each year. With no change in rate, the population increase would amount to about half the present population of the United States each decade. The capital and organizing effort that will be absorbed merely in the effort to provide tools, houses, schools, and other facilities, as well as food and clothing, for this many more people is staggering. It makes the eagerly sought goal of raising incomes to acceptable levels a much more distant one at the very least--and to date an unattainable goal.

#### Low Levels of Consumption

In underdeveloped countries large sectors of the population live at or below subsistence levels and are poorly nourished. Statistical measures of a nation's economic situation are not precise indicators of hunger and the urge for self improvement. For example, Gross National Product (GNP) measures can hide inequities in the distribution of wealth. However, one statistical measure that shows a striking contrast between the developed and underdeveloped nations is the amount of

energy derived and utilized from inanimate sources. Chart 1 shows per capita consumption of energy in selected countries of the world.

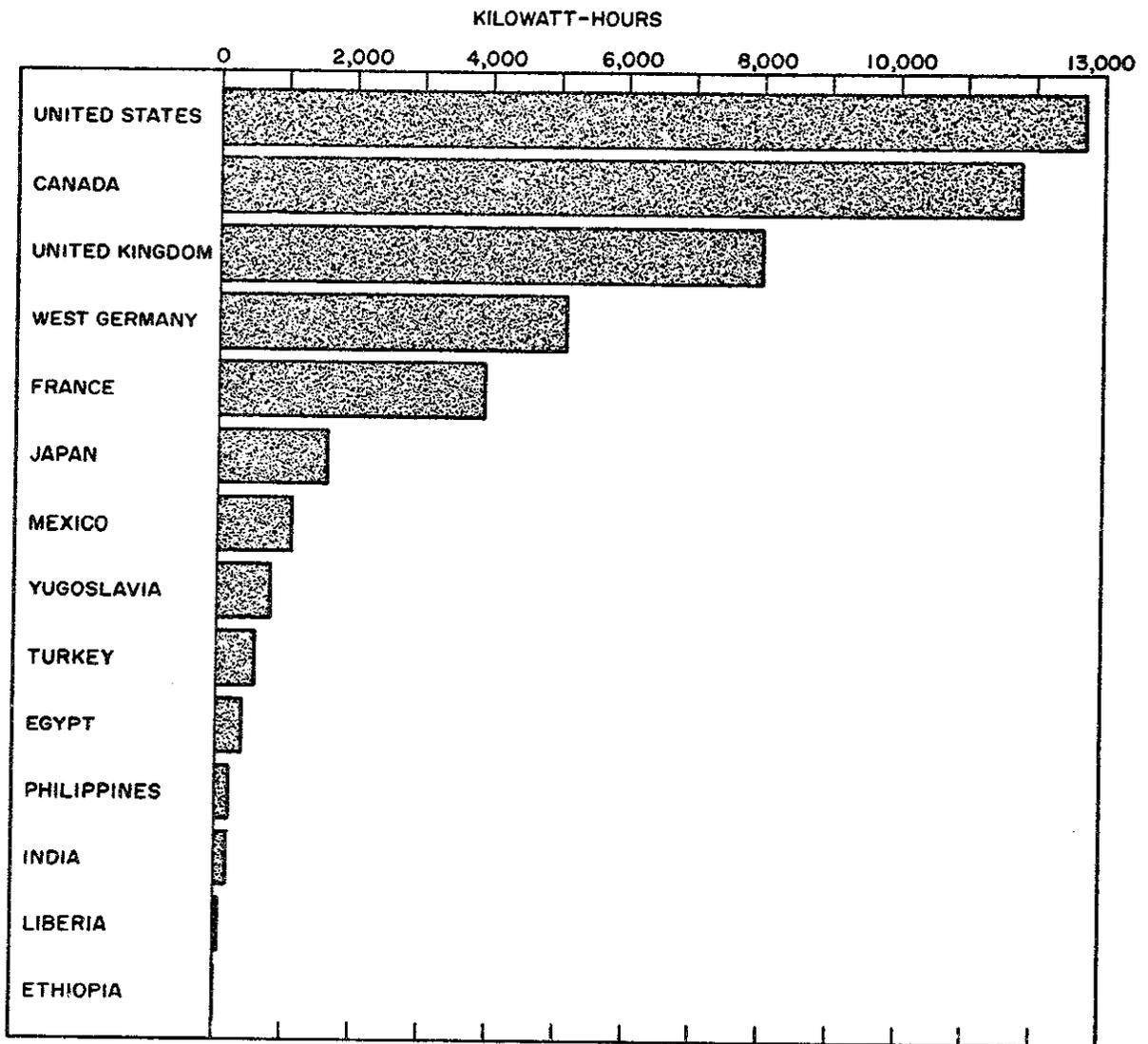
Energy could be considered the modern equivalent of the slaves of ancient times. In the United States today, work accomplished by the annual per capita energy consumption would require approximately 84 slaves working 48 hours a week for a year for each man, woman, and child. The average person in India today has only one such slave; in Ethiopia, one-tenth of a slave.

#### Lack of Communications and Illiteracy

Table I provides rough measures of the degree of illiteracy and lack of means of communications in newly developing countries. These deficiencies reflect the scarcity of human resources with which these countries can initiate programs of development. The differences existing in level of mass communication between the less advanced and more advanced countries is greater than the differences shown by GNP measurements. Availability of mass communication facilities will effect great changes in the newly developing countries. If present social pressures for higher levels of living are examined in the light of present rudimentary means of communication, it becomes apparent that the revolution of rising expectations is only starting. Better communications will heighten the awareness of differences in levels of living. The forces that have been upsetting the traditional ways of the past will continue to increase, rapidly creating new social pressures on the governments of the underdeveloped countries to achieve visible results.

CHART I

PER CAPITA CONSUMPTION OF ENERGY FROM INANIMATE SOURCES,  
Selected Countries, 1954



SOURCE: United Nations, World Energy Supplies, 1951-54 Statistical Papers Series J, No. 2, New York, 1957, pp. 35-47. Coal equivalents given in the source have been converted to electricity equivalents at the rate of 0.6 metric tons of coal for 1000 kwh.

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Table 1  
**MEASURES OF MASS COMMUNICATIONS IN SELECTED COUNTRIES**  
**1954-55**

	Number of Illiterates per 1,000 Population	Daily Press Circulation per 1,000 Population	Radio Receivers per 1,000 Population	TV Receivers per 1,000 Population
<b>North America</b>				
United States	20- 30	344.5	795.6	219.3
Canada	20- 30	243.6	277.7	74.4
<b>South America</b>				
Brazil	500-550	not available	44.8	2.2
Argentina	100-150	97.9	157.7	2.7
Bolivia	750-800	19.3	48.3	--
Colombia	450-500	53.7	41.3	0.03
Peru	550-600	38.7	55.3	--
<b>Africa</b>				
Nigeria	800-850	3.1	1.3	--
Liberia	900-950	1.2	2.0	--
Morocco	850-900	22.5	34.4	0.47
Libya	850-900	5.7	3.3	--
Sudan	900-950	2.3	0.68	--
Union of South Africa	550-600	56.0	49.7	--
<b>Middle East</b>				
Egypt	750-800	22.8	18.5	--
Israel	50-100	162.4	148.5	--
Iraq	850-900	18.7	12.4	--
Iran	850-900	5.9	8.6	--
Saudi Arabia	950-990	1.4	1.4	--
<b>Asia</b>				
Afghanistan	950-990	1.8	0.67	--
India	800-850	6.7	1.9	--
Burma	500-550	8.1	0.78	--
Ceylon	400-450	36.8	10.8	--
Japan	20- 30	397.9	129.9	0.40
China (Continental)	500-550	13.7	2.6	--
<b>Europe</b>				
United Kingdom	10- 20	609.6	272.8	81.7
France	40- 50	239.9	206.6	2.9
Denmark	10- 20	370.4	298.9	0.54
USSR	70-100	210.5	95.7	3.3

Source: UNESCO, World Communications - Press - Radio - Film - Television, Third Edition, 1956.

Difference in Levels of Living Between  
Developed and Underdeveloped Countries

One of the most important issues of the next decades will be: Can the gap in living standards between developed nations and underdeveloped nations be progressively narrowed by constructive evolutionary means? In a few underdeveloped countries such as Burma, Greece, Venezuela, the growth process seems to be proceeding at a faster rate than in advanced countries. In the case of other countries such as Argentina, Bolivia, Chile, the gap in living standards seems to be widening rather than narrowing. In any case, the level of per capita GNP from which most underdeveloped countries must start is so low that many years will be required for them to reach standards prevailing in advanced countries. For example, doubling or even quadrupling India's per capita GNP of about \$78.00 will not represent a major attainment in the process of raising India's living standards to the levels of advanced countries, as for instance the current U.S. level of about \$2,379 per capita.

Although rates of per capita growth do not illustrate the entire magnitude of the problem, estimates furnished for underdeveloped and developed countries are shown in Table II.

Table II  
PER CAPITA GROSS NATIONAL PRODUCT RATE OF INCREASE  
(1951-1957)

<u>Developed Countries</u>	<u>Annual Average Percent of Increase</u>	<u>Underdeveloped Countries</u>	<u>Annual Average Percent of Increase</u>
United States	1.1	Argentina	-0.5
Canada	1.3	Bolivia	-0.2
United Kingdom	2.1	Chile	0.3
Sweden	3.1	Thailand	1.6 (1951-56)
Switzerland	3.7	Turkey	1.8
France	3.8	Brazil	2.2
Netherlands	4.1	India	2.5 (1951-56)
Italy	4.8	Puerto Rico	2.5
Japan	5.3 (1955-59)	Burma	4.8
Austria	5.7	Greece	5.8
Western Germany	6.4	Red China	7.4 (1952-56, Net National Product)
		Venezuela	8.6

Source: Yearbook of National Accounts Statistics, United Nations, 1959 for all figures except: Japan, taken from ICA data and the United States, Turkey, and Switzerland taken from OEEC General Statistical Bulletin No. 1, 1959. (Note: United Nations statistics show United States per capita annual average growth as 1.2% for the same time period, 1951-57.)

The rates of increase in GNP are important to this study only to the extent that they reflect the efforts of developing countries to reach the economic levels prevailing in advanced countries. If it were considered desirable for per capita GNP in underdeveloped countries to reach the U.S. level in a span of 20 years, growth in the underdeveloped countries would have to proceed at an impossibly rapid pace. For Argentina's per capita income (about \$435) to reach U.S. levels (about \$2379) by the year 1980, a per capita growth rate of 9 percent per year would be necessary. Actually in recent years, Argentine per capita growth has at times been negative. Mexico would require an annual growth of 11.6 percent, and Colombia 14 percent to reach U.S. levels by the year 1980.

Unless the differences in levels of living can be diminished, a series of revolutionary struggles might take place. The poor nations might become aligned against rich ones in struggles that would probably involve the communist and the western power blocs and make nuclear war more likely. In a world of widening gaps between poor and rich nations, the discontents of the poor would eagerly be played upon by skilled political forces dedicated to overthrow the freedoms we value highly. No purely military strategy could cope with such a combined economic-political-military threat.

#### Nature of Aid Programs

The free world governmental grants and loan programs directed toward development progress in underdeveloped countries from the end of World War II up to approximately the middle of 1959 are shown on Table III. This table illustrates several points:

1. Total free world economic aid to underdeveloped countries since World War II amounts to about \$31.9 billion. This amount is exclusive of military assistance and the immediate post-war programs aimed at relief and restoration.
2. With respect to the geographical distribution of the total \$31.9 billion by free world areas, Asia (plus Oceania) received \$14.5 billion or 45 percent, Africa received \$8.3 billion or 26 percent, South America received \$4.7 billion or 15 percent, the underdeveloped countries of Europe received \$3.1 billion or 10 percent, and the countries of Central America received \$1.3 billion or 4 percent.
3. Europe was the principal source of outside aid to Africa during the period examined.

Table III

FREE WORLD ECONOMIC AID TO UNDERDEVELOPED COUNTRIES,  
POST-WORLD WAR II TO MID-1959 <sup>1/</sup>

(U.S. dollars billions rounded: percentage in parentheses)

	U.S. Bilateral (ICA, DLF, EXIM, PL 480)		IBRD		Multilateral (UN)		Non-U.S. Bilateral (France, U.K., Australia, Japan <sup>2/</sup> )		Free World Total	
Total	\$19.4	(100)	\$2.5	(100)	\$0.8	(100)	\$9.1	(100)	\$31.9	(100)
Africa	0.6	(3)	0.4	(15)	0.1	(8)	7.2	(79)	8.3	(26)
Central America	1.0	(5)	0.3	(11)	0.1	(5)	-	(-)	1.3	(4)
South America	3.5	(18)	0.6	(25)	0.1	(8)	0.5	(6)	4.7	(15)
Asia	11.3	(58)	1.1	(46)	0.5	(79)	1.4	(15)	14.5	(45)
Europe <sup>3/</sup>	3.0	(16)	0.1	(3)	-	(-)	-	(-)	3.1	(10)

<sup>1/</sup> Relief and restoration programs immediately following the war, e.g., GARIOA, UNRRA, and the Philippine War Damage Assistance, are omitted. See Appendix A which provides a detailed breakdown for this table.

<sup>2/</sup> Estimated to end of 1959.

<sup>3/</sup> Portugal, Spain, Yugoslavia, and Greece. Minor amounts of U.N. technical assistance not shown.

Source: Official reports of agencies concerned.

In addition to free world assistance, the Sino-Soviet block furnished an estimated \$1.6 billion in economic aid to these same countries largely since 1954. It was distributed as follows: 61 percent to Asia, 24 percent to Africa, 2 percent to South America, and 13 percent to Europe.

In recent years, underdeveloped countries have typically received economic aid from a multiplicity of sources. The map in Appendix B shows some of the newly developing countries receiving aid. The map illustrates by a few examples the different agencies at work in many countries. For example, in Ethiopia five U.S. agencies are at work as are agencies from three other countries plus the IBRD and UNICEF, not to mention the family of agencies composing the U.N. Technical Assistance

Program--this plethora of aid sources operating in a single country is not unusual.

Table IV provides a breakdown of free world economic aid to underdeveloped countries for 1959. This table shows that U.S. bilateral aid represented 67 percent of total free world aid in 1959.

Table IV

ESTIMATED OFFICIAL ECONOMIC AID  
TO UNDERDEVELOPED COUNTRIES--1959

<u>Source of Aid</u>	<u>Amount</u> (dollars millions)	<u>Percentage</u> <u>of Total</u>
International Cooperation Administration	\$1,239	26%
Export-Import Bank	476	10
Development Loan Fund	518	11
Public Law 480	<u>933</u>	<u>20</u>
U.S. Bilateral Subtotal	3,166	67
United Nations (technical assistance, children's fund, refugee programs)	105	2
International Bank for Reconstruction and Development	490	11
Non-U.S. Bilateral (France, U.K., Australia, New Zealand, Japanese Reparations)	929	20
International Finance Corporation	<u>10</u>	<u>-</u>
TOTAL	\$4,700	100%

Table V provides a breakdown of Mutual Security military and economic aid to all countries by region and category for FY 1959. This table shows that 44.5 percent of Mutual Security aid in 1959 was for strictly military purposes--for furnishing military equipment, training, supplies, and services.

