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The Challenge of Foreign Aid

Policies, Problems, and Possibilities

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For

Beatrice and Esther

Whose future depends on those they do not know

Acknowledgement

My indebtedness for the virtues of this volume dates back at least to 1943, when I was set to work in wartime Washington evaluating food conditions and post-liberation relief requirements of what was then occupied Europe. Ever since, I have been close to foreign aid problems, through my work with the Department of State and the various incarnations of the U.S. foreign aid agency. The work brought many rich associations with public servants of extraordinary ability and dedication. My indebtedness to former superiors and subordinates, to former colleagues, and to former associates in other departments and in other governments and international organizations is beyond proper acknowledgement. Only those who have participated in these endeavors can appreciate how much we have all learned from each other over the years, and how impossible it is to attribute specific ideas or insights to any one individual. A list of names would be far too long and would risk indefensible omissions.

The preparation of the book, however, was undertaken after resigning from the public service. The views and conclusions do not purport to reflect the policy of the U.S. Government or the opinions of any of its officials.

Because my principal sources are former associates and personal experience, this volume may appear to some to be inadequately footnoted. While I have checked the published literature and owe much to such reading, both facts and insights derive primarily from experience. Much of the illustrative material concerns incidents and issues with which I have been personally involved. A trip across Asia in the spring of 1966 provided an opportunity to update information and exchange ideas with many distinguished private citizens and public servants in half a dozen major aid-receiving countries.

Several years ago, I mentioned to Ben T. Moore a long-standing desire to set down systematically the lessons of my foreign aid experience. His urging converted a vague intention into a firm purpose. Joseph Slater and John Howard encouraged me to organize the specific

project that resulted in this volume. The generosity of the Ford Foundation has made it possible.

A number of distinguished citizens of broad and varied experience and wise judgment agreed to serve as an advisory committee. All have commented at length and perceptively on the various draft chapters. Though the final version does not always reflect their views, it has benefited considerably from their questions, observations, and counsel. Readers who find clarity and sense in this volume are heavily in their debt; the nonsense they may find is my own responsibility. The committee included Randolph Burgess, William Diebold, Donald Fraser, Fowler Hamilton, Klaus Knorr, Wilfred Malenbaum, Hart Perry, and Harry Schwartz.

In addition, various chapters benefited from the comments of David Richardson, Seymour J. Rubin, and John A. Brown. Vincent Rock and Louis H. Mayo, successive directors of the Program of Policy Studies in Science and Technology at The George Washington University, gave the project unceasing support. I am also grateful for the unusually dedicated and conscientious research and secretarial assistance of Kerrie LaFontaine, Helen Klein, Elizabeth Gard, Virginia Edwards, and Barbara Venemann. Miss Edwards produced the final manuscript with remarkable speed and accuracy.

This book does not parade evidence of venality in the foreign aid program. Such abuses undoubtedly and inevitably exist, whether on the part of aid administrators or aid recipients. However, the most important abuses are not those of illegal or improper personal conduct. The greater waste by far stems from employment of aid resources for purposes they are ill fitted to serve or for ends that stand low on the nation's scale of priorities. When as a result high-priority problems that might have been successfully addressed are neglected, the abuses are serious indeed. In foreign aid, the errors of omission have been much more costly than the errors of commission. These are the proper abuses to emphasize.

J. J. K.

Chevy Chase, Maryland
August, 1966

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Introduction: "Why Are We Suddenly So Fatigued?"

This study originated in a concern about entrenched indifference within the United States to the fate of its foreign aid programs. Every President of the United States since Franklin Roosevelt has called upon the Congress each year to appropriate large sums for foreign countries. Each has justified his requests as necessary to the interests of the United States. Invariably, each has received smaller appropriations and less flexible authority to use the funds than he deemed prudent. The annual executive branch hassle with the Congress over foreign aid legislation has become one of the least edifying facets of our national life. The very persistence of such open debate has detracted considerably from the value of the aid.

For two decades, Presidents have regularly reacted to Congressional treatment of foreign aid legislation with fitful expressions of exasperation and frustration. At his very last press conference, President Kennedy summed up a discourse on this subject by observing, "I don't know why we are suddenly so fatigued."

President Johnson responded to this Congressional ennui, if not outright hostility, by abandoning the ritual of seeking increased appropriations each year. If major reductions below Presidential requests were thus avoided in 1964 and 1965, no more enthusiasm for the program ensued than had been generated by the more demanding proposals of his predecessors. Nor have the changes emanating from a 1965 review of the program, *in camera*, by the President's Advisory Committee of distinguished private citizens helped very much. Its proposals for more emphasis on health, education, and agriculture have been judged praiseworthy but unresponsive to more basic reservations about the program as a whole.

In 1966, the President again sought about the same amount that had been appropriated in the preceding year. The Congress, however, appeared ready to resume its traditional slashing. The Senate authorized

less money than any Congressional appropriation for foreign aid since 1957. Moreover, it proposed the creation of a committee to recommend revisions, to consist of eight members of the Congress and four private citizens appointed by the President.

The Need for Review and Reform

What explains this sorry state of affairs? Some have reacted to the war in Vietnam and the still unrealized prospects for a Great Society at home by urging concentration on unfinished domestic business. Others question whether a society can truly achieve greatness if it neglects its responsibilities for world leadership and turns its back on the human condition outside its borders.

For its part, the Congress is obviously reflecting doubts that are widespread among constituents. Public-opinion polls continue to show a small majority in favor of foreign aid. But newspaper editorials, public speeches, letters to the editor, and manifestos of nongovernmental experts, to say nothing of book authors, all suggest that even the supporters of foreign aid are critical of the program and want it altered. There is neither consensus about the nature of the changes that are required nor much apparent enthusiasm for their own views on the part of critics, supporters, or opponents. The national consensus appears to be one of reservations and doubts, with few strong convictions apparent and minimal public debate or attention to the problems. Torpor is perhaps a more serious threat to the programs than active opposition.

Indifference is in part rooted in the inherent limitations of the aid program itself. Neither the Congress, the press, nor the public appears to be indifferent to the recurrent crises occurring in less developed lands—whether they be within individual countries, between two or more developing nations, or between developing nations and great powers. Rather is it the frequency of such crises—despite the aid program—that produces frustration, resignation, and progressive apathy.

Indeed, a clear-cut and convincing causal connection between the aid program and the resolution of crises is exceedingly difficult to establish. The President offered massive aid to Southeast Asia if the fighting in Vietnam were to cease and the efforts of its peoples were to be focused on constructive economic and social tasks, only to find that aid was not too relevant to the primary concerns of those engaged in the hostilities. Nor did an offer of greatly increased aid to the Domini-

can Republic contribute to calming the passions of the protagonists there. India and Pakistan engaged in open warfare despite the concentration in these lands of a fourth of all U.S. assistance over a period of years. It is all too easy to conclude that foreign aid is an impotent or irrelevant policy instrument for dealing with the nation's principal international concerns.

Further reflection soon suggests that such a conclusion is superficial and mischievous, capable of circumscribing one of the nation's most useful instruments in the international arena. Once a crisis has erupted, foreign aid is certainly a weak weapon, though perhaps a necessary one. The immediate causes of most such crises concern matters wherein foreign aid is of marginal significance at best. As in Vietnam, they may nevertheless be symptomatic of the inadequacy or failure of the aid program, much as war epitomizes the failure of diplomacy. Were aid or diplomacy to be abandoned in the face of failures, subsequent disasters would be even worse. Unsuccessful policy instruments do need to be re-examined, refurbished, and redirected. They should be discarded, however, only if more promising alternatives can be devised. Whether for diplomacy or for foreign aid programs, realistic alternatives seem most unlikely.

Defenders of the present program contend that foreign aid must be continued, although some failures are inevitable and crises can never be completely forestalled. It is surely beyond the wildest dreams to hope to rid the world of international turmoil. Neither foreign aid nor diplomacy, even if employed in the most imaginative and creative combinations, is likely to bring this about. Only an infinite capacity for self-delusion would justify continued foreign aid on the basis of such aspirations.

Nevertheless, fatigue and frustration with the achievements of the program to date do seem to indicate the need for a re-examination, to see whether future programs cannot be directed more purposefully and more effectively in the light of the nation's aspirations and interests. It is reasonable to ask whether the possibility of such crises was anticipated and whether the foreign aid program was directed as pointedly as possible toward preventing their occurrence. Can the foreign aid program be better aligned with the nation's highest priority objectives in developing lands, both short term and longer range? Can aid only ease the international concerns of a future generation of Americans, as some of its proponents contend, while more immediate

problems are addressed as best we can with other instruments? Can it really contribute to a glowing, if remote, future if it is abstracted from the difficulties of a turbulent present?

Frequently the best antidote to fatigue is to open the windows and let in fresh air. So it may be in the case of U.S. foreign aid programs. If both interest and support within the United States are to be revived, the issues must be ventilated. Nevertheless, reappraisal and reform should not be undertaken for the pure joy of making changes or to satisfy critics. Revision for the sake of permitting a public figure to place his own mark on a hitherto intractable problem can be a mixed blessing. The perils of unwise reform for the sake of a new "image" are very real, as the analysis in this volume of some current proposals will demonstrate. Risk of ill-advised amendments to the program should not, however, be permitted to inhibit the quest for necessary and desirable changes. So long as the Congress is dissatisfied with the programs, it will seek to alter them. Sound national decisions are more likely to result from open consideration of alternatives, in full view of the Congress and the public.

A solid case can be made for review and revision of U.S. foreign aid programs. In part, it is based on little more than recognition that foreign policy problems and the international milieu are themselves changing; operations designed to meet those problems and to influence that environment must be altered in the light of new circumstances. Even stronger justification can be found in the origin and nature of the programs themselves. Their beginnings coincided with the abandonment of American isolationism and the inauguration of a policy of positive intervention in the affairs of the world. Intuitively and instinctively, the use of the unparalleled capacity of the United States to produce goods and services became an obvious instrument for making such intervention effective. But the rejection of isolationism achieved a readier national consensus than the purposes and nature of the interventionist policy. Moreover, the primacy of U.S. power was not matched by a comparable superiority of experience and skills in formulating and executing a positive, activist foreign policy.

With experience has come growing understanding of both the difficulties and the potentialities of the programs. It is no exaggeration to say that U.S. aid to developing nations represents an unfamiliar technique used by a government inexperienced in foreign operations to deal with complex problems in those lands whose traditions and cul-

ture differ most from its own. It is little more than two decades since the United States undertook to give of its affluence to other countries; its attention during the first half of that period was riveted on lands that had previously attained an advanced state of industrialization. Surely it is folly—whether defensive or arrogant—to deny either the necessity for periodic thoroughgoing review or the likelihood that additional experience will lead to substantial changes after each such review.

The first legislation to authorize large-scale financing for a considerable number of developing nations was the Mutual Security Act of 1954. It was renewed and amended—almost beyond recognition—until 1961. In March of that year, President Kennedy established a Task Force to rewrite the legislation, to revise the policies, and to reorganize the administration of the program. Within a short three months, a revised approach to U.S. aid was hammered out and presented to Congress.

Initial acclaim for the ensuing changes in policies and operations soon degenerated into the same grudging acceptance and critical acquiescence that had previously characterized public and Congressional attitudes. With some reason, defenders assert that most of the 1961 concepts remain basically sound and that the difficult problems of the developing world require time and patience. Five years may be too brief a period to expect dramatically improved results from a revised approach to foreign aid. However, it is long enough for a review of experience in applying "A New Program with New Concepts,"* as the 1961 proposals were termed. Moreover, it is worth recalling that key elements of the Task Force program were put into effect only partially, if at all, because of bureaucratic considerations within the executive branch or Congressional opposition.

Some of the subsequent shortcomings can be attributed to failure to carry out the proposed reforms. The 1961 program had seven major points. Consider the following four:

1. The unification of aid administration. In fact, only the Development Loan Fund and the International Cooperation Administration were combined. The Agency for International Development, which resulted from this limited merger, has administered only about 40 per cent of new U.S. resource contributions to foreign lands.

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* *An Act for International Development, Fiscal Year 1962* (Washington, D.C.: GPO, 1961).

2. Country programming—relating the totality of external assistance to the recipient country's own program for using all its available resources. Lacking control over most of U.S. foreign aid, AID has had to implement country programming through the onerous and ambiguous device of "coordination" among aid-administering agencies.

3. Long term availability of funds. Denied to the new agency by the Congress, the lack of such authority has weakened the power of the executive branch to bargain with recipient nations. Needy nations, moreover, now have no assurance that aid will be available even if they demonstrate their qualifications.

4. Mobilizing free world aid resources. Better burden-sharing and improved coordination with other free world donors of aid were to be accomplished largely through the OECD and its Development Assistance Committee. According to the DAC itself, U.S. expenditures on economic aid have grown in the interim more than those of other free world nations, rising from 55 per cent of the total in the late 1950's to about 60 per cent since 1962.* Annual U.S. aid commitments were two-thirds of the DAC total in the years 1962–64. Moreover, coordination among the various donors has seen only modest improvement. The burden-sharing grievance has dampened conviction about the value of aid programs to the United States. Continued U.S. balance-of-payments difficulties, while many another reluctant donor piles up foreign exchange reserves, has exacerbated the problem further.

If these four conceptions of 1961 remain unfulfilled, others need reexamination and refinement in the light of subsequent experience. Most prominent among these is a set of doctrines that reflect the economic development syndrome, an exaggerated and distorted emphasis on using aid to maximize the increase in production of goods and services in developing nations. Conceived out of a pendulum reaction against the use of aid for inappropriate short-term political objectives or for low-priority improvements in the military establishments of developing countries, economic development came to be regarded as the only "worthy" use of aid funds. Such abiding U.S. concerns as political development and regional integration, social reform and foreign policy behavior, seemed to be less relevant considerations—except under the Alliance for Progress. A maximum rate of growth in each year's GNP

* Statistical tables released to the press by the DAC on July 20, 1966, in connection with a DAC meeting in Washington.

in every developing country sometimes emerged as the end-all and be-all of U.S. concerns. Disillusion inevitably followed on the realization that many a developing nation had other preoccupying problems and objectives and frequently put them above the economic development goal. Sometimes, though not always, U.S. interests were better served by the priorities actually followed by aid recipients.

Many a developing nation misread these doctrines to mean that the U.S. accepted a moral obligation to aid those whose economic plans and policies were sound and appropriate, no matter what they might do about other matters. Many of the actions by developing nations that ensued, in total disregard of U.S. interests and views, would undoubtedly have occurred whatever the stated criteria of eligibility for U.S. aid. Nevertheless, some developing nations began to hedge their bets further with the East or to step up quarrels with their neighbors. They may have expected to qualify for U.S. aid solely by meeting the economic criteria or they may have hoped to soften their application by creating doubts about support for U.S. foreign policies.

In any event, the effectiveness of foreign aid as a means of protecting U.S. interests and tempering the opposition of developing nations to U.S. policies was diminished by the economic development doctrine. Government-sponsored attacks on U.S. embassies, demonstrations against American foreign policies, uncompensated expropriation of U.S. property, aggression against neighbors, military revolts, and the suppression of political liberties—all these phenomena seemed unusually prevalent in the first half of the 1960's. When their U.S. aid came into question, sometimes as a result of Congressional prodding, the affected developing nations reacted with sometimes feigned surprise. Undoubtedly, public and Congressional support for the foreign aid program suffered in the process.

The economic development syndrome was partly responsible for the shift from grants to loans. The debt-service capacity of developing nations thereafter became heavily overloaded, as other industrialized countries all too eagerly joined the United States in extending aid in the form of loans rather than grants. By 1965, excessive debt service had become a preoccupying problem for so many developing nations that the validity of continued public, publicly guarantied, and private loans to them was called into question. It has proved fallacious to equate productive use of funds in developing areas with ability to pay interest and amortization for their use.

Two further elements of the 1961 program deserve reconsideration, though they have to date received little attention. These neglect the national interest in further strengthening societies whose economic situation is relatively favorable, and in contributing to others despite unfavorable prospects for high rates of economic progress at an early date. First, the elimination of countries from the list of aid recipients at the earliest possible date became an obsessive goal of a program that was supposed to rocket poor nations into a state of self-sustaining growth. Widespread skepticism was to be overcome by demonstrating "success" in a number of cases and promising more in the not too distant future. Such countries as Mexico, the Philippines, Iran, Taiwan, and Greece were designated for early termination of aid. Many more countries were supposed to be just a few years further away.

Obviously recipients and donors alike would welcome an end to the need for aid. But should help cease while urgent need persists? And how is need to be defined? Zeal for parading examples of "success" can result in decisions to halt aid before the conditions that led to its inauguration have been corrected. Perhaps even more questionable is the wisdom of promising candidates for early termination whose prospects for making the list remain "just around the corner."

In addition, the 1961 principles would have concentrated aid resources in those countries with the best prospects for economic growth. Countries whose growth potential was limited by a lack of skilled manpower were to receive only technical assistance and financing for an occasional capital project. They were presumed to have little capacity to make constructive use of much capital financing. These notions have worked to restrict U.S. aid activities in Africa south of the Sahara. Yet, aid to this region has reached $1.25 billion a year, largely furnished under European and multilateral programs. If the U.S. doctrine is correct, other donors should be persuaded to reallocate their aid to more promising parts of the world. If not, the United States might consider whether its interests and those of other donors are best served by maintaining the existing allocation of donor responsibilities.

The Congress has reflected concern about many of the foregoing issues. The House of Representatives added a major new section to the 1966 legislation to underline its concern about the slow pace of political development. Some legislators have urged three major reforms of less certain merit: (1) turning U.S. aid over to the World Bank; (2) limiting aid to specific projects rather than financing the importa-

tion of commodities; (3) reducing the number of countries receiving assistance.

The foregoing list of arguable policies and debatable issues is not exhaustive. Yet the record of the programs is far from a chronicle of despair. To suggest the need for incorporating recent experience and new insight is not to gainsay the solid achievements since the 1961 program was introduced, or those of the period that preceded. Whatever the current tribulations, the world would offer an even less comforting prospect to Americans than it does had aid programs to developing nations never been initiated.

Nevertheless, the case for review and reform of the program remains. The lessons of experience need to be incorporated without denigrating or exaggerating either the achievements that have been realized or those that may realistically be expected. It is as futile to ignore or deny deficiencies as it is to become frustrated by them.

The Purposes of Foreign Aid

This volume begins with an extensive dissection of the ideology and purpose of the aid program. No review of policy issues can be meaningful unless framed by the objectives that are to be served. To begin with the fundamental purposes of U.S. foreign aid is to risk generalities that defy contradiction and respect. And it is all too easy to fall into clichés, an old device for cutting off discussion and thought. Americans have been prone to do just that, ignoring questions of purpose and concentrating their energies on the detailed application of the program. Foreign aid literature thus abounds with the statement "aid is an instrument of foreign policy," repeated without explanation or variation except for the occasional addition of "multi-purpose" to modify "instrument."

For more than two decades after Pearl Harbor, the fundamental purposes of U.S. foreign policy enjoyed an astonishingly high degree of national support. Under such conditions, foreign policy should have justified the programs and ended the debate. Instead, it elicited acquiescence without stifling doubts about all specific policy propositions that flowed as a logical consequence. Meaningful agreement awaited acceptance of the more specific foreign policy goals to be served and a better identification of how they should or could be served. With the appearance of influential and articulate critics of the wisdom of U.S.

foreign policy objectives, clarification of the purposes of aid has become even more essential.

Aid is currently unpopular with critics of U.S. foreign policy lest it serve unacceptable ends, and with supporters of that policy for not serving it better. Both groups need to have more understanding of both the uses and the limitations of foreign aid as an instrument of foreign policy. The relation between foreign aid programs and the nation's objectives abroad is sorely in need of clarification.

Disagreement is further encouraged by the bewildering variety of relationships that are integral to the purposes of the programs, yet remain imperfectly understood even by the wisest and best informed. Among these are the network of international goals of nations, whether Communist or non-Communist, new or old, large or small; the effect of economic growth on the internal political development and international behavior of developing nations; the effect on neighboring countries of superior achievement in the economic, political, or social field in a single developing nation; the effect of the international political climate on the internal policies and the domestic achievements of poorer nations; the economic consequences of more responsive political institutions and social reforms; the effects of any one of a score of economic policies on the motivations, behavior, and productivity of the citizenry; the impact of aid on the economy of the donor.

