

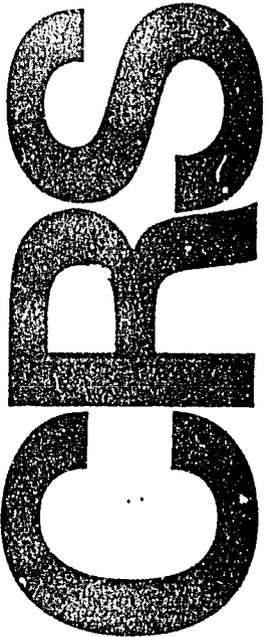
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**AN OVERVIEW OF U.S. FOREIGN AID PROGRAMS**

by  
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ABSTRACT

If Congress appropriates most or all of funds the President has requested for foreign aid in FY 1986, it will have obligated, since 1946, the equivalent in FY 86 dollars of more than \$825 billion of foreign aid. This report provides a broad overview of where that aid has gone, both by region and by program. It also explores briefly the original rationale for foreign aid, how that rationale changed and became more ambiguous, and how disillusionment with early aid efforts led to changes in the character, scope, and mix of our aid programs.

ACKNOWLEDGMENT

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## AN OVERVIEW OF U.S. FOREIGN AID PROGRAMS

### INTRODUCTION

This report summarizes some major issues and trends in the history of post-World War II U.S. foreign aid. Its purpose is to show -- and explain -- some of the major patterns and issues in the evolution of U.S. aid programs their beginnings in Europe, the shift in focus to Asia, the major problems that developed, and the major changes in programs that were instituted in response to those problems. As a way of illustrating these patterns the report will show how U.S. budgetary obligations have shifted, first across regions, then by major program, and finally as a percent of our national wealth. The report is designed to provide perspective on the dilemmas and challenges that Congress faces in reviewing FY86 aid proposals.

### ORIGINS OF POST WORLD WAR II FOREIGN AID: THE MARSHALL PLAN

Modern peacetime foreign aid began with massive assistance to the countries of western Europe following World War II. In the years between 1947 and 1953, the value of that aid, in real terms, was greater than the total annual amount of our subsequent aid to developing countries in all but a couple of peak years. This early experience is important for three reasons:

First, though part of the motive for giving the aid was humanitarian, the major goal was to contain communism. The United States was very much concerned at the time about the rising strength of communist parties in Western Europe.

Americans believed that poverty and hopelessness bred communism; that growth and prosperity were the best antidotes to communism.

Second, this was an enormously successful foreign aid story. It showed that large-scale infusions of money and commodities could, under the right circumstances, produce growth and, -- one could argue -- retard the spread of communism.

Third, this success was achieved in societies that had already developed the traditions, institutions, and skills necessary to produce sustained economic growth. European aid recipients primarily needed resources for rebuilding.

#### THE ASIAN FOCUS: ATTEMPT TO REPLICATE SUCCESS OF MARSHALL PLAN

After the Marshall Plan the focus of foreign aid shifted to Asia. As the scale of the Sino-Soviet communist bloc became clear, as the challenge to U.S. leadership posed by the Korean War emerged, and as the economic and security problems of emerging nations became more obvious, policy makers saw the replication of a Marshall Plan-type of strategy in Asia as an important instrument for protecting first Korea, Taiwan, and Indochina, and subsequently other Asian countries, against communist expansion and infiltration.

Three features of this phase of our foreign aid merit special attention:

First, though we didn't fully recognize the significance of the fact at the time, these countries generally lacked the organizational, educational and cultural infrastructure of development. Rather, they needed to undergo significant -- and often slow and painful -- change before economic growth and competitive politics would be possible.

Second, the threats to these countries seemed to be not only economic, but military as well. Communism was seen as expanding not only through domestic political movements, but through guerrilla-type insurgencies and large scale military actions as well. Thus, we saw the need for both economic and military assistance.

Third, by the late 1950s, we decided that, if our economic aid was to be persuasive in the struggle to reduce the appeal of communism, it would have to appear to be motivated by a disinterested concern for promoting growth in Asian countries, not by an American national security concern for containing communism.

#### TWO KEY PROBLEMS WITH SUBSEQUENT AID

These three features of foreign aid in the 1950s and early 1960s are important because they help to explain two major aspects of our subsequent aid program: confusion over the goals of the program, and disillusionment with its results:

#### Confusion Over Goals

When, as part of our strategy to counter communism on the Sino-Soviet periphery, we set up separate institutions to promote economic development, those institutions acquired a life and legitimacy of their own. Though some said that we should support economic development as a means to the end of countering the spread of communism, others argued that we should be supporting economic development for economic development's sake; out of humanitarian concerns and because, in the long run, everyone would benefit from a more developed world. We, as a nation, have in short, become confused by our own rhetoric. We aren't clear in our collective mind whether

support for development should be a means to containing communism or an end in itself.

### Disillusionment

Americans -- and Congress especially -- quickly became disillusioned with foreign aid. This disillusionment spread and deepened over two decades reaching its peak with the fall of Vietnam, where massive infusions of military aid, development assistance, and budget support were unable to promote stable and effective government or sustained economic growth, let alone provide a successful antidote to communist subversion and expansion. Why this sense of false expectation and subsequent disillusionment?

Primarily because we expected foreign aid to work in Asia, and subsequently in Latin America and the Middle East, much as it had worked in Western Europe. Just as Western Europe had been thrown off course by World War II, Asia had been thrown off course by colonialism. With infusions of money, military support, and technical assistance, many Americans expected to have new nations of Asia on their feet in a few more years than it had taken for the nations of Europe, able to withstand communism on their own.

The United States, as a nation, is still coming to terms with just how wrong those expectations were. We are still learning just how much is involved in building the institutions, the leadership, the knowledge, and the personal beliefs that are necessary to sustain economic growth along side even moderate levels of political freedom.

Many Americans were shocked to discover that the governments, as well as the economies, of the countries we were trying to help were undeveloped: they were often inept, corrupt, and repressive. Many were angered when our military aid was used to repress legitimate opponents of the regimes we supported. Many were outraged when our military and economic aid lined

the pockets of the already well-to-do. Many were frustrated when even the well-meaning recipients of our aid were unable to use our money and advice to promote growth.

The disillusionment had three major aspects to it:

First, whereas in Europe our aid seemed to help the people; in the underdeveloped world it seemed to help government leaders, often at the apparent expense of the people. U.S. aid seemed to be keeping the corrupt and repressive in power; adding to their corruption and repression. Second,

whereas in Europe our aid produced dramatic results within five or six years, in the underdeveloped world it seemed to have little if any positive effects. We didn't see dramatic growth or the eradication of poverty.

Third, whereas in Europe our aid was received with appreciation, in the underdeveloped world the reaction seemed to be suspicion about our motives, vocal criticism of our economic system, and anti-Americanism in international organizations.

#### RESULTING EVOLUTION IN FOREIGN AID

A number of major changes in our foreign aid programs since the mid-nineteen fifties can be understood as reactions to these aspects of our national disillusionment with foreign aid:

First, our major military, development, and commodity aid programs have been subjected to increasingly rigorous and detailed restrictions as Congress and the executive branch have tried to stem the use of aid to promote repression, corruption, and the enrichment of the already privileged.

Second, we have seen a succession of theories about how development works, theories that have been used, in part at least, to support arguments

that though we haven't seen dramatic results from our recent aid efforts, our new approach will be more effective.

Third, we have seen a major shift away from grant military aid toward greater reliance on foreign military cash and credit arms sales in response to the argument that recipient countries should have become able to provide for their own defense.

And fourth, we have seen a very substantial long-term decline in overall aid levels, relative to our national wealth.

#### REEVALUATION OF RESULTS OF EARLY AID EXPERIENCE

One final word on disillusionment. We are now in a period of reevaluation. It seems clear that our time horizons for assessing impact of aid to Asia was too short. From the perspective of 1985, the security and economic situations of a number of countries of South and Southeast Asia have dramatically improved from what they were in the late 1950s. That said, of course, it is not clear how much of that improvement was the result of U.S. aid. Nor is it clear whether the returns on that aid justify the cost. This perspective makes it abundantly clear, however, as we look at problems of aid to countries in Africa, that there are no quick or easy solutions to the pervasive underdevelopment in much of that continent.