A higher percentage of the total aid can be considered as military if "Defense Support" funds are taken into account. These funds, amounting to \$807.1 million (23.5 percent of the FY 1959 total) are normally classed as economic aid rather than military aid, because they are used to finance commodities consumed in the civilian sector of the economy in aid receiving countries. However, the Defense Support commodities are sold for local currencies that are used primarily to defray local military costs. Thus Defense Support funds serve to meet internal expenses of military programs in aid receiving countries. In the absence of the local currency derived from Defense Support funds, aid receiving countries would be unable to finance their own military budgets without resorting to inflationary currency expansion and without curtailing economic development programs and essential government services.

Table V

MUTUAL SECURITY PROGRAM--  
FISCAL YEAR, 1959  
(Millions of dollars rounded)

<u>Region</u>	<u>Total Program</u>	<u>Military Assistance</u>	<u>Defense Support</u>	<u>Technical Cooperation</u>	<u>Special Assistance</u>	<u>Other Program</u>	<u>DLF</u>
Europe	\$ 480.5	\$ 349.6	\$ 50.0	\$ 3.0	\$ 22.0	\$ 2.8	\$ 53.1
Near East and South Asia	1,068.9	420.6	218.0	41.5	102.4	-	286.4
Africa	126.6	10.7	-	14.1	83.0	-	18.8
Far East	1,425.8	726.8	538.7	32.6	9.1	-	118.6
Latin America	169.4	66.8	-	34.2	24.2	-	44.2
Undistributed and Nonregional	403.5	202.9	0.4	41.8	38.0	120.4	-
Less Prior Year Availability	<u>(240.9)</u>	<u>(240.9)</u>					
<b>TOTAL</b> (Fiscal Year 1959 Program)	<b>\$3,433.8</b>	<b>\$1,536.5</b>	<b>\$807.1</b>	<b>\$ 167.3</b>	<b>\$ 278.8</b>	<b>\$ 123.2</b>	<b>\$521.2</b>

Source: Report to Congress on the Mutual Security Program for the First Half of Fiscal Year 1959, Washington, 1959, p. 7.

Synopsis of Major U.S. Bilateral Programs to Promote  
Development Progress in Underdeveloped Countries

The following synopsis is not a complete listing of U.S. bilateral aid programs, but it shows programs considered to have had a major impact on the development progress of underdeveloped areas. The funds furnished to underdeveloped countries under the major U.S. bilateral aid programs are shown in Appendix A.

Export-Import Bank of Washington. Export-Import Bank operations were initiated in 1934 to promote American exports. The functions of the Bank were expanded in 1941 to assist Latin American countries then cut off from normal European supplies by the war. The Bank now stresses development loans repayable in dollars and tied to the export sales of American industry. Although its emphasis has been placed traditionally on serving American exporters, the Export-Import Bank has been an important source of capital for development programs. The Bank has authorized about \$5.0 billion in credits or 48 percent of its total credits to underdeveloped countries as of June 30, 1959.

Office of Inter-American Affairs. Early in World War II, the Office of Inter-American Affairs initiated joint programs with Latin American countries to promote improved health, education, and agriculture. Although the program was a logical extension of the Good Neighbor policy, it was motivated in part by security considerations stemming from the importance of Latin American resources during the war. This program was a pioneering venture into what is now called "technical cooperation".

Greek-Turkish Aid Program. With Soviet expansion threatening Greece and Turkey in 1946 and 1947, the United States initiated a brief but vigorous economic program that blunted Soviet advances and prepared the economic base in Greece and Turkey for development progress under the Marshall Plan.

Marshall Plan (as related to underdeveloped countries). In 1948 the Marshall Plan was not directed primarily toward promoting progress in underdeveloped countries, but it did serve to strengthen the economies of Greece, Turkey, Portugal, and various dependent overseas territories in Africa.

Point Four Program. On January 20, 1949 the President announced the Point Four Program, and in 1950 Congress approved the Act for International Development. The program stressed the improvement of technical skills in underdeveloped areas. Initially administered by the Department of State, in 1953 the Point Four Program was merged with other world-wide technical assistance activities under the Mutual Security Program.

Mutual Security Program. In 1951, following the communist take-over of China and the Korean War, the Mutual Security Program was initiated to provide military and economic aid to countries where the United States had a security interest. The economic aid portion of the Mutual Security Program now includes the following major components:

1. Defense Support funds used to finance commodities that are imported and sold internally by aid-receiving countries to raise local currency for the military effort.
2. Technical Cooperation funds used to promote technical skills in underdeveloped countries through training and demonstration.
3. Special Assistance funds used in countries not receiving Defense Support aid, intended to cope with emergency situations such as those occurring recently in Jordan, Lebanon, Bolivia, and West Berlin where special economic aid is needed; also Special Assistance funds used to achieve humanitarian objectives such as world-wide malaria eradication.
4. Development Loan Fund stresses loans for projects in underdeveloped countries where borrowers are unable to repay in hard currencies.

The Development Loan Fund (DLF) has concentrated particularly on projects to achieve development progress in underdeveloped countries. Of the \$623 million in loans extended by the DLF since its inception in FY 1958, 99.5 percent have been made to underdeveloped countries for development projects.

Funds provided under the other economic aid components of the Mutual Security Program, although far larger in combination than DLF, have been directed in a much lesser degree toward the attainment of development progress in underdeveloped countries. As of June 30, 1959, economic aid furnished under the Mutual Security Program plus that furnished by preceding programs under the Marshall Plan, amounted to \$25.4 billion. Of this amount, \$10.6 billion, or 42 percent, was extended to underdeveloped countries. In recent years, however, much of the Mutual Security Program economic aid to underdeveloped areas has fallen in the category of Defense Support. For example, in FY 1958 and FY 1959, 52 percent of all Mutual Security economic aid to the underdeveloped areas was classed as Defense Support. Since the Mutual Security economic aid serves a dual purpose, economic and defense, it is difficult to gauge the degree of emphasis placed on the development phase alone, but stress on development is secondary to defense.

The implementing responsibilities for economic aid components of the Mutual Security Program are as follows:

Defense Support--International Cooperation Administration  
Technical Cooperation--International Cooperation Administration  
Special Assistance--International Cooperation Administration  
Development Loan Fund--Administered by a separate agency, the  
Development Loan Fund, but utilizing some services of the  
International Cooperation Administration .

Policy guidance for the Mutual Security Program comes from the President and the National Security Council in the case of Military Assistance, from the Department of State in the case of Defense Support, Technical Cooperation, and Special Assistance, and from an inter-agency management board in the case of the Development Loan Fund. (See Foreign Affairs Responsibilities in the Executive Branch in Appendix C.)

Public Law 480 Programs. Since 1955 agreements have been reached with thirty-seven foreign countries (as of June 30, 1959) under Public Law 480 (83rd Congress), The Agricultural Trade Development and Assistance Act of 1954. Under this Act the United States disposes of agricultural surpluses abroad. Agreements under Title I of Public Law 480 provide for the sale of agricultural commodities for local currency, over half of which has then been loaned to the receiving country for jointly-agreed economic purposes.

Executive responsibility for the Public Law 480 programs rests with the Department of State and the International Cooperation Administration under policy guidance from the Interagency Committee on Agricultural Surplus Disposal. The Department of Agriculture exerts a major voice in policy decisions of the Committee and in executive decisions as well.

Synopsis of Major Multilateral Programs To  
Promote Development Progress in Underdeveloped Countries

The following synopsis lists post-World War II multilateral programs thought to have achieved a major impact on the development progress of underdeveloped countries. Two proposed programs are also listed, the International Development Association and the Inter-American Development Bank. These proposed programs are not yet operating but may play important roles in future programs aimed at development progress. The relative fiscal contributions of the more important established programs are shown in Appendix A.

United Nations Technical Assistance Programs. Eight specialized agencies of the United Nations provide technical assistance chiefly to the underdeveloped countries in the following fields: agriculture (FAO), labor affairs, (ILO), education (UNESCO), health (WHO), civil aviation (ICAO), telecommunications (ITU), meteorology (WMO), and atomic energy (IAEA). The International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) also furnish technical assistance but as a secondary function.

United Nations Special Fund. Since 1958 the United Nations Special Fund has begun to finance technical surveys prerequisite to investment in development projects.

Colombo Plan. Largely on the initiative of the British Commonwealth Countries in Asia and Oceania, the Colombo Plan was formed in 1950 to coordinate external technical assistance and development plans chiefly for the benefit of underdeveloped member Asian countries. The United States joined the Colombo Plan in 1951.

Organizations of American States (OAS). Twenty-one American nations including the United States are members of the OAS. Under its April 30, 1948 charter, the OAS facilitates the interchange of technical information and skills among member nations and coordinates external technical assistance where it can be extended on a regional basis. The OAS has carried on the work initiated by the wartime Office of Inter-American Affairs.

United Nations Relief and Works Agency (UNRWA).

The UNRWA concentrates on refugee problems in the Middle East, principally the problems of Arab refugees who were inhabitants of what is now Israel prior to 1947. UNRWA has helped stabilize a potentially explosive political situation and improved the climate for economic development in the Middle East.

International Bank for Reconstruction and Development (IBRD). The IBRD has made a significant impact in development progress. Since 1947 IBRD loans to underdeveloped nations have totaled more than \$2.5 billion. IBRD loans are ordinarily repayable in hard currencies.

International Development Association (IDA). In October 1959 the Board of Governors of the IBRD proposed the establishment of IDA as an affiliate of the IBRD with IDA capital of \$1.0 billion, the United States subscribing \$320 million. If subscriptions are voted by member nations, IDA will come into being and may then play a significant role in development progress when borrowers cannot meet the customary hard currency repayment requirements of the IBRD. A major purpose of IDA will be to facilitate loans in local currencies to member nations of the IBRD.

Inter-American Development Bank. The proposal for a regional development bank for Latin America was approved by 21 nations and the United States on April 8, 1959. The United States meanwhile had requested the Congress for an initial subscription of capital which, however, would become available for use only if further subscriptions were forthcoming from the Latin American countries. If sufficient funds are subscribed, the Inter-American Development Bank will be established

January 1, 1960 and could then facilitate non-dollar loans to augment the total capital available for development purposes in Latin America.<sup>1/</sup>

International Finance Corporation (IFC). The IFC is a separate but subsidiary lending institution of the IBRD. The IFC emphasizes small loans that, in conjunction with larger amounts of private capital, serve to stimulate private investment in underdeveloped countries. Loans made from August 1957 to June 30, 1959 totaled \$19.8 million of which 96 per cent were made to projects in underdeveloped countries.

International Monetary Fund (IMF). The IMF does not finance development projects as in the case of the IBRD and IFC. It serves rather to remedy on a short-term basis temporary imbalances in the international accounts of member countries. It has an important influence on development progress in the sense that it facilitates the continuation of import programs in member countries despite temporary shortages of foreign exchange. The IMF is playing an important role in negotiating "package" programs combining internal fiscal and monetary stabilization with the provision of foreign exchange resources. Underdeveloped countries that have drawn exchange from the IMF include Bolivia, Brazil, Burma, Chile, Colombia, Cuba, India, Indonesia, Paraguay, Peru, and Egypt.

Overseas Countries and Territories Development Fund. Under the terms of the Common Market Treaty (effective January 1, 1958) six countries (France, West Germany, Italy, Belgium, Luxembourg, and the Netherlands) organized the Overseas Countries and Territories Development Fund with a reported capitalization of \$581 million. The fund is being used principally in Africa to extend financial help to hospitals, schools, and training institutes in overseas territories associated with the Common Market countries.

Other National Programs (Aid to Dependencies and Aid Through Reparations). Since World War II, substantial aid to underdeveloped countries has been extended by colonial nations in Europe, principally to strengthen colonial ties. Due in large part to French and U.K. assistance, the underdeveloped countries of Africa have received an estimated 88 percent of post war aid from colonial mother countries. Although much of this aid has been for administration of colonial areas, it has served in part to promote development progress. Recently, West German business community investments in Africa that are backed by guarantees of the West German government have been an important source of capital for African countries.

In Asia, Japanese reparations are beginning to have a major impact on four recipient countries, Burma, Indonesia, the Philippines, and Viet-Nam.

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<sup>1/</sup> The Bank was established.

## Part III

### TRENDS

#### Increase in the Number of Independent Underdeveloped Countries and in U. S. Aid Required

Twenty-two countries in Asia, the Middle East, and Africa, with a combined population of 744 million, have become independent since World War II (Appendix F). Four more countries in Africa, with a population of approximately 40 million people, are firmly scheduled for independence in 1960. The remaining colonies, protectorates, and territories associated with colonial powers will probably achieve independence within five to ten years, adding another 120 to 130 million to the total of newly independent peoples.

Prior to World War II, areas where newly independent countries have now emerged were regarded by the United States as the responsibility of colonial powers and were given little consideration in U. S. foreign policy decisions. Today, however, the newly created countries are being given special policy attention. Most of them have become recipients of economic and some of military aid from the United States.

The increased measure of U. S. attention and aid to these countries springs in part from the exaggerated expectations of newly independent peoples of the benefits flowing from independence. The political stability of new governments depends in part on the extent to which the people's expectations are met. Efforts to seek aid have often become more urgent because of the scarcity of skilled people in new countries, a sudden curtailment of the support received from former colonial powers, and the reluctance of private investors to commit themselves in situations of unproven political stability.

In these circumstances the new governments typically turn for help to the United States, the communist bloc, or the multilateral lending agencies--sometimes to all three simultaneously. New countries are often unable to meet IBRD criteria for sound, well-justified projects. United Nations technical assistance is limited and cannot be fully responsive to the needs. The unwillingness of the United States to allow political and economic instability to threaten the existence of a new country stems from the fear that such conditions would provide an opening for communist expansion that might jeopardize free world security.

Of the 22 newly created countries, only one, Syria, has not asked for American aid through the Mutual Security Program. Of the 21 that have asked for Mutual Security Program aid, all have received it except Guinea, and negotiations with Guinea are now (December 1959) in progress with a view to furnishing assistance on a mutually satisfactory basis. Of the 22 new countries, eight are, or have been, recipients of U. S. military aid. Reportedly, Soviet economic assistance has been extended to ten of the new countries.

## Rising Communist Influence by Aid, Trade, and Example

It seems reasonable to assume that in the coming decade the communist bloc will continue to expand its economic aid and trade with the newly developing countries. What is more, if the emphasis in the cold war shifts from military to economic competition, a vastly expanded communist effort to establish closer ties with the uncommitted nations of the world should be expected. This expansion of Soviet activities may also receive heightened acceptance in the underdeveloped countries as: (1) Soviet abilities and self interest lead to a more aggressive policy of economic competition; (2) the developed nations of the free world are unable to purchase all the commodities produced by underdeveloped countries that the latter must sell on world markets to provide essential foreign exchange; and (3) the developed countries of the free world continue to provide what seems to be, in the light of unremitting political pressures in the newly developing countries, insufficient assistance to achieve tangible results.