All these relationships require thought and research, but the world will not stand still in the meantime. Where experience and insight provide imperfect or inadequate knowledge, policy-makers must nevertheless act, basing their behavior on assumptions of disputable validity. If they recognize the uncertain character of their assumptions and make them explicit, they will have taken a first step toward better understanding. The assumptions of critics will prove no less suspect than those of partisans, once they have been revealed to the light of day. The aid program has had to proceed on assumptions that may not be true; some of the disenchantment stems from subsequent discovery that they were in fact unrealistic.

In the disagreement and uncertainty over general and specific purposes, administrators of foreign aid are sorely tempted to resist attempts at generalization. Clearly, the interests and problems of the United States vary in its relations with every foreign country. Moreover, they vary over time. Foreign policy objectives for each country must therefore first be determined and then re-examined regularly.

The possible uses of foreign aid must be explored, along with all other possible tools for promoting these objectives. On this basis, a pragmatic decision can be reached about the amount and type of foreign aid to be provided to a particular country in a given year. This is the analytical process that should be pursued, and is in fact attempted, within the executive branch before it determines each annual request for foreign aid legislation. Such analysis is also the preliminary for AID or State Department officials before deciding on their response to the Prime Minister or Finance Minister of Esoterica, who has made known his desire for more assistance, on easier terms of repayment, and with fewer conditions attached.

Congressional action on foreign aid should be predicated on the same sort of evaluation. Yet it is not asked to pass on the needs of countries in the light of U.S. purposes and the usefulness of aid in promoting them. Neither understanding nor support for the programs has been well served by the current form of aid legislation or the kind of justification that it requires.

Moreover, country analysis is not enough for the conscientious legislator or citizen whose basic doubts about the purposes or efficacy of the program as a whole are still unresolved. He may take little exception to the specific objectives of the programs proposed for Tunisia, Thailand, or Costa Rica. But he may still feel uneasy about what they all add up to, about why these objectives should have a high priority in the allocation of the funds of the American Government and the American people. He detects inconsistencies and seeks to have them explained. The relationship between the specific country objectives and the proposed programs never appears so intimate, and the success of the programs in attaining the objectives never seems so assured, that he reaches the inescapable conclusion that the proposed program must be fully funded. When relations with a particular recipient deteriorate dramatically despite the aid program, he wonders whether any of it is worth while.

Yet the President, the Secretary of State, the Secretary of Defense, and a host of informed and responsible lesser officials assure him that national interests of the highest order are indeed at stake. Apparently, in the considered judgment of the nation's executives, the program is more significant than the sum of its parts. At times, the relationship between acceptable broad foreign policy objectives and continuing contributions of resources on a substantial scale to foreign countries

appears to be little more than a reflection of the instincts of the President's principal advisors.

The Congress and the public have, on the whole, been unwilling to assume responsibility for rejecting these judgments. With a reluctance that has varied from year to year only in its intensity and articulateness, they have authorized an uninterrupted continuation of the programs over a period of two decades. Cuts below administration requests and the accumulation of restrictions have become standard mechanisms for registering Congressional failure to share a positive conviction about such intuitions. Repeated strong executive affirmations of their validity have proved an unsatisfactory substitute for a logical and persuasive explanation that would relate purposes and problems to the requested legislative authority.

The absence of effective rationale is not for want of effort. Its formulation has been hampered by concern about unfavorable reaction in recipient countries to a very explicit exposition of U.S. objectives. Moreover, the strength of basically hostile Congressional opinion—the girding of the loins for each annual clash between the Congress and the executive branch—invites resort to threats of the dire consequences of failure to obtain requests, and optimistic portrayals of the potential gains. The very weakness of public and Congressional support tempts aid administrators to distort the rationale of their programs or to promise too much for them.

The issue of the military security of the United States once provided the stoutest armor against unreasoning attack. Stress on transitory political objectives frequently proved effective because they were specific and immediate, though the programs themselves sometimes bore little relation to them and failed to realize the promised results. More recently, self-sustaining growth through economic development has been a seductive device, focusing attention on the prospects for terminating aid while justifying large current appropriations.

These rationales all contain an element of validity that contributes to their appeal. All belong in a structure of purposes for a U.S. foreign aid program. Yet none of them adequately describes, even in capsule form, the objectives that are served by U.S. foreign aid programs, or that can be served, or indeed that should be so served.

The lack of a domestic constituency—the oft-stated notion that the ultimate beneficiaries of foreign aid do not vote in U.S. elections—has led to efforts to enlist a broad variety of special interest groups

by offering them a stake in the program. Exporters and private investors, housing contractors and engineering firms, enthusiasts for cooperatives, savings and loan associations, labor unions, shipping interests, land-grant colleges, major consumers of imported raw materials, and farmers—all have been offered lures in return for support of aid legislation, sometimes with little regard for the priority objectives of the program. Many of the resulting activities under the aid program have undoubtedly been constructive. Nevertheless, the effect over the years has been to raise doubts about the value of the programs in advancing broad national interests. The conscientious legislator wonders whether foreign aid programs are the best vehicle for serving domestic interests; the foreign government wonders whether its acquiescence in such use of aid is not a sufficient quid pro quo for the donor.

Clearly the need has arisen for a more sophisticated and forthright expression of purpose than was provided in 1961. The objectives of U.S. aid programs need to be refined, clarified, and structured into an acceptable order of priorities. Potential aid applicants need to know where they stand and what their choices are; aid administrators in Washington and around the world need to understand what they are about; the Congress and the public need to appreciate why they are asked to provide funds and must expect these requests to continue in increasing amounts.

The Moral Imperative to Aid Foreign Lands

Some Americans, and many governments of developing nations, would prefer that U.S. aid programs be guided by moral and humanitarian purposes, not by self-interest. Theirs is an argument for establishing some variant of the tithe to determine the size of U.S. foreign aid programs and for employing some objective measure of "need" to determine its allocation among developing nations.

The usual reply is that the allocation of U.S. aid has not in fact been primarily so motivated; nor would a program based on such considerations receive much support from the electorate. The body politic of the United States, despite its relative affluence, does not accept a moral imperative for an active and generous concern for the welfare of all mankind, without regard to the benefits or damage it may itself derive in the process. It will not give aid to Communist China or to Castro's Cuba, nor is it prepared to be generous with a Sukarno who insults its Embassy or a Nasser who seeks to thwart its purposes. If

this is contrary to the precepts of humanitarianism, it is better for government policy to be guided thereby than to endanger programs for other countries that are equally impoverished, but better disposed.

This reply appears to be more cynical than it is. Its proponents do not dispute the moral injunction to help the poor. They take comfort in any transfer of resources from the affluent to the needy and observe with justification that foreign aid performs precisely this function. Since it gives away material goods, it becomes a humanitarian program, though both its total size and its allocation among countries are determined primarily by considerations of national interest.

Disagreement centers on which poor to help, to what extent, for what purpose, and how. However, it is at this point that the moral guidelines become much more equivocal. Many a moralist—if that is the appropriate word—would reject allocating aid solely in proportion to the per capita income of the foreign country or in relation to its deficiencies of resources and production. The more usual position is that those countries should be helped most whose efforts in their own behalf are greatest—an ethical doctrine whose validity would be widely disputed by philosophers and theologians alike. Leaders of the poorest and least competent lands immediately ask what is to become of their people.

Moreover, the ethics of friendship intervene to confuse further the choice of applicable moral precepts. Should a friend whose self-help effort is weak be helped less than an antagonist whose determination is greater? Are the objectives of the antagonist moral? Should he be helped, no matter whether he would use the resources and the additional effectiveness provided by foreign aid for unworthy purposes? The issue is in part a matter of the validity of a "turn the other cheek" morality. In much more critical measure, it is a question of whether the international purposes of the United States are themselves morally valid. If so, does not the use of foreign aid on their behalf, and its denial to those who would thwart them, serve a legitimate ethical function? Many an advocate of a program oriented only to humanitarian considerations is actually critical or dubious about a broad range of U.S. foreign policies and would register his reservations by divorcing aid completely from U.S. purposes. Others are so obsessed by the inevitability of the abuse of power that they would abdicate from its employment.

Nevertheless, U.S. foreign aid programs to date have not been con-

fined to friendly and cooperative nations. Aid was extended to Yugoslavia long after its reconciliation with the Soviet Union was complete, and to Poland, Ghana, the United Arab Republic, Mali, Indonesia, and Cambodia. India received considerable aid even at the height of Krishna Menon's obstreperousness. To be sure, on the whole allies have been treated with greater generosity than adversaries. Yet the most telling Congressional attacks on the program have focused precisely on the extension of aid to countries whose international behavior or domestic policies were deemed inconsistent with U.S. values and interests. Over the years, it seems likely that the Congress would have been more generous in appropriating funds if such aid had not been extended.

Ambivalence between providing aid "because it is right" and guiding aid programs in terms of national interest is not confined to the United States. Both the 1965 British White Paper and the French official commission report of 1963 pay glowing tribute to the moral imperatives. Each was followed by a reduced aid program. Indonesia and the U.A.R. have not been favored among Great Britain's aid clientele. Nor did the French hesitate to eliminate aid to Guinea when it decided to leave the French Union, or to Tunisia when it arbitrarily expropriated French property. Both countries have heavily concentrated their aid where their economic and political interests are most involved. So, too, has the United States, though its lack of colonial responsibilities, its more limited economic interests, and its pre-eminence in the non-Communist world have led to a greater dispersion of contributions. As for the aid provided by Communist countries, its allocation is scarcely consistent with any criteria other than those of international politics.

The Intent of the Book

The present volume seeks to deal systematically with the foregoing questions of policy and purpose. Its intent is twofold: (1) to consider the desirable and practicable objectives of U.S. foreign aid programs; (2) to examine the wisdom of retaining or revising controversial aid policies in the light of this structuring of goals.

In the face of prevalent torpor, it seeks to be provocative—of rethinking, renovation, and renewed public interest in the aid programs. It consists of a series of judgments, arranged systematically and founded on such experience as the author possesses and such evidence

as he has been able to amass. Unfortunately, the key issues cannot be resolved on the basis of conclusive evidence. Computers may contribute to our knowledge of the developing nations, but they still offer answers only to the more trivial questions in this domain. For such countries, much of the data that can be fed into the machines today is scarcely worth the effort.

Moreover, even though the statistics be much improved, the problems and policy issues will continue to depend for successful resolution largely on experience and judgment. Years of experience with U.S. foreign relations readily lead one to the conclusion that it is an occupation like major league baseball—only a few star performers each year attain a .300 batting average and rarely in a generation does a .400 hitter appear. Better data, research, and experience can improve this performance, but no appraisal of foreign aid programs and policies at this date may lay claim to infallibility. If the judgments and suggestions in this volume provoke reconsideration of new and old dogmas and stimulate interest in the issues and problems, they will have served their purpose.

The analysis is oriented around the interests of countries offering aid to developing nations, particularly those of the United States, but it should be equally relevant for the less affluent societies. Their own exertions to alter the motives of contributors of foreign aid are likely to be less productive than an effort to understand and profit from the powerful motives that already exist. It is vain to pretend that the interests of the donor and the potential recipient are identical. However, the area of common and reconcilable interests is broad enough to have produced agreements covering large and unprecedented amounts over the past decade and more. On the whole, such agreements have advanced the purposes of both sides. They can be expanded through enlarging both the range of common interests and the aid programs. Responsibility rests on the governments of donor and recipient nations alike. On both sides, governments are accountable to their constituents. On both sides, the ability of governments to make and execute decisions depends on convincing those constituents that they have been served reasonably well. It is for lack of conviction that foreign aid has been used wisely and effectively in behalf of U.S. interests that the American public gives evidence of "fatigue."

I

The Foreign Policy Background of Foreign Aid

3

1

The Foreign Policy Setting and Actors

The Contemporary Stage for U.S. Foreign Policy

The nuclear space age has come upon us very fast. Science and technology have contributed a frightening and bewildering array of new weapons and contrivances, but man has yet to master their use. In the realm of international behavior, we grope for new concepts, sensing that new opportunities as well as new limitations exist. However, the dimensions of the contemporary foreign policy framework remain elusive.

Some pieces of the frame are quite distinct and precise. For the time being, at least, the powers possessing a major nuclear capability are essentially stalemated. Even as they brandish the new weapons in moments of extreme crisis, they are obsessed with knowledge of the unprecedented risks they are taking. Each such crisis has a sobering effect on subsequent behavior. Nonnuclear war between these nations is no less dangerous, because of the probabilities of escalation.

As for the nonnuclear powers, even conventional warfare among them carries considerable risks of involving the major powers and consequently of escalation into nuclear warfare. Because the consequences of thermonuclear war cannot be confined geographically and because the escalation of nonnuclear warfare cannot be ruled out, nuclear and nonnuclear powers alike have a major interest in the peaceful settlement of international disputes. If they must pursue international power and influence, they had best employ means other than the resort to arms. The military instrument has become too dangerous. No less than other nations, the United States must then reexamine and refurbish the other tools of statecraft. Their value has been enhanced by the more stringent inhibitions on open warfare.

In earlier times, the geographical extension of power and the increase of wealth and income were compatible—indeed were often complementary—objectives of foreign policy. "To the victors belong the spoils" meant slaves, jewelry, art treasures, cheap sources of raw materials, or markets from which other competitors might be excluded. In this century, the compatibility no longer exists.

In the modern world of highly complicated and rapidly obsolescing technologies, the ability to organize production, to innovate, and to generate market demands is the principal determinant of income and wealth. The power to pillage and ravage has little economic value, except possibly to trigger the first stage of recovery from mass devastation. To a modern state, a few years' annual output at full capacity rather than at three-quarters capacity is much more valuable than the booty that can be seized by conquest. Increasingly, full employment in an industrialized society requires affluent customers and dependable sources of supply. In the modern productive process, the prosperity and stability of major trading partners is more prized than the power to extract price concessions on purchases or sales. To seize wealth and thus to reduce the ability of customers to buy is likely to cause a net economic loss to the conqueror. In the middle of the twentieth century, the deployment of U.S. military power primarily in pursuit of economic advantage offers little promise of reward commensurate with the costs.

It was the perception—perhaps only intuitive—of these new circumstances that led the United States both to eschew reparations and to contribute its own resources toward restoring the economies of both allied and enemy countries after World War II. The wisdom of these decisions was abundantly demonstrated by the affluence of the United States in the succeeding two decades. External economic relations have flourished within a community of nations that has been both productive and friendly. The Soviet Union did claim the spoils of its victory and put them to good use in reactivating its war-devastated economic life. Soon it, too, became more interested in the prosperity of allies and trading partners than in continuing to exploit them.

For small nations as well as for large ones, the value of power in international relations has assumed a different character. The risks inherent in the actual or threatened use of force are very great. If used by a lesser power, the major ones may not stand aside. Their involvement makes the outcome unpredictable and increases the likelihood of

destruction of property and lives in the small aggressor state. Thus small nations, too, cannot contemplate much advantage from the overt use of force in their international relations.

A third major change in the modern setting for foreign policy stems from the proliferation of international organizations, both the panoply of global institutions centered around the United Nations and the regional associations, such as the North Atlantic Treaty Organization (NATO), the European Economic Community, and the Organization of American States. Both military treaties and associations of states based on the superior force of one of them are as old as relations among communities. What is unique about their modern version is that the sovereignty of the individual states is maintained, while restrictions and constraints are accepted over virtually the entire range of sovereign power—not only international trade and the international use of force, but also internal taxation and government expenditures, human rights, and the availability of education. Here the modern need for interdependence and the traditional attachment to independence and sovereignty come into conflict. To date, the compromises reached have been tentative and unstable.

While the intensity and effectiveness of such restrictions on the exercise of sovereignty is only nominal in many cases, acceptance of international intervention has been extended enormously in principle and significantly in practice. Communications technology makes intervention easier; the complex technology of modern production makes societies more dependent on one another. Recognition of economic interdependence was illustrated during the 1950's, when European countries became increasingly concerned with the low rate of growth of the United States economy. Some unidentified wit said that "when the United States sneezes, the rest of the world gets pneumonia." Europe may rely less on U.S. prosperity in the 1960's, but the process of mutual criticism has been firmly established and continues to be based on important realities.

What this means in practice is that sovereign nations joined in intergovernmental organizations are constantly called upon to explain the entire gamut of their internal as well as international policies. The practice is well foreshadowed in the Declaration of Independence: "A decent respect to the opinions of mankind requires that they should declare the causes which impel them to the separation." The emphasis on declaring the causes rather than seeking concurrence is

noteworthy and prophetic. The founding fathers would undoubtedly have continued to seek their independence whatever the collective judgment of mankind of the era. Perhaps fortunately, there existed neither public-opinion polls nor international organizations where all the nation-states of the day could vote their sentiments.

It is true that the capacity of intergovernmental organizations for reflecting the views of mankind is circumscribed, and their ability to enforce the views they do reflect is heavily dependent on the will of the major sovereignties represented. Nevertheless, they afford unparalleled opportunities for views to be expressed. Even though no agreement results, an unprecedented process of mutual education takes place. They have institutionalized "the need to explain" and thus established a new and important constraint on foreign policy-making.

Many older phenomena of the international scene remain. The nation-state remains the principal unit for action on the international stage, though its dramatic increase in number has significantly constricted the environment within which any one can operate. Disparities of wealth and economic power remain acute, as do the desires for economic advancement. Cultural differences, political disagreements, histories of conflict, and memories of foreign domination combine with sharply divergent standards of living to maintain a fertile medium for nurturing hostility. The quest for power and influence continues, justified by self-interest, if not by self-preservation, by altruistic mission as well as by ideological conviction. The nation-state continues to be motivated in its international relations largely by considerations of nationalism and self-interest, though the constraints on its behavior are different and perhaps more binding.

On the other hand, the tremendous development of modern communications has drastically reduced the scope for personal diplomacy. There are no modern Talleyrands, Metternichs, or Franklins. Much less room remains for the skilled diplomat to use superior talents and knowledge to maneuver a foreign government into taking actions that may not fully accord with its own interests. The modern practitioner of diplomacy must increasingly focus his talents on a sophisticated analysis and manipulation of the interests of foreign governments. He must assume that they have at their disposal an ample range of current information necessary for the assessment and protection of those interests. An assumption of rational behavior by opposite numbers in defense of a well-articulated definition of self-interest provides both comfort and pause to the modern maker of United States foreign policy.

In this setting some one hundred and twenty nation-states function—fifty of them with less than two decades of recent experience as independent entities. They are all different in greater or less degree in many ways—culture and traditions, political and economic structure, standards of living and economic and social aspirations, the skills and health and education of their people. Out of this diversity arise differences of interest, which are expressed through the international behavior of their governments. Insofar as each state seeks to keep its international behavior consistent with its priority interests, its policies and actions tend to merge with those of other states that share similar concerns.

If nations are categorized in terms of common major interests, the actors the United States finds on the international stage fall into three principal groups: the Communist countries, the other economically advanced nations, and the less developed countries.

Such categories are obviously a gross oversimplification of reality. The countries in each group are not fully homogeneous either in interests or in behavior. Some states are borderline cases, falling into one or another category for different issues. Developing nations in particular regard very lightly their ties to others in the same group. Individual and regional differences persist within all the groups, and the resulting discord may be of controlling interest to the United States. Nevertheless, in analyzing and planning its long-range foreign policies, the United States finds it useful to distinguish between these groups, as the broad lines of United States interests are significantly different in the case of each.

The Actors: The United States

The major characteristics of the United States itself as it appears on the world stage are much less shadowy than the setting. It is the dominant actor by virtue of its great size and resources combined with the considerable skills and wealth of its population. In military power it is also predominant, but the usefulness of that superiority is circumscribed. Heavily dependent on thermonuclear weapons, United States military power cannot be extensively employed without risking nuclear warfare.

While U.S. internal economic and social problems can be ameliorated by appropriate international policies, domestic wealth and welfare are not critically dependent on the outside world. The loss or gain of a market or a source of supply or a change in the terms of trade is

marginal in importance to the welfare of the country as a whole. Economic advantage, therefore, need not be an overriding consideration in the conduct of its international affairs. Indeed, the United States can afford unreciprocated concessions in its economic relations with other nations and does in fact make them for the sake of more important ends.

Its history is one of expansion and development—in the production of income as well as in the geographic scope of the nation, in the freedom and cultural sophistication of its citizens as well as in the social and distributive justice available to its least-advantaged groups. Such trends have persisted despite periodic interruptions and setbacks. The record of successful growth in all these respects has imparted a certain character of self-assurance that has undoubtedly reinforced the progressive tendencies of the society.

