# U.S. Foreign Assistance: The Rationale, the Record, and the Challenges in the Post-Cold War Era

by

Curt Tarnoff
and
Larry Q. Nowels

NATIONAL PLANNING ASSOCIATION

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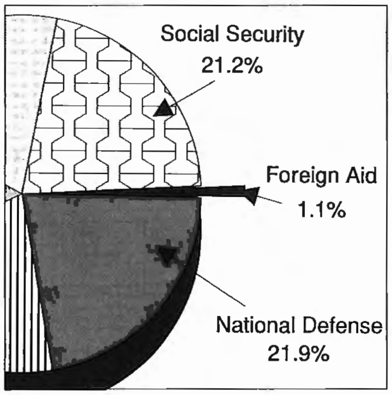




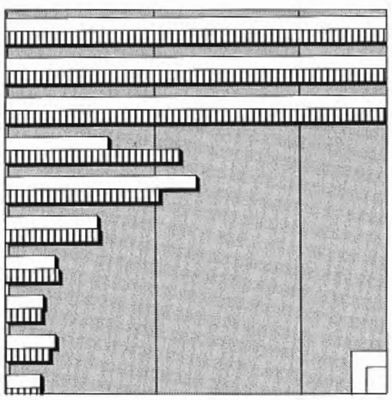

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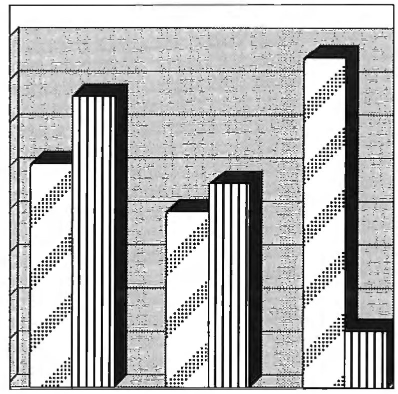



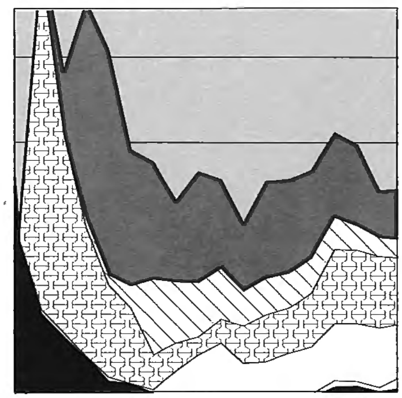

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# Preface

The Cold War, with its goal of stemming the advance of communism, provided a widely understood and agreed upon primary justification for U.S. foreign aid and development assistance programs. The demise of the Soviet Union, however, has forced U.S. public and private sector decisionmakers to reexamine both the goals and the strategies of U.S. foreign aid and development assistance.

The National Planning Association (NPA), in cooperation with the U.S. Agency for International Development (USAID), is sponsoring a series of public-private sector policy dialogues that encourage this process. Characteristic of NPA's 60-year tradition, the Aid and Development Project is committed to a nonpartisan factual review of foreign assistance policy and a productive exchange of ideas among public and private sector leaders.

NPA's original plan for this project included an econometric study of U.S. interests in foreign aid and development assistance. However, both the project's advisory panel and the NPA Board of Trustees recommended instead that a basic statistical study be published to serve as a background text to the topics addressed at project events and in project publications. The goal of this study is to present the record, the changing rationale, and the new challenges associated with U.S. aid and development assistance programs. NPA asked two noted experts in this field, Curt Tarnoff and Larry Q. Nowels of the Congressional Research Service, to author the study.

We believe that this study presents a factual foundation for the burgeoning public dialogue on this vital topic. Our hope is that aid and development assistance programs will find an appropriate role in the emerging post-Cold War U.S. foreign policy and that the many opportunities presented to the United States by the end of the Cold War will not be squandered.

The study was made possible through support provided by the Office of Private and Voluntary Cooperation, Bureau for Humanitarian Response, U.S. Agency for International Development, under Cooperative Agreement #FAO-0230-A-00-3065-00.

***Richard S. Belous***
NPA Vice President,
International Programs,
Chief Economist, and
Aid and Development
Project Director

***Sheila M. Cavanagh***
Former NPA Research
Associate and
Former Aid and
Development
Project Coordinator

# About the Authors

**Curt Tarnoff** is a Specialist in International Relations in the Foreign Affairs and National Defense Division of the Congressional Research Service (CRS) of the Library of Congress. His work has focused on the U.S. foreign economic aid program, with particular emphasis on the former Soviet Union. Before joining CRS, Dr. Tarnoff worked as a foreign policy legislative assistant in the U.S. Senate, as a program officer with the United Nations Development Program in Botswana, and as a consultant on development issues. His recent publications include *U.S. and International Assistance to the Former Soviet Union* (regularly updated); *The Aid for Trade Debate* (1993); *Foreign Aid: Answers to Basic Questions* (1992); and *The Private Enterprise Initiative of the Agency for International Development* (1989). Dr. Tarnoff has several degrees in international relations, including a Ph.D. from the London School of Economics.

**Larry Q. Nowels** is a Specialist in Foreign Affairs in the Foreign Affairs and National Defense Division of CRS. He is the senior CRS analyst covering U.S. foreign assistance issues. Since 1985, Mr. Nowels has been head of CRS's International Organizations, Security, and Development Section. From February 1988 to January 1989, he served as CRS liaison to the House Foreign Affairs Committee (Hamilton) Task Force to review U.S. foreign assistance programs and policy. He also served as international affairs budget analyst for the House Budget Committee from February to June 1989. His recent publications include *Foreign Assistance: Clinton Administration Policy and Budget Reform Proposals* (1993) and *Foreign Assistance and Commercial Interest: Aid for Trade* (1993). Mr. Nowels has studied at the National War College, Washington, D.C., the School for International Service at American University, Washington, D.C., and the University of Salamanca, Salamanca, Spain.

# 1

# Introduction

*"[The Marshall Plan] aims to preserve the victory against aggression and dictatorship which we thought we won in World War II. It strives to help stop World War III before it starts. It fights economic chaos which would precipitate far-flung disintegration."*

Senator Arthur H. Vandenberg, Jr.
Chairman, Senate Foreign Relations Committee, 1948

*"There exists, in the 1960s, an historic opportunity for a major economic assistance effort by the free industrialized nations to move more than half the people of the less-developed nations into self-sustained economic growth."*

President John F. Kennedy, 1961

*"Foreign aid suffers from a lack of domestic constituency, in large part because the results of the programs are often not immediately visible and self-evident. Properly conceived and efficiently administered, however, security assistance programs, an essential complement to our defense effort, directly enhance the security of the United States. Development assistance also contributes to this effort by supplementing the indigenous efforts of recipients to achieve economic growth and meet the basic needs of their peoples. . . . The ultimate importance to the United States of our security and development assistance programs cannot be exaggerated."*

President Ronald Reagan, 1981

Since the fall of the Berlin Wall in 1989, America's role in the world and its foreign economic, political, and strategic policies have been undergoing a profound reassessment. Included in this rethinking process is one of the key instruments of U.S. policy—the foreign assistance program. For several years, policymakers, opinion leaders, interest groups, and private organizations have argued and debated their vision of a new foreign aid program, one that will support the emerging foreign policy interests of the United States. All concerned agree that a new foreign aid rationale must be found to replace the anticommunist thesis of the Cold War.

Presidents of both parties have come to view foreign aid as a valued tool of their foreign policy and have molded the program to reflect their particular vision. In February 1994, the Clinton administration presented to Congress and the American people its aid reform bill, which begins to address issues of the post-Cold War era. It will be debated in the months to come.

This study explores where the aid program stands at this crossroads between the old Cold War-dominated policy and the emerging strategies. It is a portrait of the aid program—as it was and as it exists—that provides a greater context for discussion of the changes that are now being debated.

## FOREIGN AID AS A U.S. FOREIGN POLICY TOOL

Although foreign aid has been criticized over the years as a "giveaway program," it was created, and it continues, as a tool of U.S. foreign policy and should be judged by the extent to which it meets U.S. foreign policy objectives. The first major foreign aid programs, Lend-Lease and the United Nations Relief and Rehabilitation Administration, served the World War II effort and the reconstruction activities immediately following. But it was the Cold War and the policy of containment of communism that shaped the modern aid program and gave it its chief rationale.

Although there have been different types of assistance, each has served the overriding political rationale of confronting communism wherever it threatened U.S. interests. The Marshall Plan, considered by many to be the greatest foreign aid success, provided foreign exchange to Europe for the purchase of U.S. goods, creating conditions that would eliminate a prime breeding ground for social unrest, instability, and communist expansion, while also boosting U.S. trade. Since its inception, military assistance has helped allies build their defenses and has given the United States access to military bases throughout the world. Some assistance was provided purely on a tit-for-tat basis—an airfield or a bridge in return for a vote in the United Nations or cessation of relations with Cuba. Throughout the Cold War, but especially after the mid 1970s, aid was used to assist international development, at times targeted to the poor, in order to prevent instability that might invite communist takeovers. It was also used for general humanitarian purposes and later to meet U.S. objectives concerning the international environment, narcotics, and other transnational concerns. Then the Soviet Union disintegrated, and the communist threat that loosely held together all the disparate foreign aid goals evaporated.

## ASSESSING THE RECORD AND BUILDING SUPPORT

Foreign aid has never been popular. Americans have always had difficulty seeing a connection between overseas assistance and U.S. foreign policy interests. For example, while in hindsight it may appear that the Marshall Plan was a step the United States could not afford to miss, at the time a massive nationwide public education campaign was needed to win support for the program. Forty years later, in the early 1990s, support for foreign assistance may have reached its lowest point. There are two obvious reasons.

First, growing U.S. budget deficits combined with an economic recession have made the public and lawmakers hostile to programs that do not appear to directly benefit the domestic economy. Second, despite the success of the policy of containment, which was won in part by foreign aid, feeling has grown that the aid program, particularly economic assistance, has not been successful. U.S. assistance has helped eliminate smallpox, increase child survival rates, build schools and clinics throughout the world, and guide fledgling governments in learning how to establish and manage their education, health, and agriculture programs. But developing-country problems are still rampant, and there are few Koreas and Taiwans to point to.

Without a sense that assistance is likely to achieve its ends, public support for the foreign aid program will be difficult to obtain. To some extent, therefore, the debate over the future of assistance policy is also a debate over how aid can be implemented to ensure effective and measurable results, a requirement that greatly handicaps development programs when the connection between aid and results is least direct. To make matters worse, in recent years the lead agency entrusted with implementing the bilateral economic assistance program, the U.S. Agency for International Development (USAID), has been viewed by many observers as incompetent, poorly managed, and demoralized.

Government policymakers have long found it hard to defend the aid program to a highly skeptical Congress and American public. After 1989, the task became even more difficult. As a result, foreign aid budgets have declined while the requirements of U.S. foreign policy have continued to grow.