#### BUDGETARY TRENDS

The trends and themes developed above can be graphically summarized in budgetary terms through charts showing regional patterns, programmatic patterns and obligations as a share of GNP. These charts do not include military aid money that went to support the Vietnam War effort under the Defense Department's Military Assistance Service Fund program. The Appendix contains Tables on which these charts are based.

Evolution of Aid Programs Across Regions

The following charts show the evolution of U.S. post-war aid obligations across regions of the world, in two-year averages. These figures are adjusted for inflation. They are expressed in terms of the real value of 1986 dollar equivalents. The 1986 figure is for what the President requested. Charts I-V show each region separately on the same scale, building step by step, region by region, toward Chart VI, a stacked bar graph that shows all five regional programs on a single graph.

Chart I

### U.S. AID TO EUROPE, 1946-1986

(in billions of constant 1986 dollars)

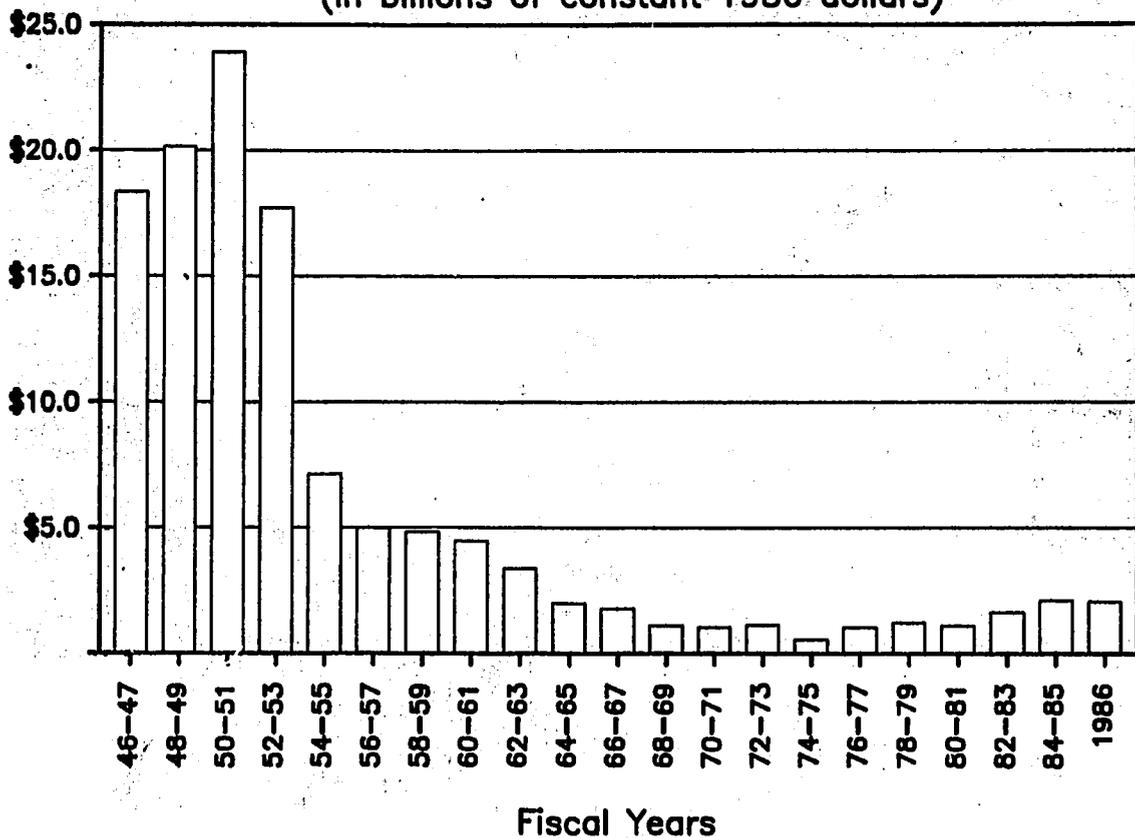


Chart I shows aid to Europe, with the heavy focus on the early period, peaking at an average of about \$24 billion per year -- in 1986 dollar equivalents -- in 1950 and 1951. That aid shifts toward Greece and Turkey in the

1950s, and shows a revival of aid to the southern region of Europe in the 1980s.

Chart II shows aid to Asia. The major growth occurs in the 1954-1955 period, reaching a peak in the early seventies, with an abrupt fall-off after Vietnam. Actual aid levels to Asia between 1966 and 1975 were significantly higher than those shown if one includes transfers under the Defense Department's Military Assistance Service Fund, (MASF) a program designed to provide military aid primarily to Vietnam, but also to our allies fighting in Vietnam. A total of over \$40 billion (in constant 1986 dollars) was spent through MASF during these years with the peak in 1973 when obligations were \$8.35 billion (in 1986 dollars).

Chart II

### U.S. AID TO ASIA, 1946-1986 (in billions of constant 1986 dollars)

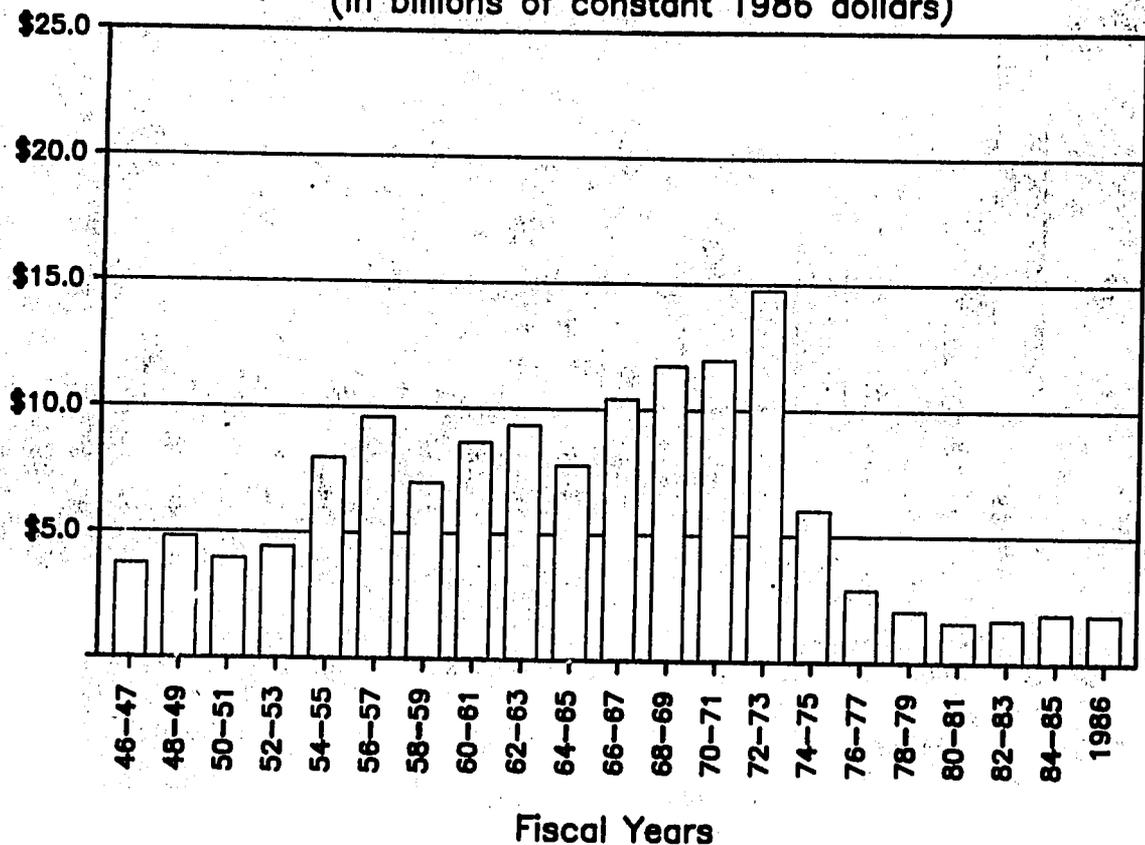
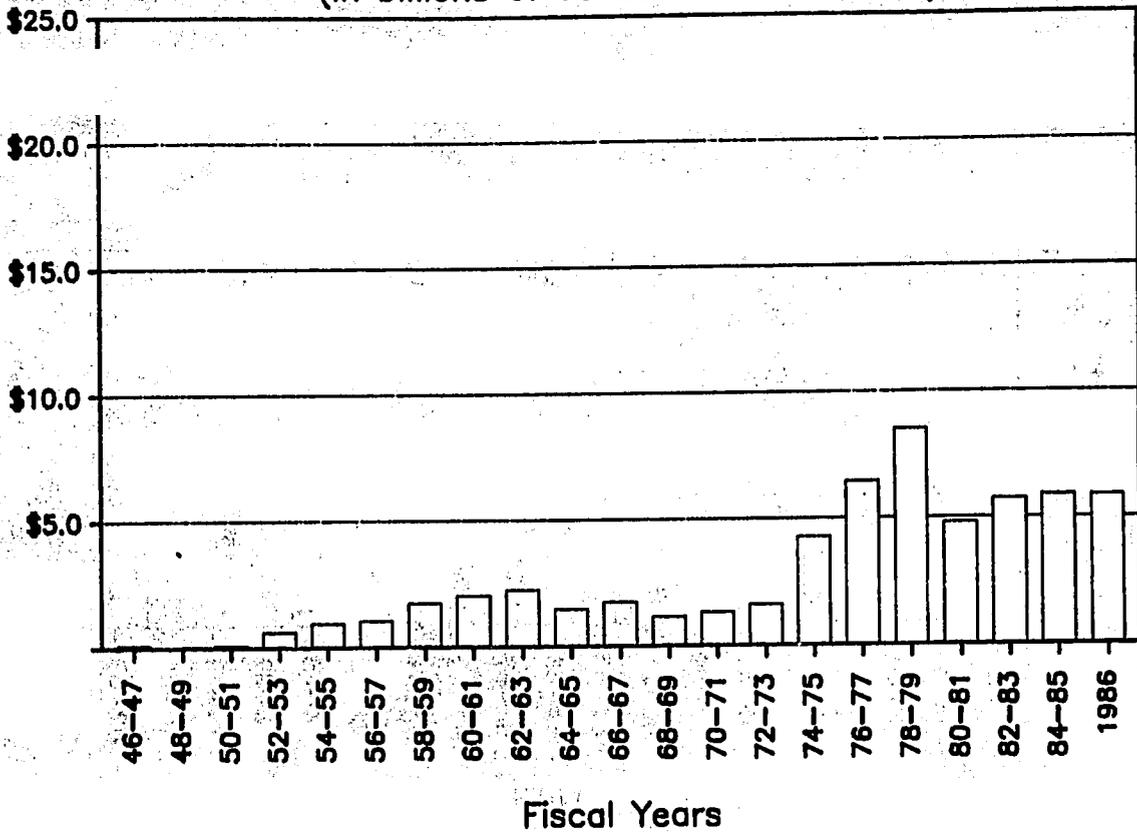