The appearance of the United States on the international stage is thus essentially an amalgam of these characteristics: a remarkably successful record of evolutionary progress at home, economic and military predominance, and a relatively high degree of independence from external events for its own prosperity. As a result, the United States has an unusually strong interest in a peaceful and stable international order.

Nevertheless, to other countries the very existence of predominant power suggests the possibility that it may be used to their detriment, whether capriciously for the sake of its exercise or maliciously for its own benefit. Accordingly, the international behavior of the United States is viewed by others with the recurrent suspicion that their own interests may be jeopardized thereby.

The desire of the United States to impart its own successful experience to others has struggled for expression in the twentieth century; its history as an active world power is only as recent as World War II. With power, it has sought to propagate the elements of its own success—personal freedom, generous scope for individual initiative in economic life, governmental responsibility both for a favorable economic climate and for economic progress, the unification of neighboring states, high rates of investment, mass education, responsiveness of government to urgent social pressures. Its domestic fidelity to these ingredients is not unblemished, but they do persist and they have been effective.

Delay, modification, and compromise have, in its experience, been

the necessary and desirable price for evolutionary progress. The "mixed economy"—providing roles for both private and governmental action—has been one of its major achievements. Abroad as at home, it expects the pace at which the ingredients of success are introduced to be moderated at every step by a pragmatic search for consensus and consent from the body politic. "Two steps forward, one step backward" is both characteristic of its progress at home and the formula for success it offers to others.

Nevertheless, to the people of the United States, the eventual universal acceptance of the fundamental factors responsible for the development of their country is hardly a matter for doubt, given time for them to be known and understood and the opportunity to choose freely. They may recognize the necessity for considerable adaptation to take account of differences in the cultural and material circumstances of other societies, but they have few reservations about the basic relevance and ultimate acceptance of their own values and institutions. Paradoxically, it is this very self-assurance that makes it so difficult for the United States to reconcile itself to the denial of freedom of choice in other lands through the imposition of a hostile authoritarian regime.

The Actors: The Communist Countries

A brief decade ago the distinguishing characteristics of the Communist world on the international stage seemed clear cut and indisputable. They were: (1) a politico-economic system based on strikingly different philosophical premises from those prevailing elsewhere; (2) a strong sense of mission about spreading that system to other parts of the world; (3) an economic system that had produced a high rate of economic advance, inaugurated and maintained in this century in previously underdeveloped, predominantly agricultural societies; (4) an autocratic political system; and (5) domination of the Soviet Union over the other members. The combination of a strong sense of ideological conviction, unrelieved missionary posture, and authoritarian political structure gave Communist international relations an appearance of greater purposiveness and direction than those of the United States.

Much less prosperous than the United States and other developed countries, the Communist countries achieved economic growth and military strength while consciously avoiding economic dependence on the outside world. The foreign trade of each Communist state was pri-

marily confined to other members of its own group. Like the United States, the Communist world was able and willing to sacrifice economic advantages in its international relations for the sake of higher-priority objectives—its own security and the extension of its power, influence, and ideology.

By 1966, the outward appearance of the Communist world had become more complicated. Three years had passed since the Cuban missile crisis; there had been no recent threats to use force in resolving the status of Berlin. The rupture between China and the Soviet Union had been prolonged without any reconciliation in sight; the Eastern European countries were successively asserting some independence of Soviet domination and were showing increasing interest in expanding trade and cultural relations with the West. The Soviet Union and many of its cohorts had joined in signing a nuclear test-ban treaty.

Moreover, the Soviet Union itself was showing susceptibility to economic reform and even to the toleration of some dissent. It was exhibiting more of the once-despised characteristics of a bourgeois society and was interested in protecting its achievements and in satisfying the demands for a better life that were being made by a new generation—a generation without the revolutionary zeal of those raised under Czarist rule.

Differences have arisen among the states of the Communist bloc concerning the locus and extent of authority that should reside in one or another of them. They also reflect radically different assessments of the risks of escalation inherent in the localized use of force in international disputes. Nevertheless, the group remains united on critical issues as it was at the time of the Cuban missile crisis. Both the Chinese and the Russians actively and materially support North Vietnam and the Viet-Cong. If Soviet agreement to the test-ban treaty was a blow to China, a simultaneous rebuff was given to the United States when its negotiator in Moscow attempted to discuss the common menace of Chinese policy. Some believe that the Chinese challenge will eventually establish a common security interest between the Soviet Union and the West. For the present, however, it tends to strengthen forces within the Soviet Union that urge a more aggressive foreign policy. Until the Soviets are prepared to yield their dominant influence in the Communist world, they cannot permit the Chinese to become the principal supporters of Communist parties or anti-Western governments in less developed countries.

While such recent internal differences make the Communist group appear less monolithic and hence less menacing, Communist intentions appear no less missionary. No evidence exists of a flagging in the desire to extend the Communist system and influence or to constrict and undermine ours. In January, 1966, a conference in Havana, attended by representatives of Communist parties from three continents, called for the active support of armed insurgency in Latin America. As for the Chinese, they continue to speak with the words of the unreconstructed revolutionary, certain that their truths are eternal and that universality justifies the progressive imposition of these truths on mankind. Their behavior seems to be as consistent with such words as their internal problems and external power will permit.

In the face of United States nuclear power and readiness to use force against overt aggression, the Communists have become supporters of "wars of national liberation" and activists in "peaceful competition." The "wars" provide a cover for aggression that is less obvious and less provocative than the traditional movement of armed forces across national boundaries, but nonetheless threatening. With the help of foreign supplies and perhaps even manpower, a minority seeks to seize power, as in the Congo or Zanzibar or South Vietnam. If the coup is successful, the new regime is no less attached to the Communist states than it would be if it were installed after overt aggression. Success also facilitates repetition elsewhere, encouraging disaffected groups to seek Communist support for their aspirations to power. By assisting in the upheaval of restraining traditions and stabilizing forces and by capitalizing on xenophobia and social grievances, covert aggression both retards the process of evolutionary change and heightens impatience with its slow pace.

Superficially, covert aggression may be difficult to distinguish from broadly based, indigenous national liberation movements that were primarily aimed at national independence, as in India or Nigeria. It may seek to merge with efforts to overthrow native regimes that were unwilling to compromise with demands for social reform and progress, as it tried to do in Bolivia and Venezuela. Wholly indigenous circumstances in many developing nations provide a fertile climate for apostles of revolution. The Communists have an interest in blurring distinctions between wholly native revolutionary impulses and their own interest in violent upheaval as a means of establishing their system.

With the dismantling of the colonial system completed, one major

source of ambiguity will be eliminated. But unresponsive regimes, such as those of Haiti, Paraguay, or South Vietnam under Diem, will continue to provide a basis for Communist intervention in support of "national liberation."

Communists do not yet see their interests served by the evolutionary progress of non-Communist societies. They expect their own expansion to come about through revolution; they seek to abet and guide where violence seems opportune.

The Actors: The Other Developed Countries

The other economically advanced countries have much in common with the United States: a responsive political system in which power can be transferred periodically from one group to another through an orderly electoral process, an economic system that combines private enterprise with governmental responsibility for its successful functioning, and a relatively high standard of living. Their prosperity is also based on rapidly growing skills and continued capital formation financed largely from domestic savings. Criticism and reform are inherent in their political systems, but broad consensus exists about the virtues of the basic social organization and about the universal applicability of the fundamental values of their society. In each of these countries, Communist ideology found some adherents in the wake of the Russian Revolution and many more in the social disorganization of the Great Depression and World War II. In the mid-1940's, most of their citizens felt threatened by both Soviet ideology and the resort to subversion by Communist adherents. The attack on Korea raised for them the specter of more traditional overt aggression.

This group is less monolithic than the Communist bloc. Its citizens have come to talk freely in recent years about a common cultural heritage and to sublimate the differences that yielded a long history of warfare with one another. Nevertheless, rivalry for leadership within the group has continued to characterize the international relations of its leading members. Their policies continue to be highly responsive to considerations of national interest.

These countries are heavily dependent on international trade; most have a long tradition of using international influence and power to secure foreign markets and foreign sources of raw materials. Some were colonial powers until very recently. Their view of the world is colored

by the process of adaptation to the loss of colonies—a coloration of contrasting hues, varying from a desire to minimize losses of political and economic influence to a sense of obligation to fulfill responsibilities neglected during the colonial period.

The ties of the group to the United States are emphasized by a dependence on United States nuclear capabilities for defense and by a common interest in limiting Communist expansion. Some members still contain substantial Communist parties and they have continued to be subject to subversion, though the internal threat has much abated since the immediate postwar period of social disintegration, political confusion, and economic disorganization. The notion of a third force between the two super-powers has had several post–World War II incarnations, always to falter before the reality of a close identification of both the interests and the ideology of the third force with those of the United States.

As the Soviet threat has lost immediacy, the traditional conflict for leadership within the group has become more overt and more acute. So too have disagreements about tactics to be used in confining and weakening the Communist position and even about the immediacy of the Communist danger. A spate of internal quarrels arose in the 1960's, reflecting a preoccupation with secondary interests. The list of issues is long: British entry into the Common Market, international monetary arrangements, an independent French nuclear force, a multilateral nuclear force, the future of NATO, the proper maturity for credits to the Soviet Union, trade with the Soviet Union, China, or Cuba. But none of these would have great immediacy if the members of the group felt that their political independence, military security, or basic social structure was in jeopardy.

Limited capacity to act effectively inevitably lessens the sense of responsibility each of these nations exhibits in its international relations. Since the effect of the behavior of any one of them on international peace and stability or on the general East-West conflict is marginal, each of these countries has, in its post–World War II foreign relations, been concerned first with the United States and then with the others. Those that have recent experience as leading world powers are gradually adapting themselves to the secondary status to which they were relegated after World War II.

Postcolonial relations with the less developed world have taken on more the character of the pursuit of particular national interests,

largely trade and investments. A conspicuous exception has been West Germany's interest in denying the legitimacy of the East German Government and in establishing for itself a respectable position in the international community. For the rest, such interest as they have shown in influencing individual developing countries appears to be motivated more by a desire to improve their own status within the camp of Free World developed nations than to further the interests of the group as a whole. Each has tended to concentrate on areas where it has a particular advantage over other developed countries—the British, French, and Belgians in their former colonies, the Germans in the Middle East, the Japanese in neighboring Far Eastern countries, and the Italians in Mediterranean lands and in areas with large Italian emigrant populations. These countries have thus maintained a common resistance with the United States to the expansion of the Communist world across their own borders. A common policy toward the developing world, however, does not exist. It has been molded only on an ad hoc basis in specific instances.

The Actors: The Developing Nations

The less developed countries have much less influence on the struggle for influence. Two-thirds of them acquired political independence only within the past two decades.* Their internal political arrangements tend to be less overtly competitive than those of the non-Communist developed countries. Most have authoritarian regimes; others have political arrangements that provide for regular elections and the orderly transfer of power. Authoritarian regimes have succeeded elected ones and vice versa with notable regularity.

With some exceptions, their economic systems are characterized by the predominance of private enterprise. Nevertheless, intellectual support for socialist doctrines tends to be substantial and is sometimes, but not always, translated into government policies restricting private investment or otherwise discriminating against private enterprise. When socialization of private industry or utilities becomes a political issue or an adopted policy, it is usually associated with nationalism and independence from foreign influence.

The social and economic characteristics that put countries in the

* For a vivid thumbnail sketch of the problems of a newly independent, less developed country, see Willard L. Thorp, "Problems of the Birth of a Nation," *The OECD Observer*, October, 1964, pp. 3-7.

"less developed" class run the full gamut of disadvantages associated with markedly lower incomes—less industry, more peasant agriculture, less capital per worker, poorer communication facilities, fewer educational opportunities, and poorer health services.

The capacity for organizing political action tends to be confined to a very thin middle and upper class, with the support, or at least acquiescence, of the armed forces normally a requisite for even a modicum of political stability. The ability of the ruling group to retain office is thus dependent on finding support and meeting the needs of at least the middle class, and perhaps an even broader group.

Those developing nations that have longer experience with political independence tend to be characterized by a broad gap between their elite and their masses that cannot easily be bridged. The gap may be just as broad in the newly independent countries, but social and political mobility tends to be much freer, because forces for social change are liberated by the coming of independence. Internal political stability is usually more an objective than a fact, even when the form of government is authoritarian. The temptation for outside forces to intervene and influence a fluid situation is great, yielding to the temptation is widespread, and the alertness of political leaders to the temptations they offer foreign powers is high. The presence, nature, and degree of foreign intervention thus becomes an integral part of the struggle for internal order and political stability.

The establishment of new industries and public utility services, more roads, and better health and education facilities are all apt to reflect well-articulated demands of key groups that must be satisfied to some degree. Freedom from foreign influences—both political and economic—is likely to constitute an issue that can reap important support for a political leader. On the international front, aspirations for leadership of and influence over one's neighbors and fear of domination by neighbors are likely to be more immediate than fear of overt aggression by a major world power. In the latter event, support from the other major camp would be expected and this knowledge alone warrants minimal concern.

Understandably, concern about independence from the major powers is apt to be particularly acute in those countries that have recently emerged from colonial status. Inevitably this interest must be compromised in an interdependent world of increasingly effective communication and transportation. The list of reasons why governments of de-

veloping countries look for support or assistance to more powerful foreign nations is long. It includes fear of more powerful neighbors or a desire for support in quarrels with them, the need for foreign capital and skills to strengthen the economic life of the country, the attraction of members of the elite to one or another advanced country because of business or military ties, educational and cultural links, the existence of an important group of immigrants or expatriates from an advanced country, and fear of support by a major foreign state for an internal group seeking power. Moreover, the industrialized powers themselves tend to seek such influence—at least for the purpose of denying it to rivals, and sometimes for more specific and immediate reasons.

Mutual interests provide a basis for compromise and accommodation to meet the needs of both sides. The nature of these compromises varies considerably, depending on the situation. However, such arrangements are inherently unstable. The developing country inevitably is uncomfortable and insecure about the influence in its affairs of a more powerful partner and seeks to dilute this influence by involving other advanced countries in its affairs. It prefers investors from a variety of developed nations. Technical and economic assistance may be solicited from many donors—including both sides of the East-West struggle. Developing nations hope to reduce their need for the presence of foreign troops by building up their own military and police forces. They also try to enlarge the role of international agencies as sources of capital and technical assistance. The building of regional associations is still another device for controlling foreign power influence, though one that has found only very limited application to date.

Thus, for internal as well as for external reasons, the foreign policy of developing nations is in flux and likely to remain so. Although the situation of each country is different, together they are dependent on the outside world for both their continuing independence and the fulfillment of their aspirations for internal progress. The fact of such dependence is in ever-present conflict with their attachment to independent sovereignty.

For the most part, they have been prepared to make reasonable compromises to get the political support and the material help they need. The developed countries have generally understood their dilemma and have shown sensitivity to it in their international behavior. A basis has thus been established for agreement and constructive effort that serves the interests of both sides—the more affluent societies as well as the poorer and less secure nations that are called "developing."

17

2

Foreign Policy Conflicts and the Recent U.S. Experience

Since the outbreak of World War II, the United States has been inextricably involved in the resolution of conflicts, both within and among the groups of actor nations. It has not been content with merely moderating differences among states; where possible it has attempted to influence the outcome of persistent conflicts. On the whole, the international community of the mid-1960's is sufficiently friendly and congenial to suggest that intervention has well served United States interests, and those of other nations as well. Nevertheless, success in attaining major objectives to date has not been as remarkable in the less developed world as in Western Europe and Japan.

Seeking a world of peace and stability, the United States would like to moderate the tensions and frustrations that permeate the less developed world as it apparently succeeded in doing in the industrial world. Desirous of congenial neighbors, it supports the aspirations of developing nations for progress, if only they remain receptive to the values and institutions that have been essential ingredients in Western success. Anxious to contain hostile forces, it would deter the Communist world from expanding into the developing states.

If foreign aid programs offered sure avenues to such results, they would be much less debated instruments of U.S. policy. In less developed countries, they have been useful in the U.S. address to international conflict, but also fraught with uncertainty.

Evolution of a Positive U.S. Foreign Policy

The United States is probably the first world power of whom it may be said that international responsibility was thrust unsolicited into unwilling hands. This reluctance is properly attributable to the cir-

cumstances under which the nation gained its independence, consolidated its frontiers, and developed its abundant natural resources. The episodes of Dollar Diplomacy and Manifest Destiny were relatively limited in scope, though their very existence suggests that self-restraint was not the product of a unique national character or of high principle. The quest of the founding fathers for self-government, individual liberty, and the right to exploit the vast lands and mineral resources of the American continent required little power or influence over the policies or peoples of other nations. They saw their interest in being left alone and free to use the high seas for international trade.

Earlier predominant powers had a different view of their interests. They sought to extend their control, whether for economic advantage, to satisfy power drives, or to prevent rivals from acquiring the means to challenge their predominance. Each also undertook to maintain the peace, at least within the areas over which its predominance was established. Invariably these powers sought to propagate an ideology to those over whom they held sway—a religious faith, a code of law, or a theory of social or economic organization. The cynical have said that these creeds were nothing but camouflage, a blanket of high principle and noble ethical values to justify the seizure and maintenance of power and the exploitation of others. Yet long after national predominance faded, the elements of these ideologies that had moral force or material advantage—and thus found acceptance—have endured and been incorporated into the mainstream of succeeding civilizations.

World War I marked a turning point in United States foreign policy. The United States established its preponderance of military and economic power by its successful intervention in World War I. It, too, espoused a creed for which it sought universal acceptance. Its avowed purpose was "to make the world safe for democracy."

Included in that creed were foreign policy notions that had served the United States well during its development from a colony into a major world power and that were therefore believed to have much broader applicability—self-determination of peoples, freedom from colonial rule, nonintervention in the internal affairs of other countries, world law, and peaceful adjudication of international disputes. When Woodrow Wilson paraded these notions before the world, it was the first time that the preponderant world power had espoused an international order that would eschew the use of its own strength for its own advantage. He proposed a system of international relations that

was both congenial to and compatible with the liberal economic and political theories that guided the internal arrangements of the United States. He evoked a sufficient response among idealistic men everywhere so that the European statesmen at Versailles contented themselves with chipping away at the edges of his proposals rather than meeting them head on.

Both training and experience told them that Wilson's international system was naïve, impractical, and inherently unstable. Each assumed that every important nation would continue to seek to maximize its political, military, and economic power and to use that power to seek advantages for itself. Yet, the very system they knew and understood told them to yield to the view of the nation that held strong ascendancy. Later they could operate within the new framework to protect or advance the interests of their own country while freely assuming that other statesmen would do the same.

When the United States rejected the new system it had sired, it left a power vacuum. The policy of isolationism came to mean nonintervention in attempts by other nations to fill that void. But nonintervention in Manchuria, in Ethiopia, in Spain, on the Rhineland, and in Czechoslovakia only served to encourage the hopes and fortify the aggressive policies of those who sought to profit from the absence of a stable international order. When direct military attack on the territory of the United States followed, the policy was discredited beyond repair. Failure to oppose aggression against a small weak state whetted the aggressor's appetites, freed his energies for use against the next target, and eventually augmented his audacity and capacity to attack the United States directly. World War II thus re-established a line of policy that was initiated during World War I and speedily abandoned thereafter.

However, post–World War II intervention gradually assumed a quite different character from the Wilsonian concern after World War I with establishing and policing the rules of the international game. The United States has exercised a concern with the *results* as well as with the *rules* of international diplomacy. The change parallels in part alterations in attitudes toward the domestic economy. Wilson's internal economic policy was also based on the assumption that if the rules for competition were sound and were enforced, the results would be beneficent. After the Great Depression failed to correct itself, the appropriateness of state intervention to assure results became an accepted

modification of the liberal rules for economic policy. Government action to promote full employment, a rising level of national output, higher levels of investment, and more equitable distribution of income has become a recognized responsibility of the state; so too has an obligation to maintain as free a market mechanism as possible for determining consumer demand and the allocation of resources. In international affairs as well, the United States has accepted the need for responsible exercise of its power and influence to shape the outcome, as well as to police the rules, when differences and conflicts arise.

But recognition of such responsibilities came in two stages. In the early 1940's, foreign policy was directed toward re-establishing Wilsonian concern with both the rules of international relations and the institutions for enforcing such rules. Not until the Cold War became a challenge and a threat did the United States emphasize results.