## CREATING A POST-COLD WAR FOREIGN AID RATIONALE AND POLICY

The end of the Soviet threat did not mean the end of U.S. foreign policy. The overriding rationale of anticommunism is gone, but other threats and concerns have taken its place. As the debate on aid reform has developed, constituencies for various foreign policy concerns have come forward with their proposed policy and assistance priorities. Supporters of a policy that would use aid to facilitate U.S. trade and investment interests abroad have been making their case in Congress since 1991. Another, more traditional constituency supports the use of aid for both sustainable development and humanitarian purposes. The Clinton administration has absorbed these three goals into its reform proposal and propounds two others—support for democracy-building efforts abroad, including the transition in the former Soviet Union and eastern Europe, and promotion of peace and regional security efforts, including those in the Middle East.

Foreign aid, if effectively implemented, can serve all proposed U.S. interests, but only if sufficient funds are available. In the current budget environment, this is unlikely. Choices will thus have to be made.

# 2

# Where the Money Goes: The Historical Record and a Current Snapshot

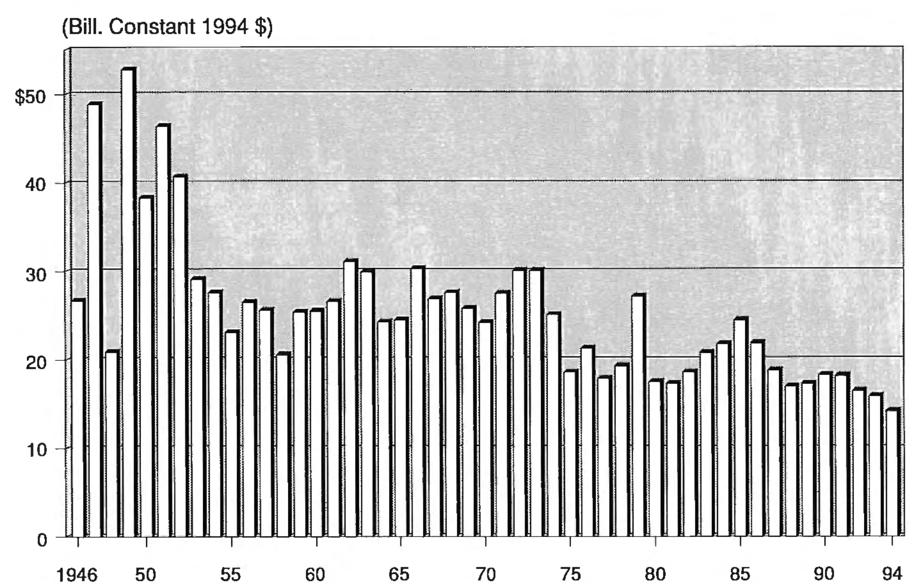
## A DECLINING RESOURCE: MEASURING THE SIZE OF U.S. FOREIGN AID SPENDING

In recent years, it has been suggested that the United States should initiate new Marshall Plans for eastern Europe, for the environment, and for the states of the former Soviet Union. While these appeals may seek to duplicate the success of the Plan, they surely cannot hope to reproduce its beneficence. In slightly more than three years, the Marshall Plan provided just 16 countries with more than $84 billion in today's dollars—more than double what the United States now spends in three years to assist over 100 countries.

From the peak of spending during the Marshall Plan years to the new plateau of the Vietnam era, through the Camp David Middle East peace commitments to the present, the history of U.S. spending on foreign aid has been one of gradual decline punctuated occasionally by brief resurgences when specific high priority foreign policy needs occurred (see Chart 1).

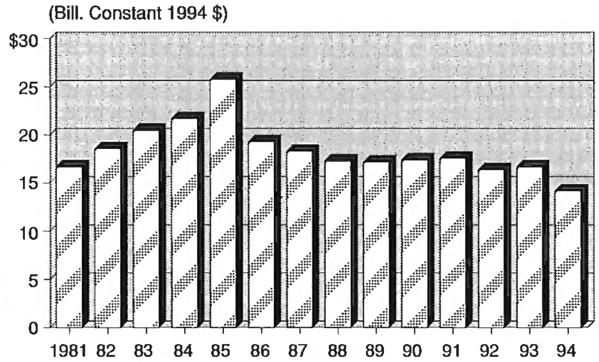
During the early 1980s, foreign assistance rose sharply to a high of nearly $26 billion (1994 dollars) in 1985 as the Reagan administration provided increased amounts of security assistance to Central America, Pakistan, and countries offering U.S. military bases abroad (see Chart 2). Budgetary concerns, beginning with the Gramm-Rudman deficit reduction measure, brought for-

**CHART 1**
**U.S. Foreign Assistance, 1946-94**




Source: U.S. Agency for International Development (USAID).

**CHART 2**
**Foreign Assistance Program Size, FY 1981-94**



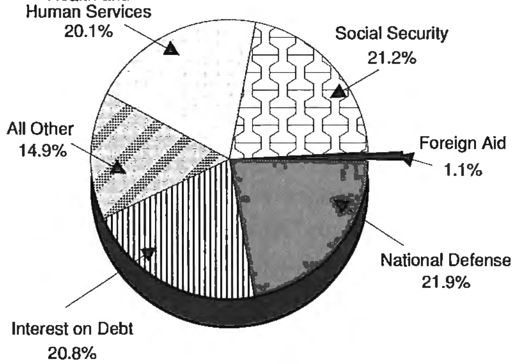

Sources: House and Senate Appropriations Committees.

eign aid to a lower level, where it remained relatively unchanged for a few years and then began to fall again in 1992. In real terms, the fiscal year 1994 foreign aid program of $14.2 billion is 18 percent less than it was just four years ago.

Although foreign aid spending is not as high as it once was, contrary to popular belief it has never been a particularly large part of the U.S. budget. In the past five years, foreign aid has hovered at about 1 percent of federal spending. By contrast, in FY 1993, the Pentagon accounted for 21.9 percent of U.S. spending; health and human services for 20.1 percent; and social security for 21.2 percent (see Chart 3). Nor, proponents contend, is foreign aid at levels the country cannot afford. As Chart 4 shows, in FY 1994, foreign assistance—economic and military aid—represents only 0.23 percent of U.S. gross domestic product (GDP), the lowest level in four decades.

Not only is foreign aid spending in decline in both absolute and real terms, but it also has failed to grow proportionately with overall federal spending during the past 10 years. In real terms (constant 1994 dollars), foreign aid outlays were 8 percent less in FY 1993 than in FY 1983. This compares with overall budget outlay growth, again in real terms, of almost 22 percent during the decade. With the exception of defense spending, now only 2.5 percent higher than in FY 1983, most other major budget categories grew substantially. Social security rose by 22 percent, the Agriculture Department saw a 98 percent increase, and payments of interest on the national debt rose by 128 percent.

**CHART 3**
**U.S. Budget Outlays, FY 1993**




Source: U.S. Department of the Treasury.

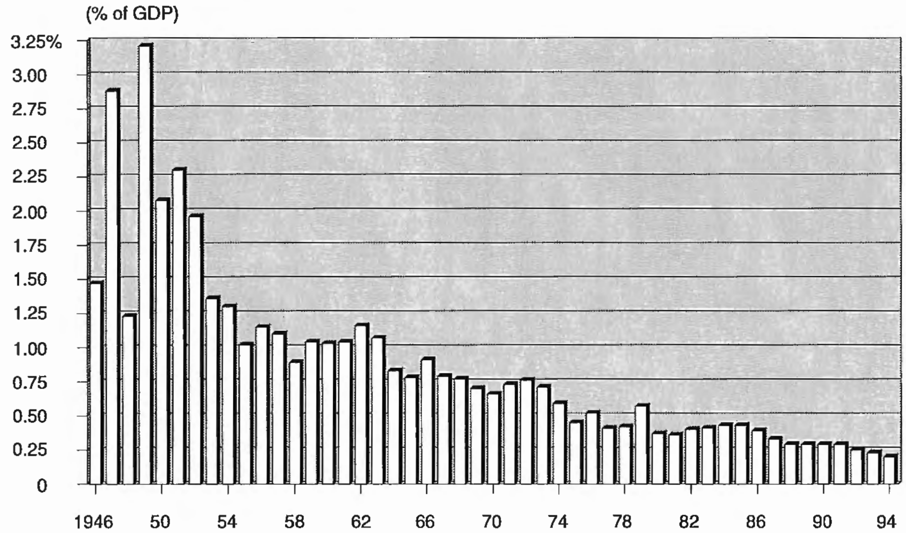
## PUTTING MONEY WHERE THE INTERESTS ARE: REGIONAL AND COUNTRY CONCENTRATIONS OF FOREIGN AID

The strategic rationale for U.S. foreign assistance is clearly illustrated by the regional and country distribution of aid resources over most of the past half century. U.S. assistance has always been heavily concentrated in areas of highest U.S. political and security interests, a focus that has shifted several times.

Immediately after World War II, the United States began to channel almost all foreign aid to Europe to help rebuild the war-torn economies and to strengthen Western governments in light of the growing threat posed by the Soviet Union. In addition to the Marshall Plan countries, Greece and Turkey became large recipients in the late 1940s after facing communist challenges. Between 1946 and 1952, Europe received about 70 percent of all U.S. bilateral assistance, with annual levels averaging about $26 billion (1994 dollars).

However, the focus of the American aid program soon shifted to Asia, where first South Korea and then Taiwan became the major recipients in the 1950s, followed by South Vietnam. For two decades—until the fall of Saigon in 1975—Asia received about $14 billion (1994 dollars) annually in U.S. aid, representing about 59 percent of total U.S. bilateral foreign assistance.

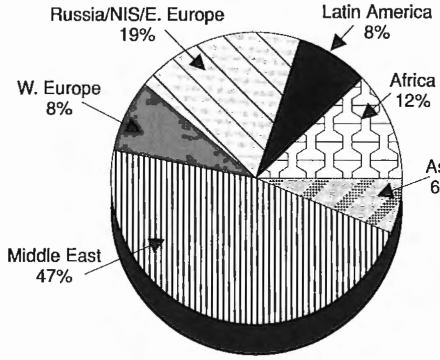
**CHART 4**
**Foreign Aid as a Percent of U.S. Gross Domestic Product, FY 1946-94**




Sources: USAID and Office of Management and Budget.

With the U.S. withdrawal from Southeast Asia, the focus of American assistance turned to the Middle East, where significant amounts of aid to Israel had begun shortly after the 1973 war with Arab states. The 1979 Camp David accords included a substantial military and economic aid package for Israel and Egypt, and follow-on assistance has made these two nations overwhelmingly the largest U.S. aid recipients over the past two decades. Since Camp David, the Middle East has received on average $7.5 billion (1994 dollars), a 51 percent share of total bilateral assistance.