Chart III shows aid to the Middle East, a modest recipient until 1972-73. By 1976-77, however, it replaces Asia as the largest recipient, which it remains to this day.

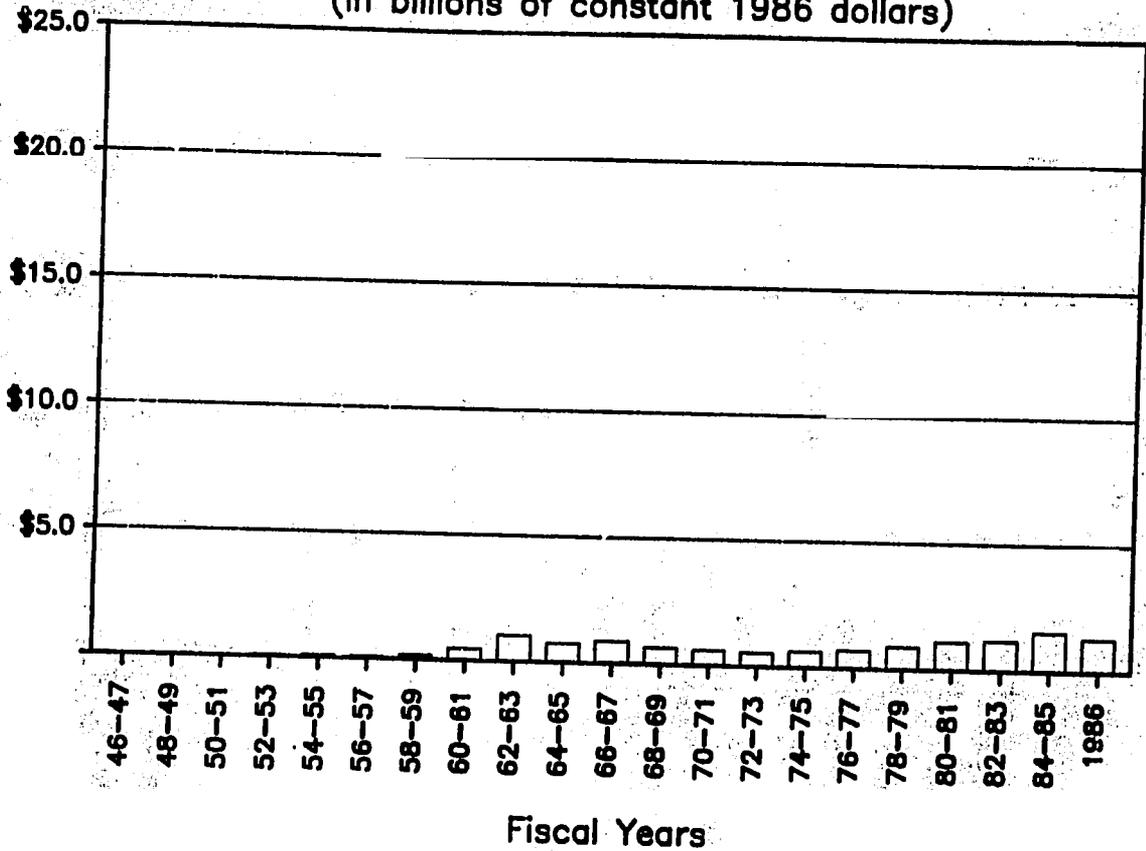
Chart III

U.S. AID TO THE MIDDLE EAST, 1946-1986  
(in billions of constant 1986 dollars)



Both Africa and Latin America are the focus of much policy attention when aid is discussed, but Charts IV and V dramatize the relatively small roles that both have played as aid recipients. First Africa...

U.S. AID TO AFRICA, 1946-1986  
(in billions of constant 1986 dollars)



and next Latin America. Chart V shows the growth spurt of the Alliance for Progress in the 62-67 period, and the reemergence of aid to Central America in the nineteen eighties.