A study of Soviet strategy and advancing capabilities leads to the conclusion that the aid policies of the Soviet will probably continue to be oriented toward specific political objectives abroad, and that their trade policies will be strongly affected by political considerations abroad and economic needs at home. The fact that the Soviets are now patiently training large numbers of technicians in languages of the underdeveloped countries indicates they are planning a serious long-term program of aid activities abroad.

Recent Sino-Soviet aid and trade activities outside of their own zone of influence can be considered as the experimental beginning of larger programs of activity. This experimental effort provides them with much valuable experience that should help them to avoid future mistakes.

The distribution of estimated Soviet aid from 1954 to June 1959 is given in Table VI. This table suggests the economic preponderance of Soviet help--about 71 percent. Of the total U. S. economic aid (exclusive of Defense Support) about 54 percent in 1959 was for actual economic purposes. The larger part of Soviet aid has been concentrated on only a few countries outside the communist bloc, principally Egypt, Syria, India, and Indonesia. If Soviet aid expands, and many experts believe it will expand, pressures for increased free world aid will undoubtedly rise.

Totalitarian methods adopted by the Sino-Soviet nations have achieved gains for their own economies, but at the sacrifice of human values. Nevertheless the Soviet economic attainments present an appealing example to some underdeveloped countries. In the past, ruthless political suppression of the communist variety has appealed to some leaders as a way to achieve stability; collectivization or the commune system, distasteful though they are from the individual viewpoint, have been viewed as acceptable methods for achieving economic progress by countries that have adopted the communist system. In this situation, the free world system is challenged to demonstrate a capacity to achieve gains in living standards and to render the communist alternative less attractive to underdeveloped countries.

Table VI

COMMUNIST BLOC AND UNITED STATES GOVERNMENT ASSISTANCE TO SELECTED  
UNDERDEVELOPED COUNTRIES JULY 1, 1954 to JUNE 30, 1959  
(Millions of Dollars)

	<u>Communist Bloc Total</u>	<u>Communist Bloc Military</u>	<u>Total Assistance Economic<sup>b/</sup></u>	<u>U.S. Economic Assistance<sup>a/c/</sup></u>
<u>Middle East and Africa</u>	<u>1042</u>	<u>431</u>	<u>611</u>	<u>1197</u>
Egypt	507	250	257	140
Syria	339	145	194	2
Ethiopia	100	-	100	56
Guinea	35	-	35	2
Iran	3	-	3	353
Iraq <sup>d/</sup>	-	-	-	15
Turkey	12	-	12	623
Yemen	46	36	10	7
<u>South and South-East Asia</u>	<u>971</u>	<u>215</u>	<u>756</u>	<u>2495</u>
Afghanistan	150	32	118	85
Burma	42	-	42	71
Cambodia	22	-	22	173
Ceylon	49	-	49	54
India	337	-	337	1166
Indonesia	338	163	175	189
Nepal	33	20	13	19
Pakistan	-	-	-	738
<u>Europe</u>	<u>225</u>	-	<u>225</u>	<u>655</u>
Iceland	5	-	5	25
Yugoslavia	220	-	220	630
<u>Latin America</u>	<u>8</u>	-	<u>8</u>	<u>962</u>
Argentina	6	-	6	345
Brazil	2	-	2	617
<b>TOTAL</b>	<u><u>2246</u></u>	<u><u>646</u></u>	<u><u>1600</u></u>	<u><u>5309</u></u>

- <sup>a/</sup> Data on U.S. military assistance to individual countries are classified and therefore omitted from the table.
- <sup>b/</sup> Including about \$167 million in grant aid to Afghanistan, Cambodia, Ceylon, Egypt, Guinea, India, Nepal, Pakistan, and Yemen.
- <sup>c/</sup> Including the following: ICA obligations; Development Loan Fund Commitments announced through June 30, 1959; PL 480 assistance and agricultural surplus aid under the Mutual Security Act; development loans by Export-Import Bank.
- <sup>d/</sup> Soviet aid has been extended to Iraq but amounts are not known.

## Requirements for Personnel Abroad

Demands for specialists to engage in technical assistance in newly developing countries have increased rapidly and show no signs of diminishing. In the ICA, which administers the economic aid portion of the Mutual Security program, the number of technical experts (exclusive of administrative personnel) employed has steadily risen each year. Since 1956 the annual average growth in the number of technical experts has been nearly 16 percent as shown below.

### ICA Technicians Overseas

(Technicians hired directly by ICA  
plus technicians under contract)

1956	3,964
1957	4,494
1958	5,568
1959	6,479
1960	7,117 (ICA estimate)

In the United Nations technical assistance programs, the increase has not been rapid largely because of budgetary limitations. The total number of U. N. technicians overseas in 1958 was 1,521 as compared with 1,360 in 1955. In both the U. N. and ICA, however, the demand for technical experts has exceeded the supply, and recruitment has seriously lagged behind the number of requests for technical personnel.

There are several reasons why the number of experts needed in underdeveloped countries is likely to increase. Independence is being granted to new countries in Africa by the United Kingdom and France, and experts will be needed to replace the colonial civil servants who formerly held key positions in government bureaus. The newly independent countries suffer from a basic lack of skills and facilities for training. The fulfillment of the need for technical skills by local sources will not be accomplished for many years. As local officials and businessmen are trained, they become even more sensitive to local deficiencies and lead their underdeveloped countries to request additional experts from abroad.

To meet the growing need for experts to serve overseas, a number of trends have emerged. The ICA is taking steps to establish a career status for its technical experts and has initiated training programs to broaden the skills of the personnel already employed. In the underdeveloped countries, training programs are being accelerated, more stress is being placed on the training of local nationals abroad, and greater attention is being directed to manpower requirements now and in the future.

As yet no systematic study has been made of the requirements for skilled human resources that will be demanded from industrialized countries to promote the goal of development progress during the long period before the underdeveloped areas have trained their people in modern, complex, and professional skills. In relation to the need, the attention being given to the training of human resources in the many skills which rapid economic and industrial development require is still inadequate. Human resources planning and development deserves far greater efforts than has been the case to date.

## Magnitude of Aid Requirements

It is impossible to quantify accurately the magnitude of aid requirements over any given period of time. Such questions as absorptive capacity, types of programs, sources of capital and commodities, the rate of private foreign investment, and, above all, the number and availability of trained specialists and administrators are all variables which make it impossible to project aid demands with any degree of realism. Nevertheless the question of "how much?" has arisen so often that attempts have been made to quantify the capital requirements of underdeveloped countries. Three recent estimates are summarized below.

The Maxwell Graduate School of Citizenship and Public Affairs at Syracuse, New York, studied the subject of external capital requirements for emergent countries in a report of November 11, 1959, for the Committee on Foreign Relations of the Senate.

In arriving at its requirement estimates, the Maxwell School study first assumes that the combined GNP of free world underdeveloped countries is \$165.0 billion, that population of these countries is 1.1 billion, and that average per capita GNP is about \$150. A further assumption is that the capital output ratio is 3 to 1--i.e., \$3.0 billion in capital is needed to yield a \$1.0 billion increase in GNP. (This ratio compares with the Indian second five-year plan ratio of 2.3 to 1.)

If the population of underdeveloped countries rises by 1.5 percent annually, the increase in population for the first year would be about 16.5 million people--the Maxwell School study believed this to be a low estimate. Multiplying the capital output ratio by per capita GNP and the number of additional people gives the amount of capital needed just to keep pace with the population increase the first year alone--3 times \$150 times 16.5 million equals \$7.26 billion or about \$7.5 billion. Per capita annual GNP growth is about 1.9 percent in the United States. Assuming that a per capita GNP annual growth rate of 1 percent, i.e., \$1.50, is desirable in the underdeveloped countries, then in addition to the \$7.5 billion, \$5.0 billion, or a total of \$12.5 billion, in capital would be needed; if a 2 percent increase were desirable, then an additional \$10.0 billion, or a total of \$17.5 billion, in new capital would be required. The Maxwell School study points out that the underdeveloped countries themselves have a modest capacity for capital formation; it was estimated at \$7.0 billion annually. This figure deducted from the total capital requirement suggests the need for external capital of about \$10.5 billion.

The Maxwell School study indicates that the assumption regarding the capital output ratio could be 4 to 1 rather than 3 to 1; the population growth each year might be estimated at 1.7 percent rather than 1.5; and the figure for domestic capital formation might be higher. Any of these variables could yield a different result, but the study believes the total magnitude of \$10.5 billion to be roughly correct as the annual input of external capital necessary to achieve a 2 percent increase in GNP. The study states that external capital of about \$5.0 billion is already being furnished through various aid programs and private investment. This indicates that in the near future the annual deficiency in new capital, to achieve a 2 percent increase in per capita GNP, is about \$5 billion.

In the October 1959 Foreign Affairs, Paul G. Hoffman's article entitled "Operation Breakthrough" presents another estimate of capital needs for underdeveloped countries during the decade 1960-1970. Hoffman assumes that underdeveloped countries themselves have the capacity to generate capital at an annual rate of \$6.0 billion, rising to an annual average of \$7.0 billion during the decade. The Hoffman study then assumes that external capital of \$3.0 billion is now being supplied annually but total external capital should be raised to \$6.0 billion annually to achieve a "minimum acceptable increase in per capita income during the decade." Underlying assumptions for this estimate are not presented in detail.

A third estimate of capital requirements was made by the Center for International Studies at the Massachusetts Institute of Technology--  
A Proposal, Key To An Effective Foreign Policy by Max F. Millikan and W. W. Rostow (Harper & Brothers, 1957).

The capital estimates in the MIT study are preceded by comment to the effect that as economic development takes place, the capacity for domestic capital formation also increases ultimately to reach the point where external capital is no longer required. The need for external capital, the authors conclude, is not likely to continue for "more than ten to fifteen years." In the interim, however, the need for external capital exists and is increasing.

The MIT study also uses a capital-output ratio of 3 to 1. To achieve an annual 1.5 to 2.0 percent increase in per capita GNP, the MIT study concludes that an additional \$3.5 billion in capital is needed over and above existing aid and investment programs. This figure added to the magnitude of current capital input which the MIT study assumes to be \$3.0 billion would yield an annual external capital requirement of \$6.5 billion for the underdeveloped countries.

To summarize the three estimates, the Maxwell School study estimates a minimum annual capital requirement of \$10.5 billion to achieve a 2 percent increase in GNP, the Hoffman study suggests an annual figure of \$6.0 billion, and the MIT study suggests a figure in the neighborhood of \$6.5 billion. None of the three studies covers precisely the same countries, each is based on slightly different assumptions, and none of the studies defines what portion of existing economic aid would be classed as a contribution to development progress.

It is clear, however, that the present availability of external capital is far below the Maxwell School estimate but closer to the other two estimates than is generally realized. Table IV shows 1959 U. S. government aid programs for underdeveloped countries and other aid sources as totaling \$4.7 billion. Of this figure, probably \$1.0 billion cannot be considered development aid, i.e. half the ICA total or \$0.6 billion and about \$0.4 billion of PL 480 financing for nondevelopmental expenditures and military costs. On this basis, possibly \$3.7 billion of the 1959 aid total could be classed as capital which makes a contribution directly to development progress in recipient countries.

Annual new private investment in underdeveloped countries might range as high as \$2.0 billion. U. S. private investment is estimated at \$1.6 billion annually, and West European private investment was estimated

by the United Nations at \$433 million annually in the 1946-1952 period. Thus the total flow of capital for development purposes might be about \$5.7 billion. With Sino-Soviet capital of \$0.3 billion added annually, the total external capital available to underdeveloped countries would come close to the Hoffman and MIT estimates.

A major problem, however, in assessing the adequacy of the present external capital availability lies in the definition of what portion of economic aid constitutes real development assistance. About 46 percent of all Mutual Security Program economic aid in fiscal years 1958 and 1959, for example, is classed as Defense Support, another 17 percent is classed as special assistance. Much of this economic aid is not truly developmental but consists rather of imports needed to meet supply requirements of the recipient countries. Without such imports, the economic base for development would indeed crumble, but at the same time, such commodity imports for consumption only are not contributing directly to development progress. It can be argued that only the technical cooperation and the DLF components of the Mutual Security Program contribute directly to development. If this assumption were made, then total external capital availabilities for development in 1959, based on the development portion of aid in Table IV plus private investment, would be about \$5.3 billion.

As pointed out earlier, the most important question in the study of development progress is: How fast can the underdeveloped countries begin to close the gap between their living levels and those of the advanced countries?

An annual per capita GNP growth of 2 percent might appear satisfactory from the standpoint of current growth and might also in some countries reflect the maximum capacity to absorb capital. However from the standpoint of "catching up," a much faster rate than 2 percent is needed. A 2 percent annual rate of growth compounded annually would mean a doubling of per capita GNP in 35 years. For example, the present per capita GNP of \$263 in Spain would be \$526 by 1995--still far below even the current U. S. level of \$2,379 per capita.

The question thus inevitably arises: Can the tremendous gap in living standards be allowed to persist because of pedestrian rates of growth or does the world political situation demand a vastly accelerated rate of growth in the underdeveloped countries? This is a question of political judgment and not one of economics.

In view of the emergence of more independent countries each year, the rising aspirations of all underdeveloped nations, the growing absorptive capacity for capital, and above all population growth, the higher estimates for development capital requirements for the next ten years made in the Maxwell School study would appear to be minimum.

#### Foreign Exchange Dilemma of Underdeveloped Countries

A number of trends adversely affect the balance of payments of underdeveloped countries. First, the import requirements of the underdeveloped countries tend to rise faster than their exports. In the 1928-1957 period, imports of the underdeveloped countries rose about 4 times, while exports

rose only 3 times. As development progresses, demands arise for imported items not previously needed. Each new plant built in an underdeveloped country tends to set up an import requirement, initially for the capital equipment and then for such items as spare parts, fuel, or raw materials. Once the development process has begun to advance, more products are domestically made, capital goods imports diminish, and shortages of foreign exchange become less acute. Only at such a relatively advanced stage does a reversal of the trend toward import surpluses tend to take place.

A related trend is that the increase in imports for the underdeveloped countries is not matched by an increase in demand for their exports. For example, in 1928 the underdeveloped countries had an export surplus of \$1.7 billion. In 1957, however, the situation was reversed and the underdeveloped countries showed an import surplus of about \$3.4 billion. Thus, the newly developing countries face the prospect of needing more foreign exchange without the benefit of a corresponding demand for their products on the world market.

There are three principal courses of separate or combined action available to the underdeveloped countries for meeting the foreign exchange problem--trade, foreign investment, and economic aid.

The alternative of trade is precarious because of widely fluctuating world market prices for primary products. In the case of Brazil, Haiti, Guatemala, Colombia, and El Salvador, coffee exports account for 70 to 80 percent of export earnings. The price of coffee since 1953 has advanced over 60 percent and fallen back again to 1953 levels or below. In the case of Taiwan, 51 percent of all export earnings are derived from sugar; sugar prices within a period of less than two years rose by 80 percent but then declined by 40 percent. About three-fourths of the world's natural rubber originates in Indonesia, Malaya, Thailand, and Viet-Nam, and the foreign exchange earnings of these countries depends heavily on world rubber prices. In the period 1953-1958, the price of rubber fluctuated from 100 percent above to 20 percent below the 1953 average. The development of synthetics, for example, in fibers, rubber, and flavorings, can further aggravate the export problems of primary producing and one-crop economies.