The Atlantic Charter and the United Nations Charter, which were drawn up during World War II, had given renewed expression to the idealism and aspirations of people looking for constructive and fundamental improvements in the human condition. The United States and the other developed countries quickly identified their interests, as well as their aspirations, with the strict application and enforcement of the new international system. Peaceful reconstruction of domestic economies and the framework of international trade, along with an evolutionary approach to internal social and political tensions, took first priority. Military establishments were quickly dismantled. The restoration of peace and tranquility in foreign areas was the major international objective of governments desirous of devoting their energies to domestic affairs. The major affirmative thrust of United States foreign policy was directed toward building a network of intergovernmental organizations. Forums were established for communication and debate among sovereign states on virtually all the political, social, and economic problems of mankind.

United States–Soviet Confrontation

The Soviet Union, on the other hand, saw the end of hostilities as an opportunity for expanding its influence and propagating its social and economic system. It used military power both to install Communist governments in Eastern Europe and to maintain and consolidate them when threatened by internal opposition in the 1950's. The experience of Greece, Turkey, Iran, and Korea demonstrated that the Communist

world was prepared to threaten and employ force to gain its ends, though it sought to avert open conflict with the United States and its nuclear capability. Where the use of force was precluded by the certainty of such conflict, as in Western Europe, strong support for local Communist parties was used instead. The Soviet Union's foreign policy during the Stalinist era clearly exhibited pursuit of the traditional ends of international power politics; there is little exaggeration in asserting that its innovations were confined to the realm of tactics.

This dynamic expansionist policy achieved some successes and might have gained more had it not met firm resistance. After the Greek-Turkish crisis of 1947, the United States repeatedly demonstrated a readiness to counter force or threats of force.

It also recognized the need to counteract local Communist parties that were serving Soviet foreign policy either purposefully or coincidentally. Since the success of these parties depended on the slow pace of economic recovery, the Marshall Plan was adopted—a massive use of American wealth to accelerate strikingly the rate of Western European economic progress. Assistance was pointedly related to the adoption of appropriate internal policies by the European recipients. Moreover, Congress soon ordered that it also be used to encourage the political and economic integration of Western Europe.

After the Korean attack demonstrated that wartime agreements had not banished the use of open force in international relations, the United States accelerated its own rearmament and also financed much of Europe's military build-up. Further economic aid was offered to sustain the still fragile economic recovery. Rising European production was used both to expand defense establishments and to sustain a broadly based economic expansion. United States support for European integration became more active and overt.

In Western Europe, the United States sought strength and cohesion against the Soviet thrust. Social and economic tensions within Western European countries were judged to be the cause of the two world wars. Rebuilding the economic strength of each of the states was partly intended to alleviate the danger of a recurrent conflict. The United States saw in their union a means of minimizing strife, maximizing economic progress, and strengthening both the will and the capacity to resist the Communist threat. It wanted to establish this unity through institutions that would focus the attention of political forces on common interests rather than on traditional differences. These views were widely shared

in Western Europe and indeed had their origin there. Hence a harmony of strategies and tactics was soon achieved, lubricated by United States aid programs.

Thus, by the early 1950's, the United States had views about the kind of Western European society it wished to preserve and had employed substantial resources and power to bring it about. Its power in international affairs was no longer limited to keeping the peace and policing the rules. Results were sought that would be consistent with its own basic interests and social values.

Success in the Developed World

Economic recovery in Western Europe was accompanied by major steps toward European unification as well as toward military and economic integration with the United States. The foundation of an Atlantic Community was laid as the danger of major conflict among the European powers withered. The economies of all the countries prospered and their trade with one another flourished. Both willingness and capacity to contribute to defense against external attack were markedly increased. As a by-product, expanded trade and investment opportunities became available to the United States. It also gained from Western Europe's readier acceptance of decolonization, which no longer seemed to be so intimately involved with the prosperity of the metropole as it was in less affluent times.

These successes virtually eliminated the threatened expansion of Communist power into Western Europe by the middle of the 1950's. Economic reconstruction in Japan had a comparable result. The industrialized countries thus appeared to be invulnerable to the lures of the Communist system once their economies were functioning effectively. The appeal of Communist ideology was strong to populations aggrieved by lack of employment and economic opportunity and clamorous for a better distribution of the national income. It offered little attraction once a high rate of economic growth was reached and some part of each year's increase was used to correct inequities and cope with widely articulated social grievances.

Much of the explanation for Communism's lack of success in well-functioning economies lay in reluctance to countenance the social upheaval and revolutionary change required to introduce a system alien to long-established traditions. Beginning with a higher living standard than any Communist state, the industrialized countries were not about to forfeit the prospect of further improvement and apparently were

impervious to blandishments. That they would not have to make the choice under duress was assured by the military strength of the United States.

Success brought with it seeds of rebellion against United States leadership. Conflicts for ascendancy within the camp of developed nations appeared less risky in the absence of immediate external threat or internal social tension, though it remains inconceivable that these conflicts should proceed to any military phase. Further progress toward European unity can be postponed while nations maneuver to strengthen their positions within the group to be united. Nor is the urgency for agreement so great as to warrant ready compromise of special national interests in international trade or other economic matters. Tactical disagreements about military and foreign policy have also become tolerable. External threats and opportunities seem long-range and may call for coordinated strategies, but prompt agreements about tactics no longer seem very pressing.

Walter Lippmann well described this situation in an interview on November 22, 1964, at a moment when many seemed to be losing perspective about the seriousness of current disputes within the Atlantic partnership:

> I do not think that Europe is in all that bad shape. It is not in a state of crisis which requires emergency action to save it from some disaster which is not happening. Europe has problems, but they are not comparable with those of the early fifties when it was thought we were on the verge of a thermonuclear war. France and Germany are not going to war over their differences. Britain is not going to war with anybody on the Continent. The Soviet Union is not going to war against Western Europe. Whether we solve the problem of the nuclear deterrent one way or another does not make any difference to the realities because the deterrent exists and deters and there is a balance of power. Masterly inactivity is what I recommend.

The reappearance of traditional conflicts among developed countries may be disheartening, but their current manifestation is hardly threatening. Success has crowned the first major exercise of power and responsibility by the United States. United States security has been reinforced while kindred societies have been strengthened crucially.

Liabilities and Advantages in the Developing Nations

The situation in the developing nations is less stable and much less amenable to stabilization. Many of the ingredients that facilitated the success of United States policy in Western Europe are absent. Few less

developed countries are functioning political communities, except in the most superficial sense. The trappings of the nation-state have been acquired more readily than its substance. The traditions that help moderate differences within developed societies are yet to be developed. Chiefs of State, legislatures, and ministries have been established in territories where a sense of national identity is lacking, where primary loyalties belong to the family, the tribe, or a small region of the country.

To ease material deprivation significantly, poorer countries need much more than supplies of imported raw materials, semi-finished goods, and capital equipment. Only a sustained effort over a long period of years can establish there the human skills and social institutions of a progressive society.

Nor are the requirements for social change and economic growth on the one hand, and political stability on the other, easy to reconcile. Reorganizing agricultural production and shifting people out of agriculture, organizing new urban areas and new industrial production—these are inherently unstabilizing social processes. Traditional values and established social restraints are challenged as such changes take place; new values and patterns need time to be developed and take root. Moreover, all these changes create new expectations that cannot be realized except over a long period of time.

Conflicts between the entrepreneurs of these changes and their workers are inevitable; institutions for the reasonable resolution of such conflicts are slow to develop. The maintenance of economic growth requires that a substantial part of each year's economic growth be diverted from current consumption, saved, and invested in providing the wherewithal for future progress. Large entrepreneurial profits are a necessary part of this process if the establishment of new business firms and enterprises and the expansion and modernization of old ones is to take place in private hands. The entrepreneurs are likely to use these gains for conspicuous consumption as well as for reinvestment. Tensions between the entrepreneurial class and the rest of the population are thus inevitable and likely to be exacerbated, the more so if those in power are unsolicitous about easing them.

The whole process of evolutionary progress is a difficult one of countless adaptations to changing patterns without any clear-cut blueprints of the correct solutions. Persuasion, sensitivity, and compromise are essential ingredients for a successful resolution of the eternal conflict between progress and stability. There can be no assurance that these

ingredients will exist in adequate measure in any society, and they are least likely of all in a less developed country. When the United States identifies itself with both progress and order, it risks becoming the scapegoat of the enemies of both.

Differences of culture, creed, and color further exacerbate the problems of establishing a stronger identification with the values and interests of the United States than of the Communist world. So, too, does the appearance of a high rate of economic progress in the Communist world at a level of income and economic development that is closer to that of the developing nations.

The desire of the United States to minimize Communist influence and increase its own in the developing nations suffers from other liabilities. For one, the United States nuclear capability has become a less credible deterrent to overt aggression against such countries, particularly as China develops its own nuclear arsenal. Also, the will to resist any aggression is difficult to mobilize where mass poverty is acute and the sense of national community is deficient. Where meaningful nationalism does not exist and where the stake in the existing social and economic order is not widely perceived, people cannot easily be rallied to defend their society.

Ruling groups may identify their own security interests with those of the United States. However, not only are they few but they can scarcely attract strong loyalties without a capacity to create and maintain a sense of social and economic momentum, which cannot be achieved readily or rapidly.

United States largesse was perforce first directed toward the industrialized countries. Western Europe and Japan were the major prizes and the first objects of Soviet pressure; by Soviet choice they became the primary arenas of conflict. In the course of meeting this challenge, the United States also helped the developing areas, but only indirectly. Contributions to the security and economic recovery of developed areas permitted the developed countries, in turn, to honor debts and fulfill reparations obligations to many developing countries and to provide technical and capital assistance to their dependencies. American influence also promoted acceptance of the necessity for decolonization. An industrialized-areas priority was thus warranted by United States interests and simultaneously helped resolve critical problems for the developing nations, which, nevertheless, accumulated considerable resentment at their ostensible treatment as areas of lesser priority.

Moreover, many countries thirsty for independence felt that such a U.S. priority reflected a desire to delay their assumption of sovereignty for the sake of strengthening their colonial masters. NATO itself dramatized the close links between the United States and the colonial powers. The Soviet Union could openly attack imperialism and demand immediate independence for all colonies; the United States had to behave with due regard for the views of its NATO partners and to work for a peaceful and orderly transition to independence. If such a transition meant that the newly won sovereignty would be more secure and stable, it also meant more delay than many leaders of independence movements were willing to tolerate.

Particularly in developing areas that had long achieved independence, the United States was concerned with such established rights of its nationals as investments, trading interests, and franchises to develop national resources or to provide public utility services. The Soviet Union, on the other hand, lacked a private sector engaged in foreign investment and international trade. Without the danger to its own interests of any adverse repercussion, it could support xenophobia, encourage demagogic denunciation of foreign privileges and businessmen, and exploit all grievances against foreigners, whatever their merits. The Soviet Union did not have to reconcile conflicts between foreign policy objectives and the individual property rights of its citizens abroad. The absence of any such dilemma gave its thrust for influence in the developing areas a distinct advantage. So, too, did its lack of historic identification with the ruling groups or elites in any of the developing countries.

Perhaps its most significant advantage, however, was that it felt no compulsion to make these societies function successfully. On the contrary, its professed faith denied the possibility of substantial social or economic improvement until after a Communist apparatus was installed. Soviet policy could thus criticize and attack unpopular leaders and support their opponents without accepting responsibility for any consequences until a Communist takeover of power. Fearful of the uncertain consequences of revolutionary upheavals, the United States frequently found itself identified with the weaknesses and evils of the status quo. It was excessively cautious about seeking out proponents of change and lending them its support.

Perhaps the most critical disadvantage the United States suffered in the post–World War II period was a lack of familiarity with less de-

veloped countries, other than perhaps Latin America. Its diplomats, business leaders, educators, economists, and social scientists had little personal experience with the peoples or problems of those areas. Stereotypes and preconceptions existed, based on isolated experiences or the experiences of isolated and alienated individuals. But as a society, the United States had not been involved. Nor has it been easy to persuade skilled administrators, organizers, and analysts to seek involvement in trying to achieve constructive results in distant, uncongenial lands. The U.S. has therefore lacked the knowledge and experience to use power wisely and constructively. The Communist states suffer from the same liabilities in their approach to the Third World. Since they are not committed to helping existing societies to evolve satisfactorily, their inadequate knowledge is less often an impediment to their objectives. Insight and understanding are more important to the builder than to the critic.

Yet the United States also has solid advantages. Not the least of these is its military power. Nor should the importance of its scientific and technological prowess be undervalued. A demonstrated willingness to use its own economic abundance to provide substantial resources to other nations on a sustained basis remains a formidable asset. The size and continuity of aid programs is widely known and appreciated, despite detractors who want larger or different ones. Again, despite detractors and failure to achieve optimal results, the success of the economic and social system of the United States is known and admired.

Some of the disadvantages previously noted also have their positive side or can be turned to constructive use. As American businessmen abroad come to depend for protection increasingly on their own contributions to the countries in which they operate, they will not only eliminate a possible source of intergovernmental friction but will become diplomatic assets to their country.

After independence, close U.S. ties with the former colonial power can also have advantages. The leading spirits of the struggle for sovereignty then find themselves confronted by formidable tasks of organization and administration. In most cases, they have turned to the citizens and the governments of the former colonial power for advice and assistance. A new relationship tends to be forged, in which the experience and skills of the former metropole are actively sought, and the rebuilding of influence in the former colony can be undertaken on a sounder and more stable basis. While the newly independent

country may turn in the first instance toward the former metropole, the new relationship is bound to involve frictions and uneasiness. If dependence can be diluted by involving other developed countries in their affairs, new leaders are likely to feel less insecure about reliance on the former metropole. Thus, even a limited participation by the United States tends to be welcomed and solicited for political reasons as well as for its direct contributions in the form of aid, trade, advisers, and teachers.

But the most important advantage is Western political ideas. The educated citizens of the developing nations tend to derive most of their conception of the modern world from Western sources. Many have been trained in Western educational institutions and many more have been educated by teachers trained in such institutions. The history of the United States in gaining its independence from colonial rule, its refusal on the whole to participate in the proliferating colonial system of the nineteenth century, and its espousal of the independence of other colonial peoples—all these are important assets. So, too, is the role of the United States in the two world wars and in influencing the ensuing peace settlements. Its encouragement and support for the participation of new and inexperienced nations in international affairs through international organizations has also been helpful.

Elements of the political ideology of the United States find broad acceptance as they are disseminated—government deriving its powers from the consent of the governed, personal freedoms as described in the Bill of Rights, the rule of law. The faithfulness with which these tenets are applied may be disparaged, but not their universality as human values. Leaders of developing countries may find these concepts difficult to apply in their own countries and perhaps inconsistent with their own immediate interests. In that event the appeal of such values has been treated as a force to be reckoned with, rather than opposed. Thus even where one finds little current evidence of respect for political freedoms and for individual rights in non-Communist developing nations, they remain as objectives that are espoused by important and articulate elements of the population. Even the governments in power often cite them as ultimate goals to be achieved when conditions are more propitious.

Perhaps most telling of all is the American experience and espousal of evolutionary change. With few exceptions, the new nations were led by revolutionaries against foreign domination, not against the

indigenous social order. Typically, these leaders are highly conscious of the need for change and for the modernization of values and institutions. They would prefer to accomplish it in an orderly way, adapting rather than rejecting existing values in order to meet new needs, seeking the acquiescence if not the support of incumbent indigenous elites in the execution of change.

In less developed countries, as in Western Europe, the advocates of Communism must overcome human resistance to changes that seem more drastic than they need be. It is where those in power have been unresponsive to internal social pressures or resistant to demands for modernization that Communist ideology has found its most fertile medium: China, Cuba, South Vietnam. Where the United States becomes associated with such established governments, its influence has suffered from the apparent rejection of its own successful experience.

The Contemporary Tasks of U.S. Foreign Policy

What, then, are the contemporary tasks of U.S. foreign policy, in terms of its general objectives?

The first, of course, is to make sure that its confrontation with the Communist world never escalates into a suicidal exchange of thermonuclear destruction. Both adequate thermonuclear capacity and the credibility of U.S. willingness to use it if sufficiently threatened are fundamental. The circumstances under which both sides would feel compelled to employ suicidal force must be understood if they are to be averted. Avoiding direct confrontation of the power of the United States and the Soviet Union is clearly in the interest of all parties.

Equally obvious should be the desirability of those tension-reducing agreements that represent no important change in the balance of power and influence between East and West. Agreements involving roughly comparable concessions have a positive value in an atmosphere where the avoidance of direct confrontation is of transcendent importance. By this same token, the quest for agreements that would significantly alter the balance of power is likely to achieve little more than a heightening of tensions.

Perhaps equally obvious is the purpose of the United States, and of the Soviet Union, to exploit weaknesses and magnify disagreements in the other camp as well as to maximize strengths and intensify cohesion in its own. For if the quest for significant advantage through agreements is chimerical and a direct power confrontation involves risk of

mutual suicide, advantage to either of the major protagonists is available through successful manipulation of the position of a third country. The internal revolts in Hungary and Eastern Germany, the Suez crisis, and the Cuban missile crisis have demonstrated the risks and limitations of direct confrontations over third countries. It is increasingly clear that the United States cannot overtly use force to disestablish a Communist government and the Soviet Union cannot use direct force to impose such a government without a direct confrontation. Nor can the United States, without the same risks of escalation, openly overthrow a Communist government that has taken power whether by revolt or by some sort of electoral process or other internal arrangement.

Though the use of overt force is proscribed by the risks of escalation, the banning of either internal subversion or proselytization is impossible. Not only would such agreements be difficult to formulate or enforce, but the very acceptance of such a ban by the Soviet Union would be a denial of its own basic ideology and its belief in the universality of its system. It could threaten the validity and stability of that system where it is already established.

The industrialized world is no longer directly threatened by subversion—not if its own prosperity grows as it has recently and it continues to grapple constructively with the social problems endemic to all human society. Further strengthening of the unity and interdependence of the industrialized nations remains a task for U.S. foreign policy. However, successful steps to that end will be more important for further improving the prosperity of the group and increasing the amity among its members than for staving off any threat to their military security or fundamental social institutions.

The basic interests of the United States vis-à-vis the other developed nations would appear to lie in maintaining the cohesion of the group in its relations with the external world. Issues whose resolution would fundamentally affect the claims of France, Germany, and Great Britain to leadership within Europe are unlikely to be compromised in the absence of recognized external threat. And the more sharply such issues are focused, the more difficult it will be to concert the policies of all the Western developed nations vis-à-vis either Communist or less-developed countries.

The strength and stability already achieved within the industrialized group of countries is impressive. It is unlikely to become vulnerable, except to events and problems external to the group. The interests of

the group as a whole thus call for a common strategy toward that outside world, or at least for a thoroughly coordinated policy. As the leader of the group, the United States would be wise to seek to divert the focus of interest away from conflicts within the group and toward the forging of harmonious external policies. The predominant power of the United States within the group should facilitate drawing up such a common strategy.

Vis-à-vis the Communist world, the basic strategy can only be a defensive one—joint resistance to aggression, otherwise avoiding direct confrontations, and minimizing tensions. Vis-à-vis the developing nations, the basic strategy can be positive and constructive as the West seeks to foster a growing appreciation for its own essential values and institutions, for the problem-solving, progress-promoting capabilities of its own evolutionary approach to progressive nationhood.

U.S. leadership is needed in formulating a common strategy to this end and in seeking consensus on it. Thus can it protect its interests vis-à-vis both the Communist world and the developing nations and can also help maintain cohesion within the group of advanced nations.

Are Less Developed Countries Important?

Albeit unwillingly, the less developed countries are the scene for the confrontation of three forces—the revolutionary expansionism of the East, Western aspirations for universal acceptance of its values, and their own endemic instability compounded out of incapacity and uncohesiveness. It is this confrontation that heightens their importance to the United States. They would continue to be important to the United States even if the Communist tide receded from their shores, as an opportunity for fulfilling and confirming the promise of American life. But one cannot deny that the Communist challenge tremendously enlarges the immediate relevance of their problems in the eyes of the United States.

The foregoing requires some further explanation because its premises have recently been questioned by "neo-isolationists," whose criticisms have taken root in the frustration and risks of the Vietnam crisis. Like their predecessors, they seek a rationale for U.S. relinquishment of its responsibilities as the predominant power, or at least partial relinquishment. Unlike its prototype, neo-isolationism accepts the necessity for some responsible U.S. participation in world affairs. However, it would limit the exercise of this responsibility to the developed free

world—modified, perhaps, by endorsing a United Nations responsibility for the weaker and poorer nations. It would accept whatever results were brought about in the Third World through the exercise of such United Nations responsibility, while agreeing to employ U.S. power in concert with its developed Allies in order to forestall uncongenial results within the borders of that Alliance. The contention is that the United States is overextended, trying to do too many things in too many foreign places and performing badly because its commitments have outrun its capacities. It is also argued that the balance of power between East and West is unlikely to be affected by the adherence or defection of weak and ineffectual countries.