Chart V

### U.S. AID TO LATIN AMERICA, 1946-1986 (in billions of constant 1986 dollars)

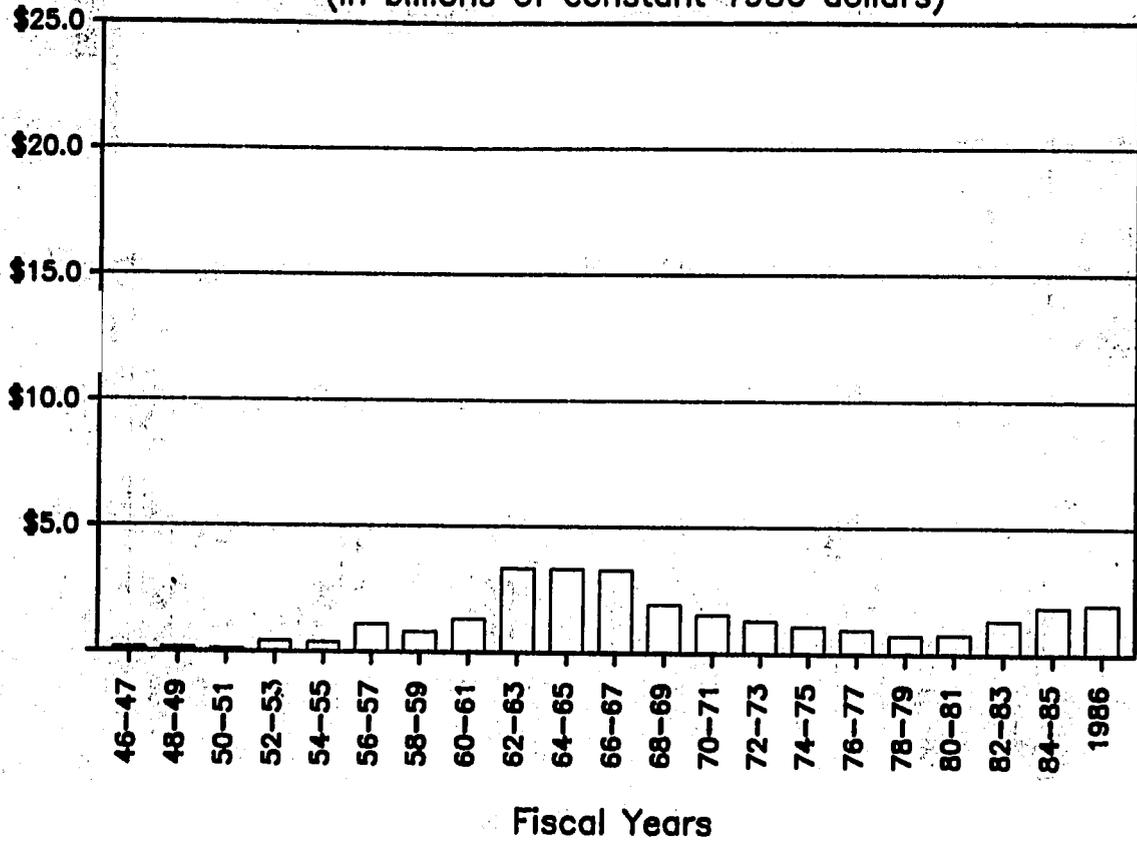
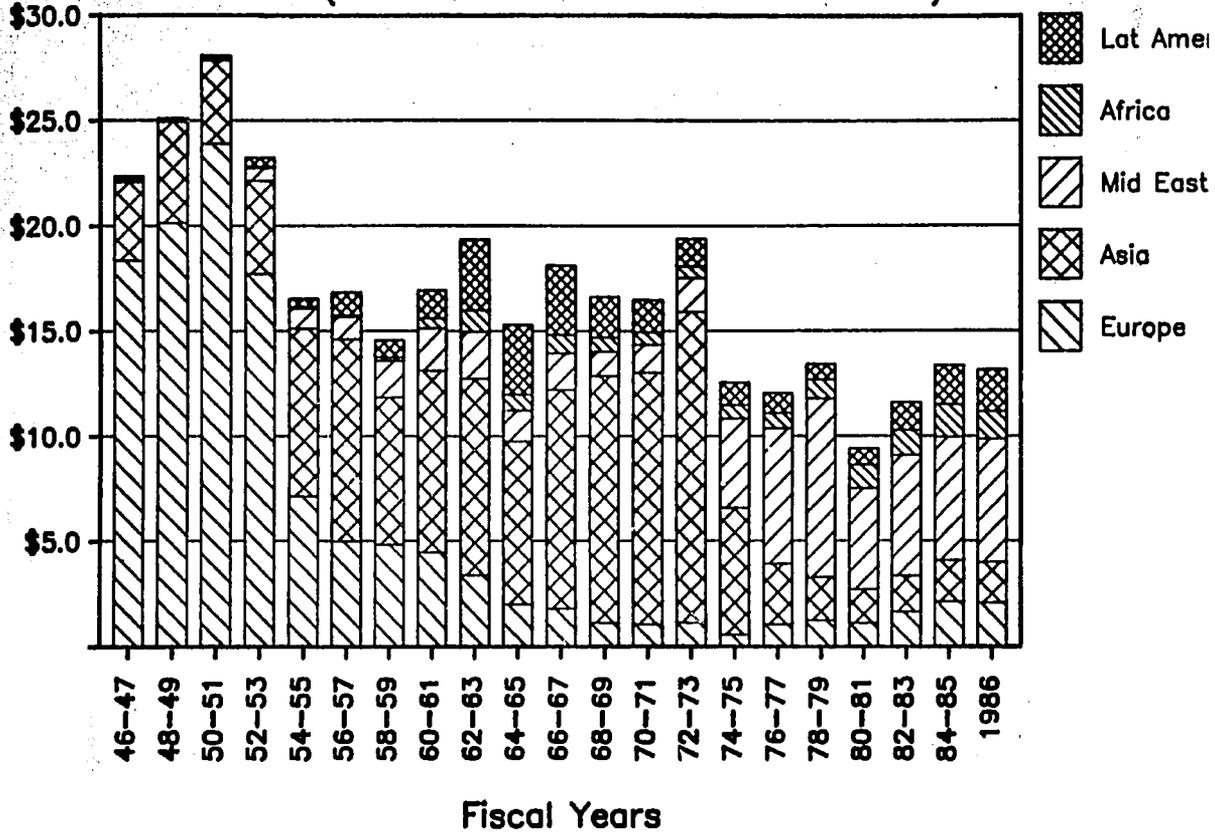


Chart VI puts the five preceding ones together to provide a regional overview of U.S. aid programs. The dominance of Asia between 1954 and 1973 stands out, as does the subsequent emergence of the Middle East.

Chart VI

U.S. FOREIGN AID, 1946-86, BY MAJOR REGION  
(in billions of constant 1986 dollars)



### Evolution of Aid by Major Programs

The next set of charts show the major program components of this aid. Again, each component is presented separately, and then Chart XII shows how they add up to the totality of U.S. foreign aid.

First, development aid is shown in Chart VII. High as an element in early European aid, development aid declined during the focus on security assistance in Asia in the mid-1950s, emerged to a peak in 1964-65 when it appealed both as a means of containing communism and as an end in itself, then declined as disillusionment set in.