Foreign investment, a second alternative course of action, available to the underdeveloped countries cannot be counted on to meet a major portion of the requirements for external capital without more and bolder programs on the part of both the providing and the receiving countries. To the extent that private investment does flow to underdeveloped countries, it has proved invaluable in stimulating technical development and upgrading management skills. The record, however, shows that except in the extractive industries, U. S. private investment flows to the developed areas--i.e., Canada and Europe.

The third course open to underdeveloped countries is to request economic aid. As mentioned earlier, of the 22 nations achieving independence since 1945, all except one (Syria) have requested Mutual Security Program aid from the United States. One country, Burma, initially requested U. S. aid but came to resent the seeming political and military implications of the Mutual Security Program and terminated American aid shortly after 1951. However the need for external capital in Burma became so urgent that in 1957 American aid was sought again and was resumed in 1958.

None of these courses, separately or in combination, has yet solved the vicious circle of development progress--imported capital equipment, materials, and technology that require hard currency which in turn requires a foreign exchange earning capacity. The soft loan technique, discussed elsewhere, represents an attempt to overcome what to many underdeveloped areas is a very serious foreign exchange dilemma.

## Part IV

### PROBLEMS AND ISSUES AND A PRECIS OF FINDINGS

In reviewing problems of development progress in underdeveloped areas, private and governmental groups in the United States have debated certain policy issues extensively in recent years. The more significant and controversial of these issues are briefly analyzed and findings stated in the following pages. A precis of the findings is provided below.

1. Aid to underdeveloped countries should not be curtailed solely to improve the United States balance of payments.
2. The multiplicity of aid sources with varying policies and procedures results in confusion abroad and ineffective mobilization of total resources available for promoting development progress.
3. Western European countries, the United Kingdom, and Japan, because of their rising economic strength and increasing concern for world development progress, should contribute more extensively to aid programs in underdeveloped countries.
4. While bilateral United States aid programs should continue in order to meet special United States security interest, development assistance should increasingly be furnished on a multilateral basis.
5. The United States should encourage Soviet participation in multilateral efforts contributing to the goal of development progress.
6. In view of the long-range nature of economic development, the multi-year program approach should be adopted.
7. The current United States practice of packaging economic and military aid under the Mutual Security Program tends to perpetuate public misunderstanding of the central purpose of aid for development, to discourage multilateral participation, and to lessen acceptability of United States aid in neutralist countries.
8. A combination of grants and loans is needed to attain development progress in countries where repayment capacity is limited.
9. Although private investment alone is not capable of achieving development progress in emergent countries where financing for infra-structure is needed, it is a vehicle for economic development and technological transfer which has not begun to make its full contribution.

10. Local currencies owned by the United States can facilitate efforts to direct a country's resources into the most productive channels for accelerating development progress.
11. Despite potentially conflicting interests between United States government agencies and between the United States and foreign supplying countries, the transfer of resources in the form of agricultural commodities is proving to be a valuable means of stimulating development progress.
12. Public confusion regarding economic aid could be lessened by a clear-cut and sustained public information effort to define the need for development assistance.

### United States Balance of Payments Problems

United States balance of payments problems of the last several years have led to the realization that the over-all dollar shortage which gave rise to the problems of "dollar gap" in the initial post-World War II period have disappeared; in fact, a reverse dollar gap of no mean proportions has arisen and has led to an outflow of gold at an annual rate estimated at several billion dollars. Even with our current gold stock of about \$20.0 billion, it is obvious that such a drain cannot continue indefinitely.

To some observers the continued outflow of gold has been alarming, giving rise to suggestions that both military and economic assistance programs be curtailed for balance of payments purposes. There is no question but that a continued deficit of large proportions in our balance of payments would become a serious matter. There is also no question but that military and economic assistance programs, when added together with overseas military payments, constitute a large portion of total U. S. payments.

The real question is whether there are alternative and more positive steps that might be taken to rectify the balance of payments situation (already beginning to improve) other than a drastic revision in basic policies involving trade and aid. Two such steps are obvious and are being taken. The first is to use the present situation to negotiate the removal of the remaining discriminatory provisions which other countries have imposed upon U. S. exports, for dollar shortage reasons no longer valid. The second is to provide encouragement for a more concerted export drive on the part of American industry. Techniques for guaranteeing the extension of longer-term credit used so successfully by Germany and other European exporting countries might well be adapted to American exports.

An important fact, too often overlooked, is that the deterioration of America's balance of payments position has not led to an improvement in the foreign exchange position of underdeveloped areas. To reduce the amounts of loans and grants extended to underdeveloped areas for development purposes might improve our balance of payments position slightly, but certainly only at the risk of seriously damaging the goal of development progress in these areas.

Those industrial countries which have improved their foreign exchange reserve positions--Western Europe, the United Kingdom, and Japan--are now in a much better position to participate more fully with the United States in making resources available to underdeveloped areas for development purposes. The subject of burden sharing is treated elsewhere in this paper. Suffice it to say here that study should be given not only to increasing the amounts of development assistance available to underdeveloped areas, but also to better methods of cooperation among the industrial countries which can now afford to make larger amounts of such assistance available.

Two major conclusions emerge from the current discussion about our balance of payments position and its relationship to economic aid. One is that the United States still has a much more comfortable gold reserve than any other country in the world, and that the loss of gold appears to be slowing down. The second is that methods for improving our balance of payments position are available to us without resorting to such short-term expedients as forcing "tied loans," i.e. directing aid procurement to the United States only, or reducing the amount of assistance available to the underdeveloped areas.

#### Multitude of Aid Sources and Lack of Coordination Between United States Programs and Those of Friendly Foreign Countries

Most of the underdeveloped countries, particularly those which are newly independent, suffer severe shortages of qualified professional and technical personnel. They lack adequate staffs to make plans and to arrive at decisions. Very often their greatest need is for help in planning, i.e. assessing priorities and deciding what kind of help they need and when.

In these circumstances, it is disquieting to contemplate the way in which aid from free world sources is proffered to them. They are presented with opportunities of financial and technical help by a number of donors, with a variety of motives and a bewildering number of regulations, limitations, and approaches. Decisions on the best use of resources in the underdeveloped countries are not easy, and the way in which aid is offered only makes the decisions more difficult.

Most of the underdeveloped countries have access to United Nations technical assistance, the International Bank for Reconstruction and Development (IBRD), and the United Nations Special Fund. Aid seeking nations also have access to help from the United States in the form of Defense Support or Special Assistance from the International Cooperation Administration (ICA), loans from the Export-Import Bank or the Development Loan Fund (DLF), and possibly local currency loans resulting from surplus agricultural transactions under Public Law 480. U. S. help can be in the form of technicians and training under the ICA technical cooperation program, in connection with financing of projects by ICA or one of the other agencies, or under the exchange programs operated abroad by the U. S. Information Service. The underdeveloped countries may also solicit offers of help from a variety of other donors with bilateral aid programs, such as Germany, Israel, or the Soviet bloc. In addition, those countries which are still colonies or are newly independent but retain a good

relationship with the metropole have access to substantial technical help from the colonial power.

The following official aid sources are available to most underdeveloped countries for the purposes indicated:

#### Sources of Technical Assistance

ICA (Technical Cooperation), U. N. Special Fund, U. N. Specialized Agencies (FAO, ICAO, ILO, ITU, UNESCO, WHO, WMO, IAEA), Colombo Plan (Asia), Organization of American States (Latin America), Colonial Powers (in areas of their special interest)

#### Sources of Economic Development Loans and Grants

International Bank for Reconstruction and Development, PL 480 (Title I), Development Loan Fund, Export-Import Bank, International Finance Corporation, Soviet Union, Colonial Powers, Franc or Sterling Area powers with special local interest, Overseas Countries and Territories Development Fund (Common Market Loan Fund for African Countries), Japanese reparations and economic cooperation funds (in Asian countries only)

#### Sources for Meeting Other Needs

Loans to governments and funds for military uses--PL 480, Title I, ICA Defense Support and Special Assistance

Loans for stabilizing foreign exchange balances--International Monetary Fund and, in areas of special interests, loans from the Soviet Union, colonial countries, Israel, West Germany

Refugee resettlement--United Nations Refugee Fund

Investment guaranties--ICA private investment guaranty program, Japan Export-Import Bank credits, West German trade and investment guaranties

With this array of official assistance, there is a lack of coordination, confusion, and waste of scarce resources. At worst there is deliberate competition as in the case of newly independent countries where the former colonial power is unhappy to see other countries provide aid since such action may dissipate the newly independent country's continued dependence on the colonial power.

One example can illustrate how a country asks for help. A recipient country can follow a variety of patterns in seeking help. The colonial countries looking for help from the colonial power deal with the colonial office. Newly independent countries usually arrange a treaty or convention covering assistance from the ex-colonial power and thereafter deal with a number of different ministries of the ex-colonial power in securing help. They can ask the local U. N. Special Representative to present requests for financial help to the Special Fund, or they can present their

request directly. If they want help from the IBRD or IMF, they must make their request directly and often the institution in question will send out a team to look into the request. They can approach the U. S. Operations Mission (USOM) for help from the ICA or DLF although they can also make their request directly to the DLF which may use the USOM or its own resources to explore the request further. They must approach the Export-Import Bank directly in Washington and usually need the help of the U. S. supplier in perfecting their request although assistance from the State Department can often help.

For technical assistance they can arrange annual programs with the U. N. Special Representative for technical personnel and training for help provided through the various U. N. Specialized Agencies, or they can work with the Technical Assistance Representative of the ex-colonial power or the USOM Director. The United States has a separate exchange program under which expert personnel and training in some fields can be secured by applying to the U. S. Information Service. Frequently provision is made for technical experts or training, quite apart from the technical assistance programs as a feature of other financial help; for example, when a new plant is constructed, local technicians are sent abroad for study.

The point has even been reached where many underdeveloped countries need assistance in determining the best use of the various aid sources available. Some countries have had greater success in obtaining assistance than other perhaps more needy neighbors simply because they knew how to ask for it.

Numerous efforts have been made to improve coordination between the various agencies. The degree of success thus far achieved is difficult to assess. A great deal of time and energy on the part of U. S. officials and more so on the part of recipient country officials (often very few in number) is taken up with problems of coordination and aid management.

In devising a solution to the problem, care would be needed (a) to avoid dampening the initiative and willingness of countries and agencies to contribute to the goal of development progress and (b) to avoid reducing total available aid.

#### Burden Sharing with Other Industrial Countries

Development aid can be considered a burden on the U. S. economy. First, it adds to the total Federal expenditures and thus becomes a tax burden. Second, it can be looked upon as a foreign exchange burden which the recent deficit in balance of payments has highlighted.

The so-called burdens of aid may be offset in time by the historically proven benefit of economic growth--namely, as areas industrialize, mutually beneficial trade between them expands. The picture is therefore not a simple one, and the aid given to newly developing countries cannot, even in terms of economics, simply be dismissed as a large give-away effort.

Burden sharing has received particular attention in the last year as a result of the U. S. balance of payment deficits of 1958 and 1959 and European prosperity. It should be stressed, however, that ability to

provide aid is more directly related to economic capacity than to foreign exchange availability. Although European nations have witnessed rapid economic growth, levels of living in Europe are still substantially lower than in the United States. Europe, however, should be expected to take an increasing share of aid in the years to come.

In some instances, European countries will undoubtedly point to an impressive level of effort in some underdeveloped countries that relative to economic strength will show the United States lagging behind. For example, the French in 1958 had more personnel assisting the independent Moroccan government than the United States had in all of its economic aid missions abroad.

Table VII shows the economic aid contribution of free world countries in 1957. Reparations from Japan now annually transferring capital in amounts valued slightly above \$70.0 million to Indonesia, Burma, the Philippines, and Viet-Nam are omitted from the table. Contributions made by West Germany in the form of government guaranties for private loans are also omitted. With these added, the free world contribution, exclusive of the United States, would be slightly higher.

With the growing prosperity of Europe and Japan, Table VII suggests a major potential for further capital contributions from non-U.S. sources to the underdeveloped areas. However, the magnitude of total need appears to be so great that such added assistance should not be viewed as a substitute for U.S. aid but as a net increase in available resources to assist in attaining the development goal.

What is also needed is a greater degree of cooperation and coordination between the United States and other aid-giving countries. A thorough study of the specific tasks which the developed countries are being asked to perform and more cooperative use of scarce resources of capital and trained manpower are indicated.

#### U.S. Bilateral Versus Multilateral Aid

A number of factors have caused the United States to continue extending aid on a bilateral rather than a multilateral basis. One reason is that the assurance of U.S. control over aid programs is used as an argument to secure appropriations. Another is that special U.S. domestic interests--disposal of agricultural surpluses, "buy American" procurement, and preferential use of American flag vessels in carrying aid shipments--can best be served through a bilateral program. Bilateral aid permits the United States to move rapidly to shore-up crisis areas like Jordan, Laos, Lebanon, and West Berlin. The United States also enjoys freedom of action in furnishing development assistance to countries of special U.S. interest where U.S. bases exist or where local forces strengthen defense perimeters--examples of such countries are Taiwan, Viet-Nam, South Korea, and Libya. U.S. special interests are obviously better served in the short-run through bilateral rather than multilateral aid.

Table VII

BILATERAL GOVERNMENT ECONOMIC ASSISTANCE TO UNDERDEVELOPED COUNTRIES<sup>1/</sup>

(Expenditures in million U. S. dollars)

Country	Fiscal Year 1958	Fiscal Year 1957	Gross National Product, 1957		Ratio of 1957 Aid to GNP  (Percent)
			Total	Per Capita in Dollars	
Australia	\$ 38.5	\$ 34.3	\$ 13,034	\$1,337	0.263%
Belgium	5/	8.0	10,950	1,178	.073
Canada	60.6	23.2	32,000	1,899	.073
France	754.4	837.5	47,900	1,090	1.748
Italy	5/	7.5	24,600	503	.030
Japan <sup>2/</sup>	0.5	0.4	27,800	306	.001
Netherlands	22.6	24.4	8,760	790	.279
New Zealand	5.6	5.8	3,027	1,348	.191
Norway	1.5	0.9	3,890	1,113	.023
Portugal	5/	2.6 <sup>3/</sup>	2,020	227	.128
Spain	5/	9.5 <sup>3/</sup>	10,101 <sup>3/</sup>	346 <sup>3/</sup>	.094
Sweden	0.6	0.3	9,950	1,350	.003
United Kingdom	189.4	155.9	61,400	1,188	.254
Miscellaneous	0.3	0.2	--	--	--
Total free world <sup>4/</sup> (except United States)	\$1,074.0	\$1,110.5	\$245,331	\$ 735	.453%
United States	1,985.6	1,708.5	440,000	2,570	.388

<sup>1/</sup> Contributors are countries of the OEEC, Spain, Finland, Canada, Australia, New Zealand, and Union of South Africa. Recipients are countries and territories of Asia, Africa, and Latin America, except those which are contributors.