A related doctrine would encourage U.S. withdrawal from those less developed areas where a Communist challenge occurs in order to serve the cause of relaxing East-West tensions. Abstention by the United States from opposing such a challenge hopefully might exacerbate tensions within the Communist world, as the Chinese and Russians are free to struggle for hegemony without the pressure for unity that emanates from Western opposition.

Indeed, it is difficult to make much of a case for the value to the United States of the precise current boundaries of the non-Communist world.* Communist control of one more less developed country would hardly add critically to the material or human cost of defending the United States. Nor would such a loss cause grave economic damage to the United States, even if its investments were seized and trade was suspended. The economies of other industrialized areas (Europe and Japan) might suffer more severely but their losses would scarcely be critical. The importance to the United States of limited Communist expansion would be slight, if it could be kept to that.

The importance of an individual weak country rests primarily on the erosive effects elsewhere of its disappearance behind the iron or bamboo curtains. The probability is high that such countries could not be reclaimed without risk of nuclear war. It is also very likely that the

* See Charles Wolf, "Some Aspects of the Value of Less Developed Countries to the United States," *World Politics*, July, 1963, pp. 623–35. Wolf suggests the possibility of a quantitative evaluation of the military, trade, and investment value of a less developed country and then notes that "some, and perhaps most important, aspects of value . . . are non-quantitative. . . ." Among these qualitative considerations, he points to "the political-psychological interdependencies among countries and areas" and "the value of other countries to the character of U.S. society."

United States would soon focus its attention on the next less developed country that provides an opportune target for Communism. Erosive effects would appear as other less developed countries tended to accord increasing influence over their external and internal policy to the expanding Communist power, hoping to be spared in the next surge of expansion. In some less developed countries, dissidents would be further encouraged to seek Communist support, bartering subservience if necessary for the prospect of earlier success in achieving power. In others, the current leadership might pay an ever-higher price for support in retaining power or in expanding their geographic sway.

The continuation of such an erosive process is bound to have repercussions within the United States and the rest of the industrialized world. The advent of Communist hegemony in mainland China stirred very profound insecurities within the United States and had important effects on its internal political life. It fertilized the ground for McCarthyism and introduced to the American political arena a new test for the competence of political parties to control the national government—the number of square feet of foreign territory or the number of alien people that fell under Communist domination during the party's incumbency in the Presidency. The loss of Indochina, followed by a similar fight for independence in Algeria, threatened France with a military dictatorship, ended the Fourth Republic, and brought General de Gaulle to power at a time when he appeared to be much the best available alternative from the point of view of both France and its allies.

The magnitude of these erosive effects obviously would not be the same for all less developed countries that might come under Communist pressure of one sort or another. The importance of any particular developing nation in this context would depend on its own power and prestige, the strength of its neighbors and its influence on them, its status in the growing international community of less developed countries, and the existence of important ties with the United States or with other industrialized countries allied to the United States. According to these criteria of importance, very few less developed countries will fall into the "unimportant" class.

Indeed, the Achilles' heel of the neo-isolationist doctrine is the definition of the area from which U.S. commitments should be withdrawn. The cultural, political, economic, and military interdependence of nation-states is growing at so rapid a rate that the importance of any country can no longer be judged in terms of its own size, power, or

influence alone. The problem is evidenced by the ever-increasing difficulty of finding ambassadorships to which inexperienced or underqualified appointees may be sent without danger of serious embarrassment to U.S. interests.

The clearest contemporary example of the dilemma is South Vietnam. The neo-isolationists would withdraw because the difficulties and cost of retaining a U.S. presence there are so great. But a tremendous, well-advertised, ten-year effort has already been made by the United States to deny that bedeviled land to Communist control. The very magnitude of this effort would belie the credibility of a United States determination to forbid further Communist advance after yielding South Vietnam. Chinese ability to manipulate a united Communist Vietnam would complicate the effective fulfillment of any U.S. commitments in the Far East, short of the use of nuclear force. Laos and Thailand, Malaysia, and the Philippines would become more vulnerable to covert aggression. The extent and direction of further disaffection in the Far East would become unpredictable, but disaffection there surely would be. Many other Asian leaders must feel as the voluble Prince of Cambodia did when, shortly after severing diplomatic relations with the United States, he wrote: "I have never had the slightest illusion on the fate that awaits me at the hands of the Communists, as well as that which is reserved for my government after having removed from our region the influence and especially the presence of the Free World, and the U.S.A. in particular."*

Some would accept as inevitable the loss of the Far East to China, would leave in European hands the protection of U.S. interests in the Middle East and Africa, and would limit the commitments of the United States to Latin America. While Europe can and should assume greater responsibilities in the less developed world, it is handicapped by a colonial past, by the absence of a serious nuclear capability, and by a distinctly secondary status within the Western Alliance. Its ability to counter the Communist drive in Africa and Asia without substantial U.S. involvement is suspect. Moreover, the broad continental generalities of these neo-isolationists conceal a bevy of specific and expanding United States relationships with individual Asian and African countries. Political repercussions within America would be bound to follow were any of these countries abruptly cut off by an engulfing tide from the East.

* Letter from Norodom Sihanouk, Head of the State of Cambodia, to *The New York Times,* June 4, 1965 (letter dated May 16, 1965).

India, Turkey, Israel, Liberia, the Middle Eastern oil-producing countries, and the Philippines—all are countries whose loss through covert or overt aggression would stir deep insecurities. Their vulnerability would be greatly enhanced if United States commitments were confined to their borders. Moreover, some of these countries, as well as other Afro-Asian nations, are of considerable importance to Western Europe, Japan, Australia, and New Zealand. And the possibilities of covert aggression in Latin America could scarcely avoid being multiplied if the "wave of the future" flowed so far in the rest of the world. Could we, or would we want to, erect our own iron curtain?

The neo-isolationist analogy of the United States international position to that of a business firm with commitments well beyond the capacity of its managerial, labor, and financial resources is thus a thoroughly deceptive simplification. The business firm may be able to retrench to a level of activity within its capabilities and emerge in a stronger competitive position and with a stouter foundation for resumed expansion at a future date. Recent history gives little comfort to those who advocate such a strategy for United States foreign policy. A geographical retrenchment of U.S. international commitments is likely to require increased commitments within the reduced perimeter—stouter mutual defense arrangements with the countries on the new outer edges, perhaps including the stationing of more "trip-wire" troops; requests for more military aid and for more financial aid to support larger military and police establishments; further diversion of resources to defense; and lower rates of economic, political, and social development as a result of heightened insecurity. The capabilities of the shrunken area will be less as the demands on it for successful performance increase. The new balance of commitments and capabilities thus established is likely to be even less favorable to the United States than the old.

A more promising alternative is a determined effort to increase capabilities so that they more nearly match commitments. There are three possible ways of doing this. The first is to divert more United States resources to areas that have been or may be threatened—to reinforce their military and police establishments and to expand their economic and political bases. The second is to induce the threatened areas themselves to be more responsive to internal social and political grievances, to subordinate quarrels with neighbors, and to intensify their own development effort. The third is to increase the contribution

of manpower, skills, and financing from other developed countries by enlarging their influence and role and direct responsibility. Closing the commitments-capabilities gap will probably require recourse to all three, since none of these possibilities can be employed without overcoming major difficulties. This strategy need not preclude limited geographical retrenchment, as failure becomes the inevitable price for inadequate past performance. However, if it is not to feed the next debacle, such a tactical withdrawal must be accompanied by a major commitment of resources to assure the credibility of new pledges to other possible target countries.

Of course, in the longer run much of the force may run out of the three dynamisms that now operate in the less developed world. With the passing of the generation of revolutionaries and with restriction of its opportunities for geographical extension, Communism may become a less threatening force, its society may become more open, and its institutions may evolve in directions that are more compatible with our own. Increasingly, less developed countries may find paths to progress that will consolidate the loyalties of their populations and make them less vulnerable to foreign agents of revolution. The United States may develop a sureness and sophistication about its international relations that will minimize the internal effects of ebbs and flows in its international power and influence. But for the present these are hopes, some would say unduly optimistic views, of a distant and ephemeral future. The responsibilities of contemporary United States foreign policy are scarcely fulfilled by inertia based on the comfortable assumption that time must eventually permit benign forces to operate. It is the task of United States policy to facilitate the processes and goals to which the nation aspires.

II

The Evolution of U.S. Foreign Aid Objectives

Contemporary U.S. policies toward the developing nations have evolved out of pragmatic adaptation to emerging problems. Based on a series of practical responses to current difficulties, they do not conform to well-defined patterns of consistent goals and actions. In June, 1965, the *Washington Post* published a series of reports from correspondents in a variety of developing nations that attempted to evaluate the purposes and accomplishments of the American aid program. The inchoate mass of evidence that resulted was summarized in an article headlined, appropriately enough, "The Many Faces of Aid."

The strength of such a pragmatic policy is the flexibility it gives the policy-maker in acknowledging new facts and adapting to varying situations. Its weakness is that it leads to misunderstanding at home and abroad about the national purpose. Even aid executives, in Washington and in the field, can be overwhelmed by the absence of a compelling philosophy and can lapse into a pursuit of contradictory, irrelevant, or peripheral objectives.

If the resulting policies were consistently successful, support for both policies and policy-makers would be forthcoming, despite the absence of a widely understood doctrine. The record in fact is mixed. Understandably, therefore, the lack of a rallying point in the form of either a set of tenets or a record of accomplishments gives rise to skepticism and dissent. A review of the history of foreign aid ideology is in order before seeking to derive a pattern of acceptable and reasonably consistent, yet practicable, objectives.

3

From Anticolonialism to the Challenge of the Communist Economic Offensive

Anticolonialism and Responsibility

During World War II and after, traditional American hostility to colonialism produced strong support for liberation movements. The United States was itself committed to according independence to the Philippines; it used its power and influence with the Allies to do the same for their possessions. There were occasional dramatic instances, such as Roosevelt's talks with Churchill about the Indian subcontinent and the withholding of Marshall Plan aid from the Netherlands when the Dutch were particularly truculent about granting Indonesia its independence.* But commonly, American influence was applied much more subtly. Its direction was so consistent, however, that in any crisis, both the colonials and the metropole assumed that the weight of the United States would be thrown on the side of early independence.

The other thread that runs through the post-World War II policy of the United States toward the less developed world is, however, a negative one—a reluctance to accept responsibility. This reluctance is in marked contrast to the premeditated bonds that were formed with the countries of Western Europe and Japan within half a decade after the end of the war. The desirability of strong societies in the industrialized world outside the Soviet orbit was recognized early, and a positive and imaginative set of policies and operations was undertaken to that end.

But in the case of colonies, an easy rationale seemed to be available for declining any responsibility other than urging their freedom. The

* See Charles Wolf, *Foreign Aid* (Princeton, N.J.: Princeton University Press, 1960), p. 38.

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United States felt that any postindependence assistance that might be required should properly be the responsibility of the colonial power. If the metropole expressed profound concern about the possible aftermath of independence, the United States was inclined to suspect a rationalization for protracting colonial rule. Should the concern prove to be warranted, the former metropole was expected to provide whatever help and support was required. The United States usually refrained from helping prepare colonies to cope with the problems they would face after independence.

The same initial reluctance to accept positive responsibility was also characteristic of the U.S. attitude toward less developed nations with longer histories of independence. Strong societies in any of the poorer and intrinsically weaker lands scarcely seemed attainable, and these dim prospects for success discouraged the inauguration of a major effort.

As an increasing number of international crises centered in less developed lands, U.S. resistance to involvement was significantly eroded. The dependence of the colonial powers themselves on the United States and the aggressive posture of the Soviet Union and Communist China combined to impel the United States to step forward as crises emerged.

Nevertheless, vestiges of restraint and even of aversion to the unpromising task are still evident today. The United States appears to cling to a wistful hope that new crises will cease to erupt in poorer societies, though it continues to act purposefully whenever they occur. Less developed societies need considerable outside support over a much longer period than does the developed world, if they ever are to function successfully within a congenial institutional framework. U.S. policy has yet to accept responsibility for organizing and providing that support and for developing a positive and comprehensive program. Indeed, every deterioration, whether in South or Southeast Asia, Africa, or the Middle East, produces a renewed wave of doubt about the wisdom of those responsibilities that have been undertaken.

Responsibility for building strong societies can, of course, be assumed by wealthier nations only with the acquiescence of the governments and peoples of the developing countries themselves. "Responsibility" is a word that is readily misinterpreted and misunderstood as being synonymous with such emotion-laden terms as intervention, domination, and colonialism. Yet it is an essential characteristic of the interdependence that is so widely applauded but so difficult to

achieve. For a truly interdependent, yet stable international order must reconcile the sovereign equality of modern nation-states with their gross disparateness in capacity for effective action. The weak need the help of the strong, and the powerful must accept responsibility for building strength in poorer states.

The connotation of responsibility in the contemporary international context is perhaps best described by recalling briefly the nature of the responsibility assumed by the United States in Western Europe. Successively, the United States undertook to (1) supply the external resources needed to finance the restoration of prewar production levels (the Marshall Plan); (2) guarantee to bring the full weight of its military power to bear in the event any Western European country was attacked (NATO); (3) provide additional economic aid to sustain continued economic and social progress while European industrial capacity and manpower were diverted to an accelerated rearmament program; and (4) encourage all initiatives toward the unification of European nation-states.

Many of the considerations that led the United States to view its responsibilities toward industrialized societies so comprehensively apply in less developed areas as well. One of the main reasons for U.S. involvement was to preclude capitulation before the Communist drive. Indeed, two less developed countries on the periphery of Western Europe—Greece and Turkey—were the first objectives both of direct Communist attack and of U.S. guaranties and direct assistance. The Philippines, as a former U.S. possession, were an object of special concern. But for the rest of the world, it has required major international crises or specific military interests to motivate U.S. action. In such cases, there is a recurrent tendency to limit the degree of commitment and involvement. Lack of knowledge, the uncertainty of results, and the certainty that it will take longer to be effective have combined to postpone the formulation of a policy. Involvement has nevertheless been forced on the United States. It has probably been more costly and surely less effective precisely because it has come about defensively and reluctantly.

Responsibility Before the Marshall Plan

Reluctance in the face of responsibility first appeared during the early preparatory work on the Marshall Plan. The executive branch requested an interim appropriation from the Congress in 1947 to finance urgently needed imports into France, Italy, and Austria while

the Marshall Plan was under intensive preparation. Over the protests of the Administration, the Congress insisted on adding China to the list of recipients. At this point the die was cast. In the following year, the Administration sought aid for China in the same piece of legislation that authorized the Marshall Plan itself. However, only economic aid was requested, whereupon the Congress insisted on adding a provision for military aid. The discussions at the time revealed that the U.S. Administration hesitated to get further involved in China. It felt that assistance to the Nationalist Government of China was likely to be futile. The subsequent record is generally interpreted as confirmation of this judgment. Some nonetheless contend that if a comprehensive effort similar to the European model had been organized not long after the end of the war, China might have been denied to the Communists.

Undoubtedly, Europe did hold first priority in the U.S. evaluation of its security interests at the time. The Administration felt that its capacities would be fully engaged in dealing with this topmost priority. It feared overextension if success were simultaneously sought in China. The question of overextension was not a matter of the ability of the country to afford both a European and a Chinese operation, but of the willingness of the Congress and the public to provide enough money for the simultaneous efforts. Even more determining than the expected shortage of funds was the shortage of skilled personnel to execute and manage the required programs. The circumstances in China were undoubtedly less propitious, partly because Americans neither knew nor understood them. Moreover, the American electorate as a whole lacked the significant personal involvement with Asia that impelled its abiding concern with the fate of Western Europe.

The First Step Toward Responsibility: Point Four

However, the admission by the United States that it could not afford an effort on behalf of the less developed areas soon showed its shortcomings. Its own conscience and moral stature, as well as its aspirations for influence and leadership, came into play.

The response came the following year in the form of President Truman's Point Four program, announced in his Inaugural Address in January, 1949. In retrospect, the program appears as magnificent in concept as it was naïve in detail. The notion that private capital would somehow come forth in adequate amounts if the poorer and less-stable

nations were only provided with technical know-how lacked realism, to say the least. Even more naïve was the assumption that the United States was better supplied with manpower able and willing to transmit relevant technical skills than with capacity to finance capital investments and exports of materials and equipment. Nevertheless, the program did for the first time explicitly acknowledge a responsibility for helping all less developed peoples to maintain orderly political processes and freedom of choice in their social and economic arrangements. If the fulfillment of that responsibility was to be limited to the transfer of skills and technology, involvement was at least accepted in principle. The new program enlisted strong political support within the United States, where only a few years before similar notions were widely derided as seeking to provide "a glass of milk to every Hottentot."

The program gained much domestic political support because it was magnanimous in concept but relatively inexpensive in operation. It proposed to fulfill needs that were felt, though clearly not understood, by humanitarians and militant anti-Communists alike. Perhaps the greatest tribute is the extent to which it has been imitated. Every new entrant into the field of assistance to developing nations, and every contributor seeking to extend the geographic scope of his effort, has sought to begin with a technical assistance program and to minimize his financial contribution. This has been as true of efforts authorized through the United Nations as of the national efforts of Germany, Switzerland, France, and Great Britain.

That Point Four encouraged expectations that the program itself was bound to frustrate was incidental and probably irrelevant; the "revolution of rising expectations" was already in the making and might have taken even less manageable turns had the United States refrained from any recognition of responsibility for poorer nations. American technicians and advisers soon began to appear in strange lands and trainees came increasingly to the United States. Ingeniously and ingenuously, Point Four inaugurated a process of official involvement with the problems of developing nations.

The Second Step: Defense Support After the Attack on Korea

Secretary Acheson's speech in January, 1950, appeared to represent an attempt to delimit geographically the responsibilities that the U.S. would assume for resisting Communist expansion in developing areas. The line it drew in the Pacific seemed to exclude South Korea. When

an overt attack on that country followed six months later, a quite different conception of U.S. responsibilities began to take hold, embracing some of the lessons from the U.S. experience in Western Europe. Fearful reactions followed the attack, both in the United States and in Europe.

American interests became identified with resistance to any Communist effort to extend the hegemony of its system by force. The capacity to do so had not yet been mobilized, so that an extensive effort was needed. It was necessary not only to rebuild U.S. military power but also to acquire military bases abroad, at least for the decade or more until intercontinental ballistic missiles became operational. The establishment of bases would require local acquiescence. Improvement in the material welfare of the local population, based in part on U.S. contributions, could contribute significantly to that acquiescence. Economic progress could help establish a sense of national morale, a willingness to increase local military forces, a readiness to fight with such forces against any possible Communist aggression, and a broadly based resistance to attempted subversion. But the first concerns about security—and the first efforts—were again centered in Europe.

Up to the time of the attack on South Korea, U.S. policy had been dominated by the constant concern of its executive branch that Congress and the public would not long continue to vote foreign aid appropriations. Accordingly, the government was very reluctant to undertake responsibilities that might be terminated before results could be demonstrated. Each year after the end of World War II, foreign aid legislation had been sought, but always accompanied by the assurance of a fixed terminal date. Funds for relief in areas occupied by U.S. armed forces and for UNRRA were to eliminate the need for postwar relief. The Relief Assistance Act of 1947 was to extend the UNRRA program, with aid under direct U.S. administration, to a few countries where continued relief seemed essential, but only for another year. Secretary Marshall's speech a few months later proposed to reconstruct the European economy in four years; meanwhile an interim aid bill was introduced to carry three countries through the planning stage. Early in 1950, a three-year program was proposed for Korea but rejected by the Congress, which insisted on making only interim appropriations.

After the attack on Korea, the executive branch felt it could successfully seek aid to deal with situations in which the threat of a Com-

munist takeover was specific and immediate, or in which direct U.S. military interests were involved. No terminal dates were suggested by the executive branch or imposed by the Congress, though the disappearance of the aid program was implicitly promised to coincide with the end of the crisis or threat. Aid was continued to many Western European countries in the form of both military equipment and "defense support." The latter program was an extension of the economic aid previously supplied under the Marshall Plan, but now it was renamed and directed toward financing rapid increases in military budgets.