**CHART 5**
**Regional Allocation of U.S. Aid, FY 1994**

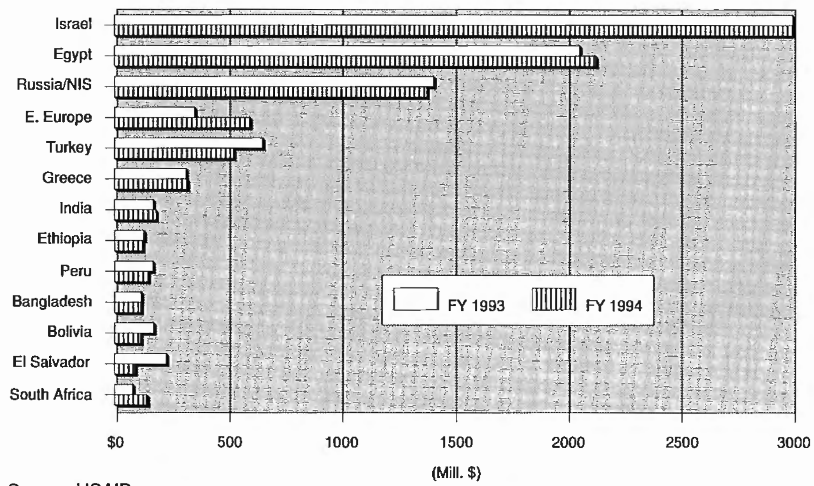



NIS = newly independent states.
Source: USAID.

Latin America and Africa have received relatively small amounts of U.S. aid. The Alliance for Progress initiative of the early 1960s pushed annual aid levels to Latin America to $4.5 billion (1994 dollars) for a few years, and in the 1980s, U.S. policy to back the Nicaraguan contras and help the government of El Salvador fight a communist-inspired insurgency ran parallel with aid increases to Honduras, Costa Rica, and other Central American countries. U.S. assistance to Latin America peaked in 1985 at $2.9 billion, but it fell to under $2 billion by the end of the decade. Aid to Africa, which had averaged less than $1 billion per year in the 1960s and 1970s, began to grow in the early 1980s largely because of the U.S. response to the severe drought and famine that struck the region. Although never the main focus of U.S. assistance, Africa has received a relatively stable share of total bilateral aid of about 11 percent per year.

With the end of the Cold War, there have been both continuity and change in the regional and country allocation of foreign aid (see Charts 5 and 6). The Middle East, especially Israel and Egypt, remains the point of concentration for U.S. aid resources, currently receiving about 47 percent of total bilateral transfers. Greece and Turkey continue to get considerable amounts of military assistance, although now in the form of loans. For some of the largest recipients during

**CHART 6**
**Leading Recipients of U.S. Aid, 1993 and 1994**
**(Estimated Country Obligations)**




Source: USAID.

the 1980s that were part of U.S. efforts to counter Soviet aggression in the developing world—El Salvador, Honduras, Costa Rica, Pakistan, and the Philippines—the United States has reduced substantially, and in some cases ended, economic and military support. Geostrategic changes, coupled with deep cuts in overall foreign aid spending in 1994, have resulted in especially sharp reductions in the share of U.S. bilateral aid received by countries in Asia and Latin America—6 percent and 8 percent, respectively. The decline in these regions has been accompanied by the emergence of large U.S. programs for former adversaries in eastern Europe and the successor states of the Soviet Union.

The overall result of declining foreign aid budgets, the continuing high levels for Israel and Egypt, and the priority placed on helping Russia and the other former Soviet republics to change to market economies and democratic societies has been the most highly concentrated U.S. foreign aid program since the Vietnam War period. Over the past two years, these three high priority recipients have accounted for roughly 60 percent of bilateral foreign aid appropriations.

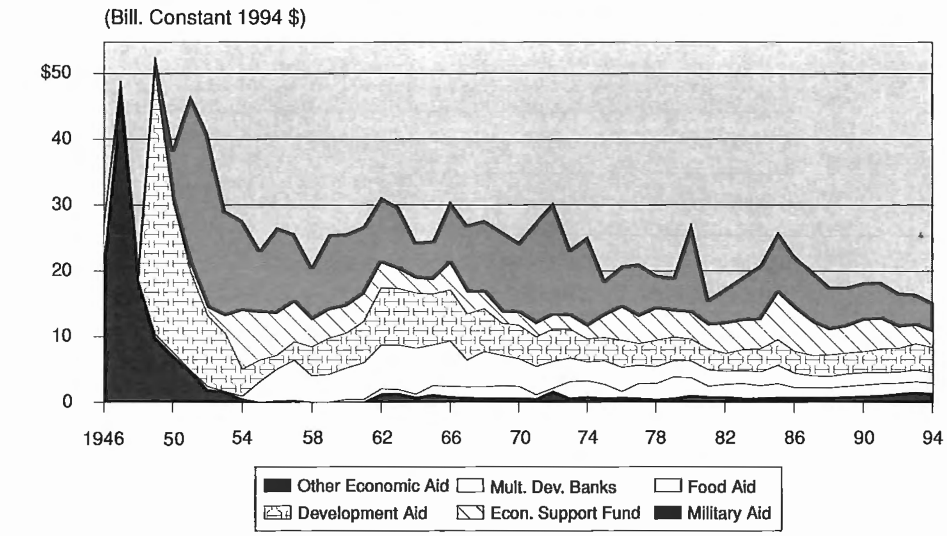
## PROGRAM COMPOSITION OF FOREIGN AID

Although foreign aid sounds like a monolithic program, in fact it comprises a number of discrete activities that, in turn, can be broken down into numerous individual regional and country projects. During the past two decades, there have been six major categories of U.S. foreign assistance (see Charts 7 and 8).

***Multilateral Assistance.*** The United States contributes to several multilateral development banks (MDBs), including the World Bank, as well as to international organizations such as the United Nations Children's Fund (UNICEF) and the U.N. Development Program (UNDP), all of which have development purposes. In FY 1994, the United States allocated $1.9 billion for multilateral assistance, 13 percent of the total aid program.

***Bilateral Development Assistance.*** Broadly speaking, programs in this category are intended to encourage equitable economic growth in developing countries. They include a wide range of projects in the agriculture, health, private enterprise, education, population, and environment sectors. Since 1973, these programs have been required to emphasize the basic needs of the poor. In FY 1994, the United States provided $2.8 billion for bilateral development assistance, 19 percent of foreign aid. A number of other economic assistance programs, which are often considered separately, also work in the same sectors and have similar objectives. These include refugee and international narcotics programs and specific institutions, such as the Peace Corps, the Inter-American Foundation, the African

**CHART 7**
**U.S. Foreign Aid by Program, 1946-94**




Source: USAID.

Development Foundation, and the Trade and Development Agency. In FY 1994, $1.2 billion was appropriated for these activities, 8 percent of the aid program.

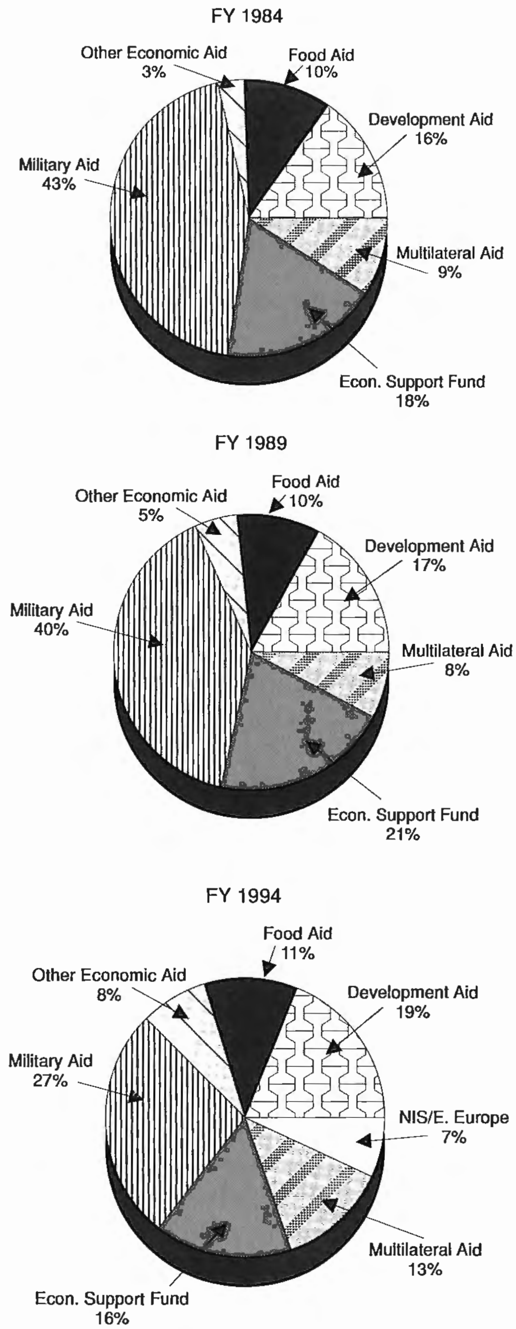
*Food Assistance.* Begun in the mid 1950s with primarily an agricultural export promotion orientation, food assistance now serves multiple domestic and foreign policy objectives. About one-third of food aid—commonly known as P.L. 480—is offered on concessional loan terms and combines commercial and development goals. Another portion—roughly one-half—is donated to meet emergency and humanitarian food programs in developing countries and is delivered largely by private and multilateral organizations. The smallest component, also extended on a grant basis, is reserved for governments that agree to undertake agriculture policy reforms and advance food security goals in their countries. In FY 1994, food assistance totaled $1.6 billion, 11 percent of U.S. foreign aid.

*Eastern Europe and Former Soviet Union Programs.* Since 1989, a new category of aid has emerged—aid to the newly independent states (NIS) of eastern Europe and the former Soviet Union. Each group has its own legislative authority—the Support for East European Democracy (SEED) Act for eastern Europe and the Freedom Support Act for the former Soviet republics. Both are high priority programs meeting the political interests of the United States to help the regions achieve democratic systems and free market economies. In FY 1994, the United States allocated $994 million for the new states of eastern Europe and the former Soviet Union, 7 percent of the total program.

*Economic Support Fund (ESF).* ESF assistance, a security-oriented program that provides economic aid exclusively, is intended to meet special political and security interests of the United States. The largest proportion of ESF aid goes to Israel and Egypt—85 percent in FY 1994. Funds are provided in several ways: as straight cash transfers into another country's bank account; as imports of U.S. goods through the Commodity Import Program; or as project assistance not unlike regular development assistance activities. In FY 1994, ESF appropriations totaled $2.4 billion, 16 percent of the foreign aid program.

*Military Assistance.* The United States provides its allies and friends with defense equipment and training under two main programs. The first, Foreign Military Financing (FMF), offers grants and loans that enable governments to purchase American military equipment through either U.S. government or commercial channels. Although by the late 1980s FMF had become primarily a grant program, because of budget constraints the program now focuses mainly on loans for a few more wealthy recipients. FMF is a

**CHART 8**
**U.S. Foreign Aid by Program, 1984, 1989, and 1994**




Source: USAID.

declining program with only a handful of recipients, most from the Middle East. In FY 1994, Egypt and Israel alone accounted for 79 percent of the $3.9 billion program. The second major program in this area, the $21 million International Military Education and Training (IMET) program, operates on a grant basis to train foreign military personnel and officers. In FY 1994, military assistance represented 27 percent of total U.S. foreign aid.