<sup>2/</sup> Excludes reparations payments to the Philippines, Indonesia, Burma, and Viet Nam.

<sup>3/</sup> 1956.

<sup>4/</sup> Total of those available.

<sup>5/</sup> Military assistance.

Source: Executive Branch Statement, Mutual Security Program Hearings, 1959. (House of Representatives, Committee on Appropriations, Hearings for FY 1960, p. 418.)

Other countries have special interests they feel can best be served by extending assistance bilaterally. Thus for reasons of special national interest it would be difficult to phase-out completely many bilateral assistance programs.

There are two major fields of aid where the special national interests of donors are less directly involved--furnishing technical assistance and furnishing capital for development. In these fields, national interests do exist, but they are interests generally shared in common by all advanced countries. In these fields the multilateral approach to aid has been successfully applied. The World Bank is often cited as a good example. Weighted voting assists in reaching decisions despite multi-national authority. The Bank has gained sound experience in economic analysis and is respected by countries that stand to gain from development progress. In technical assistance, the technician tends to pursue similar development objectives irrespective of his nationality. In short, the two fields where the developed nations of the world have what most closely approximates a common ground in aid-giving appear to be technical assistance and the furnishing of capital. In combination these two contribute most directly to the goal of development progress.

The following arguments support the multilateral approach to development assistance:

1. The multilateral character of an agency removes the recipient's fear of interference by a large foreign power. A multilateral donor agency can assist in areas closer to the heart of sovereignty in the recipient country without the attendant political risks incurred by a national agency.
2. A multilateral agency can draw upon numerous sources for technical skills--scarce even in the advanced countries--and can draw more effectively on other free world countries for capital. As European nations and Japan continue to gather economic strength, capital from these countries for development purposes is likely to become more available (see Table VII).
3. A multilateral program can direct concerted pressures on a recipient country to utilize its total economic resources more effectively. Where several bilateral programs are operating, a recipient country can seek out the aid arrangement which suits only short-run interests. This might well mean that the country would devote a minimum of its own resources to development.
4. A multilateral agency would be able to use its resources more rationally by devoting capital and skills to top priority projects rather than to projects that might be of temporary political importance but of only peripheral developmental worth.
5. A centralized multilateral approach would relieve the host countries of the burden of coordinating and dealing with the many aid programs to which they now have access.

6. A multilateral agency is more likely to be respected than an agency representing a single country.

In the fields of technical assistance and the provision of long-term capital, the United States should increasingly utilize the multilateral approach. However, a greatly strengthened administrative framework within the U. N. is needed to ensure proper coordination and long-range country programming. The current complex of specialized U. N. agencies without strong central coordination, both in recipient countries and at headquarters, does not permit the maximum use of resources available for development progress.

## U.S. Attitude Toward Soviet Bloc Assistance

The Soviet bloc assistance to non-communist nations is generally expected to increase during the coming decade. The United States will have a choice of alternative policies regarding Soviet bloc assistance which may be stated as follows:

1. To oppose consistently Soviet assistance by all means available, e.g., increasing U.S. aid to displace Soviet offers and to apply sanction against those countries accepting Soviet aid.
2. To establish a modus-vivendi in aid by finding means of cooperating to the extent possible with the Soviets in promoting development progress.

The first course of action would entail serious difficulties. It will be virtually impossible to isolate underdeveloped countries from Soviet aid and trade if the Soviets are determined to make such assistance available. Many of the underdeveloped countries, in their anxiety to accelerate economic growth, will continue as they have to seek aid from both communist and free world sources. It should be noted also that underdeveloped countries, jealous of their independence, will not turn communist merely because they receive Soviet economic aid. Thus for the United States to oppose Soviet aid would probably serve no useful purpose, could impair relationships with recipient countries, and could result in the United States becoming deeply involved in making counter-offers to offset every new Soviet offer of assistance.

The second course of action would be preferable but also difficult. Soviet aid will, in many instances, have different objectives than U.S. aid. The Soviets may wish to initiate programs of aid and trade, and at a given moment dramatically shift their position to gain a political advantage in the receiving country.

It is not only a matter of cooperating with the Soviets in aid but rather a matter of cooperating while keeping sufficient flexibility to fill any void or repair any damage the Soviets may deliberately create when and if this furthers their objectives. In the long run this may be increasingly dangerous and costly as the Soviets expand their economic and trade ties, and heighten their capacity to affect the economies of newly developing countries.

One way of blunting the predatory features of Soviet aid and possibly of obtaining greater Soviet cooperation in achieving development progress is to urge Soviet bloc countries to participate more actively in multi-lateral aid programs. Soviet bloc technicians have participated to a limited extent in the U.N. technical assistance program. However, none of the bloc countries are members of the major international financial institutions nor are they contributors to the new U.N. special fund.

Despite the difficulties these institutions might face if Soviet bloc countries were to join, efforts should be made to encourage Soviet participation.

In the long run it would seem wise for the United States to welcome and encourage Soviet assistance to newly developing countries if such assistance were a contribution to development progress and especially if the assistance were part of a multilateral effort.

In the final analysis, the ability of the newly developing countries to avoid the extreme Soviet methods of development will depend on their own maturity and strength. There is no substitute for experience, and the recent experiences of Yugoslavia and Egypt with Soviet aid are probably the best antidotes to actual Soviet penetration.

#### Long Range Plans Versus Short Range Budgets

Because of the experimental nature of extraordinary economic assistance first introduced in the United States government in the European Recovery Program, the practice of justifying not only annual budgets but also annual authorizing legislation was initiated in 1948. This practice of justifying, and hence being forced to plan, on an annual program basis is one of the weakest parts of United States programs to promote development progress in underdeveloped countries. It has forced the senior administrators of these programs to spend an exorbitant amount of time and effort on congressional presentations--sometimes as many as six congressional committees--to the detriment of efficient program administration. Perhaps more seriously, this practice has effectively prevented the formulation of long-range programs for development progress.

Economic development is a long-term proposition. In the final analysis, it is based upon the building of sound indigenous institutions in the underdeveloped areas, staffed by personnel with a high degree of professional and technical training. All of this takes a massive educational effort at all levels in a series of societies that have until recently been left unexposed to modern methods of industrial and economic activity.

Recent legislation creating the Development Loan Fund has given partial recognition to the urgent requirements of long-term programs and continuity of effort. Also recent moves increasing the loan capacity of the IBRD, the resources of the IMF, and proposals to create the International Development Association and the Inter-American Development Bank indicate a trend towards providing capital over longer time periods. However, more of the aid programs, bilateral and multilateral, need the continuity and stability which are derived from long-term legislation and better framework for program planning.

## Separation of Military Aid and Economic Development Aid

Economic development and military aid are approved by the Congress as part of the Mutual Security Program. Components of the Mutual Security Program--Technical Cooperation, Development Loan Fund, Defense Support, Special Assistance, and Military Assistance--differ widely in purpose but are all given a military or at least defense connotation by being grouped together under the label of "Mutual Security" and voted on as a unit. It has been argued that development aid is more likely to be approved by the Congress and the American public if it is packaged with military aid so that it takes on the coloration of defense.

Earlier legislation provided for economic aid by its true name--for example, the Act for International Development in 1950 that established the Point Four program or the Economic Cooperation Act of 1948 that set up the Marshall Plan. Legislation for aid to achieve development progress apart from military aid for strategic purposes seems preferable. Arguments for the separation of future military and economic development aid include the following:

Separation is needed because of the difference existing between the objectives of military and economic development aid programs. U.S. military aid programs, while providing added protection to newly developing countries from outside aggression, are essentially an extension of U.S. strategic positions. In the context of over-all U.S. military strategy this aid is an integral part of U.S. defense measures, and in some cases is a lower cost defense expenditure which actually saves U.S. funds. Furnishing military aid to South Korea, for example, provides the South Koreans with a means of controlling pressures from the North, but also provides at a greatly reduced cost in men and money, support for U.S. positions in the Far East. Military aid programs are thus immediately oriented to containing possible communist military expansion moves.

Unlike military aid, the objectives of economic development aid should be internal instead of external and do not need to be limited to containment of Soviet penetration. The aim should be to accelerate economic development and raise levels of living. If the Soviet threat did not exist there would be little reason to continue many military aid programs, but economic development aid would still be needed.

The need for separation of military and development aid is felt in the course of program operations in the field. There are many psychological and political reasons that lead the uncommitted countries to fear the implication that acceptance of United States economic development aid involves hidden military agreements and a shift away from their neutral position. The fact that the United States Congress votes on military and economic aid in one package and in the full light of publicity does not help dispel these fears.

Confusion arises in the minds of the American people regarding aid programs since the public often assumes that all aid is a vast, wasteful give-away at the expense of the taxpayer. A concerted effort to distinguish clearly between the various forms of aid, and their objectives, could begin to dispel these misunderstandings.

The separation of military from economic development aid will be particularly important if the principal focus of the conflict with the communist nations shifts from the military to the economic arena. Then the increasing need for development aid will probably require a reappraisal of the over-all purpose of the Mutual Security Program. It may in time be quite important for U.S. development aid to be segregated completely from military aid, in the legislative and budget allocation process, in the administration of the programs, and particularly in the over-all psychological approach adopted by the United States in presenting these programs abroad.

In recommending the separation of military and economic development aid, the contrary findings of the Draper Committee on the complementary nature of military and economic assistance were considered. The arguments for separation appear to carry more weight.

Although separation of military and development aid, both in the U.S. budget and in its administration in the field is recommended for the reasons cited above, there will be a continuing need for close coordination of both programs at top levels in the U.S. government to prevent the two types of programs from working at cross purposes. The economic burden of large military aid programs on the economy of the recipient country deserves greater attention to ensure that one program does not tend to erase the benefits which would otherwise accrue from the other.

A related question has arisen as to whether military aid programs in the missile age are necessary in underdeveloped countries. Experience in Viet-Nam, Laos, Taiwan, and Korea indicates that the usual prerequisites of economic growth--capital formation, investment in new plants, and exports generally do not materialize in the face of an imminent "brush-fire" threat to the physical security of the area. Hence, aid programs for the support of local military establishments are needed in some emerging countries to provide the confidence without which economic growth would not be possible.

#### Grants Versus Loans

Most underdeveloped countries need various forms of external assistance to achieve economic growth. They may need trained technicians or advisors, new transportation systems, new trading opportunities abroad, or new private investments. The aid may be in the form of grants or in the form of loans.

There may exist clear-cut needs for grant aid and equally clear-cut needs for loan aid. The two forms of aid are not necessarily interchangeable. Grant aid will be needed in sectors of the economy that will not provide immediate monetary repayment of the benefits accrued. Aid to education, programs to assist the reorganization of government administration, aid to build rural highways, and some aid to agriculture, generally have to take the form of grant aid. On the other hand, loans can be made for credit-worthy projects that will add a definite new repayment capability to the economy--loans for power development, for railroad transport, and for new industries. In most instances it is not a question of loans versus grants, but a question of achieving a complementary balance between the two types of assistance programs. A program of assistance limited only to loans may be much less effective than assistance designed to reflect both needs.

Even if loans are used exclusively for income-generating projects, the output resulting will in many cases not contribute to the ability of the receiving country to repay the loan in terms of foreign exchange. The principle of using grant aid for "social infrastructure" projects which have no immediate repayment capacity, and using loans for projects which can repay, is now fairly well understood and increasingly applied. However, it has become necessary to find other techniques to relieve the balance of payments burdens which "hard loans" repayable in scarce foreign exchange impose. The re-transfer problem of paying back in foreign exchange has been overcome in part by the use of the "soft loan." This approach requires a repayment in full of the capital extended, but permits such repayment to be made in the form of local currency.

There has been much discussion in the United States emphasizing government loans, or private investments, as the best vehicles for U.S. assistance in newly developing countries. Arguments for emphasis on loans and private investment are: 1) that they provide assistance in a form that is closer to the spirit of private initiative, 2) that they are a more acceptable form of aid, both from the point of view of the giver and of the recipient, as loans and private investment remove the taint of "charity" associated with grants, and 3) that they even place the aid program on a relatively sound "business" footing.

Although the arguments favoring loans are worthwhile, the issue should not really be whether loans are preferable to grants. The issues are really what type of aid is needed, what aid can be most effectively used by the receiving country, and how and to what extent can U.S. resources provide this aid. When asking what type of aid is needed, it should be remembered that the economy of a receiving country is a complex structure in which each part is related to and affects the other parts. To provide aid to one part of the economy (where loans are applicable) while other parts are neglected (where grants are needed) may sometimes be an ineffective use of external resources.

## Role of Private Foreign Investment

Private investment abroad cannot replace other forms of assistance. In many types of economic effort where external aid can be an important factor in the goal of development progress, no amount of inducement such as government guaranties and tax-exemption could persuade private capital to participate. This is particularly true in programs aimed at providing the "social infrastructure"--e.g., the provision of health facilities, educational institutions, basic transportation systems, power projects, etc., which are often viewed as prerequisites to the flow of foreign investment. These types of development projects can only be handled on an inter-governmental basis combining a judicious balance of loans and grants. They often contribute directly and immediately to the creation of a favorable investment climate, upon which the underdeveloped area can build a sound program of private investment attraction.

Nevertheless, the contributions which private foreign investment can make to economic, and particularly industrial, development are manifold and vital to economic progress. Some of these contributions are briefly discussed here.

At the beginning and during the process of economic growth, private investment helps to relieve some of the foreign exchange and inflationary problems created by imports of capital goods and equipment.

The process of industrialization is directly dependent upon rapid mobilization of a substantial segment of a nation's resources into productive facilities. When living standards are low and population pressures high, private capital could supply many needed resources essential to industrial development. Even industrialized countries benefit by supplementing their national resources with foreign capital.

The most important reason that private investment can play a vital role is that it brings with it technical knowledge, operating experience, training opportunities and management sophistication. An influx of foreign capital, accompanied by a corresponding influx of modern techniques and management, tends to have a multiplier effect on the techniques, approaches, and philosophy of local enterprise. This is particularly true when foreign capital is combined with local capital in the creation of new ventures.

It is not sufficient to present statistically the impact of foreign investment in newly developing countries. A wealth of intangibles are of importance in such development progress--as, producing by example, the spread of better organization techniques, the changing of attitudes, and the contribution of foreign private investment to economic activity over and above that derived by individuals directly connected with the particular venture.

In recent years a number of studies have examined methods of stimulating the flow of private U.S. investment abroad. Testimony on the Boggs bill, the Strauss report, the Boeschstein Committee have all made recommendations. <sup>1/</sup> Recent developments, particularly the balance of payment problems, may have dampened the receptivity of the Executive Branch and Congress for these recommendations.

There is little doubt that new private investments, particularly in manufacturing industries, can play a very important role in newly developing countries. However, the record shows that the greatest percentage of U.S. private investments abroad has taken place in developed countries (i.e., Canada and Europe) and in extractive industries (Latin America and Middle East). Little direct investment has gone to the underdeveloped countries for manufacturing and processing industries. This situation is shown in Table VIII.