For similar defense purposes, aid was provided to an increasing number of developing countries. With the passage of the Mutual Security Act of 1954, significant military aid and defense support became available to countries in the Far East and Middle East which were prepared to ally themselves militarily with the United States. France had earlier received defense support to help finance the fight against the Communists in Indochina. After the French collapse, assistance was continued to each of the three successor states. Economic aid was also given to a number of countries in Africa and Asia that were willing to provide needed military bases. Turkey, which offered large ground forces and bases near Russia, as well as troops to fight in Korea, was in a particularly favored position.

Economic aid was also furnished in individual situations where money seemed capable of alleviating international crises—to Iran after the fall of Mossadegh, to Jordan after a crisis over joining the Baghdad Pact forced British withdrawal and aroused Israeli insecurities, to Guatemala after a potentially Communist regime was overthrown, to Panama, where political instability threatened the security of the Canal.

But except for the limited Point Four program, the executive branch steadfastly refrained from seeking funds from the Congress for the purpose of building viable and progressive societies throughout the less developed world.

The Communist Economic Offensive

In 1954, the Soviet Union began its own foreign aid program with a promise of assistance to India. Thus opened a new era in the East-West confrontation, geared to a longer time perspective than the overt threats, coups, and seizures that had hitherto characterized the Communist expansion policy. By this time, the Communists were effectively contained in Europe. Their control of China seemed secure, but the

thrust toward Korea, former French Indochina, and Malaya appeared to be quiescent, at least for the moment. The risk that further aggression could lead to a direct confrontation with the United States and possible nuclear retaliation had been made evident by the public weighing of policy alternatives within the United States during various stages of the Korean and Indochinese crises. A more subtle—and longer-range—program now emerged, directed at the more malleable less developed areas.

The organization of the Baghdad Pact (renamed CENTO after the withdrawal of Iraq) and SEATO created an opportunity that the Soviets were quick to seize. Neighboring states with territorial grievances against pact members or with rival aspirations for regional leadership became apprehensive, if not vituperative, about such treaties, which joined major industrialized powers to a number of developing nations.* Since the pacts were intended to protect against possible aggression by the Soviet Union or China, the Communists were at least equally desirous of undermining them. Communist help in strengthening the rivals of regional members of these pacts was therefore an obvious counterthrust. Soviet military equipment was shipped promptly to those who wanted it. Substantial economic aid was also announced in amounts that were deceptively large because they covered aid intentions for a number of years. By the end of 1960, the Sino-Soviet countries had promised more than $3.5 billion worth of economic aid to non-Communist developing nations. Actual deliveries of goods and equipment were much more modest. By the end of 1960, they amounted to only $750 million, less than half United States economic aid deliveries to less developed countries in a single year prior to this well-advertised "economic offensive." Interest rates on loans were generally 2.5 per cent, which was lower than those prevailing on Western loans, and provision was made for repayment in kind, usually in the conventional raw material exports of the borrower.

Soviet aid programs were first concentrated on a few of the larger and more powerful less developed countries—India, Indonesia, and Egypt—and on a few smaller "targets of opportunity"—Iraq, Afghanistan, and Yemen. The satellite states were soon encouraged to make contributions, both to allay concern about Soviet motives and to ease

* Iran, Turkey, Pakistan, and Iraq were the original regional members of the Baghdad Pact. Thailand, the Philippines, and Pakistan were the developing nations that joined SEATO.

the drain on the Soviet economy. Funds were directed into conspicuous projects—a steel mill in India, the Aswan Dam, paving the streets of Kabul, erecting a huge sports stadium in Indonesia. The Soviet Union also sent large numbers of technicians along with its military and economic aid to serve as advisers, technicians, and foremen on construction projects. By emphasizing aid to nationalized industries, Communist assistance served both its ideological goals and its desire to expand and exacerbate contentious issues between the developing nations and the West.

Relatively small annual amounts of aid seemed larger when concentrated in a few countries and announced in a multi-year package. Together with fairly generous terms of repayment, and the absence of the interference in internal policy decisions usually associated with U.S. economic aid, they made increasing dependence on the Soviets for support seem attractive to a number of developing nations.

The Communist purpose was first focused on weakening SEATO and CENTO by strengthening rival countries that refused to join and by encouraging them to be more obstreperous in relations with pact members. No solid evidence exists that such foreign policy behavior was made an explicit condition of Soviet aid, but it was hardly necessary. Aid was given to states that had already judged their own interest to lie in challenging the military ties established by their neighbors with Western powers.

Beyond making sure that their projects incorporated modern techniques and were technologically sound when completed, the Communists had little interest in the effectiveness of their aid in promoting the economic growth or the political viability of the country. They paid little heed to whether the economic policies pursued by the recipient country were likely to make a success of national development programs or whether the social policies were likely to reduce internal political tensions and build more cohesive societies. Not having adopted the Communist system, the countries were not expected to function successfully, to achieve high economic growth rates, to improve significantly the lot of the populace, or to become well-integrated, responsive nations. Such matters were not the intent of Communist aid; any developmental effects were incidental, unpremeditated, and improbable.

Because social and economic progress was not the goal, intervention on behalf of better domestic social and economic policies became irrelevant. In this sense, the Communist aid programs neither required

nor involved intervention in the internal affairs of the aid-receiving countries. Foreign policy behavior was its prime target. A secondary purpose was the dramatization of Communist goodwill in the face of the expected failure of non-Communist societies. If disintegration threatened, a Communist presence might facilitate the seizure of power by local converts to its ideology. In the Congo and in Guinea, unsuccessful attempts were made to use an aid presence to promote a Communist coup. On the whole, however, such coups appeared to be a subsidiary objective, of no great urgency in countries receptive to Communist aid programs. The Soviets have been cautious about seeking to precipitate prematurely the success they believe history must inevitably confer on them. Where conditions are ripe, they do support guerrillas and revolutionaries. More generally, however, they have sought to disassociate developing countries from the West, thereby both weakening the international forces that oppose them elsewhere and facilitating the degenerative process they believe is ordained to convert developing areas into Communist societies.

Communist foreign policy continued to be unrelenting in its verbal attacks on imperialism and its support of independence movements. Especially after Stalin's death, the Soviet Union otherwise presented a less rigidly dogmatic and menacing, a more compromising and pragmatic, face to the outside world. If it could not expand its control over additional territories, its interests lay in neutralizing and denying them to the West. If it could not extend its power for the moment, it could put time to profitable use, enlarging its influence through a posture of goodwill, overt noninterference, and token contributions of resources.

Response by Gimmickry*

The United States Administration of the time was slow to respond. It was heavily preoccupied with strengthening military alliances—NATO, which it had inherited from the preceding administration, and SEATO and CENTO, which it had helped to create. The integration of Western Germany into the European body politic, the negotiation of the Common Market Treaty and the relations of the rest of Europe to

* The statistical data in this section are largely derived from the successive reports issued by the OECD entitled "The Flow of Financial Resources to Less Developed Countries." The latest report covers 1956–63. Subsequent data can be found in *Development Assistance Efforts and Policies, 1965 Review,* Report of the DAC Chairman (Paris: OECD, 1965).

the Community of Six, the maintenance of some vigor behind European rearmament, the emergence of a renewed Soviet threat based on its new thermonuclear power and its primacy in heavy rocketry—all these problems seemed more ominous, and certainly were more immediate, than the new Communist approaches to poor, weak states.

U.S. aid programs were focused primarily on alliance partners, the Indochina successor states, South Korea, and Taiwan. In the four years ending on June 30, 1957, three-fourths of all U.S. assistance to developing nations was directed to only twelve countries, all military allies. Such aid was largely financed through appropriations for defense support and military assistance. However, the Congress increasingly penetrated the mask of the "defense support" rubric, discovering an underlying reality of economic assistance. Its reluctance to aid less developed states grew, whether they were associated in defensive alliances or not. In 1959, the Senate directed the President to submit to the Congress programs for phasing out all grant aid, excluding from its mandate only military and technical-assistance programs.

The opposition held that foreign aid was detrimental to the United States economy, which was the true key to free world security. It decried the effectiveness of the aid programs. Rather than aid, it urged on the developing countries the introduction of disinflationary fiscal and monetary policies and better treatment of private foreign investors. Indeed, such opinion controlled U.S. policy toward Latin America until the late 1950's. It only succumbed there before a combination of hostile demonstrations against the visiting Vice President, a need for more supporters for U.S. policy in the Middle East, and the rise of Castro.

Domestic antagonism to aid was in marked conflict with increased Soviet attention to developing countries and mounting pressure from the growing number of developing countries themselves. The Soviet economic offensive undermined the Baghdad Pact, playing a role in Egypt's decision to abstain and its success in forestalling Jordanian adhesion as well as in the withdrawal of Iraq.* Increasingly, international crises were centered in developing nations—Lebanon, French North Africa, Laos, Burma, Indonesia—as well as Egypt, Iraq, Iran, and Jordan. Successive conferences of "nonaligned" nations in Cairo and Bandung passed resolutions antipathetic to the West. The West encountered increasing difficulties in mustering majorities for its views

* For a detailed account, see John C. Campbell, *Defense of the Middle East* (New York: Frederick A. Praeger, 1960).

and policies in the United Nations. Defeats were averted by refraining from bringing difficult issues to a vote; the United Nations became a less valuable forum for enlisting world opinion in support of United States foreign policy.

The deterioration of Western influence in the Third World coincided with its own growing affluence. Continued reluctance to use that wealth to help solve its problems in the less developed world may seem incredibly myopic in retrospect. Yet a freer use of its resources required attention to two separate problems. By far the most difficult, both in conception and in execution, was how to apply Western resources effectively in poor nations. That vexatious question was, however, largely neglected in the face of an understandable preoccupation with the second one: how to extract a substantial volume of resources for the less developed world from a reluctant body politic at home.

From 1954 onward, an ingenious array of legislative devices was employed, successfully producing a rising volume of aid to the Third World. Only incidentally were the devices related to the requirements of Western interests or to the realities of less developed societies. Gimmickry substituted for responsibility.

Surplus-Food Disposal

The most conspicuous new "gimmick" was the Public Law 480 program of the United States, later better known as the Food for Peace Program. An imaginative piece of social engineering, it was enacted in 1954 with little regard for its potential value for easing foreign policy problems (though it proved to have some use in that connection). At the time, the accumulation of surplus food stocks was a matter of material concern to U.S. farmers, fiscal concern to the government, and moral concern to the citizenry at large. Good food deteriorated in American storage bins under the depredation of both time and rodents, while hungry people abroad went without.

The law permitted the sale of foodstuffs for inconvertible local currencies, about a fourth of which were used in the country by the U.S. Government and U.S. business firms to meet local expenses. The remaining receipts could be given or lent to the "purchasing" country. Most of the U.S. "uses" would probably have been forgone were not "easy money" of this character available. Despite the nominal sale, the program was thus virtually a free gift to countries that otherwise would have had to spend scarce foreign exchange for foodstuffs, or else do

without. However, the local currency payments maintained for American farmers the gratifying fiction that their product was salable, a feature that garnered significant support for large appropriations.

Responsibility for making sales was lodged in the Department of Agriculture, which could be expected to concentrate on ridding itself of the surplus to all comers. Those charged with foreign policy responsibility in the U.S. Government could exercise a veto over the transactions, but they needed extreme provocation to justify it. To do so would incur the wrath of U.S. agricultural interests and prospective recipients alike. Much effort was devoted to moderating the enthusiasm of the salesmen for negotiating "valuable" uses for the local currency payments.

Economic effects in the receiving country were hardly distinguishable from those of other aid. The food and cotton were sold to local consumers, removing purchasing power that could have been spent on other goods. In agreement with the United States, the proceeds not set aside for U.S. uses could be spent directly on investment projects or in defense budgets. If no such agreement were reached, the funds would be sterilized, and the government could, if it wished, issue new currency instead. Or it could create additional credit to finance public or private consumption or investment, of any kind it pleased. The foreign exchange thus released in payment for imported agricultural products could be spent on foreign military hardware, capital equipment, or consumption goods—and it could be spent anywhere in the world.

However, developing countries are, by definition, engaged primarily in farming. In only a few of them could purchasers be found for substantial quantities of imported agricultural products. Of the eighty-odd developing countries, only thirty-one concluded any such purchase agreement over the first eight and one-half years of the program. Only nine countries signed agreements totaling as much as $100 million in market value; four of them were also "defense support" countries.*

Where surplus-food aid was acceptable in significant amounts, a positive economic contribution undoubtedly followed. However, one important reservation must be entered. The readier availability of aid in this form encouraged receiving countries to emphasize nonagricul-

* Data in this paragraph were taken from Table 4, *Seventeenth Semi-Annual Report on Activities Carried on Under P.L. 480* (Washington, D.C.: GPO, 1963), p. 70.

tural production both in their economic policy planning and in their investment programs. They reasoned that if their own agriculture failed to produce, U.S. food could be obtained to fill the need. On the other hand, if their industrial, commercial, or educational sectors fell short, additional aid would be more difficult to obtain. Whether or not this is the explanation, many of the recipients of large P.L. 480 assistance have not had high rates of growth in their own agricultural production.

Negotiations about the uses of local currency were irritating and interminable, though they seldom disturbed major vested interests within the receiving country. Having resolved such questions, the governments felt relieved of any further obligation. Surplus-food disposal thus proved a poor vehicle for inducing recipients to take account of U.S. views about either their internal or their external policies.

A third of all U.S. economic aid to less developed countries in the late 1950's took the form of such local currency sales. Their net value to recipients varied between $650 million and $900 million a year, considerably more than the total of all economic aid furnished by Communist countries. Well over half went either to Communist countries (Yugoslavia and Poland) or to states such as the United Arab Republic, India, and Indonesia, with whom U.S. relations were constantly strained during this period. It was argued that generosity with food—so closely related to the daily needs of so many people—would improve attitudes toward the United States and increase its influence. The awesome outpouring of multitudes to pay tribute to President Eisenhower when he visited India was attributed to gratitude for U.S. food. The impact of the surplus-food disposal programs on the behavior of receiving governments was more difficult to perceive. Tensions continued concerning foreign policy; domestic policies seemed to be unaffected.

Aid for Projects

The search for funds that did not require economic aid appropriations led to the International Bank for Reconstruction and Development (the World Bank). Founded at Bretton Woods in 1944 as a secondary instrument to the International Monetary Fund, it was conceived as a mechanism for mobilizing private savings to finance postwar reconstruction. The words "and Development" were added when a principal American adviser inquired about the intended functions of the institution once postwar reconstruction had been completed. Its funds were

to be borrowed on private capital markets, fully protected by the effective guaranty of the government of the lender. Nevertheless, irrespective of guaranties, a bank that wishes free access to a capital market must build up confidence in the soundness of its operations. Inevitably this became the World Bank's first preoccupation.

In its first eight years, agreements on loans to developing countries averaged only $125 million per year, half for Latin America. In the next five years, a combination of complaints from developing countries and prodding from the U.S. Government produced a higher level of activity. Loans to developing countries crept close to an annual average of $350 million, the level outside Latin America approximating $250 million per year. Nevertheless, the Bank remained a minor source of assistance to the Third World countries as a whole, providing less than 5 per cent of their total receipts of public capital. Gross annual commitments by the U.S. Government alone were fifteen times the World Bank figure by the end of the decade.

To allocate such limited funds, the Bank had to develop highly selective criteria. Like any bank, it was necessarily interested in whether the revenues to be generated by its investment would be adequate to service repayment of interest and principal. It had decided early in its existence to limit loans to the foreign-exchange costs of identifiable capital projects; funds for the cost of local labor and materials had to be provided by the borrowing country. Moreover, in order to avoid competition with private investors, the Bank preferred the kind of projects that are generally categorized in the United States as public works. In Bank terminology, they became known as "infrastructure"—power plants and dams, highways, railroads and ports, and irrigation facilities. Loans for manufacturing, farming, or distribution enterprises were left to private financial institutions. It refused loans to countries that failed to reach an agreement with private creditors concerning the repayment of older debts, and it avoided loans that would finance directly or indirectly the expropriation of private investors. Where inflationary pressure seemed to be building up unduly or where the total foreign debt seemed to be reaching unduly onerous proportions, the Bank was hesitant to lend.

Given such strict criteria, prior to 1960 only five developing countries were able to borrow amounts averaging as much as $10 million per year. The five countries—India, Brazil, Mexico, Iran, and Pakistan—received $1.3 billion, half of all the Bank's loans to developing areas;

the remaining $1.3 billion was divided among some forty different countries and colonies. Such a limited volume of sustained lending precluded the Bank from major impact on the economy of any of the borrowing countries. Yet this careful selection produced a justifiably proud reputation for sound management of project loans. The Bank developed a remarkably favorable "image" as a successful institution for promoting "development." Nevertheless, its projects appeared to be more successful than the over-all economies of the countries in which they were located. The concreteness of a dam or port or railroad permitted a transfer of resources whose superficial contribution seemed greater than often proved the case.

In addition to urging greater activity on the World Bank, the U.S. Government increased its recourse to the Export-Import Bank, whose operations could be financed out of earnings and borrowing from the U.S. Treasury. In 1960 and 1961, new loan commitments to developing nations by the Export-Import Bank averaged $700 million a year for specific capital projects, primarily in Latin America. It thus came to supplement the volume of the U.S. "aid" program proper by a full third.

The acceptability at home of both local currency "sales" under P.L. 480 and loans for specific visible projects by the World Bank and the Export-Import Bank led in 1957 to a new proposal: the Development Loan Fund. Unlike P.L. 480, it could supply nonagricultural resources to developing nations. Unlike the banks, it could accept repayment in local currencies. Like both, it tended to provide aid with minimal requirements concerning either the international behavior or the broad economic and social policies of the "borrowing" country. It concentrated on financing capital projects and confined its conditions essentially to matters affecting their execution.

Soon thereafter, the World Bank established an affiliate, the International Development Association (IDA), which was to receive contributions from the more affluent member governments and to offer "soft loans," in turn, to poorer clients. Such loans cost but a .75 per cent service charge, with a ten-year grace period and a fifty-year repayment period. Like the Bank's hard loans, IDA credits were also intended to finance the foreign exchange costs of specific projects.

In 1958, the United States decided to establish a separate Inter-American Bank, to be capitalized largely with U.S. Government funds. Its function was to offer hard loans in Latin America against bankable

projects, though a small "soft loan" window was also opened for less profitable proposals.

As a result of all the foregoing initiatives, the volume of project lending rose sharply in the late 1950's and early 1960's. However, the supply of projects soon threatened to be exhausted. Detailed engineering, market, and cost analyses were necessary before a project could expect to command a financial commitment from one of these "banks." Most engineering proposals that had been prepared in adequate detail had little difficulty in finding financing.

As the food program tended to distort the economies of clients, so did the banks' predilection for capital projects. The readier availability of such aid inevitably attracted energies and encouraged initiatives to the neglect of other needs. In the 1960's, voices increasingly cried out for more effort to complete projects under construction, for more raw materials to operate existing plants closer to capacity, and for more equipment to maintain and modernize older facilities. Attention was drawn to the neglect of projects requiring local currency financing and of those that were too small to interest the far-away aid-giving "banks." The cries came from within the countries as well as from the aid agencies.

Moreover, by the end of the 1950's, experience had already suggested that even the World Bank's interest in protecting its bondholders would be better served if project loans were more closely related to broader considerations. Sometimes the local currency costs of Bank projects had to be financed with the proceeds from bilateral aid programs. Frequently, it was bilateral contributions that made it possible for the borrowing countries to maintain the Bank's excellent record of being paid promptly as amortization and interest payments became due. With the exception of Mexico, its largest debtors would all have faced serious difficulties in meeting such payments had they not received considerable bilateral aid. Paradoxically, three countries that were denied loans by the Bank prior to 1960—Taiwan, Greece, and Israel—were in much better shape to service foreign debts than were the Bank's major clients in the less developed world.

Nevertheless, invidious comparisons had been persistently drawn between the record of the World Bank and that of the bilateral agencies administering far larger funds. The World Bank's projects were sound and its debts were repaid. With every reorganization of bilateral aid, the policies and criteria of the Bank were studied in the hope of borrow-

ing its favorable image. It was hoped that the public and legislative support that had accrued to the Bank could be captured for the bilateral program. The Development Loan Fund had high hopes of gaining such support by following many of the Bank's criteria for lending to finance projects.