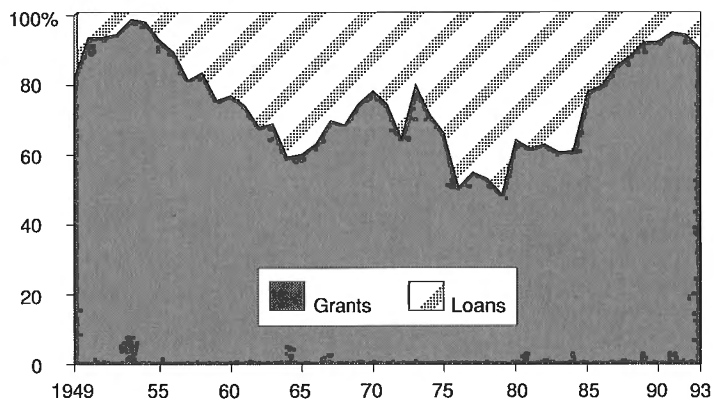
Over the years, each activity's proportion of the total foreign aid program has changed as U.S. foreign policy needs have shifted. For example, military assistance and the ESF—the "security assistance" components of foreign aid—rose dramatically during the early 1980s, from 45 percent of total aid in 1980 to 61 percent in 1984. Their growth reflected the Reagan administration's response to Central American insurgencies, the Soviet invasion of Afghanistan, and efforts to secure military bases overseas. The subsequent decline of these programs (down to 43 percent in FY 1994) mirrors the end of the communist threat worldwide and emerging economic priorities. Of course, until a few years ago no special program existed for the NIS of eastern Europe and the former Soviet Union.

## TERMS OF FOREIGN AID: IS IT A GIFT OR A LOAN?

About three-fourths of total U.S. assistance since the late 1940s has been provided on a grant basis. Sometimes, however, the United States has extended aid nearly exclusively as grants, and at other times grants and loans have each represented about one-half of the annual program (see Chart 9). Economic aid loans have generally been offered on concessional terms at below market interest rates of about 3 percent and repayable over 25 to 40 years. Military aid loans frequently have been extended at market interest rates, with shorter, 12-year repayment terms. Since 1946, the United States has provided about $101 billion in aid loans, $63 billion of which have been repaid.

Beginning in the early 1950s, the United States began to program more assistance—especially economic and food aid—in the form of loans. By 1965, about 40 percent of U.S. assistance required repayment by recipient governments. As the United States began to concentrate larger amounts of aid in war-torn Southeast Asia, the emphasis shifted to more grant assistance. During the mid to late 1970s, however, following the U.S. withdrawal from Vietnam, the terms of American aid, particularly for military assistance, hardened considerably. As the Carter administration began to press for a reduction in U.S. and international arms transfers, it also began to offer more military assistance as loans repayable at market interest rates. By 1978, loans accounted for nearly 50 percent of U.S. assistance, with military aid lending

CHART 9
Grant/Loan Composition of U.S. Foreign Aid, 1949-93




Source: USAID.

on hard terms accounting for about 40 percent of total loans. Because of high U.S. inflation and borrowing rates at the time, a number of U.S. military aid recipients took out loans bearing 10-13 percent interest, repayable in 12 years.

As the severity of the Third World debt crisis became apparent during the early 1980s, many international aid donors, including the United States, sought ways to relieve debt repayment pressures that were crippling many developing-country economies. Some governments, especially those of the poorer nations, found that debt incurred through previous foreign aid loans was particularly difficult to manage, and they began to fall into arrears. The accumulation of arrears also threatened developing-country access to future aid transfers. (The United States, for example, suspends assistance to any country that remains in arrears for more than one year.) The United States responded initially by easing the terms of new assistance. Economic aid shifted to an all grant program by the late 1980s, and military loans were either transformed into grants or offered at concessional rates. By 1993, the United States was extending about 90 percent of its assistance as grants. Only a small food aid program and military assistance to Greece and Turkey remained as loans.

As the United States eased the terms of new assistance, it took further steps to provide debt relief for selected countries. At the 1988 economic summit in Toronto, the United States and other Group of Seven (G-7) countries pledged to launch some form of debt restructuring arrangements for loan repayments owed to their governments by the poorest and most indebted developing countries. Although the United States had rarely forgiven foreign-owed debt, between 1990 and 1993 the U.S. government forgave nearly $11.6 billion in outstanding loans (see Table 1). It defended the two biggest cases, Egypt and Poland, mainly on the foreign policy grounds of trying to stabilize the Egyptian economy during the 1991 Persian Gulf War and of helping Poland make the transition to a market economy. Other initiatives, however, had a more developmental and humanitarian purpose, focusing on the poor countries of Latin America, Africa, and South Asia. To be eligible for debt relief, governments were required to carry out economic policy reform programs.

TABLE 1
U.S. Debt Forgiveness, 1990-93
(Bill. $)

| | |
|---|---|
| Egypt | $ 6.667 |
| Poland | 1.605 |
| Bangladesh | 0.289 |
| Africa | 1.137 |
| Latin America | 1.884 |
| Total | 11.582 |

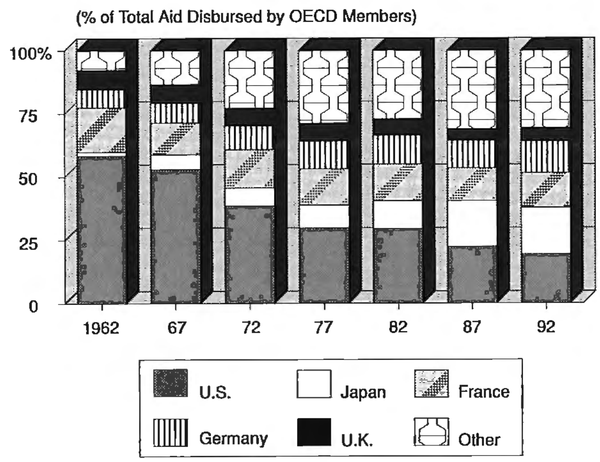
Source: U.S. Department of the Treasury.

## FROM DOMINANCE TO SHARED RESPONSIBILITY

For many years after World War II, the United States was the world's dominant provider of bilateral economic assistance. Even as late as 1968, it accounted for more than 50 percent of this aid. Thereafter, the U.S. share fell substantially, until by 1992 the United States represented only 19 percent of bilateral disbursements (see Chart 10). During this period, U.S. assistance declined while aid contributions of other industrial countries, particularly Japan, rose dramatically. Responsibility for economic assistance to the developing world now rests on a greater number of shoulders.

In absolute terms, the United States has almost always been the number one economic aid donor. Only in 1989 did Japan surpass the United States, and today the two countries are virtual coequals as the leading donors. However, many believe that a better indication of a coun-

**CHART 10**
**Foreign Aid Burdensharing, 1962-92**




Source: Organization for Economic Cooperation and Development (OECD).

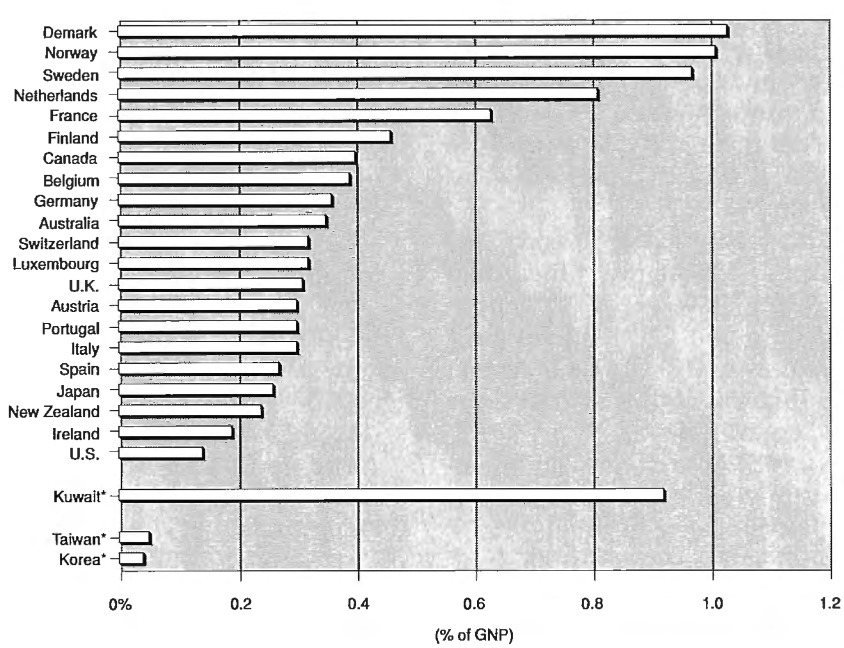
criterion, the United States is one of the smallest donors. In 1993, U.S. economic aid represented 0.14 percent of GNP, placing it at the bottom of the major industrial donor nations (see Chart 11). By contrast, in 1962, U.S. economic aid totaled 0.6 percent of GNP. The overall average for all major donors in 1993 was 0.29 percent. (Data comparing the performance of major aid donors exclude military assistance.)

Today, there are 21 major aid donors among the industrial democracies. Saudi Arabia, Kuwait, and the former Soviet Union, too, have sometimes contributed significant amounts of economic assistance. As Chart 12 shows, Japan was the largest donor in 1993 ($11.2 billion), followed by the United States ($9 billion). Other major donors have generally been France ($7.9 billion), Germany ($6.8 billion),

try's commitment and ability to provide economic assistance is the measure of its aid as a proportion of national wealth—that is, as a percent of gross national product (GNP). Using this

and Great Britain ($3.2 billion). The Scandinavian countries, the Netherlands, Italy, and Canada have all developed substantial aid programs during the past two decades.