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<sup>1/</sup> The Boggs bill was proposed in July 1959 to provide tax incentives for industry abroad; the Straus report entitled, Expanding Private Investment for Free World Economic Growth, was prepared at the request of the Department of State, April 1959, by Ralph I. Straus, Special Consultant to the Undersecretary for Economic Affairs; The Committee on World Economic Practices was convened in 1958 under the leadership of Harold Boeschstein to study a combined government and private program to counter Sino-Soviet economic offensives.

Table VIII

VALUE OF U.S. DIRECT PRIVATE INVESTMENTS  
ABROAD BY MAJOR INDUSTRIES AND GEOGRAPHIC AREAS  
END OF 1957  
(Billions of Dollars)

<u>Industries</u>	<u>Canada</u>	<u>Latin America</u>	<u>Western Europe</u>	<u>Middle East</u>	<u>Others</u>	<u>Total</u>
Mining and Smelting <sup>1/</sup>	\$1.00	\$1.24	\$ -	\$ -	\$0.39	\$2.63
Petroleum <sup>1/</sup>	2.15	3.16	1.18	1.18	1.31	8.98
Manufacturing <sup>1/</sup>	3.51	1.69	2.08	<u>2/</u>	0.64	7.92
Public utilities	0.35	1.29	0.05	-	0.18	1.82
Trade	0.47	0.54	0.34	-	0.24	1.59
All others	<u>0.85</u>	<u>0.89</u>	<u>0.29</u>	<u>0.10</u>	<u>0.18</u>	<u>2.31</u>
Total	\$8.33	\$8.81	\$3.99	\$1.28	\$2.94	\$25.25

1/ "Mining and Smelting" and "Petroleum" include substantial amounts of investment in manufacturing activity directly associated with those industries.

2/ Included in "All others."

Source: Department of Commerce.

The problem is not so much to assist all forms of private U.S. investment abroad, but to assist the types of productive private investment that, because of risks and other problems, are slow to find their way to newly developing countries. There is little reason to give private U.S. investments in Europe and Canada additional impetus. On the other hand, new manufacturing investments in newly developing countries have certainly not been significant enough in the past, and any improvement would be beneficial.

Such improvement can, to some extent, be accomplished by adoption of U.S. government measures that can relieve investors from some of the risks inherent in conditions in the newly developing countries. The Straus report (Expanding Private Investment for Free World Economic Growth, April 1959) presents an analysis of many such measures that would have such directional effects. Although the U.S. government alone cannot create

all the conditions that cause private investment to go abroad, there is much that can be done to increase the flow of private manufacturing investment to newly developing countries. Measures which clearly contribute to increasing the flow of private investment to underdeveloped countries include:

1. The allowing of tax deductions against ordinary income (rather than capital gains) for capital losses sustained as the result of investment in underdeveloped countries.
2. The deferral of taxes on investment of property and technical services in order to encourage the spread of technology abroad and equity investment.
3. The deferral of corporate taxes (now amounting to 52 percent) on amounts equivalent in value to loans extended by American firms to foreign affiliates.
4. U.S. government encouragement of foreign development banks, investment companies, and similar institutions operating abroad.
5. The expanded use of U.S. government guaranties to cover certain defined non-business risks.

## The Use of Local Currencies for Development Aid

The United States has gained control over substantial holdings of local currencies in at least 45 countries. As of June 30, 1959, these local currencies amounted to the dollar equivalent of \$1.7 billion. Of this total, the United States owned \$1.1 billion and the balance of \$0.6 billion was mostly ICA counterpart funds, owned by the countries concerned, but subject to United States control.

Local currencies are now being accumulated chiefly under two programs, the program for selling agricultural surpluses abroad initiated in FY 1955 (under Title I of the Agricultural Trade Development and Assistance Act of 1954, PL 480, 83rd Congress), and the world-wide lending of the DLF, initiated in 1957, whereby borrowers may elect to repay dollar loans in local currencies. To a lesser extent local currencies are also accruing from certain ICA loan repayments.

Concern regarding the magnitude of U.S. local currency holdings and the delays in utilization gave rise to surveys by the Executive Branch in 1958.<sup>1/</sup> These surveys found that the chief value of the local currency holdings was to enable the United States to help direct the use of the country's fiscal resources into the most productive channels. The local currencies acquired can be used to augment capital formation, and if prudently used, to accelerate the development progress of the receiving country.

Several inherent dangers in the accumulation of U.S. owned local currencies have been found. By controlling major local currency resources abroad, the United States can find itself intimately involved in the fiscal policies of the borrowing country. This in turn can lead to recriminations from borrowers and to allegations of sovereignty infringement.

A second danger arising from the accumulation of large balances is that the borrowing country, through its central bank, may proceed to use the equivalent of the accumulated funds without U.S. approval. When the time comes to direct funds to a purpose approved by the United States, the country may expand its note issue thereby creating an inflationary impact on the economy. Alternatively the United States may feel itself obliged to approve retroactively the country's own prior uses of the funds to prevent inflationary expenditures.

The use of local currencies by the United States to "get something back" such as strategic materials or other needed products has the effect of depriving the exporting country of foreign exchange and thereby

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<sup>1/</sup> Accumulation and Administration of Local Currencies, a Special Report to James H. Smith, Jr., Director, ICA, August 1958.

aggravating the problems which the aid program is seeking to remedy. The use of local currencies in Korea, for example, to buy tungsten would tend to reduce the dollar resources otherwise obtainable from commercial exports of tungsten.

Loans repayable in local currency and the sale of agricultural surpluses for local currency should continue as a device for making capital available to developing countries. However, it should be kept in mind that the primary value of local currencies to the United States is to help persuade the borrowing country to direct its own resources into productive development. This major asset is jeopardized if large accumulations of local currencies remain unused.

To assure prompt utilization of local currencies for U.S.-approved purposes, agreement on broad loan projects or categories of projects should be negotiated with the country before U.S.-owned local currencies start to accumulate. In cases where balances have already accumulated and detailed and time-consuming project-by-project U.S. approvals have been required, the United States has lost initiative in directing funds into the most fruitful developmental channels.

#### Disposal of Agricultural Surpluses

The use of surplus agricultural commodities abroad in a manner that would strengthen foreign relations has long been a goal of the Congress, the Executive Branch, and agricultural leaders in the United States. Partial efforts in this direction were initiated by direct legislative action in the Mutual Security Program of 1953 (under Section 550) and again in the same act as amended in 1954 (Section 402). Under this legislation the Executive Branch was required to furnish a stated amount of economic aid in the form of agricultural surpluses rather than in the form of industrial products or services.

In 1954, a far reaching attack on the problem of surpluses was taken to make agricultural surpluses a permanent feature of aid to underdeveloped countries. Public Law 480, the Agricultural Trade Development and Assistance Act of 1954, has now become a major component in the transfer of resources to underdeveloped countries. In 1959, about 20 percent of all free world economic aid to underdeveloped countries was in the form of PL 480 assistance.

The major use of funds under PL 480 has been to finance agricultural commodities sold to foreign governments for local currency. The local currency sales proceeds in turn have been made available for use in the receiving country for preagreed purposes. The local currency sales proceeds resulting from this program have been used for the following purposes through June 30, 1959:

<u>Uses of P.L. 480 Local Currency</u>	<u>Percentage of Total</u>
Military expenses . . . . .	8.3%
Grants for economic development . . . . .	6.3
Loans for private enterprise . . . . .	6.0
Loans to foreign governments, chiefly for economic development . . . . .	47.7
Payments of U.S. obligations, e.g., for military dependent housing, embassies . . . . .	15.3
International educational exchange, Translation and publication of periodicals, Aid to American-sponsored schools overseas, Aid to binational cultural centers, Agricultural exhibits in trade fairs, and Market promotion . . . . .	16.4
	<u>100.0%</u>

Other uses of PL 480 funds have been for emergency relief and school lunches, for the barter of agricultural commodities for strategic materials or other needed items, and for distribution abroad by American voluntary agencies for humanitarian purposes.

When PL 480 was submitted to Congress in 1954, it was viewed with serious misgivings, in the United States and abroad. Foreign countries such as Canada, Australia, Argentina, Thailand, and Burma--all competitors of the United States in agricultural trade--feared PL 480 as a powerful dumping scheme. Since 1954, however, these fears have begun to diminish as commodity assistance under PL 480 appears to have been a net addition to the total world volume of commodity sales. World consumption has risen in agricultural commodities such as wheat, cotton, rice, barley, and feed grains often creating markets where none had existed. The U.N. Food and Agriculture Organization in December 1955 and the U.N. Economic Commission for Asia and the Far East at its annual meeting in February 1956 both went on record that PL 480 was serving a useful purpose despite earlier strong opposition on the part of some member countries.

It does remain important, however, for the United States to continue to consider the marketing problems of other countries and to undertake transfer of agricultural surpluses to avoid damaging the exports of other nations.

Further misgivings were voiced earlier in connection with the management of the PL 480 program. Since the basic purpose of the Act was to dispose of surpluses, it was feared that aid to recipient countries would become a secondary objective and that the careful judgments needed to manage the international aspects of PL 480 would be overlooked. In actual practice, the interests of the various Executive Branch agencies have of course tended to differ, but it appears that a balance between such interests may have been achieved despite the cumbersome machinery

of coordination. Thus adjustments have been made of the potentially conflicting interests of U.S. agencies. The fears on the part of producing countries whose commodity exports could be injured by PL 480 have tended to disappear. Similarly, economic judgments bearing on the needs of recipient countries for PL 480--generated local currency have been brought to bear in decisions to dispose of agricultural commodities abroad.

PL 480 is sometimes hopefully viewed as substitutive for other types of aid. This is not possible for obvious reasons.

On balance, the PL 480 program of agricultural surplus disposal overseas has made available an additional and important resource in economic development programs. With proper safeguards, this channel for resource transfer to underdeveloped areas can continue to make a contribution to the goal of development programs.

#### Lack of Public Understanding of Economic Aid

There is very little public understanding of the importance of the Mutual Security Program and of the importance of achieving progress in the newly developing countries. The annual Congressional Review of aid appropriations has usually provided controversy and confusing publicity on details that have left erroneous net impressions about the effectiveness of the program.

Government efforts to bring about a more widespread public understanding of the aid program have been limited by a 1952 amendment to the Mutual Security Act which reads as follows:

Limitation on funds for propaganda: None of the funds herein authorized to be appropriated, nor any counterpart funds, shall be used to pay for personal services or printing or for other expenses for the dissemination within the United States of general propaganda in support of the mutual security program or to pay the travel or other expenses outside the United States of any citizen or group of citizens of the United States for the purpose of publicizing such program within the United States.

This amendment has been strictly interpreted by the Executive Branch. Since the distinction between "propaganda" and information is not clear, the tendency has been to discourage the dissemination of any information thought to be a borderline case.

With the passage of time and with the increased seriousness of the problems faced, it is doubtful that the American public can safely continue to be uninformed.

Except for foreign aid, major programs of the government have in past years been supported by a systematic effort to create public understanding--The Good Neighbor Policy, defense, bond sales, recruitment for the armed forces, improved public health are examples.

The need for public understanding is peculiarly great with respect to foreign aid because of its complexity, its seeming remoteness from every-day problems, and its cost to the taxpayers.

Congressional approval is urgently needed for a program of expenditures to acquaint the American public with the significance and problems of economic development in newly developing countries and with the approaches and objectives sought by the government to solve these problems.

Appendix A

POST-WAR OFFICIAL AID TO  
UNDERDEVELOPED COUNTRIES BY SELECTED AID SOURCES

POST WAR OFFICIAL AID TO UNDERDEVELOPED COUNTRIES BY SELECTED AID SOURCES  
(U.S. Dollars Millions)

	ICA 1948-59	DLF 1958-59	Ex-Im Bank 1934-59	PL 480 Title I 1955-59	PL 480 Title II 1955-59	IBRD 1947-59 (to 9/30/59)	Major Non-U.S. Bilateral Aid (Free World) (Estimated)	Economic Aid Total From Named Sources	U.S. Military aid	Sino-Soviet Econ. Aid 1954-59 (Estimated Commitments As of Year Shown)	Sino-Soviet Military Aid (Estimated Commitments)
<u>Africa</u>											
Egypt	61.5	--	12.5	67.9	--	--	50.0 (UK, Fr, Sw, Yugo)	191.9	--	257.0 (58)	250.0 (58)
Ethiopia	32.9	--	28.2	--	3.2	23.5	--	87.8	Yes	100.0 (59)	--
Ghana	1.9	--	--	--	0.6	--	19.0 (UK)	21.5	--	--	--
Guinea	--	--	--	--	2.2	--	--	2.2	--	35.0 (58)	--
Liberia	14.4	3.2	32.7	--	--	--	--	50.3	Yes	--	--
Libya	71.2	5.0	--	--	17.8	--	80.0 (UK)	174.0	(Prior-59) Yes	--	--
Malagasy Republic (Madagascar)	--	--	--	--	0.1	--	169.0 (Fr)	169.1	--	--	--
Morocco	95.9	--	0.1	--	9.0	--	614.0 542.0 (Fr) 72.0 (Sp)	719.0	--	--	--
Somalia	4.1	2.0	--	--	--	--	62.8 (Italy)	68.9	--	--	--
Sudan	21.3	10.0	--	--	--	39.0	--	70.3	--	5.0 (57)	--
Tunisia	46.3	8.6	--	--	23.0	--	326.0 (Fr)	403.9	Yes	--	--
Dependent Overseas Territories	15.0	--	18.4	--	--	329.9	5915.0 5192.0 (Fr) 621.0 (UK) 20.0 (Por) 82.0 (Bel)	6278.3	(Prior-59) --	--	--
Regional	0.3	--	--	--	--	--	--	0.3	--	--	--
TOTAL AFRICA	364.8	28.8	91.9	67.9	55.9	392.4	7235.8 8237.5	8237.5	--	397.0	250.0

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	ICA 1948-59	DLF 1958-59	Ex-Im Bank 1934-59	PL 480 Title I 1955-59	PL 480 Title II 1955-59	IBRD 1947-59 (to 9/30/59)	Major Non-U.S. Bilateral Aid (Free World) (Estimated)	Economic Aid Total From Named Sources	U.S. Military Aid	Sino-Soviet Econ. Aid 1954-59 (Estimated Commitments As of Year Shown)	Sino-Soviet Military Aid (Estimated Commitments)
<u>North and Central America</u>											
Costa Rica	9.4	0.3	28.8	--	0.2	6.5	--	45.2	--	--	--
Cuba	2.6	--	135.1	--	--	--	--	137.7	ended 3/58	--	--
Dominican Republic	1.8	--	3.4	--	--	--	--	5.2	Yes	--	--
El Salvador	6.2	--	1.9	--	--	31.6	--	39.7	--	--	--
Guatemala	57.7	0.4	3.8	--	3.2	18.2	--	83.3	Yes	--	--
Haiti	23.9	4.3	40.4	--	3.5	2.6	--	74.7	Yes	--	--
Honduras	11.5	5.0	7.2	--	0.2	11.2	--	35.1	Yes	--	--
Mexico	6.3	--	572.2	28.2	0.2	186.3	--	793.2	--	--	--
Nicaragua	5.6	0.6	9.7	--	--	23.0	--	38.9	Yes	--	--
Panama	11.4	--	21.4	--	--	6.8	--	39.6	--	--	--
Dependent Terri- tories (See South America)	--	--	--	--	--	--	--	--	--	--	--
TOTAL NORTH AND CENTRAL AMERICA	136.4	10.6	823.9	28.2	7.3	286.2	--	1292.6	--	--	--