Chart VII

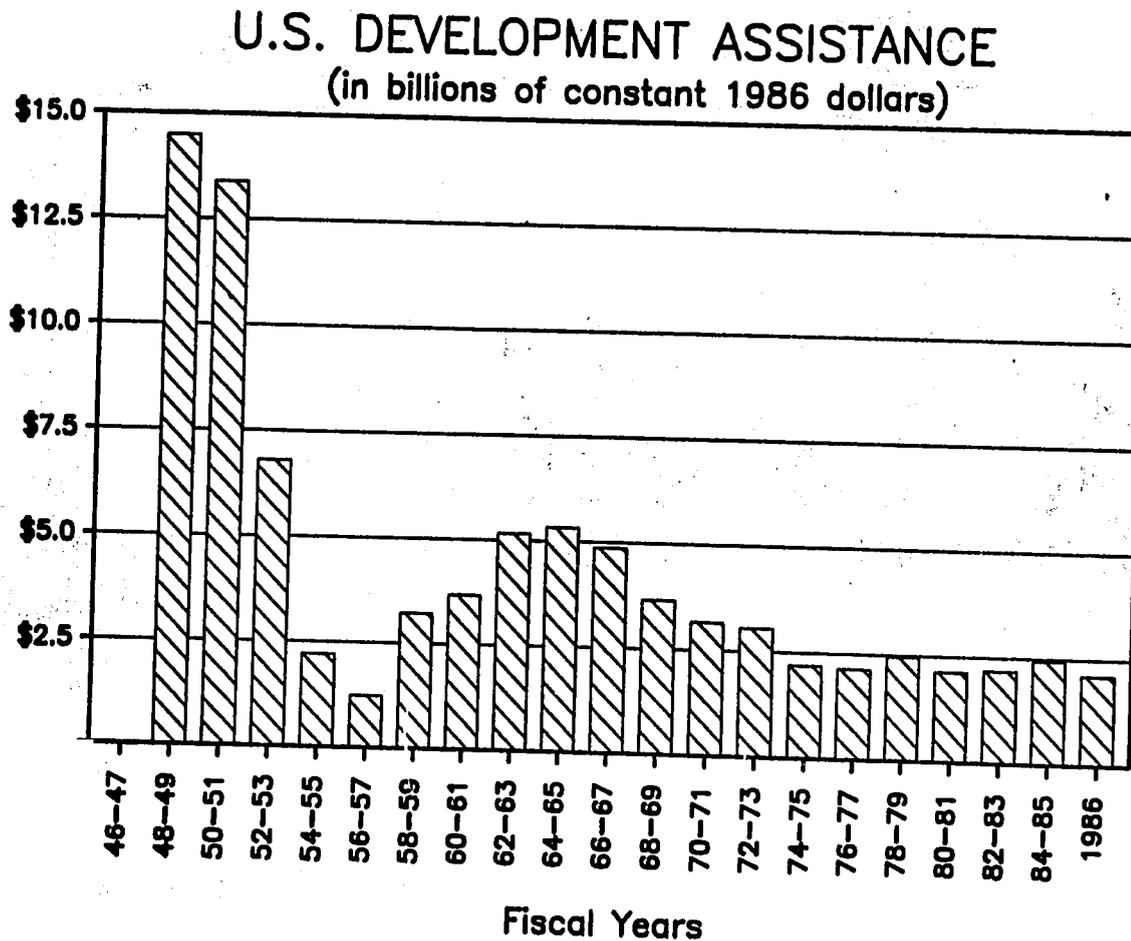
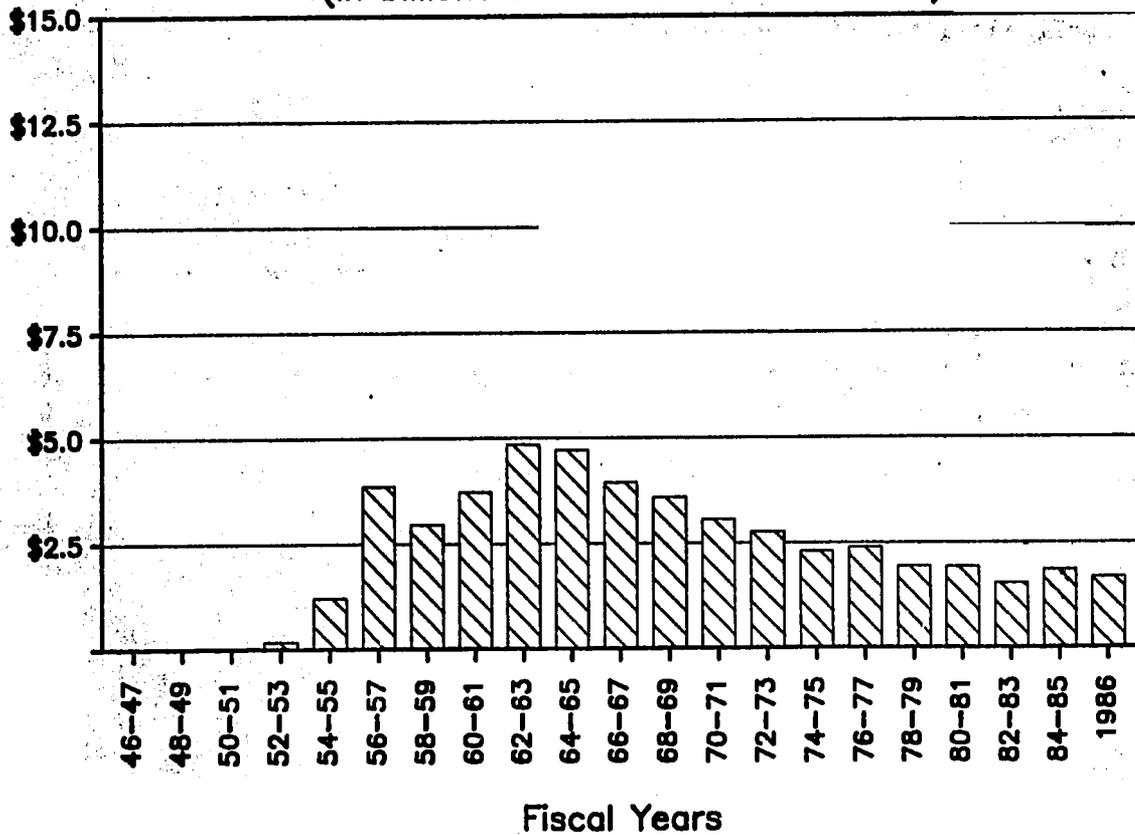


Chart VIII shows food aid. It emerges as an important aid mechanism in the mid-1950s, peaking during 1962-63. The subsequent decline was even more dramatic than it appears here because steep increases in grain prices resulted in major declines in the amount of food that could be bought per dollar expended.