The results provided but another instance of the detriments of the contemporary preoccupation with images. The task of bilateral aid was wholly different from that of the Bank. Bilateral aid should have filled the void left by the limited character of the Bank's operations, not compete with the Bank in the narrow field it had marked out for itself. Its proper province should have been the riskier situations where donor governments were moved to provide funds, even though the World Bank's criteria could not be satisfied. Intended for situations where important foreign policy or national security considerations were more important than the likelihood of repayment, bilateral aid was financed with taxpayers' funds precisely in order not to be limited by the proper concerns of private bondholders. The general economy and the social structure of the receiving country should have been its proper concern, rather than the particular project.

The U.S. bilateral program as a whole did try to tend to its proper responsibilities. Where possible, it focused on such matters as defense budgets, levels of consumption of stirring populations, needs for social reform and improvement, over-all investment levels, growth rates, and export levels. The World Bank was also interested in such matters, but largely as background for determining the prospective profitability of its projects. For the bilateral programs, on the other hand, they were properly the principal object of aid.

Because the Development Loan Fund was cloaked in the Bank's image, it met heavy criticism for failing to adhere to stricter banking standards. The self-same banking image, however, hampered the Development Loan Fund in acquiring Congressional support as a vital instrument of U.S. policy. Its project loans did not seem to have the urgency of an aid program advocated for its relation to the national security. Nor did its projects lend themselves well to influencing the policies of its clients. If the Congress had become enamored of the project approach to aid, it nevertheless slashed the requests for appropriations for the Development Loan Fund. Its funds were too limited and its life too brief to permit evaluation of its impact on the societies of borrowers.

Like the World Bank, the IDA, and P.L. 480, its major client was India; India showed little response.

Other Donors and Export Credit Guaranties

The Mutual Security Act of 1954 proclaimed in its preamble that "those nations that have been assisted in their recovery should, in the future, share with the United States to a greater extent the financial burden of providing aid to those countries which are still in need of assistance of the type provided under this Act." Prior to that time, European and Japanese aid was confined almost exclusively to the payment of reparations, aid to colonies, and small contributions to international organizations. Together they provided about $800 million a year between 1950 and 1955.

This focus continued through the rest of the 1950's, though the sums rose to about $1.2 billion in 1956 and $2 billion in 1960. Perhaps half the increase went to colonial possessions, as metropoles began to prepare for early independence. They also made provision for continuing help to those who were to become independent in the late 1950's and thereafter. The rest of the increase consisted of loans for capital projects, patterned after the U.S. precedent except for an insistence on very hard terms for repayment. Apart from aid to colonies and very hard loans, European response to the Congressional injunction was minimal.

However, European governments did turn to their export credit guaranty laws to spur trade with developing nations. The net increase in such credits averaged over $300 million per year in the late 1950's and rose above $500 million thereafter. Germany was in the forefront, but others followed, as did Japan. The laws had originally stimulated the revival of Western European export trade by providing government guaranties for installment credit offered to foreign purchasers. The device proved constructive, on the whole, for expanding exports to other industrialized countries. To restrain the use of such credit as an unfair competitive device, the Berne Union was formed by the various guaranty agencies. By exchanging information about credit risks and limiting the duration of guaranties to five years, the Union kept within bounds the competition for good export markets.

In the markets of poorer countries, however, the device has proved much less suitable. Guarantied export credits worked well in selling to richer countries, where purchases were as much inhibited by the

shortage of internal credit as by lack of foreign exchange. In the case of most developing nations, export earnings were neither large nor rising rapidly. Their ability to pay debts frequently depended on increased aid, largely from the United States. The United States, in turn, protested even the indirect use of its aid to service commercial debts arising from overly energetic sales promotion by those who held back from giving long-term assistance.

As a result, consolidation agreements became necessary to avert defaults. The governments of the sellers had to pay off their own lenders and agree to accept repayment over an extended period. The government of the debtor, in turn, undertook to make foreign exchange available under the new schedule. After consolidation, the ultimate effect of the guaranties was a government-to-government credit, though at high rates of interest, and without any of the funds being available for new purchases. In 1959, almost $400 million worth of consolidation credits had to be extended.

Nevertheless, reluctant to abandon the device, the other donors have introduced "extended" export guaranty programs. Repayment periods of ten years and even longer are increasingly permitted. Private capital markets thus continue to be tapped to finance shipments to developing countries. The latter receive help but are building up a tremendous overhang of short-term indebtedness, at high rates of interest. By the mid-1960's, such indebtedness has been estimated at $7 billion.

For some time, the United States refrained from establishing an export credit guaranty system, though private American banks have always financed unguarantied credits, particularly to Latin America. In some instances, the Export-Import Bank provided loans to permit repayment to private U.S. lenders. Indeed, much of U.S. "aid" to Latin America in the 1950's consisted of such operations. By the 1960's, mounting complaints from American businessmen about lost sales had led to the establishment of a U.S. guaranty program in the Export-Import Bank. To date, it has operated on a much more cautious basis than the European and Japanese programs. In 1964, U.S. guarantied credits totaled only $49 million, 7 per cent of those reported by other developed countries combined.

Guarantied export credits are even more difficult than the other gimmicks to relate to any public policy matters. The primary transaction is between private and individual buyers and sellers, not gov-

ernments. It introduces a "buy now, pay later" atmosphere into business with developing nations that is hardly conducive either to cautious or to competitive buying practices. Protected by government guaranties, neither the sellers nor their immediate financiers are overly concerned about the credit-worthiness of the borrowers. The system offers large temptations for unethical behavior on the part of buyer and seller alike. Nevertheless, like the other gimmicks, export credit guaranties have transferred resources in substantial amounts.

4

The Fruits of Gimmickry

The Soviet challenge of "peaceful competition" could scarcely be ignored. Some thought it should have been welcomed. The sage and incisive Secretary-General of NATO at the time, Paul Henri Spaak, observed regretfully that the West should have issued it first. Presumably, the West entered such a contest with an advantage over the Communists in the obvious prerequisites for triumph—wealth, technology, and experience.

Yet neither the United States nor its allies picked up forthrightly the gauntlet cast before them. The response was cautious and inarticulate, muffled by blankets of respectable references to sales and loans. Response there was, but through gimmickry. The flow of Western resources was expanded. Those less developed countries that were not eligible for defense-support assistance were the principal beneficiaries.

It was largely by dint of the devices described in the preceding chapter that U.S. economic aid expenditures on behalf of less developed countries rose from $1.1 billion a year between 1950 and 1955 to $2 billion in 1956, $2.8 billion in 1960, and over $3.5 billion in each of the two subsequent years. Out of the full $1.5 billion increase between 1956 and the early 1960's, only $300 million consisted of straightforward gifts of commodities and services.

For the first time, a substantial flow was directed to nations sponsoring neutralist foreign policies, even though they also accepted Communist aid offers. The defense-support countries received in the aggregate about the same amount of U.S. aid as they had half a decade before. With a rising total program, however, their share fell below half of U.S. aid commitments in the fiscal year 1961, compared with three-fourths a few years previously.

Since all this inventiveness proved fruitful in raising the flow of as-

sistance, it may seem churlish to question whether it was wise. A more direct approach to Congress would probably have produced less money at first.

Nevertheless, hindsight suggests that over the long run a more straightforward approach might have been more fruitful. The interests of less developed and developed countries alike would probably have been furthered had a forthright campaign been launched to persuade the Congress and the public to assume greater responsibility for helping poorer countries. Lesser appropriations might well have resulted in the beginning, but it probably would have been easier to obtain larger ones currently and in the years to come. Somewhat smaller amounts at first, used more purposefully by donors and recipients alike, would have been preferable to the rapid and inchoate expansion that actually took place. Had more effective programs resulted, a better atmosphere would have been created for soliciting support for further orderly expansion. Yet it is only fair to reiterate that such observations are conjectures based on hindsight. On the whole, the transfer of resources did serve constructive purposes, though not necessarily the ones explained to the Congress. If, as was feared, a more fastidious presentation had yielded very much smaller appropriations, important interests could have been jeopardized.

The Difficulties of Responding to the Communist Challenge

The character and effectiveness of the response to the Communist challenge were sharply limited by the devices used to obtain more money. The gimmicks were themselves partly the product of a judgment that the American public was not prepared to accept a responsibility for developing areas comparable to that successfully undertaken for the industrialized world. Nor was it considered likely that political leadership could overcome that reluctance within a few years.

Neither the government nor the public had much confidence in the U.S. capacity to fulfill effectively such responsibilities. An attitude of reserve, if not despair, toward developing areas was based on intuition as much as on analysis, but the feeling was widely shared. Americans were overwhelmed by the uncertainties of lands with which they were little acquainted. They properly felt that existing tensions and weaknesses within the Third World were endemic, that the problems would not respond readily to U.S. ministrations, even if large amounts of money were brought to bear. Conscious that these countries needed

to borrow and adapt the values and institutions of modern societies, many Americans doubted that U.S. prescriptions could be made attractive and acceptable, much though they might be required. If the critically missing elements were human skills and functioning institutions, the mere provision of resources could only have limited effects, at least for many years.

The willingness of the American public to contribute—year after year in increasing amounts—was surely questionable. Because of the success of the Marshall Plan, Americans looked for tangible results from aid programs. Not only were achievements in poor nations highly uncertain, but periodic failure and setbacks seemed inevitable. The response to the Communist challenge was thus limited by pessimism about developing societies, partly based on its own lack of experience with their problems and partly on a realization that the problems were truly formidable.

Had the government felt that the Congress and public would regard the problems themselves as a challenge, it might have been readier to risk the uncertain results of a major effort. It did so in cases where Communist threats and military alliances combined to provide enough justification for accelerating the modernization process. As we shall see, the results there were surprisingly good.

Lacking confidence both in its capacities and in the willingness of its body politic to accept partial successes and occasional setbacks, the United States did not accept the Communist challenge openly. Nevertheless, it found ways to channel more resources to a wider range of developing countries. It was hoped that time and experience would increase the understanding of developing nations, aid administrators, and the American public. If successful, the "peaceful competition" might yet be won.

A Pre-emptive Aid Policy?

In these circumstances, it was inevitable that the United States not pursue a pre-emptive aid policy, as some urged. Such a policy would have made aid conditional on the rejection of assistance from Communist countries. Its proponents argued that the acceptance of Communist assistance would open the receiving country to Communist propaganda and subversion, thus beginning a process that would almost inevitably lead to a Communist seizure of power. They urged that a pre-emptive policy be strictly enforced against the first governments

to open the doors to Communist influence, denying them further Western help until they foreswore Communist aid. Otherwise, an increasing number of developing countries would follow suit, significantly enlarging vulnerabilities to Communist forces.

Many arguments were marshaled against this view. A preclusive aid policy would reflect fear and negativism, virtually offering obeisance to the Communist doctrine of inevitability. It would demonstrate lack of faith in the stability and resilience of governments that believed they could accept Communist aid and use it to strengthen the democratic fiber of their countries. Nations would resent such a condition as a serious infringement on sovereignty. Inevitably, some would continue to accept Communist aid despite a threatened loss of Western assistance. If they did, the threat would either have to be carried out or lose all credibility and effectiveness. To cut off aid under such circumstances would abandon the country to the Communist camp. The polarization of the less developed world would have been enforced by U.S. policy. The contrary policy, a continuation of Western assistance, would offer the developing country a present and visible alternative to Soviet aid. The continued availability of a choice, it was contended, would restrain the audacity and reduce the effectiveness of Communist aid.

A preclusive aid policy would have necessitated both a substantial escalation of Western aid levels and a simultaneous reduction in Western influence over how assistance was used. Little bargaining leverage on other subjects would be left with a government that agreed to forgo Communist aid out of deference to Western sensibilities. A much more intensive concert of policies with allies bearing the burden of long colonial histories would be required; their unpopularity in the less developed world would be visited on the United States in the process.

Whatever the merits of one or another of these arguments, the determining factor was that the United States was politically unprepared to underwrite fully and openly the needs of more than a limited number of less developed countries. Even closer association with other free world industrialized nations would not have been enough. A substantial increase in U.S. aid levels, a commitment of both money and persons over a period of many years, would have been required.

The mid-1950's were years in which the United States repeatedly asserted an intention to contract its foreign assistance programs, even as it increased their aggregate amount. The very assertion was part of the gimmickry for getting larger authorizations and appropriations. Aid

was renewed from year to year with regular promises that it would be terminated as soon as short-term security problems were solved.

As a result, the rising clamor of an increasing number of poorer countries for aid remained unsatisfied, despite the new mechanisms and the growing volume of resource flows. By the end of 1960, twenty-four countries had accepted Communist bloc offers, and the number continued to grow.

Perplexity About Purposes

The devices that were used to raise more funds for developing areas contributed to a growing perplexity about the entire U.S. aid program. By the end of the 1950's, U.S. foreign aid contained at least six separate major instruments. The defense support program was intended to enlarge military establishments. A small special assistance program provided limited resources for a few critical problem areas. The technical-assistance program furnished experts and brought trainees out of their homeland. Though the Export-Import Bank and the food disposal program had other primary functions, they could be used to promote economic advance in developing lands. The Development Loan Fund had been established principally for this purpose.

Moreover, there was a large array of appropriations accounts to finance foreign aid. The Mutual Security Appropriations Act passed in the fall of 1960 contained twenty separate appropriations, each providing funds to be allocated among less developed countries by either a U.S. or an international agency. Additional legislation provided financing for the Export-Import Bank, the international financial institutions, and surplus-food disposal. Presumably each separate appropriation had a distinguishable purpose, but the distinctions could scarcely withstand close scrutiny.

The relation between the stated purposes and the operations of the various programs was difficult to perceive. Consistency was at a minimum. No single criterion really separated any one of the foregoing programs from the others. There were different stated purposes, such as military or economic. Distinctions existed about the nature of the expected reimbursement, if any—loans, grants, or local currency payments. Differences were evident in the kinds of goods or services that could be supplied—technical services, food, construction projects, raw materials. However, all these lines of demarcation quickly faded

on close inspection. Few of the programs failed to poach on the preserves of others.

Under the circumstances, legislative rationale was readily mistaken for national interest. Perplexity was felt by the governments and public of recipient countries no less than by the American Congress and public. Even the personnel of the executive branch agencies responsible for administering the programs were confused.

The absence of a rationale that was demonstrably related to actual operations, experience, and accomplishments left defenders poorly armed against persistent attack. The Congress required the administration to submit plans in 1960 for phasing out the grant programs, and the administration complied. The resulting plans envisaged an early but orderly elimination of most defense support and special assistance programs, though they were qualified with carefully worded optimism. The Senate also served formal notice in the 1960 legislation that the new administration elected in the fall must submit a completely revised aid authorization bill. Understandably, the Senate was unwilling to consider further the 1954 act, which had been amended over the years into almost complete inchoateness.

The Reality of Defense Support

A probe into the reality beneath the image of the much maligned "defense support" programs is revealing about the nature and the consequences of the confusion. The rubric was first designed with European rearmament in mind. It was intended to finance larger military budgets than the aided governments might otherwise have considered politically feasible. Since continuance in office depended on ability to amass majorities in free elections, European governments felt pressed to improve economic welfare and growth and to ease social tensions, rather than to enlarge their armed forces. Their public did not fear the political wrath of military establishments and were not then apprehensive about relying on a U.S. military commitment for defense. Defense support thus helped overcome political resistance to an enlarged military effort.

When applied to less developed countries, however, defense support acquired a different character. There, too, it denoted economic aid for countries that faced significant security problems and had chosen to ally themselves militarily with the United States. The recipients were

all located close to the broad arc that forms the southern and eastern boundaries of the Sino-Soviet bloc of Communist countries. With good reason, their governments were concerned about the dynamic expansionism of their larger neighbors to the north. Most large U.S. military aid programs were initiated in the aftermath of specific threats of external aggression.

Unlike Western Europe, however, most of these defense support countries were ruled by governments in which the military had a priority claim on government finances. If it did not openly dominate the power structure, it was a key element. The governments wanted large defense establishments and frequently sought to equip them with more sophisticated weaponry than made sense to U.S. military advisers. The instinctive tendency of those in power was to suppress internal tensions by force if necessary, rather than by the reforms, compromises, and attempts to allay grievances that characterize Western society. For internal as well as external reasons, their preference for armed forces was high.

If foreign aid resources were used primarily to meet military requirements, domestic revenues were likely to be released for economic purposes. U.S. defense support in generous amounts was, therefore, bound to benefit the civilian economy and the civilian population, despite its professed military orientation. Defense support to such governments typically had the paradoxical effect of encouraging more attention to civilian needs. Out of the dozen defense support countries in the 1950's, only Laos, Vietnam, and, perhaps, Korea would unquestionably have operated with smaller defense budgets had "defense support" been significantly reduced.

In several defense support countries, the United States repeatedly urged the government to reduce its military manpower and to divert revenues to the nonmilitary budget. The United States usually appeared more concerned than the local government with satisfying economic expectations. It placed great emphasis on improving economic conditions in order to assure both popular support for a militarily allied government and the "will to fight" of the mass of soldiery. Some governments, however, used their own foreign exchange receipts to purchase military equipment that the U.S. military aid missions did not consider essential.

The reluctance of the U.S. administration to invest as much in the armed forces of these countries as their governments wished was rooted

in a variety of considerations. Though the cost per man was low, the utility of the armed forces of developing nations was also limited. On the whole, they were available only to defend the borders of their own country; moreover, their technological and managerial skills were sorely strained by the modern weaponry they were so eager to possess. The cost of maintaining modern military weapons systems is high, and apprehension continued about how long the Congress would be willing to appropriate funds. From a strictly military point of view, the armed forces were sometimes of less value than the associated access to intelligence and operational bases on the borders of Communist countries, even though the value of these bases was progressively being reduced by advances in military technology.

There was constant worry that military strength might be used in local situations without any consideration of U.S. views—by Pakistan against India or Afghanistan, by Taiwan against the mainland, by South Vietnam against Cambodia. The United States had no wish to be thus manipulated into armed conflict through possible escalation of fighting between an ally and a neighboring state. Nor was it prepared to risk escalation through Communist intervention in such a conflict. Its interests rested in the ally's possessing only enough military strength for deterrent purposes and for the peaceful settlement of regional disputes.

The foregoing considerations led the United States to press defense support countries to moderate their military build-ups, to increase tax collections, and to finance their armed forces out of their own growing government revenues. It also sought to divert more attention and resources to improving economic and social conditions, both to minimize internal tensions and to reduce the vulnerability of allied governments to internal defection or even sudden overthrow.

Perhaps the "purest" defense support program was conducted in South Vietnam, where the urging of reforms of any sort from Washington was resisted and largely defeated.* South Vietnam repeatedly argued that an active war was under way that precluded concern with

* See John D. Montgomery, *The Politics of Foreign Aid* (New York: Frederick A. Praeger, 1962), pp. 72–83, and 114–18. Montgomery puts the best possible face on the behavior of the local government, refrains from sweeping conclusions, and views optimistically such changes as did take place. Yet, his detailed account of the government's resistance speaks for itself.

other matters. Though Washington wondered whether such single-minded concentration on the military program could ever overcome the guerrilla movement, it never succeeded in overcoming the contrary views of the government. U.S. officials in South Vietnam soon came to accept and support the contentions of the Diem government. An ambitious land reform program, formulated in the early period after independence by the same United States adviser who had developed a highly successful program for Taiwan, never achieved more than nominal implementation. Proposals in the fiscal and monetary fields received no better reception.

In other countries, the urgings of reform and more responsive policies met with similar arguments about military threats and priorities, but resistance to U.S. advisers was less stubborn. Local leaders came to adopt the policies as their own and to gain political strength in the process.

It was nevertheless difficult and perhaps foolhardy to explain to the Congress that military aid and defense support were being used to discourage increases in defense establishments abroad and to promote economic and social progress. It was even more mystifying to the recipient governments, though on the whole they had reason to be gratified by the results.

The acceptability of the defense support rationale resulted in substantial assistance for the eligible countries throughout the decade of the 1950's. The amounts were adequate to sustain important economic progress, except in Laos and South Vietnam, which were unable for long to halt internal fighting and political instability. During that decade, Greece, Turkey, the Philippines, and Thailand each increased their gross national product by 50 per cent or more, a record substantially better than that achieved elsewhere in the developing world. In such other defense support countries as Spain, Pakistan, Korea, Taiwan, and Iran, the defense support program helped create a basis in the 1950's for accelerated growth in the 1960's.