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	IOA 1948-59	DIF 1950-59	Ex-Im Bank 1934-59	PL 480 Title I 1955-59	PL 480 Title II 1955-59	IBRD 1947-59 (to 9/30/59)	Major Non-U.S. Bilateral Aid (Free World) (Estimated)	Economic Aid Total From Named Sources	U.S. Military Aid	Sino-Soviet Econ. Aid 1954-59 (Estimated Commitments As of Year Shown)	Sino-Soviet Military Aid (Estimated Commitments)
<u>South America</u>											
Argentina	0.7	24.8	516.7	62.4	--	--	--	604.6	--	6.1 (58)	--
Bolivia	112.2	2.5	47.0	--	17.4	--	--	179.1	--	--	--
Brazil	29.6	0.2	1337.6	178.4	--	267.1	--	1813.1	Yes	2.2 (58)	--
Chile	16.6	0.3	258.7	39.5	--	73.6	--	388.7	Yes	--	--
Colombia	9.1	--	247.5	38.3	--	130.6	--	425.5	Yes	--	--
Ecuador	16.3	4.7	43.4	9.9	--	45.0	--	119.3	Yes	--	--
Paraguay	12.3	6.1	16.9	3.0	--	4.5	--	42.8	--	15.0 (57)	--
Peru	21.0	--	241.8	25.3	13.9	47.5	--	349.5	Yes	--	--
Uruguay	1.7	--	49.3	14.4	0.1	64.0	--	129.5	Yes	--	--
Venezuela	1.1	--	72.2	--	--	--	--	73.3	--	--	--
Dependent Terri- tories in North, Central and South America	3.7	--	--	0.2	--	--	528.0	531.9	--	--	--
Regional	16.6	--	--	--	--	--	--	16.6	--	--	--
TOTAL SOUTH AMERICA	241.1	38.6	2831.1	371.4	31.4	632.3	528.0	4673.9	--	23.3	--

ST

	ICA 1946-59	DLF 1950-59	Ex-Im Bank 1934-59	Fl. 120 1955-59	Fl. 120 1955-59	ESD 1947-59 (to 9/30/59)	Major Non-U.S. Bilateral Aid (Free World) (Estimated)	Economic Aid Total From Banned Sources	U.S. Military Aid	Sino-Soviet Econ. Aid 1954-59 (Estimated As of Year Shown)	Sino-Soviet Military Aid (Estimated Commitments)
<u>Asia</u>											
Afghanistan	67.1	--	39.5	--	22.3	--	--	128.9	--	119.0 (59)	32.0 (59)
Burma	52.1	--	--	40.7	--	19.3	129.0 (Jap, Ind, Aus, Can, NZ)	261.1	--	41.6 (58)	--
Cambodia	170.0	--	--	--	2.3	--	19.0 (Fr, Jap)	191.3	Yes	22.0 (50)	--
Ceylon	14.1	3.2	--	21.0	9.3	23.9	32.0 (Aus, Can)	103.5	--	49.3 (58)	--
China (Formosa)	981.4	37.0	--	34.8	0.1	--	--	1051.3	Yes	--	--
Hongkong	13.0 (est)	--	--	--	--	--	--	12.0	--	--	--
India	412.1	175.0	168.1	656.2	4.9	592.1	209.0 (UK, Can, Aus)	2219.4	--	337.2 (57)	--
Indochina (prior to 1955)	825.9	--	--	--	--	--	(See Cambodia, Laos, Viet)	825.9	--	--	--
Indonesia	80.9	9.0	213.7	137.0	--	--	230.0 (Jap, Aus)	670.6	--	175.1 (59)	163.0 (59)
Iran	338.0	47.5	82.4	12.4	3.4	447.0	26.0 (UK)	656.7	Yes	3.2 (58)	--
Iraq	16.2	--	0.6	--	--	6.3	--	23.1	Prior to 7/14/58	--	--
Israel	301.4	20.0	162.6	130.3	--	--	--	614.3	--	--	--
Jordan	31.8	1.2	--	--	19.6	--	41.0 (UK)	93.6	--	--	--
Korea	1529.4	7.1	--	165.0	0.1	--	--	1701.6	Yes	--	--
Laos	189.9	--	--	--	0.8	--	10.0 (Fr, Jap)	200.7	Yes	--	--

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	ICA 1948-59	DLF 1958-59	Ex-Im Bank 1934-59	PL 480 Title I 1955-59	PL 480 Title II 1955-59	IBRD 1947-59 (to 9/30/59)	Major Non-U.S. Bilateral Aid (Free World) (Estimated)	Economic Aid Total From Named Sources	U.S. Military Aid	Sino-Soviet Econ. Aid 1954-59 (Estimated Commitments As of Year Shown)	Sino-Soviet Military Aid (Estimated Commitments)
<u>Asia (Continued)</u>											
Lebanon	51.0	--	--	--	13.7	27.0	--	91.7	--	2.0 (57)	--
Malaya	--	20.0	--	--	--	35.6	46.0 (UK)	101.6	--	--	--
Nepal	16.4	---	--	--	3.6	--	--	20.0	--	12.6 (59)	--
New Guinea (Netherlands Terri- tory Only)	--	--	--	--	--	--	148.0	148.0	--	--	--
Oceania	--	--	--	--	--	--	219.0 (Fr, Aus, Uk, NZ)	219.0	--	--	--
Pakistan	493.9	89.2	3.3	272.0	48.6	138.8	178.0 (Aus, UK, Can)	1223.8	Yes	--	--
Philippines	206.0	23.8	193.8	14.4	--	18.5	100.0 (Jap)	556.5	Yes	--	--
Saudi Arabia	27.4	--	49.1	--	--	--	--	76.5	--	--	--
Syria	--	--	0.1	--	--	--	--	0.1	--	194.0 (59)	145.0 (58)
Thailand	193.2	21.8	17.7	4.6	--	106.7	3.0 (Jap, Aus)	347.0	Yes	--	--
Turkey	793.7	25.4	90.8	186.5	12.2	60.8	--	1169.4	Yes	11.7 (58)	--
Viet-Nam	1143.3	--	--	6.0	0.7	--	30.0 (Fr)	1180.0	Yes	--	--
Yemen	0.3	--	---	--	6.3	--	--	6.6	--	36.0 (58)	10.0 (58)
Regional	20.6	--	--	--	--	--	--	20.6	--	--	--
Bagdad Pact	11.8	--	--	--	--	--	--	11.8	--	--	--
TOTAL ASIA	7980.9	480.2	1021.7	1682.9	147.9	1176.0	1432.0	13921.6	--	1002.7	350.0

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	ICA 1948-59	DLF 1958-59	Ex-Im Bank 1934-59	PL 480 Title I 1955-59	PL 480 Title II 1955-59	IBRD 1947-59 (to 9/30/59)	Major Non-U.S. Bilateral Aid (Free World) (Estimated)	Economic Aid Total From Names Sources	U.S. Military Aid	Econ. Aid 1954-59 (Estimated Commitments As of Year Shown)	Sino-Soviet Military Aid (Estimated Commitments)
Greece	931.8	12.0	33.4	66.0	--	--	--	1043.2	Yes	--	--
Portugal	49.8 (discont. '57)	--	7.4	7.1	--	--	--	64.3	Yes	--	--
Spain	468.0	22.6	96.6	394.1	4.2	--	--	985.5	Yes	--	--
Yugoslavia	408.5	27.5	55.5	389.3	47.1	60.7	--	988.6	(ended 12/57)	219.9(58)	not reported
TOTAL EUROPE	1,858.1	62.1	192.9	856.5	51.3	60.7	--	3,081.6	--	219.9	--

Comments regarding Appendix "A":

- a/ Underdeveloped countries selected are: All countries in South and Central America, all non-communist countries in Asia (except Japan), all countries in Africa (except the Union of South Africa), four countries in Europe, Greece, Portugal, Spain, Yugoslavia.
- b/ Appendix "A" is based in part on actual figures and in part on estimates. Figures for the International Cooperation Administration, the Development Loan Fund, the Export-Import Bank of Washington, the Public Law 480 programs are actual to June 30, 1959, and data for loans by the International Bank for Reconstruction and Development are actual through September 30, 1959.
- c/ Data for major non-U.S. bilateral aid (e.g., France, U.K., Japan) are estimated on the basis of U.N. figures 1954-57.
- d/ The U.S. Military Aid figures are not available with a country-by-country breakdown, and therefore are not shown in the table; the existence of U.S. Military Aid programs in certain countries is however indicated by the notations, "Yes."
- e/ Data of the Export-Import Bank cover the period from the Bank's inception in 1934 to June 30, 1959. However, loans made prior to the period under review constituted about ten percent of the total after deducting loans to Mainland China. In the absence of a separate post war breakdown by country, the total Export-Import Bank loan program 1934-1959 for the various underdeveloped countries is included.
- f/ Relief programs immediately following World War II (i.e., UNRRA, GARIOA, Philippine War Damage) were predominantly aimed toward restoration and are not included in the data with developmental aid.
- g/ Not shown are IFC loans as of June 30, 1959 to underdeveloped countries, totalling \$18.9 million to Brazil, Chile, Colombia, El Salvador, Guatemala, India, Iran, Mexico, Pakistan, and Thailand.

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ECONOMIC AID TO UNDERDEVELOPED COUNTRIES  
ESTIMATED TO MID-1959  
SUMMARY OF APPENDIX "A" BY REGION WITH UNITED NATIONS AID ADDED  
(U.S. Dollars Billions)

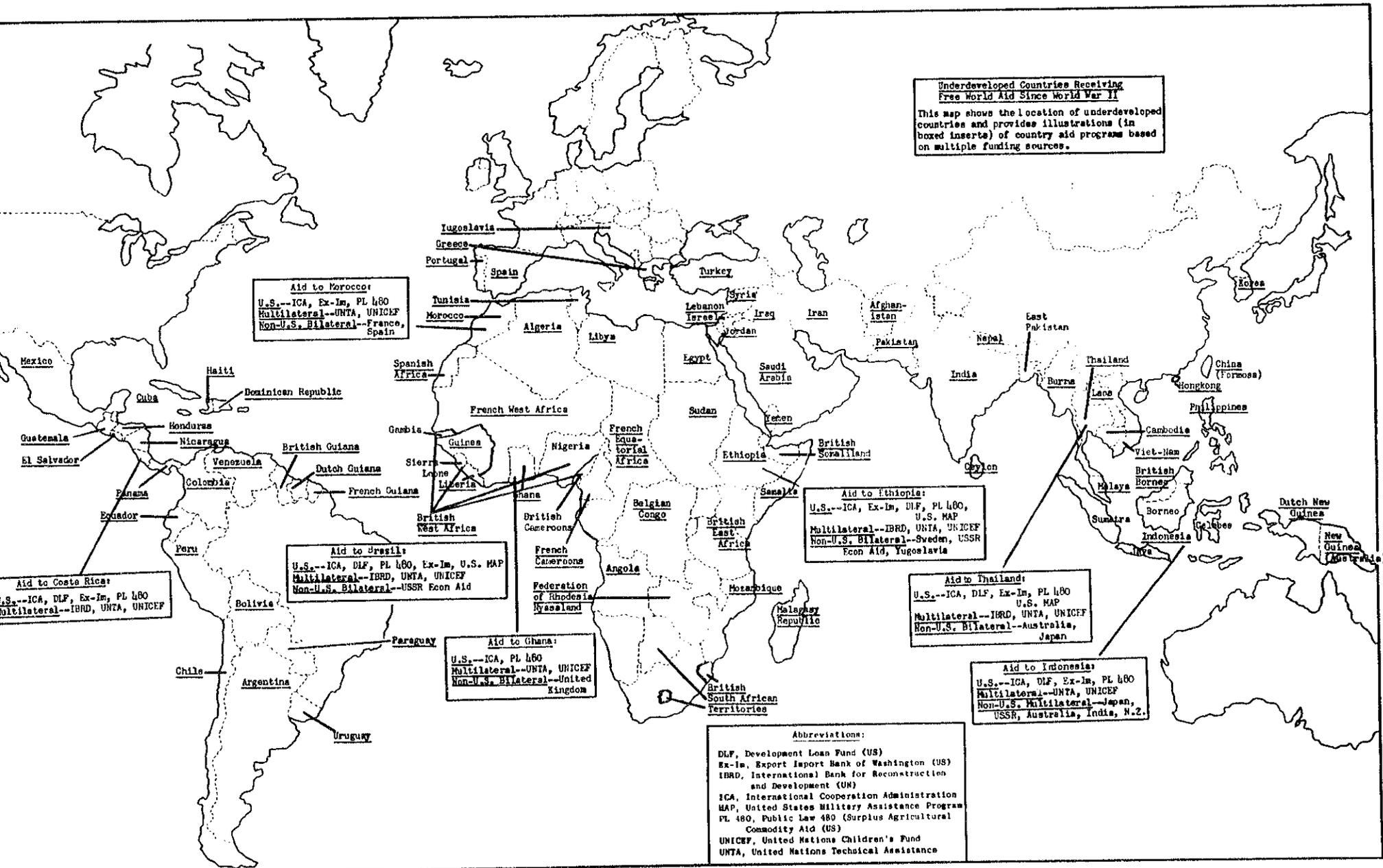
	U.S. Bi- lateral Aid (ICA, DLF, EXIM, PL 480)	IBRD	Non-U.S. Bilateral (France, U.K., Portugal, Belgium, Spain, Japan, Australia)	UNTA, UNICEF	UNRWA, UNKRA	Free World Total (from named sources)	Sino- Soviet	(all named sources)
<u>Total</u>	<u>\$19.4</u>	<u>\$2.5</u>	<u>\$9.1</u>	<u>\$0.4</u>	<u>\$0.4</u>	<u>\$31.9</u>	<u>\$1.6</u>	<u>\$33.5</u>
Africa	0.6	0.4	7.2	0.1	-	8.3	0.3	8.6
North and Central America	1.0	0.3	-	0.1	-	1.3	-	1.3
South America	3.5	0.6	0.5	0.1	-	4.7	0.1	4.8
Asia (and Oceania)	11.3	1.1	1.4	0.2	0.4	14.5	1.0	15.5
Europe (Greece, Portugal, Spain, Yugoslavia)	3.0	0.1	-	-	-	3.1	0.2	3.3

Note: This table provides a regional summary of economic aid data as shown in Appendix A (pages 1 through 6). In the two columns headed "UNTA, UNICEF" and "UNRWA, UNKRA", data shown was not previously included in Appendix A. This could not be shown on a country-by-country basis because such data for the full period under review was not available. The U.N. data for UNRWA (aid to refugees in Palestine) and UNKRA (aid to Korea) is taken from official sources. Aid from UNTA and UNICEF is also taken from official sources, but the regional distribution of this aid is estimated on the basis of the regional distribution for 1954-57 shown in the U.N. Statistical Yearbook for 1958. Minor amounts of UNTA and UNICEF aid have been furnished to the four underdeveloped European countries but is not shown because of rounding.