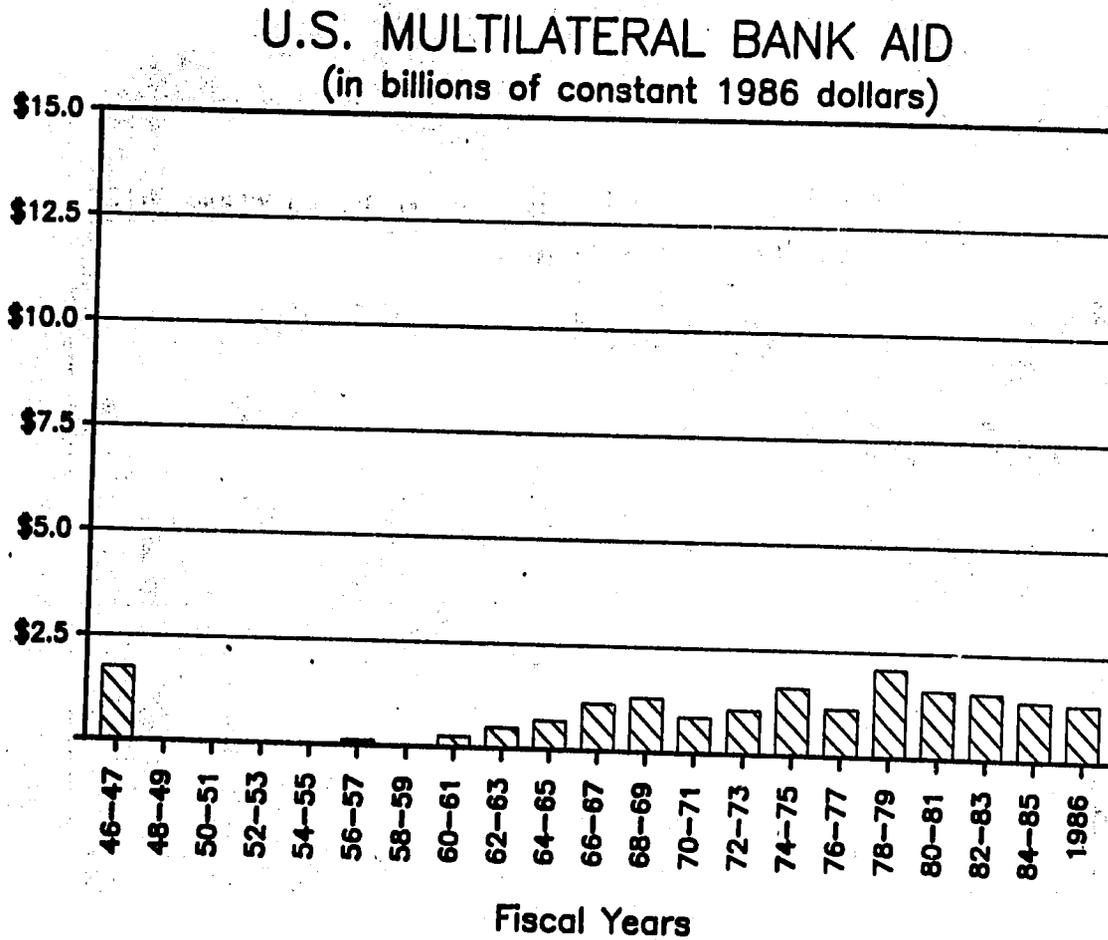
Chart VIII

**U.S. FOOD AID**  
(in billions of constant 1986 dollars)



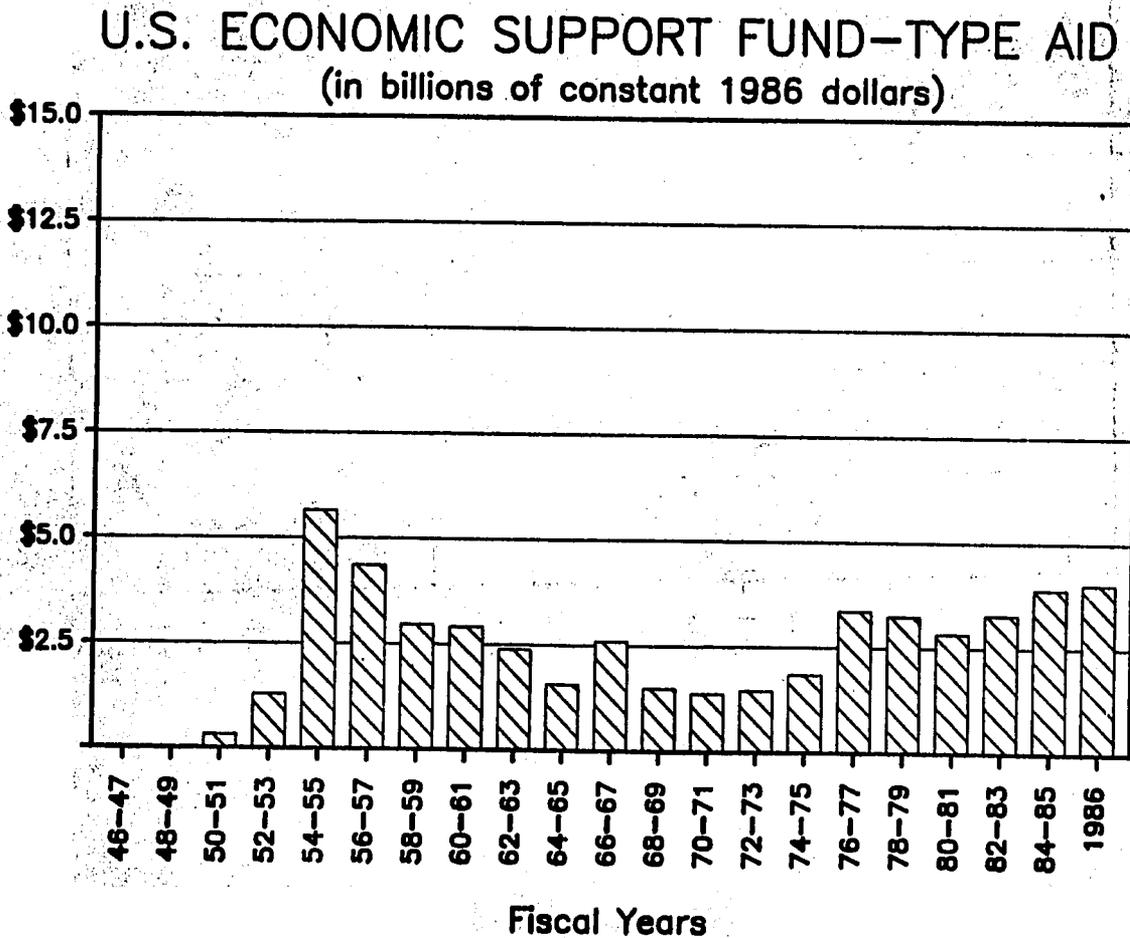
Multilateral aid (Chart IX) emerged in the early 1960s in conjunction with the "development for development's sake" view, but has never become a dominant feature in U.S. aid.

Chart IX



The Economic Support Fund (ESF) and its precursor programs (Chart X) were substantial in the mid-1950s, but declined during the 1960s and early 1970s. ESF began to reemerge in the late 1970s as one of the few programs that provides flexible and timely aid in support of national security goals. It is now focused on the Israel, Egypt, Pakistan and countries of Central America.

Chart X



Finally, the real value of military aid is seen in Chart XI. This has been the largest aid category during much of the post war period. Peaks appear in 1952-53 because of Greece, Taiwan, and Korea; and in 1972-73 because of Vietnam. It has, in the past five years, again begun to grow following a low point in 1980-81.

Chart XI

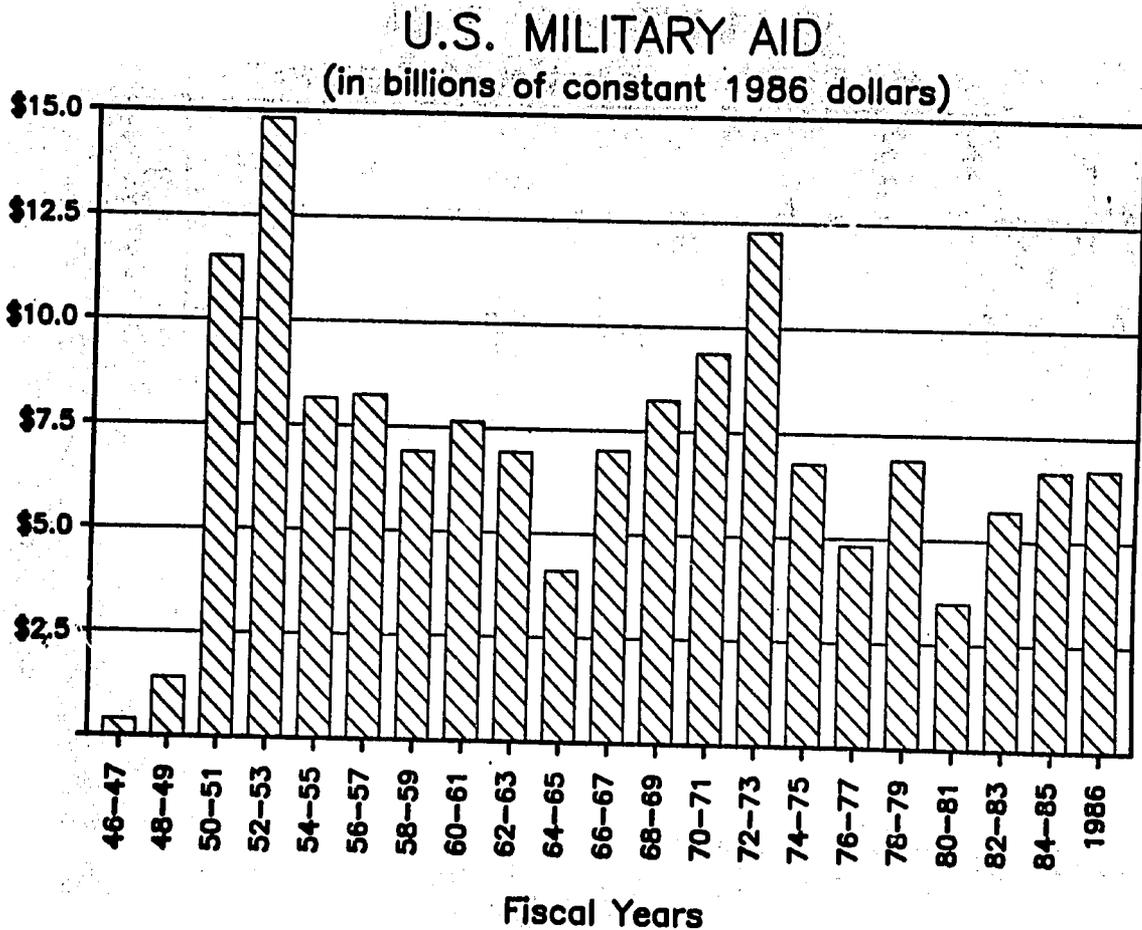


Chart XII shows the impressive scale of early aid to Europe and Asia, and then, despite significant shifts in program emphasizes, the relatively stable cost of foreign aid subsequently, in real terms. In only three of the two year periods did the average exceed \$20 billion and in only one did it fall below \$15 billion (in 1986 dollars).