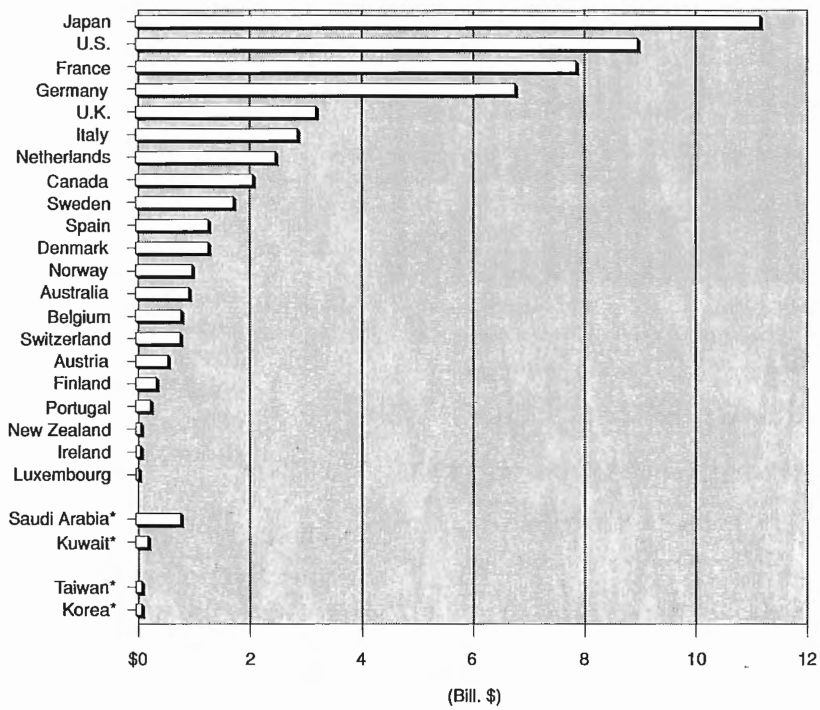
**CHART 11**
**Economic Aid Donors Compared**
**(1993 Disbursements as a Percent of GNP)**




*1992 data.

Source: OECD.

CHART 12
Economic Aid Donors Compared
(1993 Disbursements—Billion Dollars)




*FY 1992 data.

Source: OECD.

Each donor has its own approach to providing economic assistance. The United States is unique among donors for its large field mission presence through USAID. This presence has often led to a close working relationship between U.S. staff and local government staff or the private sector, and it helps to ensure better project monitoring and financial accountability.

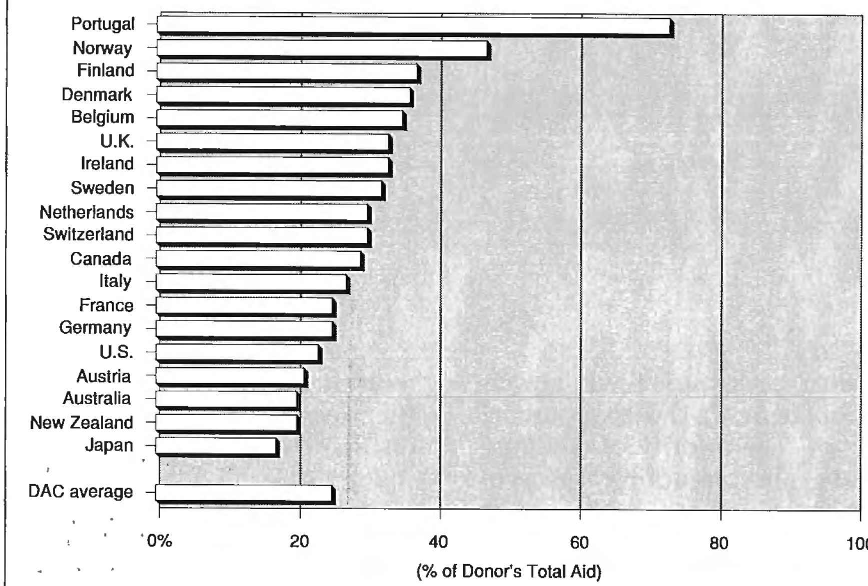
The United States is also providing economic aid to more countries—127 at this time—than any other donor. As might be expected, France, Portugal, Italy, Belgium, and Great Britain have tended to emphasize assistance to their former colonies. The Scandinavian countries have long been active in the poorest nations.

Another scale on which donors compare themselves is the extent to which they provide assistance to the least developed countries (LDCs), those with a per capita income of less than $650. In recent years, all donors have moved to devote a greater proportion of their assistance to the LDCs. In 1972, only 6 percent of U.S. assistance went to the LDCs; 20 years later the figure was 23 percent, close to the donor average of 25 percent (see Chart 13). As noted, the proportion of assistance provided by some European countries to the LDCs, a majority of which are in Africa, partly reflects their former colonial ties. Portugal, emphasizing Angola and Mozambique in its aid program, represents the highest proportionate contributor of aid to the LDCs. Japan, on the other hand, provides only 17 percent of its assistance to the poorest countries because it concentrates aid in its traditional regional area of interest, the more middle-income nations of Asia.

Each donor also tends to emphasize certain sectors in its project profile. While the United States is active in all sectors, it has been an acknowledged leader in the private sector and in the environment and population sectors.

The donors are all members of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD). The DAC offers a forum in which donors can exchange information and make efforts at coordination. Over the years, the DAC, chaired by an American, has encouraged a greater transfer of resources to the LDCs. It has also encouraged members to offer more grant assistance. Among the top donors, Japan remains

**CHART 13**
**Assistance to Least Developed Countries, 1992**

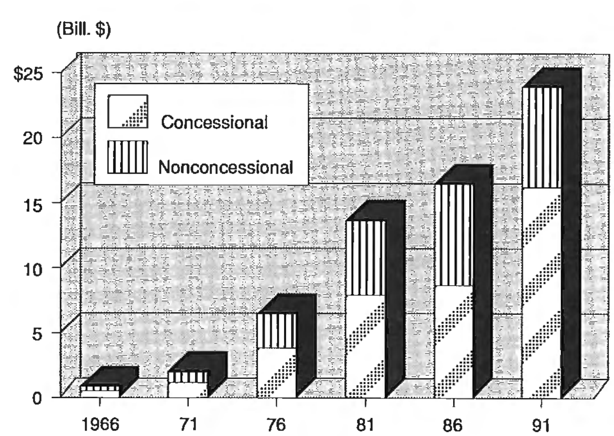



Source: OECD.

a laggard in both these respects: Japan contributes less than the DAC average to poor countries and provides only 78 percent of its aid as grants (the DAC average is 90 percent). By contrast, almost 100 percent of U.S. economic aid is grant aid.

While numerous nations were joining the United States in contributing substantial sums in bilateral economic assistance, the multilateral banks, the various United Nations development organizations, and the European Community (now the European Union) also greatly expanded their participation in international assistance activities. Beginning in the late 1960s, multilateral assistance grew exponentially, doubling every five years (see Chart 14). Although growth slowed in the 1980s, the multilateral development banks, and the World Bank in particular, are the largest source of economic financing available to recipient countries, providing almost $24 billion in 1991, 45 percent of it in concessional form. Taken together, more than two-thirds of MDB and international organization assistance is now concessional.

**CHART 14**
**Aid Disbursements by Multilateral Development Banks, 1966-91**




Source: OECD.

# 3

# Promoting Economic Security at Home

Foreign assistance programs have always returned some benefit to the economy of the donor nation. The priority of commercial motivations and export promotion aspects of bilateral aid programs, however, varies greatly. The United States, for example, has emphasized political, development, and security objectives in its aid programs and generally places less importance on the commercial rationale. In a broad sense, there are three ways in which foreign aid programs can be evaluated concerning the economic benefits they provide to the donor: the amount of foreign aid funds spent in or reflowing to the country providing the assistance; the importance of developing countries (more specifically, of foreign aid recipients) to trade and other economic interests of the donor; and the priority placed by the contributing government on commercial elements of the program, often measured in terms of tied aid and projects that include large export opportunities.

## DIRECT PROCUREMENT AND OTHER FOREIGN AID REFLOWS TO THE U.S.

Although a general perception exists that much U.S. foreign aid consists of "handouts" and "giveaways," most foreign aid money is spent on the procurement of U.S. goods and services. This results in both additional exports and increased employment in the United States; according to the Department of Commerce, $1 billion in exports supports about 20,000 American jobs. By law, nearly all U.S. assistance must be spent on American-produced items (although waivers are permitted under certain circumstances). Amounts returning to the United States differ according to the type of foreign aid program. Because of the difficulties of tracking procurement to the source, the U.S. government does not issue a cumulative report showing total aid reflows to the United States. Nevertheless, some general estimates are possible on a program-by-program basis (see Chart 15).

The largest category of foreign aid is bilateral economic assistance administered by USAID. USAID disbursements in FY 1992 totaled about $5.6 billion. The agency estimated that U.S. source goods and services represented slightly more than $3 billion, or 54 percent of all spending. The largest element of non-U.S. procurement was cash transfer assistance to encourage economic policy reform in recipient countries, to support balance of payments shortages, and in some cases, to help nations service their debt to the U.S. government.[1]

Military assistance, the next largest aid category, is a declining program that is used primarily to purchase U.S.-manufactured defense equipment. Only a $475 million set-aside for Israel can be used to buy equipment offshore. About 88 percent of the $3.9 billion military aid budget in FY 1993 was spent on U.S. goods and services. As a result of reduced military aid spending and, more important, the drop in the U.S. defense budget, arms manufacturers are pressing the Defense Department to create a new program in which the U.S. government would guarantee the repayment of loans issued to creditworthy foreign purchasers. Costs associated with this program, however, would come from the defense budget, not from foreign aid.

1. USAID did not issue procurement figures for FY 1993. After redesigning its reporting system, the agency said that for the first quarter of FY 1994, 77 percent of USAID purchases were of U.S. source. This calculation, however, excludes cash assistance and disbursements to other U.S. government agencies. Including such data would probably result in figures similar to those for the entire FY 1992 period.

## U.S. Trade and Investment Promotion Agencies

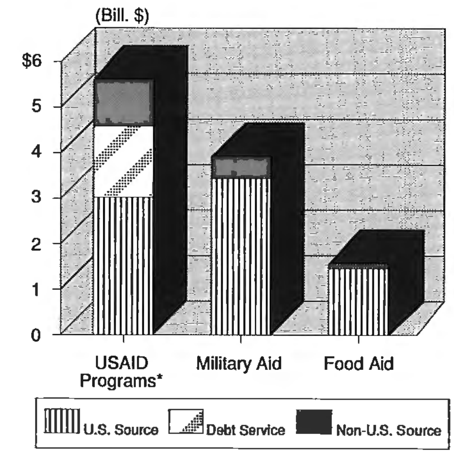
The United States offers export promotion services through programs administered by 10 government agencies. Three of these agencies—the U.S. Export-Import Bank (Eximbank), the Overseas Private Investment Corporation (OPIC), and the Trade and Development Agency (TDA)—are funded out of the foreign policy budget and are associated, in varying degrees, with U.S. foreign aid. These three agencies are the core elements of the President's foreign policy objective of promoting American prosperity through trade, investment, and employment.

***Export-Import Bank.*** Eximbank offers a variety of export-financing services: direct loans, loan guarantees, and political and commercial risk insurance. The Bank's chief missions are to match the efforts of export credit subsidies offered by the governments of U.S. trade competitors and to assume reasonable credit risks that commercial lenders are unable to assume. In 1993, with an appropriation of $786 million to back its programs, Eximbank authorized loans, loan guarantees, and export credit insurance totaling $15.1 billion.