Appendix B

MAP SHOWING THE LOCATION OF  
UNDERDEVELOPED COUNTRIES

**Underdeveloped Countries Receiving Free World Aid Since World War II**  
 This map shows the location of underdeveloped countries and provides illustrations (in boxed inserts) of country aid programs based on multiple funding sources.



**Aid to Morocco:**  
 U.S.--ICA, Ex-Im, PL 480  
 Multilateral--UNTA, UNICEF  
 Non-U.S. Bilateral--France, Spain

**Aid to Ethiopia:**  
 U.S.--ICA, Ex-Im, DLF, PL 480, U.S. MAP  
 Multilateral--IBRD, UNTA, UNICEF  
 Non-U.S. Bilateral--Sweden, USSR Econ Aid, Yugoslavia

**Aid to Thailand:**  
 U.S.--ICA, DLF, Ex-Im, PL 480, U.S. MAP  
 Multilateral--IBRD, UNTA, UNICEF  
 Non-U.S. Bilateral--Australia, Japan

**Aid to Indonesia:**  
 U.S.--ICA, DLF, Ex-Im, PL 480  
 Multilateral--UNTA, UNICEF  
 Non-U.S. Multilateral--Japan, USSR, Australia, India, N.Z.

**Aid to Brazil:**  
 U.S.--ICA, DLF, PL 480, Ex-Im, U.S. MAP  
 Multilateral--IBRD, UNTA, UNICEF  
 Non-U.S. Bilateral--USSR Econ Aid

**Aid to Ghana:**  
 U.S.--ICA, PL 480  
 Multilateral--UNTA, UNICEF  
 Non-U.S. Bilateral--United Kingdom

**Aid to Costa Rica:**  
 U.S.--ICA, DLF, Ex-Im, PL 480  
 Multilateral--IBRD, UNTA, UNICEF

**Abbreviations:**  
 DLF, Development Loan Fund (US)  
 Ex-Im, Export Import Bank of Washington (US)  
 IBRD, International Bank for Reconstruction and Development (UN)  
 ICA, International Cooperation Administration  
 MAP, United States Military Assistance Program  
 PL 480, Public Law 480 (Surplus Agricultural Commodity Aid (US))  
 UNICEF, United Nations Children's Fund  
 UNTA, United Nations Technical Assistance

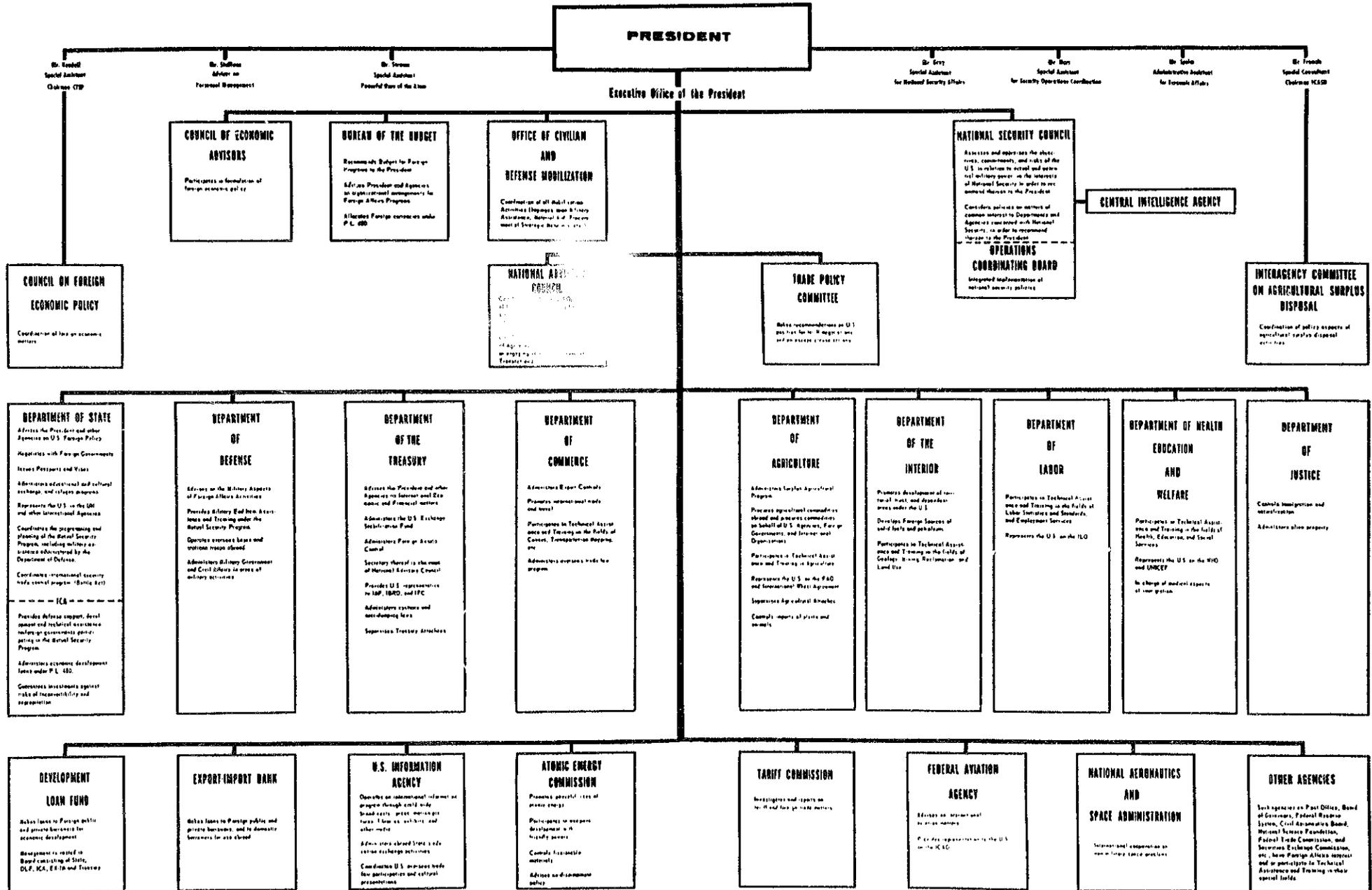
Appendix C

FOREIGN AFFAIRS RESPONSIBILITIES IN  
THE EXECUTIVE BRANCH, MAY 1959

APPENDIX C

FOREIGN AFFAIRS RESPONSIBILITIES IN THE EXECUTIVE BRANCH

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Appendix D

RELATIONSHIP BETWEEN ECONOMIC AID  
AND POPULATION IN UNDERDEVELOPED  
COUNTRIES OF THE FREE WORLD--1945-1959

Appendix D

RELATIONSHIP BETWEEN ECONOMIC AID AND POPULATION  
IN UNDERDEVELOPED COUNTRIES OF THE FREE WORLD, 1945-59  
(figures denote percentages)

	<u>Population</u>	<u>United States Aid</u>	<u>United States Plus Free World Economic Aid</u>	<u>Sino-Soviet Economic Aid</u>
Africa	17	3	26	24
North and Central America	4	5	4	-
South America	10	18	15	2
Asia	64	58	45	61
Europe	5	16	10	13
TOTAL	100%	100%	100%	100%

Note: The population of the non-communist underdeveloped countries is based on the following: Africa 211.2 million, North and Central America 56.4 million, South America 131.5 million, Asia 824.4, underdeveloped countries in Europe 65.3 million, TOTAL 1,288.8 million.

Free World economic aid to countries in the above regions is based on the following: Africa \$8.3 billion, North and Central America \$1.3 billion, South America \$4.7 billion, Asia \$14.5 billion, Europe \$3.1 billion, TOTAL \$31.9 billion.

Sino-Soviet economic aid is based on the following: Africa \$0.4 billion, South America \$0.02 billion, Asia \$1.0 billion, Europe \$0.2 billion, TOTAL \$1.6 billion.

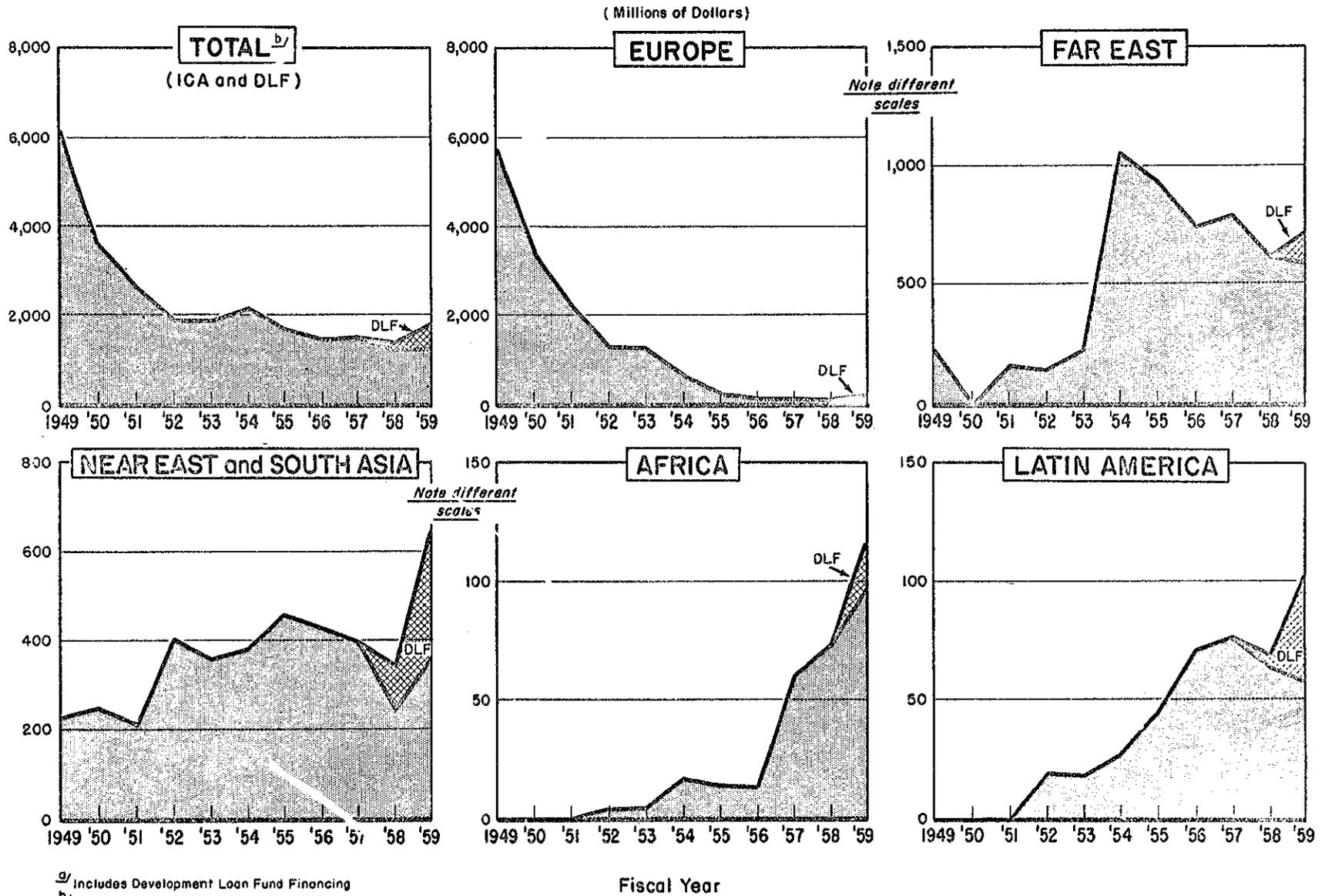
Appendix E

MUTUAL SECURITY PROGRAM (MSP)  
ECONOMIC AID BY REGION  
(TREND OF NET OBLIGATIONS BY YEAR,  
1949-1959)

# MSP ECONOMIC AID BY REGION

Appendix E

## TREND OF NET OBLIGATIONS BY YEAR, 1949-1959<sup>a/</sup>



<sup>a/</sup> Includes Development Loan Fund Financing

<sup>b/</sup> Includes Nonregional Programs

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Appendix F

UNDERDEVELOPED COUNTRIES WHICH HAVE  
ACHIEVED INDEPENDENCE SINCE WORLD WAR II

## Appendix F

## COUNTRIES WHICH HAVE ACHIEVED INDEPENDENCE SINCE WORLD WAR II

<u>Country</u>	<u>Population (millions) (1957 or later)</u>	<u>Date of Independence</u>	<u>Previous Colonial Tie</u>
Burma	20.3	January 4, 1948	United Kingdom
Cambodia	4.7	November 9, 1953	France
Ceylon	9.3	February 4, 1948	United Kingdom
Ghana	4.8	March 6, 1957	United Kingdom
Guinea	2.4	October 2, 1958	France
Iceland	0.2	June 17, 1944	Denmark
India	405.0	August 15, 1947	United Kingdom
Indonesia	86.9	December 28, 1949	Netherlands
Israel	1.8	May 14, 1948	United Kingdom
Laos	2.0	July 19, 1949	France
Lebanon	1.5	April 25, 1945	France
Libya	1.1	December 24, 1951	Italy
Malaya	6.5	September 1, 1957	United Kingdom
Morocco	10.0	March 2 & April 7, 1956	France & Spain
Pakistan	85.6	August 15, 1947	United Kingdom
Philippines	23.1	July 4, 1946	United States
Republic of Korea	22.6	August 15, 1948	Japan
Sudan	11.1	January 1, 1956	United Kingdom & Egypt
Syria	4.2	April 25, 1945	France
Taiwan	10.5	August 14, 1945	Japan
Tunisia	3.8	March 20, 1956	France
Viet Nam	26.6	March 8, 1949	France
Total Population	744.0		

Appendix G

EMPHASIS PLACED ON UNDERDEVELOPED COUNTRIES  
IN MAJOR U.S. BILATERAL ECONOMIC AID PROGRAMS--1934-1959

Appendix G

EMPHASIS PLACED ON UNDERDEVELOPED COUNTRIES IN MAJOR  
U.S. BILATERAL ECONOMIC AID PROGRAMS--1934-1959  
(U.S. Dollars Billions Rounded)

	<u>Economic Aid Extended to all Countries</u>	<u>Economic Aid to Underdeveloped Countries</u>	<u>Percentage of Economic Aid to Underdeveloped Countries</u>
<u>TOTAL</u>	<u>\$40.4</u>	<u>\$19.4</u>	<u>48%</u>
<u>Export Import Bank, (1934-59)</u>	<u>10.2</u>	<u>5.0</u>	<u>48</u>
<u>Mutual Security Program (and predecessor programs) International Cooperation Administration and ECA, MSA, FOA, (1948-1959)</u>	<u>26.0</u>	<u>11.2</u>	<u>43</u>
Development Loan Fund, (1958-59)	0.6	0.6	100 <sup>1/</sup>
<u>Public Law 480, Titles I and II (1955-59)</u>	<u>4.2</u>	<u>3.2</u>	<u>79</u>

<sup>1/</sup> One DLF loan to the Netherlands makes actual percentage 99.5.

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