Chart XII

**U.S. FOREIGN AID, 1946-86, BY MAJOR PROGRAM**  
(in billions of constant 1986 dollars)

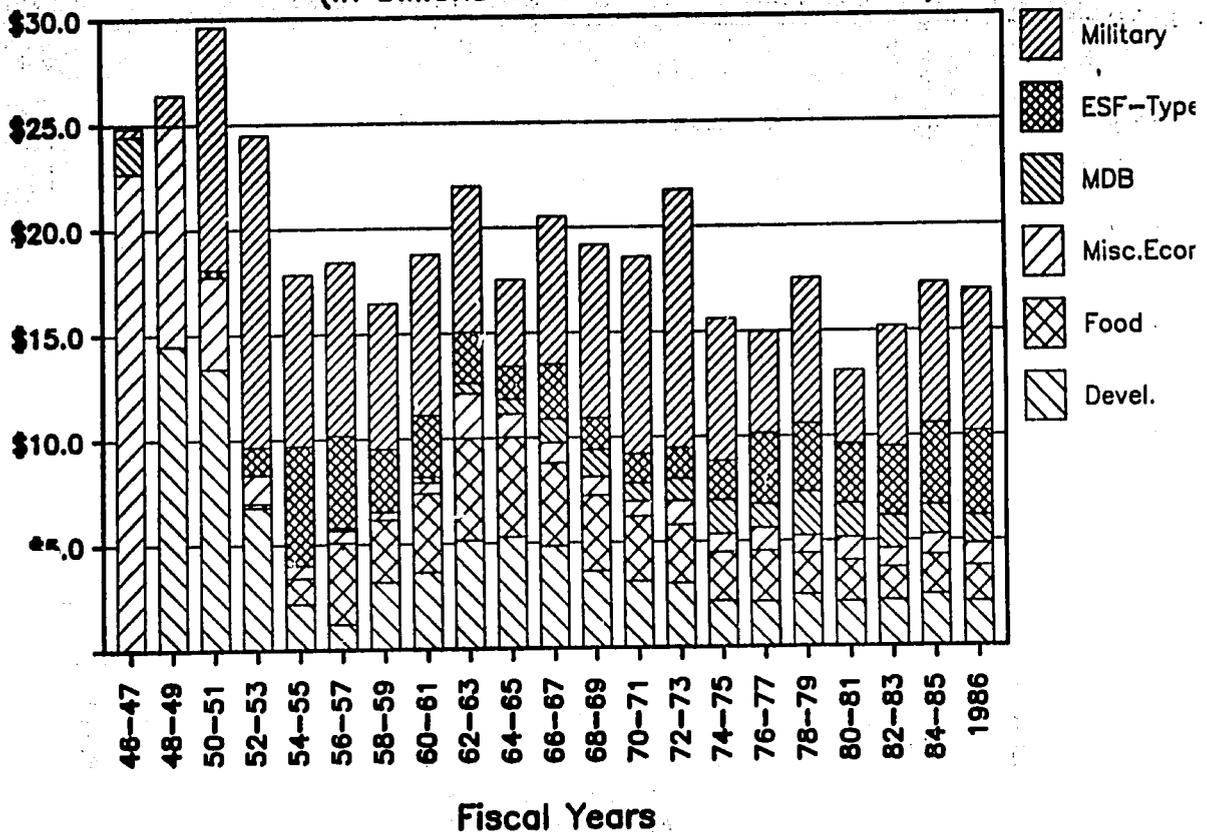
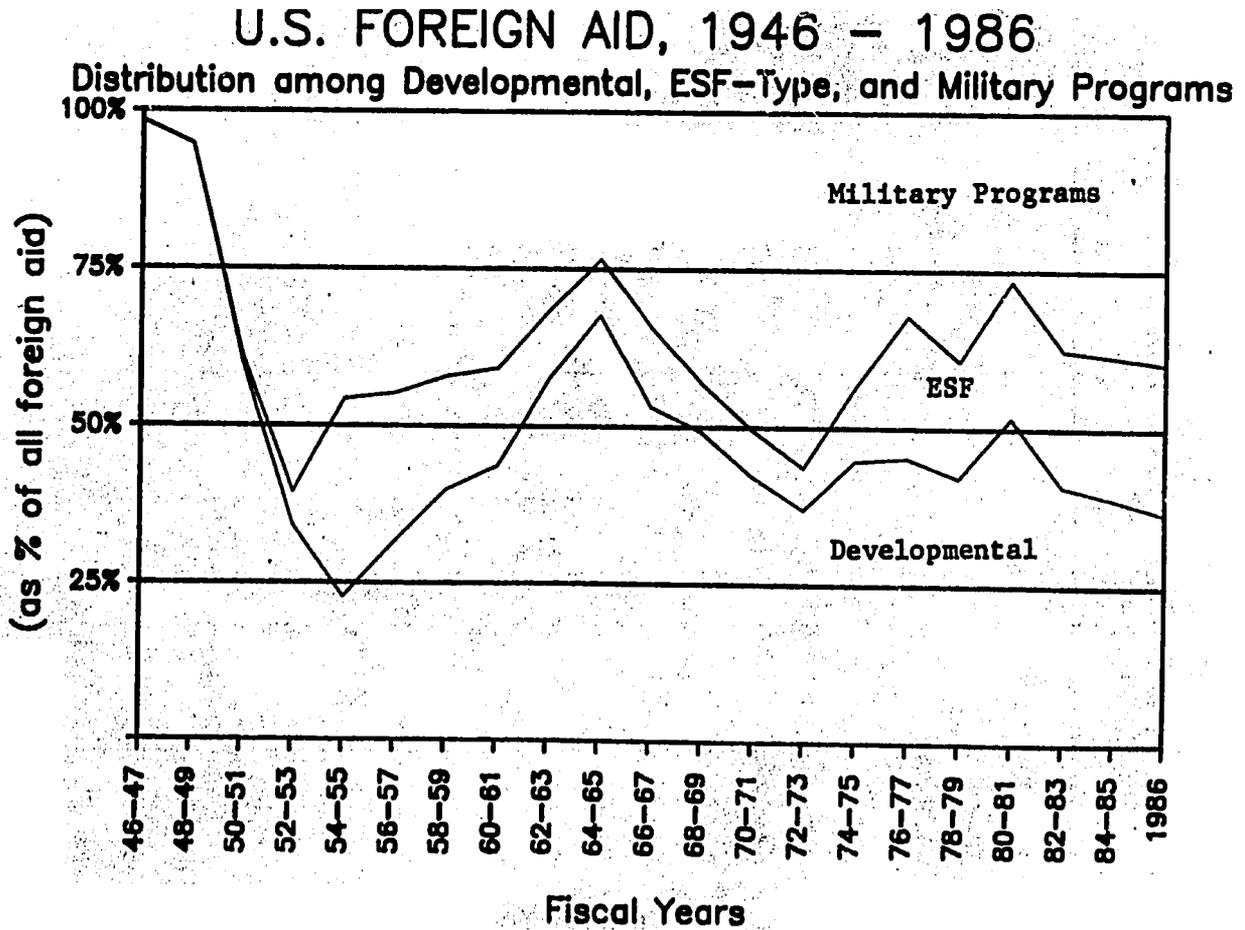


Chart XIII shows the shifting balance between economic and military aid programs. The dominance of development aid through 1951 is clear, as is the emergence of military aid as the major type of aid in 1952, with a substantial component of economic support emerging over the next decade. Development aid reemerges as the dominant type between 1960 and 1969. Military aid dominates in the early 1970s (inclusion of MASF would show even greater military dominance during this period), but then decreases rapidly between 1972 and 1981. Finally, the growth of ESF as a major program component is clear beginning around 1974.