***Overseas Private Investment Corporation.*** OPIC extends political risk insurance, guarantees, and investment financing, as well as a variety of investment services, to encourage American firms to invest in developing countries and, most recently, in the former Soviet Union. In 1993, OPIC supported $3.7 billion worth of investments in 36 countries, activities it estimates will generate $1.6 billion in American exports and support 24,000 person-year jobs in the United States. OPIC operates at no net cost to the government.

***Trade and Development Agency.*** TDA identifies international development projects that have a significant export potential and works to involve U.S. businesses in the initial stages of project planning. Much of TDA's work finances feasibility studies, undertaken by American firms, of development projects, but it also includes technical assistance and training operations. With funds of $42 million in 1993, TDA supported over 300 activities in 58 countries. The agency estimates that its 1993 programs will generate more than $1 billion in U.S. exports over the next five years.

**CHART 15**
**Foreign Aid Spent in the United States, Estimated for FY 1993**



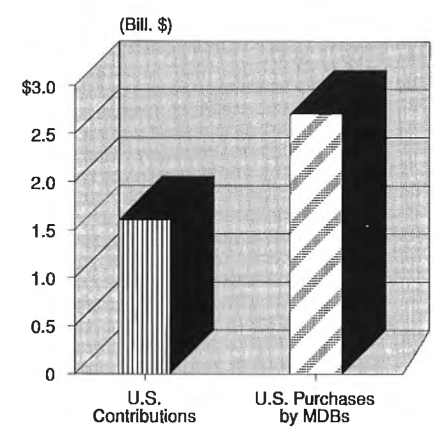

*USAID figures are for FY 1992.

Sources: USAID; U.S. Department of Defense; and U.S. Department of Agriculture.

Food assistance is a category of foreign aid that nearly all reflows to the United States. All commodities are purchased from U.S. sources, although only three-fourths of the food must be shipped on U.S.-flag carriers. On this basis, a rough estimate suggests that at least 93 percent of the $1.54 billion food aid program in FY 1993 was spent in the United States.

The final major category of U.S. foreign aid—contributions to MDBs—offers some of the largest, most difficult to quantify returns to American exporters. U.S. payments to the World Bank and other regional institutions are mixed with contributions from others that are used to back further borrowing by the MDBs or that are lent directly to foreign governments for various development purposes. Many MDB projects result in the procurement of goods and services from around the world. The nature of the MDB contribution and procurement process makes it

**CHART 16**
**Multilateral Development Banks: U.S. Contributions/MDB Procurement, 1993**

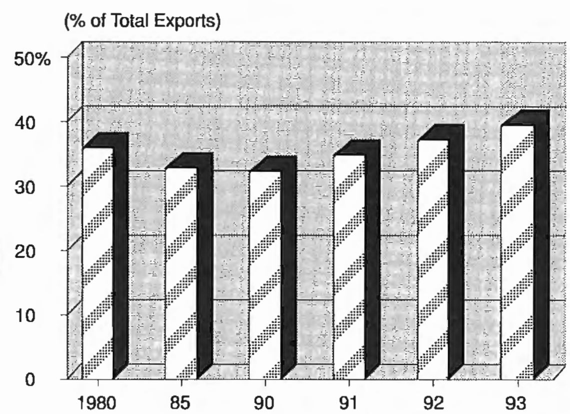



Source: U.S. Department of the Treasury.

possible for American firms to receive orders from the MDBs that are larger than U.S. payments to the banks. For example, as is shown in Chart 16, the Treasury Department estimates that in 1993, U.S. procurement by the multilateral development banks totaled about $2.7 billion, while the United States contributed nearly $1.6 billion to these institutions.

Although many argue that the United States should increase the amount of foreign aid resources spent on American goods and services, moving closer to the 100 percent level is unlikely. Projects, especially economic aid programs, require some degree of spending in the recipient country. In some cases, necessary goods are not available from U.S. producers, or their prices and services are not competitive with alternative sources. In other instances, U.S. aid officials may choose to buy locally to help support emerging private business in the developing country. Cash assistance linked to policy reform, however, remains an area that according to some should be reduced and programmed to directly boost American exports.

**CHART 17**
**U.S. Exports to Developing Countries as a Percent of Total U.S. Exports, 1980-93**




Source: U.S. Department of Commerce.

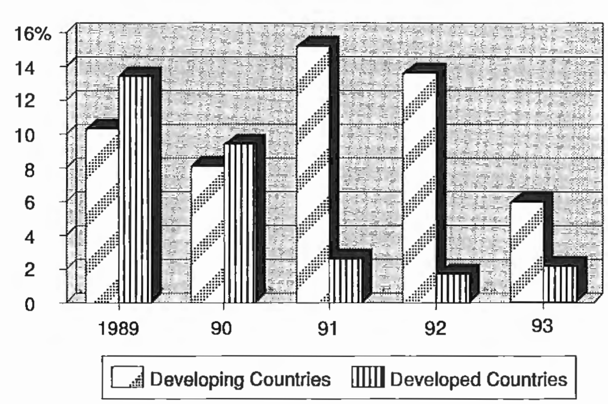
## DEVELOPING COUNTRIES: RAPIDLY GROWING MARKETS FOR U.S. EXPORTS

The developing world has been a source of rising importance to U.S. trade interests for several years. Most U.S. economic assistance is programmed for these economies. In addition, many believe that much of the world's future economic growth will occur in the developing nations.

By 1980, the developing countries had already established themselves as important markets for U.S. businesses, accounting for about 36 percent of total U.S. exports (see Chart 17). But with the onset of serious debt problems and a downturn in the global economy, U.S. exports to developing countries fell to about 32 percent of total exports by 1985. However, because of the rapidly expanding growth that has recently occurred in many of these countries—especially in Asia—U.S. export levels of the early 1980s not only have returned but have been surpassed. During the past two years, American exports to developing countries have represented nearly 40 percent of total exports, with over $180 billion of American goods going to the developing world in 1993. Moreover, developing countries have been the fastest growing market for U.S. exports in recent years, in some cases making significant annual gains compared with trade with developed nations. Even though percentages for developing countries start from a lower base than those for industrialized economies, this is an important trend. In 1992, as Chart 18 shows, exports to developing countries increased 13 percent, while exports to the developed world rose only 1.7 percent. Although the 1993 growth rate for U.S. exports to the developing world was just 5.9 percent, it still outpaced exports to Europe, Japan, and other developed nations.

Much of the current U.S. trade with the developing world is with the more advanced economies

**CHART 18**
**Annual Growth of U.S. Exports to Developing and Developed Countries, 1989-93**




Source: U.S. Department of Commerce.

of Latin America and Asia, many of which have "graduated" as recipients of U.S. economic assistance. Export trends to U.S. aid partners, however, have generally followed the same pattern for the broader set of developing countries. Economic aid recipients accounted for about 13 percent of total U.S. exports in 1980 and about 10 percent by the mid 1980s. Amounts returned to the 13 percent level by the early 1990s, reaching nearly 14 percent in 1993.

One of the aims of U.S. economic assistance is to promote broad-based economic growth in the developing countries that will create new demands for American products and make some of today's lower income countries important trading partners in the future. USAID continues the strategy of influencing and advancing market-oriented economic policy reforms by aid recipient governments, reforms that aid officials believe will establish a promising environment for long-term trade and investment opportunities for American business. As evidence, they cite a USAID study reporting that between 1984 and 1993, U.S. exports to the 20 aid recipients that maintained the best economic policy performance increased by 174 percent. On the other hand, for the worst performing countries on USAID's index of economic policy performance (the bottom 20), U.S. exports rose by only 45 percent.[2]

## COMMERCIAL MOTIVATIONS OF MAJOR AID DONORS

One of the most frequently heard arguments promoting a stronger commercial orientation of U.S. aid is that other governments have supported their nations' business interests through foreign assistance for many years. While the United States maintained a foreign aid program largely driven by the Cold War rationale, other governments—particularly former colonial European nations and Japan—appear to have used economic assistance, at least to some extent, to solidify trade relationships and to bolster business opportunities for their private sectors.

One means to ensure that foreign aid spending remains in the donor's economy is to tie procurement with aid money to national sources. Although many development experts maintain that tied aid reduces the value of assistance provided to recipient countries, some donor governments defend it as a means of sustaining public support for higher foreign aid budgets. In late 1991, negotiations among donor nations produced new tied aid credit guidelines designed to limit the use of official credits for tied aid projects, especially for middle- and upper-income developing countries. The guidelines affect both concessional economic assistance and government-backed export credits made at market interest rates, which are not normally considered foreign aid. The OECD recently noted that the tied proportion of major donor bilateral aid programs has declined in the past few years. However, it attributes this not to a reduction in tied aid projects but to a growth in cash and emergency assistance from donor nations.[3] Tied aid is concentrated in selected countries—Egypt, China, India, and Indonesia—and in program sectors—transport, power, and telecommunications.

Advocates of linking U.S. economic assistance more directly to export opportunities and job creation call for a tightening of U.S. "Buy America" laws and more tied aid. Some argue that because other donor governments tie much of their assistance, the United States should as well. However, the evidence on tied aid and on how the United States compares with other countries is ambiguous. Comparative data issued by the OECD and shown in Table 2 indicate that U.S. aid is somewhat less tied than the average for all major donors and is considerably less tied than that of France, Germany, Italy, or Great Britain. The same data, however, suggest that Japan maintains the least tied aid program among all donors. This runs counter to the general perception that Japanese aid is closely associated with trade and commercial objectives. "Informal" methods of aid tying can be applied by any aid donor, and these are not necessarily reflected in the OECD data.

Aside from tied aid, donor countries can ensure that their assistance programs extend benefits to both the recipient nations and their own business communities by how the aid is programmed. Expenditures on large-scale capital projects—e.g., roads, power plants, dams, telecommunications, and port facilities—usually offer significant export opportunities. Social sector programs—health, education, and family planning services, among others—and nonproject assistance (cash transfers) can be used to

2. Testimony of Terrence J. Brown, Assistant to the Administrator, Bureau for Policy and Program Coordination, USAID, before the House Appropriations Subcommittee on Foreign Operations, April 28, 1994, p. 4.

3. OECD, *Development Cooperation 1993 Report,* March 1994, p. 94.

**TABLE 2**
**Tying Status of Bilateral Concessional Economic Aid, 1991**
**(Commitments in Mill. $ and as a % of Total Bilateral Aid)**[1]

| Country | Tied | | Partially Untied[2] | | Untied | |
|---|---|---|---|---|---|---|
| Canada | $ 573 | 36% | $ 363 | 22% | $ 669 | 42% |
| France | 3,059 | 58 | 219 | 4 | 2,039 | 38 |
| Germany | 3,138 | 64 | — | — | 1,824 | 36 |
| Italy | 2,643 | 95 | — | — | 143 | 5 |
| Japan | 1,674 | 13 | 930 | 8 | 9,863 | 79 |
| U.K. | 1,609 | 76 | — | — | 506 | 24 |
| U.S. | 3,102 | 27 | 1,871 | 17 | 6,353 | 56 |
| OECD Total and Average | 17,694 | 38 | 4,106 | 9 | 24,106 | 53 |

1. Data exclude amounts for debt relief.
2. Procurement available from the donor and developing countries only.
Source: OECD, *Development Cooperation 1993 Report*, March 1994.

obtain U.S. technical advisors and U.S. products. Nevertheless, social sector projects generally yield fewer direct benefits to the donor's business community, in terms of both stimulating immediate exports and providing long-term business opportunities.

It is in this area—the purpose of economic aid spending—that the United States differs significantly from most other donor countries and where American exporters frequently call for change (see Table 3). In 1991, only 10 percent of U.S. aid was committed for infrastructure, industry, mining, and construction purposes. The average figure for all major donors was 35 percent, with Italy, Japan, and Great Britain spending about half their aid resources on capital and related projects. For program/budget support assistance and food aid, the United States committed 22.1 percent and 10.4 percent, respectively, well above the OECD average of 14.3 percent and 3.6 percent. U.S. social program commitments (21.7 percent) were near the OECD average. How the United States programs its economic assistance compared with other donors continues to be the subject of the debate over the search for a new program rationale.

**TABLE 3**
**Major Purposes of Economic Aid, 1991**
**(Commitments as a % of Total Bilateral Aid)**[1]

| Country | Infrastructure/ Production[2] | Social Programs[3] | Program/ Budget Asst. | Food | Other[4] |
|---|---|---|---|---|---|
| Canada | 28.3% | 14.3% | 5.8% | 9.8% | 41.7% |
| France | 28.6 | 35.3 | 19.1 | 0.5 | 16.5 |
| Germany | 37.7 | 28.7 | 0.0 | 2.4 | 31.1 |
| Italy | 49.5 | 20.5 | 3.2 | 1.9 | 24.9 |
| Japan | 54.9 | 12.6 | 20.5 | 0.3 | 11.7 |
| U.K. | 47.6 | 25.4 | 7.7 | 1.7 | 17.7 |
| U.S. | 10.0 | 21.7 | 22.1 | 10.4 | 35.9 |
| OECD Average | 35.1 | 22.0 | 14.3 | 3.6 | 25.0 |

1. Data exclude amounts for debt relief.
2. Transport and communication, energy, agriculture production, and industry, mining, and construction.
3. Education, health and population, and planning and public administration.
4. Multisector programs, emergency relief, administration, trade, banking, tourism, and unspecified.
Source: OECD, *Development Cooperation 1993 Report*, March 1994.

### The "Aid-for-Trade" Debate

As the Cold War rationale for U.S. foreign assistance waned in the early 1990s, many in the business community began to suggest that American foreign aid should more directly serve U.S. commercial interests. There is general agreement that the aid activities of most other major international donors—including Japan, France, and Italy—for many years had a greater commercial motivation and orientation than the aid activities of the United States. With economic issues growing in importance as a factor in foreign policy decisionmaking, proponents argued for placing greater emphasis on foreign aid programs that could expand U.S. markets and promote exports.

Specifically, so-called aid-for-trade advocates have pressed USAID to program more of its roughly $6.5 billion annual budget for capital projects—including construction of power plants, roads, dams, ports, and telecommunications—that are important for development goals of recipient nations and that offer opportunities to American exporters. After meeting objections from USAID, proponents have more recently shifted their focus to TDA, suggesting that TDA should expand its current mandate of financing feasibility studies of capital projects to include financing the projects themselves. This, they contend, could be achieved by transferring to TDA some USAID resources now provided as cash grants to foreign governments that agree to undertake sector policy reforms. With the emergence of large aid programs in eastern Europe and the former Soviet Union, even greater opportunities exist for channeling aid for infrastructure and other capital projects needed by these nations. Other suggestions for drawing closer links between aid and commercial interests include strengthening U.S. "Buy America" laws and tying the expenditure of foreign aid money to the procurement of American goods and services, especially where the governments of U.S. trade competitors offer such incentives.

Stiff resistance to these proposals has arisen from several quarters. Nongovernmental organizations (NGOs), some of the strongest advocates and overseas implementors of social development programs—for example, health, education, and family planning—are strongly opposed to an aid-for-trade approach. They believe that once established as a motivating rationale for U.S. assistance, commercial considerations would soon overwhelm other program objectives and result in a reduced U.S. commitment to long-term development and humanitarian needs, especially in the poorest nations. U.S. government policies have also generally opposed such a direct link between foreign aid and export promotion. USAID officials frequently argue that U.S. assistance can be most effective in advancing American economic interests by helping to create the right policy environment in developing countries, which will attract American investors and lead to long-term business and trade relationships. Further, the executive branch has taken the position that U.S. long-term interests are served better by negotiating the end of tied aid and other trade distorting practices of foreign aid donors than by engaging in them. OECD members reached an accord in late 1991 aimed at limiting the use of tied aid credits, an agreement that is still in the early stages of implementation.

4

# Foreign Aid Strategies in the Post-Cold War Era

There is broad agreement that the U.S. foreign assistance program is in need of a major restructuring effort to establish a new rationale consistent with post-Cold War U.S. domestic and foreign policy interests. Many further believe that confidence in U.S. aid agencies to effectively manage the approximately $14 billion foreign aid budget has eroded to dangerously low levels and that to sustain the program in the future will require aid managers to better explain how their efforts directly serve U.S. interests and to demonstrate achievements and results.

An overriding feature of U.S. foreign assistance during the past 45 years has been its support for strategies closely aligned with U.S.-Soviet confrontation in Europe and the developing world. Security considerations often dominated foreign assistance policy decisions. That period has ended, and the United States faces a substantially different set of foreign and domestic challenges. Instead of confronting the Soviet bloc, the United States and other Western nations are assisting eastern Europe and the former Soviet Union in their transition to open market economies and democratic societies. Transnational concerns regarding the environment, ethnic conflict, immigration, narcotics trafficking, and terrorism have been elevated among U.S. interests. In some cases, the United States has turned to multilateral institutions in addressing these global problems. The developing world, where most U.S. assistance has been spent since the 1950s, has changed dramatically. Instead of being viewed as a large single entity of nations, it is seen as made up of countries with diverse interests, capabilities, and needs, positioned at varying stages of economic development. The global economy has become highly integrated, making it difficult to separate domestic and foreign policy. The United States is no longer the world's dominant bilateral donor of economic assistance—sharing that position with Japan—and is not necessarily as influential in multilateral discussions on international development and foreign aid matters as it was formerly.

Although U.S. foreign aid policy has reacted incrementally to these fundamental changes in recent years, an overall reassessment of the program rationale and a decision on a new set of strategies have not occurred. After 33 years, the Foreign Assistance Act of 1961 remains the primary law guiding the program. It is still laden with Cold War policy provisions, and it contains over 30 "primary" objectives of assistance programs—making for unwieldy priority setting—and an accumulation of extensive congressional restrictions and conditions on presidential management of the program. Congress has been trying to replace the 1961 law since 1989, but its efforts have been unsuccessful, partly because of executive branch indifference, of pressures brought by special interests, and of a lack of consensus over exactly what should replace the Cold War rationale for foreign assistance.

The perception of a foreign aid program adrift has had further negative consequences for reversing the continuing decline in congressional and public support for foreign assistance. Reflecting national sentiment, foreign aid votes are often among the most unpopular in Congress. As a sign of the lack of support for what used to be an annual occurrence, Congress has not approved a foreign assistance policy law since 1985. Foreign aid spending laws draw broad support only when they propose cutting overseas spending. The foreign aid budget for 1994 easily passed Congress, but as legislation that reduced expenditures by $1 billion from 1993 levels and by 10 percent from President Clinton's request.

## A NEW FOREIGN AID REFORM INITIATIVE

The Clinton Administration came to office in January 1993 promising a rapid review of foreign

### Building Domestic Support

Polling data bear out the congressional sense that foreign aid is unpopular, but they also hold out signs of hope for supporters of aid reform. While opinion data can be unreliable, depending too much on the phrasing of questions, certain trends seem clear. In general, the public appears to hold a negative view of foreign aid in the abstract. In 1980, 54 percent of the public favored a major cut in economic aid (28 percent favored a minor cut).[1] In 1991, 69 percent favored reducing the amount of aid and 24 percent were opposed.[2] Put in the context of the budget issue, opposition was even more pronounced. When asked in 1990 if it would be acceptable to reduce foreign aid if government spending had to be cut to balance the budget, 83 percent said yes.[3] In this context, however, it is worth noting that the public tends to think that foreign aid is a much larger proportion of U.S. spending than it is in reality. According to a 1993 poll, the public believes that foreign aid makes up 20 percent of federal spending.[4]

Despite these figures, polls also show that the public is inclined to support aid under specific circumstances. Although 54 percent believe that only some economic aid helps the people it is meant to help, and 38 percent believe hardly any does, 83 percent said they would favor aid if they could be sure it did end up helping people.[5] In various other polls, the public has indicated it would support economic aid if it was used to help countries slow population growth (52 percent in favor, 39 percent opposed)[6]; to help Poland (55 percent in favor, 29 percent opposed)[7]; to help Bangladesh (55 percent in favor, 33 percent opposed); or to help Ethiopia (65 percent in favor, 28 percent opposed).[8] According to the data, the American people consistently and in high proportions support the use of economic assistance for humanitarian purposes.[9] These polls bear out the theory that the public will support foreign aid if there is a powerful rationale behind the program.

A broad rationale is important to building consistent public support. Military assistance was often not favored in polls, except when the question indicated that it was to counter the Russians' arming their friends, a rationale that may now have evaporated.[10] But support for the new rationale that aid can be used to help the U.S. economy may be found in data from 1986 and 1990 suggesting that the public believes that economic aid hurts the U.S. economy (as many as 68 percent in 1990).[11] If the public comes to think otherwise, aid may become more of a positive than a negative factor in the American mind.

1. Louis Harris & Associates survey, March 20-April 5, 1980.
2. NBC News/*The Wall Street Journal* survey, September 20-24, 1991.
3. *The New York Times*, May 22-24, 1990.
4. Harris survey, October 1-6, 1993.
5. Harris survey, March 8-13, 1990.
6. Gallup poll, April 9-12, 1992.
7. NBC News/*The Wall Street Journal* survey, September 20-24, 1991.
8. NBC News/*The Wall Street Journal* survey, June 22-25, 1991.
9. For example, 70 percent supported humanitarian aid in 1993 (ABC News/*The Washington Post*, February 25-28, 1993).
10. Harris survey, July 8-12, 1981.
11. Harris survey, March 8-13, 1990.

assistance and recommendations to make the program relevant to emerging U.S. interests at home and abroad. After numerous delays, some caused by unanticipated foreign policy distractions, the new administration began in late 1993 to take steps internally to restructure foreign aid agencies and redefine their missions. These efforts were followed in February 1994 by the submission to Congress of a legislative initiative, the Peace, Prosperity, and Democracy Act, intended to replace the 1961 Foreign Assistance Act and to establish in law a new and reformed basis for U.S. foreign assistance. The initiative contains three key components: to create a focused set of policy objectives; to instill a strengthened basis of program accountability; and to establish a new relationship between executive branch foreign aid agencies and Congress.