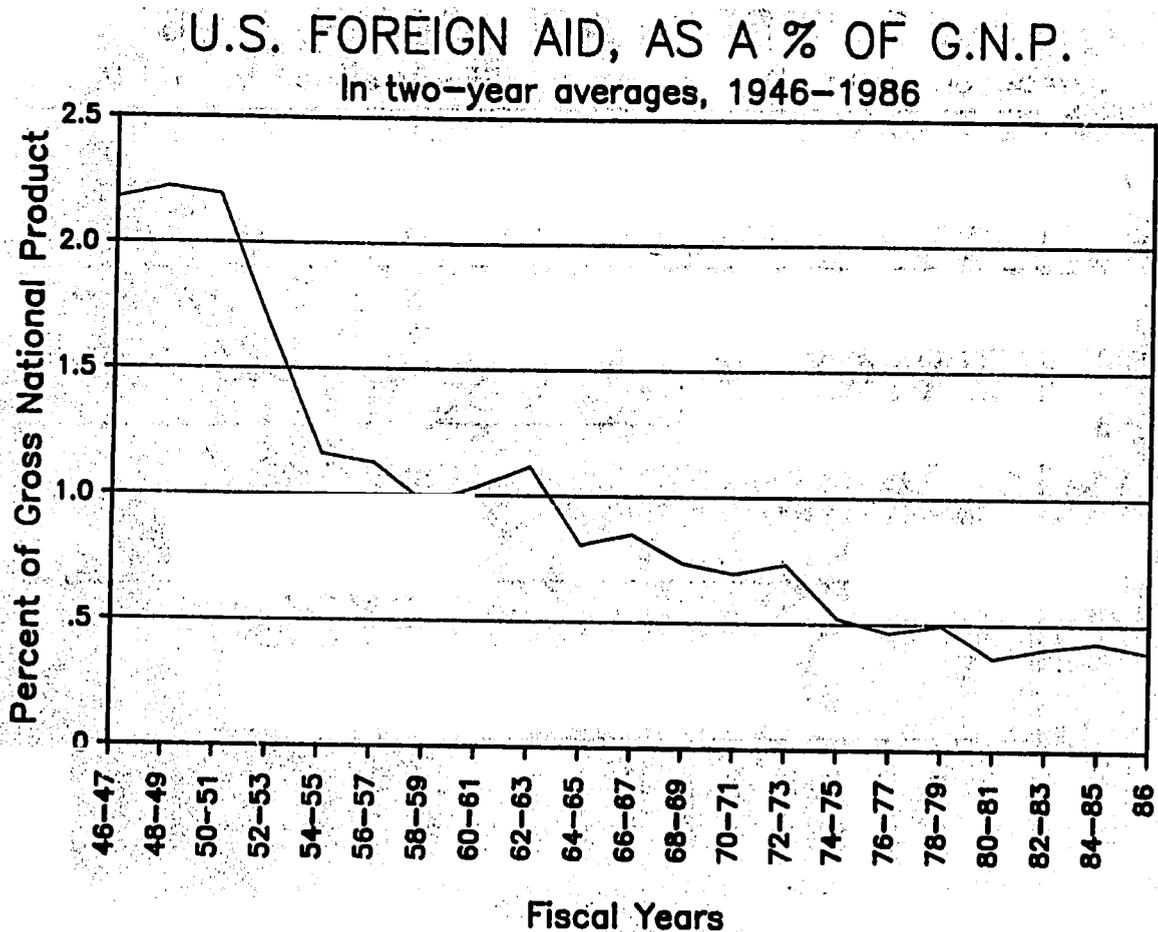
Chart XIII



### Aid as a Percent of Gross National Product

The final image (Chart XIV) reflects national commitment to foreign aid. This is illustrated by annual foreign aid obligations as a share of U.S. Gross National Product. Aid to Europe and Asia through 1951 ran over 2% of GNP. The late 1950s and early 1960s saw aid at about 1% of GNP. The effects of disillusionment and an increasing focus on domestic U.S. problems are clearly evident in the progressive decline since 1963 to a low of less than four-tenths of one percent in 1981.

Chart XIV



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**APPENDIX**

**TABLES OF FOREIGN AID  
OBLIGATIONS 1946-86**

Table 1  
 U.S. Foreign Aid, 1946-86, by Major Region  
 (2-year averages, in billions of constant 1986 dollars)

Year	Europe	Asia	Mid-East	Africa	L. America	Totals
1946-47	\$18.341	\$3.730	\$.109	\$.024	\$.149	\$22.353
1948-49	20.138	4.809	.003	.002	.154	25.106
1950-51	23.907	3.955	.087	.002	.100	28.051
1952-53	17.713	4.421	.614	.058	.421	23.227
1954-55	7.132	7.978	.955	.084	.372	16.521
1956-57	4.998	9.604	1.056	.072	1.094	16.824
1958-59	4.840	7.006	1.741	.166	.795	14.548
1960-61	4.471	8.636	2.025	.466	1.313	16.911
1962-63	3.392	9.336	2.243	1.026	3.327	19.324
1964-65	2.004	7.749	1.473	.754	3.311	15.291
1966-67	1.798	10.409	1.741	.881	3.272	18.101
1968-69	1.121	11.744	1.156	.670	1.909	16.610
1970-71	1.051	11.971	1.326	.604	1.523	16.475
1972-73	1.142	14.767	1.617	.549	1.293	19.368
1974-75	.565	6.012	4.264	.642	1.073	12.554
1976-77	1.052	2.876	6.447	.717	.951	12.043
1978-79	1.243	2.046	8.510	.888	.729	13.416
1980-81	1.116	1.600	4.799	1.121	.768	9.404
1982-83	1.657	1.712	5.723	1.189	1.324	11.605
1984-85	2.131	1.953	5.879	1.540	1.856	13.359
1986 <sup>#/</sup>	3.078	1.925	5.864	1.310	1.968	13.145
<u>Totals</u> <sup>**/</sup>	\$243.780	\$268.478	\$115.264	\$25.530	\$55.420	\$708.472

\*/ This table does not include about \$120 billion in foreign aid obligations that were not focused on specific regions.

#/ Administration request

\*\*/ Note: because figures for each two year period are averages, totals for the 30 years are double what would be obtained by adding the column.

TABLE 11  
U.S. Foreign Aid, 1946-86 By Major Programs  
(2-year averages, in billions of constant 1986 dollars)

Year	Development Assistance	Food Aid	Other Economic Aid	Multilateral Development Banks	Economic Support Fund	Military Aid	Total
1946-47		\$6.797	\$22.703	\$1.751		\$407	\$31.658
1948-49	\$14.484		10.499			1.414	26.397
1950-51	13.392		4.380		\$ .332	11.520	29.624
1952-53	6.797	.182	1.377		1.297	14.826	24.479
1954-55	2.217	1.219	.606		5.650	8.147	17.839
1956-57	1.242	3.862	.582	.131	4.362	8.240	18.419
1958-59	3.221	2.953	.379		2.972	6.913	16.438
1960-61	3.674	3.727	.521	.270	2.924	7.641	18.757
1962-63	5.163	4.849	2.124	.500	2.404	6.937	21.977
1964-65	5.327	4.714	1.116	.693	1.575	4.098	17.523
1966-67	4.869	3.943	.960	1.129	2.609	7.012	20.522
1968-69	3.662	3.590	.882	1.291	1.500	8.239	19.164
1970-71	3.169	3.062	.721	.862	1.388	9.368	18.570
1972-73	3.057	2.759	1.139	1.059	1.466	12.275	21.755
1974-75	2.206	2.301	.859	1.610	1.853	6.774	15.603
1976-77	2.156	2.395	1.086	1.141	3.367	4.824	14.969
1978-79	2.478	1.941	.841	2.096	3.254	6.893	17.503
1980-81	2.143	1.931	1.095	1.614	2.844	3.484	13.111
1982-83	2.195	1.540	.888	1.574	3.290	5.703	15.190
1984-85	2.463	1.857	.977	1.401	3.902	6.652	17.252
1986 <sup>*/</sup>	2.123	1.680	1.034	1.348	4.024	6.712	16.921
<u>Totals</u> <sup>*/</sup>	72.076	\$110.604	19.538	\$36.940	\$102.026	\$296.158	\$827.342

<sup>\*/</sup> Administration request

<sup>\*/</sup> Note: because figures for each two year period are averages, totals for the 30 years are double what would be obtained by adding the column.

Table III  
 U.S. Foreign Aid, 1946-1986  
 Distribution among Developmental, ESF-Type, and Military Programs

Year	Developmental	ESF & its Precursors	Military
1946-47	98.71%		1.29%
1948-49	94.64%		5.36%
1950-51	59.99%	1.12%	38.89%
1952-53	34.14%	5.30%	60.57%
1954-55	22.66%	31.67%	45.67%
1956-57	31.58%	23.68%	44.74%
1958-59	39.86%	18.08%	42.05%
1960-61	43.67%	15.59%	40.74%
1962-63	57.50%	10.94%	31.56%
1964-65	67.63%	8.99%	23.39%
1966-67	53.12%	12.71%	34.17%
1968-69	49.18%	7.83%	42.99%
1970-71	42.08	7.47%	50.45%
1972-73	36.84%	6.74%	56.42%
1974-75	44.71	11.88%	43.41%
1976-77	45.28%	22.49%	32.23%
1978-79	42.03%	18.59%	39.38%
1980-81	51.74%	21.69%	26.57%
1982-83	40.80%	21.66%	37.54%
1984-85	38.82%	22.62%	38.56%
1986	36.55%	23.78%	39.67%
Totals	51.87%	12.33%	35.80%

Table IV  
Foreign Aid as a Percent  
of Gross National Product  
1946-86

Year	Aid as a % of GNP
1946	1.47
1947	2.88
1948	1.23
1949	3.21
1950	2.08
1951	2.30
1952	1.96
1953	1.36
1954	1.30
1955	1.02
1956	1.15
1957	1.10
1958	.89
1959	1.04
1960	1.03
1961	1.04
1962	1.16
1963	1.07
1964	.83
1965	.78
1966	.91
1967	.79
1968	.77
1969	.70
1970	.66
1971	.73
1972	.76
1973	.71
1974	.59
1975	.45
1976	.52
1977	.41
1978	.42
1979	.57
1980	.37
1981	.36
1982	.40
1983	.41
1984	.43
1985	.43
1986	.39