The President's proposed legislation eliminates the long list of foreign aid objectives that has accumulated in laws for over 30 years and instead organizes foreign aid policy and resource allocations around five thematic objectives of U.S. foreign policy:

- *Sustainable Development:* promoting economic and social growth without depleting the resources of host nations through program strategies that will encourage broad-based economic growth, protect the environment, stabilize world population growth, and support democratic participation.

- *Building Democracy:* assisting countries in making the transition from authoritarian rule or prolonged conflict to democratic societies, with special emphasis on the former Soviet Union and eastern Europe.

- *Promoting Peace:* supporting U.S. security interests through participation in peacekeeping missions; advancement of regional peace and defense efforts, especially those

### What Is Sustainable Development?

In the Clinton administration's aid reform legislation, one of the five objectives of U.S. foreign policy is "sustainable development." At one time, the term meant merely the creation of development projects that could be maintained once donor contributions were completed—that is, projects that were financially self-sustaining. But today the term means considerably more. The rise in environmental consciousness during the past decade has led to the recognition that development activities that gobble up resources are inherently unsustainable.

What has become a catchphrase in the 1990s was first popularized in a highly influential 1987 report by the World Commission on Environment and Development, chaired by Norwegian Prime Minister Brundtland. In the report, sustainable development was defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

Sustainable development is still a fuzzy notion in practical terms. Such programs would likely encompass most existing sectors of economic development, but with an increased sensitivity to their ecological soundness. In addition, sustainable development projects would probably also be characterized by greater participation by those affected by the development process, especially the poor. Experience has shown that this gives participants a stake in the success of a project and leads to greater protection for the environment they live in.

One possible example of sustainable development is the Gambia Soil and Water Management Project. Beginning in the late 1970s, the United States, through education and provision of equipment, set up a government agency to prevent land erosion in farms along the Gambia River. The agency provides the know-how, and the affected farmers construct berms and use recommended contour farming practices. Salination of land bordering the river is halted, and floods from rains in the surrounding hills are diverted, saving soil and increasing agricultural production. The result has been a project that is economically beneficial, environmentally sound, and highly sustainable.

### Labor and the Foreign Aid Reform Act

For many years USAID has financed programs aimed at strengthening labor organizations in developing countries. Projects also have included extensive training in the United States of senior and mid-level labor leaders from these nations.

American labor organizations traditionally have advocated U.S. development assistance policies that promote international workers' rights, that ensure that workers benefit from economic growth initiatives in the developing world, and that do not undermine the livelihood of and opportunities for U.S. workers at home. Labor support for U.S. development aid programs was threatened in 1992 when a report alleged that USAID had supported overseas business promotion programs that resulted in the relocation offshore of American firms, loss of jobs in the United States, and exploitation of workers in developing countries. Congress immediately enacted specific prohibitions against such practices, and although USAID denied any wrongdoing, the agency strengthened internal policy regulations concerning inducements to U.S. businesses to move offshore.

The Peace, Prosperity, and Democracy Act of 1994 incorporates these legislative restrictions to ensure that U.S. foreign assistance programs do not adversely impact jobs in the United States. Specifically, the proposed bill prohibits (1) financial incentives for American businesses to relocate abroad if the move would reduce U.S.-based jobs; (2) assistance in creating export-processing zones in foreign countries; and (3) any activity that violates internationally recognized workers' rights.

Beyond this, the foreign aid reform legislation underscores the importance of fostering labor unions and other intermediary organizations as a key element in promoting democratic participation and other sustainable development strategies. The legislative initiative further acknowledges the valuable contribution that American-based labor unions can make to the future vision of U.S. development policy and calls for drawing on the experience and expertise of such organizations to assist in implementing the new strategies of sustainable development.

under way in the Middle East; and confronting global problems of weapons proliferation, drug trafficking, terrorism, and international crime.

- *Providing Humanitarian Aid:* responding to international emergency relief efforts and to reconstruction and institution-building needs in countries emerging from crises.

- *Promoting Growth Through Trade and Investment:* drawing the explicit connection between commercial engagement and sustainable development as complementary strategies for underpinning U.S. interests at home and abroad.

A sixth policy objective—*Advancing Diplomacy*—is intended to strengthen the U.S. foreign policy agencies, personnel, and technology that are necessary for the achievement of the other five policy goals.

With foreign aid a tool of foreign policy, the Clinton administration believes that these policy objectives will closely support the new strategy of "enlargement" that the administration announced in late 1993 as the successor to the Cold War doctrine of containment. The concept of enlargement argues that the central security interest of the United States is the expansion and consolidation of the community of market economy democracies, a theme emphasized throughout the new foreign aid policy objectives. Also part of the President's foreign policy priorities is to ensure that activities abroad promote economic security at home. Foreign aid goals of trade and investment, plus aspects of sustainable development that will build trading partners for American exporters, are intended to advance this tenet.

The second major aspect of President Clinton's foreign aid reform initiative is to install greater program accountability and the principle of managing for results, especially for programs administered by USAID. A major weakness of past economic aid efforts has been the inability to measure program results in a manner that permits aid managers to shift resources from failing endeavors to productive activities. USAID was also frequently criticized for not being able to provide tangible evidence that it was achieving its program goals and serving U.S. interests. In the future, say administration officials, the United States will concentrate its aid resources, especially those for sustainable development, in countries that make good partners because their governments are committed to sound development policies and will apply the aid resources effectively. Maintaining a transparent, accountable governing system, as well as an independent judicial system, a free media, and active public interest groups, also appears to be an important criterion in assessing where to concentrate U.S. economic aid resources.

Finally, the administration seeks to establish a more constructive partnership with Congress for program oversight and management. Presidents, regardless of party affiliation, have long argued that Congress intrudes excessively in foreign policy matters, where the chief executive must maintain strong authority and broad flexibility to respond to national security concerns, many of which require immediate action. Foreign aid legislation has been a means by which Congress has attempted to influence presidential foreign policymaking and establish its own policy priorities by imposing restrictions, conditions, and funding earmarks on how and where aid resources are spent. Through the Peace, Prosperity, and Democracy Act, President Clinton seeks from Congress significantly broadened authorities to manage aid programs and to remove restrictions and earmarks. In exchange, the administration promises to be held accountable for achieving stated results and for demonstrating how foreign aid directly serves U.S. interests.

### U.S. Government Interagency Coordination of Foreign Aid

Foreign assistance programs are administered by five major U.S. government departments and an assortment of other independent agencies and foundations (see the Appendix, p. 25). The complexities of multiple agency involvement in aid programs have grown in recent years as departments usually regarded in a domestic context—the Departments of Justice and Labor and the Environmental Protection Agency, for example—have been increasingly more involved in implementing U.S.-financed projects, especially in eastern Europe and the former Soviet Union.

Central coordination of these efforts frequently has been regarded as weak and ineffective, with "turf" and jurisdictional considerations getting in the way of efficient program and policy management. Congress mandated the creation of the Development Coordination Committee in the early 1970s, but it has seldom met. In 1979, the International Development Coordination Agency was formed to serve as a coordinating mechanism, but it never effectively served its intended purpose. As part of the debate to restructure U.S. foreign aid, a variety of coordination proposals have emerged—from setting up an interagency committee chaired by the Under Secretary of State for Development under a merged USAID/State Department reorganization scheme, to creating a White House coordinating body, possibly within the National Security Council.

While recognizing the shortcomings of existing coordinating mechanisms, the administration has done little to strengthen interagency review and decisionmaking processes in its proposed Peace, Prosperity, and Democracy Act. The legislation would continue the current supervisory role of the Secretary of State over aid programs authorized under the act, but it offers no new process for internal U.S. government coordination. Critics believe that as long as the State Department maintains ultimate control of aid policies and budget allocations, foreign assistance will continue to serve short-term political and security interests of the United States, often at the expense of equally important sustainable development goals that have a much longer time horizon. Some had also hoped for a coordinating mechanism in the legislation for ensuring that activities of different agencies in support of the same aid objective—those for sustainable development, for example, managed by USAID (bilateral aid), the Treasury Department (World Bank), and the State Department (international organizations)—would be consistent. That, the administration says, is a subject for future examination.

## THE CHALLENGES AHEAD

Restructuring the foreign aid program and the legislation that guides it will not be easy. Some groups in Congress have been promoting foreign aid reform for more than five years without success in adopting a new legislative mandate. The administration's initiative, already delayed by several months, faces a rough road during congressional deliberations. Critics assert that it is unclear whether the new set of policy objectives represents real change, guaranteeing that foreign aid expenditures will better serve U.S. interests internationally and domestically. Others believe that policies for building democracy and promoting peace are not well articulated and that the President has gone too far in seeking new special authorities and limiting congressional oversight. With the White House and Congress squarely focused on domestic priorities such as health care and crime initiatives, it is unlikely that foreign aid reform will be taken up this year.

Even in the absence of a new foreign aid law, the State Department, USAID, and other aid agencies will continue to implement, under existing authorities, policy and programmatic changes, and Congress will debate and approve foreign aid funding. But without a national debate, the clear emergence of a consensus for a new foreign aid rationale, and enactment of a new foreign aid law, many question whether the existing perception of a program ill-suited to promote U.S. global interests into the next century can be overcome. Pressures to cut foreign aid spending will persist. If enough time passes, perhaps budget reductions will reach the point where resources will not be adequate to support what emerges as the new foreign aid policy framework. To the advocates of foreign aid reform, this is a particularly troubling prospect, one that underscores the need to act quickly to ensure that a revived foreign assistance program remains an effective tool of U.S. foreign policy.

# Appendix

**U.S. Government Agencies Administering Foreign Assistance Programs**

| DEFENSE DEPARTMENT | STATE DEPARTMENT | USAID | AGRICULTURE DEPARTMENT | INDEPENDENT AGENCIES | TREASURY DEPARTMENT |
|---|---|---|---|---|---|
| Military aid (shared with the State Department) | Economic Support Fund (shared with USAID)<br><br>Military aid (shared with the Defense Department)<br><br>Antiterrorism programs<br><br>International narcotics control aid<br><br>Refugee aid<br><br>U.S. voluntary contributions to international organizations<br><br>Peace-keeping (voluntary payments) | Development aid<br><br>Economic Support Fund (shared with the State Department)<br><br>Disaster aid<br><br>Food aid (grants) | Food aid (loans) | Peace Corps<br><br>Inter-American Foundation<br><br>African Development Foundation<br><br>Trade and Development Program<br><br>Overseas Private Investment Corporation<br><br>Export-Import Bank*<br><br>* Eximbank's primary purpose is as a promoter of U.S. exports and not as a provider of U.S. foreign aid. | U.S. role in multilateral development banks |

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