Nevertheless, the record left room for many reservations, apart from Vietnam and Laos, where progress of any sort seemed elusive. In Spain, Thailand, and Iran, in Korea and Turkey, in Greece and Taiwan, progress toward modernizing social structures and government policies always seemed to fall far short of the potential—despite the massive volume of aid. Inevitably, observers remarked on the deficiencies, not on the forward steps that were taken. When Taiwan and Korea re-

formed their land tenure and tax systems, attention shifted to why Iran and Vietnam did not follow suit. And the progress in the reforming countries never received as much attention as did the failure of Taiwan to hold elections and the failure of Korea to eliminate corruption.

Doubts were expressed about the stability of existing political and social arrangements in most of the defense support countries, about the solidity of the foundation for eventual success on the European model. The doubts were, of course, justifiable, as they must be for any country that continues to be properly classified as developing. But they scarcely justified abandoning the operation or failing to extend aid to other countries.

Other speculation, perhaps more cogent, asked whether the military rationale of the program itself deterred a still more comprehensive effort at modernization. On the one hand, the size and nature of the defense support program permitted an intimate U.S. involvement in the broad range of problems and policies of the receiving countries. Involvement brought the inadequacies of their social structure to the forefront of American attention and made possible some remedies. On the other hand, many problems still remained.

Nevertheless, aid programs for defense support countries in the 1950's better approximated the "responsibility for achieving results" approach that characterized U.S. policy toward the industrialized countries in the immediate postwar era. Social and economic progress was purposefully sought. Despite the weaknesses of the societies and despite the limited knowledge and insight of U.S. aid administrations into their needs and problems, most of the recipients did make significant progress toward stabilizing and advancing their societies.

Limited Leverage with Non-Defense Support Countries

American aid to the rest of the developed world (some seventy countries) had to be financed through the other fund-raising media that were created or reinaugurated after 1955. To justify assistance in a few situations where military alliances were impractical, a concept of Special Assistance had been developed. Appropriations for this purpose were used to assure U.S. base rights in Morocco and Libya and to counter instability in such countries as Jordan, Tunisia, Burma, Guatemala, and Panama. Most of the recipients were small countries. Yet even on a per capita basis, most of them received much less aid than

the defense support recipients—Jordan and Tunisia being conspicuous exceptions.

However, the Special Assistance appropriation was much too small to be useful in dealing with India. India was not only an early primary target of the Communist economic offensive but the object of considerable concern among U.S. policy-makers. Determined to be neutral between East and West, it was ineligible for defense support. The abject poverty of its masses, its struggle for independence, and the moral stature of its leaders had attracted much sympathetic support in the United States. Moreover, by population, size, and strategic location, it was vital to any U.S. strategy for denying Asia to Communist control. The Development Loan Fund had been established with India's needs very much in mind.

Indeed, India became the largest beneficiary of most of the new appropriation gimmicks of the late 1950's, though the per capita sum it received remained very small. Latin America and Africa also received more help than they had previously. The defense support and special assistance countries were, of course, not excluded from consideration under the new programs, but on the whole they were lesser recipients.

Though countries denied defense support and special assistance received help presumably for economic purposes alone, they by no means were precluded from expanding their defense establishments. Both India and Egypt increased their defense budgets by 50 per cent during the 1950's, though their aid took the form of such things as project loans, food, and guarantied export credits. If defense support aid could be used indirectly to improve the rate of economic growth and social progress, development and food aid could similarly be used by the recipient to finance armaments. Such aid released domestic tax revenues and earned foreign exchange that would otherwise have been required to finance nonmilitary budget needs and civilian imports; the released funds were available to pay for armies and imported military equipment.

Economic progress in India and the U.A.R. in the late 1950's was disappointing, despite an increasing flow of aid purportedly for economic improvement. Less aid would almost certainly have necessitated smaller military budgets in these two countries, as in many others that received their assistance for nonmilitary purposes.

Project loan and food disposal programs, as well as those operated by international institutions, were neither legislated nor justified in

terms of the security or foreign policy interests of the donor. They were not intended to effect far-reaching reforms in the domestic policies of the recipient. The defense support program, on the other hand, provided considerable leverage by its very size. Despite its purported military orientation, the United States was able to use that leverage to encourage modernization, however partial and inadequate.

The gimmicks also transferred resources and even required that quid pro quo conditions be met. Their conditions, however, largely related to the details of the particular aid mechanism or to the specific uses of the aid funds themselves. They emphasized such matters as repayment terms, protecting accumulations of local currencies in the event of devaluation, the uses of the local currencies from "sales" and "repayments," the local contribution to financing an aid-financed project, and the design and the potential profitability of projects. Priority interests faded into the background in the face of pressures to resolve such concrete problems. The fiscal and monetary policies of the receiving countries, the diversion of resources to wasteful purposes, aggression against neighboring less developed nations, forging stronger regional bonds, social and political progress—all were difficult to relate intimately to the administration of gimmick aid to developing nations. Project aid, export credits, and food disposal programs were unlikely to sharpen U.S. focus on the inadequacies of the aided nation, and where they were the primary instruments, U.S. involvement in the major problems of the society has been minimal. The recipients were pretty much left to their own devices.

The defense support program was largely free of the irrelevant detailed conditions surrounding project loans and local currency sales. On the other hand, the very inventiveness of the new devices required emphasis on their detailed application. The myths, distortions, and gimmicks inevitably came to have a life of their own, apart from their role in eliciting appropriations. The more they acquired substance and reality in the minds of the aid administrators and the recipient countries, the less useful they became in dealing with crucial U.S. international purposes. They were built-in barriers to fundamental or far-reaching change.

Disillusionment with Gimmickry

At the end of the 1950 decade, these extemporized innovations had clearly run their course. The U.S. response to the Communist offensive had consisted first in taking advantage of a variety of mechanisms

and concepts that would make a larger aid program acceptable to the American Congress and the American electorate. Much of the additional resources thus made available went to developing nations not involved in military alliances with the United States, not providing U.S. base rights, or not confronted by specific security threats. Yet it is doubtful that such assistance served any purpose other than the obvious one: to build a project or dispose of an agricultural surplus. Nor is it certain that the project would not otherwise have been built or that the food would not otherwise have been available. At any rate, if any more fundamental policy purposes were served, the results were largely accidental and unforeseen.

The distortion of politically acceptable words like "sales," "bank," "investment," and "repayment" concealed the real purpose of aid—to transfer resources in order that the receiving country may deal constructively with those problems that are of importance to the donor. The camouflage itself impeded the use of aid as an instrument for affecting policies of importance to U.S. interests, whether immediate or longer-range.

In the progressive disillusionment with foreign aid in the United States, fingers were repeatedly pointed at external or internal policies of aid-receiving nations that seemed inconsistent with U.S. interests and views. It demonstrated that, in the final analysis, these basic matters do engage the critical attention of the American public. The local currencies and the interest rates attract attention only where more important matters offer little cause for complaint.

The large number of legislative authorizations and appropriations categories made it possible to furnish funds to a particular recipient from a variety of sources. The U.S. interest in providing aid in many different ways to some of these clients became increasingly elusive.

If confusion stimulated disenchantment, it also facilitated abuses of ostensible authority and telling attack by critics. The commitment of funds to meet short-term political objectives was notably vulnerable, particularly when either the political purpose or the effectiveness of aid in promoting it was dubious. Though the percentage of the total program so engaged was never large, critics dramatized individual instances out of all proportion, and germs of truth remained to infect the public with gnawing doubts.

One cabinet minister visited Washington to protest a decision to

offer his country less aid than in the previous year, when another government held office. The decision had been based on estimated needs, but the minister insisted that it could be interpreted as U.S. disapproval of the revolution that had brought him and his colleagues into office. He got his money, but the political life of his government was ended soon afterward by another coup. It was not the first time that funds were promised to support a shaky but friendly government that lost office before the commitment could be translated into delivered goods and services. And it was not the first instance where the successor government proved to be as congenial as its importunate predecessor.

Berlin received several million dollars a year of U.S. aid long after the Federal Republic of Germany had become well able to meet the city's needs. The aid was strongly urged as an essential symbol of a U.S. commitment to its continued freedom. When this aid was finally terminated, Berlin's confidence in the commitment was scarcely affected. President Kennedy's visit and his remark, "Ich bin ein Berliner," came after the cessation of aid but provided a symbol worth many times the last $25 million of taxpayer funds.

A literal "road to Mandalay" was promised the Burmese Government in 1959. Each year thereafter, the Congress was asked to appropriate enough funds so that the commitment could be honored if the Burmese Government so desired. Finally, in 1964, the Burmese Government agreed to cancel the project. The enveloping political history would more easily provide a plot for a comic opera than a logical relationship between aid and U.S. foreign policy interests.

The visit of a head of state or government or a foreign minister to Washington had become the occasion for announcing new or additional aid. Many a needy country sought visits from high-level Americans as opportunities for pressing aid requests. Allegations were made, probably with some foundation, that countries were given additional assistance in order to encourage a desired vote on a minor issue before the United Nations, or to assure a warm reception to a newly appointed U.S. ambassador.

If these short-term political objectives were attained, the expenditure of funds had to proceed under circumstances that lent themselves badly to negotiations about either the uses of the funds or the policies to be pursued by the recipient government. In some cases, the aid seemed to buy an indefensibly ill-conceived or overly expensive public works

project, though it had in fact purchased a political favor. Some suggested that the favors might be bought less expensively through direct bribes.*

Whether the larger and more diversified flow of Western aid neutralized the limited purposes of the Communist economic offensive is doubtful at best. The principal recipients of Communist aid continued to keep the Third World turbulent and made minimal progress with their internal problems. Whether this would have been equally true—or more so—if they did not also receive U.S. aid is a matter for speculation. The U.S. response was not fulsome enough to raise for them the prospects of successful societies. Could a more generous Western aid program have motivated and enriched their societies sufficiently to overcome internal barriers to a faster rate of progress? In most of the defense support countries, it had.

That the response served Western long-range strategic interests to some degree is certain. That it was poorly conceived and ill-designed for maximizing its impact on less developed societies seems scarcely debatable. Some came to question whether a rising volume of aid was an end in itself. Certainly the Congress became increasingly skeptical about any claimed achievements and responded affirmatively to all manner of criticism and attack. The absence of ordered purposes and the paucity of commanding accomplishments, in tandem, formed a formidable obstacle to domestic support for foreign aid.

Yet contraction of the U.S. aid program ran grave risks of loss of influence, and indeed of outright antagonism, on the part of developing nations. It had become a fact of international life that they wanted and expected more aid; no dearth of either moral or statistical argument existed in support of their claims. A reduction in aid would be interpreted as U.S. disfavor or disinterest or even hostility. In the face of the disparity of economic levels between the United States and developing nations, economic or statistical calculation of reduced need in the Third World as a whole would have implied some trickery, some rationalization for politically motivated behavior on the part of the richer country. Nor was it much easier for any single developing nation to accept a calculation that showed its own needs to be less urgent or justified than another's, barring some dramatically self-evident improvement in its fortunes. Larger increases for other countries might

* Hans Morgenthau, "A Political Theory of Foreign Aid," *American Political Science Review*, LVI (June, 1962), 287.

be explained and tolerated, but any reduction in the absolute amount of aid received by a poor country lent itself readily to political interpretation.

Thus, developing nations understandably banded together in the United Nations and other forums to press for more aid for all. As could have been expected, they did not dissipate energies and bargaining power in disputation about whether the allocation of aid among them was equitable. Thus, effective U.S. involvement in the contest for the developing world required more aid, despite the fact that existing programs were in increasing disfavor at home.

Even if the Congress and public could have been brought to continue the tools developed in the 1950's, these devices were not well suited to many problems that loomed on the horizon for the 1960's. The African continent was in the process of attaining independence. Both its problems and its aspirations were great, but neither food shipments nor capital development projects were its most pressing need. Nor could Latin America absorb much surplus U.S. food, though instability and disorder provoked by the Castro revolution in Cuba posed a keenly felt threat to American interests. Moreover, though India and Pakistan offered the most obvious potential counterpoints to Communist China, both needed more external assistance than was provided through the mechanisms of the 1950's. Moreover, project lending agencies were bemoaning the paucity of suitable project proposals. As for other developed countries, their five-year export credits were beginning to reach maturity and they were pressed for consolidation, refinancing, or government aid to permit repayments. Foreign aid needed to be expanded as well as improved. It needed more flexibility and freedom than the straitjacket of the gimmicks permitted. In order to provide larger amounts with fewer restrictions on their use, a more acceptable rationale had to be formulated.

5

The Economic Development Syndrome

The search for a new rationale led back to the concept of development. Enunciated in the late 1940's as the objective of Point Four, development remained a persistent if intermittent theme in the foreign aid program. The degree of emphasis varied, as did the conception of both the development goal and the means of achieving it.

Though the purpose was frequently described as economic and social development, the economic emphasis was predominant. Economic development could be defined in such measurable terms as capital projects completed or growth of the national income. Social development, a vaguer and less quantifiable idea, has received much less attention, both in evolving concepts and in actual aid operations.

The use of aid as a device for promoting economic development was the fruit of two separable strains of thought. The World Bank had first conceived of its development mandate in rather narrow administrative terms, confining itself to the partial financing of isolated capital projects. Toward the end of the 1950's, it was receiving the flattery of imitation from the expanded operations of the Export-Import Bank, the Development Loan Fund, and a number of bilateral and regional project lending institutions. However, by this time the Bank was itself increasingly dissatisfied with its own early doctrine. The Bank's criteria had satisfied neither the needs of the developing countries nor its own preoccupation with selecting good credit risks. It was beginning to recognize that the project approach neither assured the ability of clients to service loans nor necessarily accelerated their over-all economic growth. A need for more flexible instruments was implicitly recognized with the decision to establish a "soft-loan" window. The Bank's operations were progressively freed from the narrow confines of the profitable project approach, a process that still continues.

The Bank was further impelled to enlarge its perspective on economic development by the views of the economics profession. A great renewal of interest in long-term economic growth had swept the profession, producing a flood of research, writing, and teaching. By the late 1950's, this outburst had yielded a substantial consensus, relating insights into the process of economic growth to the ways in which development could be accelerated through foreign aid. Implicitly or explicitly, economists became committed to the view that foreign aid should be used primarily for economic development, except perhaps in limited and exceptional circumstances. They clamored for a policy that was preoccupied with economic growth in developing nations—to a degree that may have been sought but was never achieved for older views about internal U.S. policy.

The economists' consensus found an uncritical response in the aid-giving community, thanks to an existing policy vacuum. Those responsible for U.S. national policy toward developing areas felt both the necessity for more foreign aid and the absence of an intelligible explanation about how it could and should be used. For lack of an alternative, the new rationale took over.

This consensus first emerged in some studies commissioned by the Senate Committee on Foreign Relations in 1957. By 1961, it was fully developed. The first foreign aid program presented by the Kennedy Administration to the Congress was essentially an economic development program.

Characteristics of the Syndrome

The Ten Principles

The consensus may be described in the following ten propositions. Though they oversimplify professional views of both the nature of the growth process and the role of foreign aid, they embody the essential rationale as presented and understood by nonprofessionals—the public, the Congress, many aid executives, and the developing nations themselves. The propositions, as they are stated here, created an intellectual foundation for policy and action that was widely accepted and pursued. As usual, the "ifs" and "provided thats" of professional literature fell by the wayside.

1. An increase in the total volume of investment is the essential requirement for initiating economic growth. Herbert Feis has character-

ized this proposition as "a faith in the procreative power of invested capital."*

2. If some prospect for democratic institutions is to be preserved in developing nations, economic development cannot be based on forced savings. Foreign assistance must finance much of the initial increase in investment, since voluntary domestic savings are unlikely to provide an adequate initial thrust.

3. An ever-increasing proportion of the additional output resulting from increased investment should be available for savings and reinvestment. Thus, once adequately launched, the process of growth tends to be self-generating. The compound-interest principle learned by every schoolboy will translate a properly sustained increase in investment into accelerating economic growth.

4. At some point, this self-generating process will produce enough domestic savings to support adequate further growth. Foreign aid can then be suspended. Still later, foreign aid supplied in the initial stages can be repaid with interest out of the ever-increasing volume of savings based on ever-rising levels of production.

5. If the developing nation does not mount a substantial "self-help effort," the amount of foreign aid required will be unreasonably large. Even if such larger sums were available, the process will probably fail to work itself through. At the least, foreign aid should not replace domestic savings, permitting them to be diverted into consumption. At the most, it should assure the highest rate of savings acceptable to the populace through incentives provided by fiscal and monetary policies. High on the list of crucial self-help policies are honesty in government, noninflationary financing of development programs, appropriate exchange rates to encourage exports and discourage unnecessary imports, and the encouragement of private enterprise, including foreign private investment.

6. A development plan is the first essential self-help requirement. Its purpose is to assure the most efficient use of resources, including foreign aid. It should thus minimize the need for aid and maximize the rate of growth possible at any given level of aid. The plan should include an order of priority for investment projects that is consistent with the expected availability of resources and the expected rate of growth in all parts of the economy. A proper plan requires not only orderly programming of resources but also procedures, policies, and

* Herbert Feis, *Foreign Aid and Foreign Policy* (New York: St. Martin's Press, 1964), p. 20.

administrative machinery for their effective implementation.

7. Foreign assistance should therefore seek to maximize incentives for preparing better development programs and policies and for establishing the administrative machinery necessary to their execution. Accordingly, countries that seem ready to execute such a development program should receive generous foreign assistance. Since development plans must be prepared on a multi-year basis, good plans should be rewarded with unqualified promises to furnish the necessary foreign aid over the entire life of the plan. Those governments that engage their energies primarily on other objectives, or are unwilling to make the requisite sacrifices to help themselves, should receive minimal foreign assistance. Those that are determined to develop and willing to sacrifice, but lack the capacity to prepare and organize a program, should be helped to acquire that capability through education and other technical-assistance programs.

8. Military-assistance programs should be reduced to the barest minimum essential to meet obvious and immediate threats. The more military matériel delivered under aid programs, the more manpower, managerial skills, and budgetary funds must be diverted to deploy and maintain the new weapons.

9. Whether resources are provided in the form of investment projects, raw materials, semifinished goods, or technical assistance is a matter of indifference to contributors of foreign assistance, provided that a country has a well-conceived development program. Nor need the donors be concerned with how local currencies generated by the sale of imported aid supplies are used. Therefore, the negotiating leverage of foreign assistance donors can and should be concentrated on obtaining improvements in development programming, minimizing the diversion of resources from development objectives and maximizing the self-help contributions of the receiving country.

10. The administrators of U.S. aid should not be diverted from such concentration by the siren of political advantage, and particularly not by short-term political gains. Funds should be provided without political or military strings; they should be allocated solely on the basis of the prospective productivity of the investment.

Early Appeal and Renewed Torpor

Webster's Dictionary defines a syndrome as "a group of signs and symptoms that occur together, and characterize a particular abnormality." In their preclusive preoccupation with economic development,

the foregoing principles as a whole do characterize an abnormality. The unexceptionable character of the individual propositions conceals the irrationality of acting as if economic development completely dominates the motivation and behavior of governments, whether those that provide aid or those that receive it. However, as in the case of individual behavior, an aberrational national policy may nevertheless seem very attractive, particularly before its consequences become evident.

The initial appeal of these principles is easy to understand. They offered an internally consistent and purposeful set of propositions on which to base a program that had previously seemed negative, defensive, and rudderless. The goals were positive, idealistic, and constructive. Moreover, they were relatively simple and provided an observable test of success—the annual rate of growth of the GNP.

Offering a distinct prospect, however distant, of an eventual termination of aid, they pandered to a popular yearning that dated to the very origins of foreign assistance. This happy prospect was joined by another: foreign aid could be regarded as a retrievable investment. Recouping funds might be far off and uncertain, but nonetheless possible, if only the investment were managed on the stated sound principles. Such an aid philosophy was manifestly more in consonance with the American ethic than maintaining an unending stream of gifts to governments that were friendly and responsive as political allies but incompetent, if not downright corrupt, in managing the internal affairs of their nations.

The plausibility of the structure of principles and the clear-cut prescriptions for aid policy that followed seemed to satisfy the need for a foreign aid rationale. They were seized upon by the new administration that took office in 1961. The doctrine dominated the presentation of a "new program" to the Congress, and continues to permeate succeeding presentations. However, once the initial burst of enthusiasm had passed, it failed to enlist either a national commitment to the problems of the developing nations or support for foreign aid appropriations.

Such rapid withering of appeal was unthinking insofar as the public is concerned, but an intuitive recoil is not hard to explain. The economic development rationale rested on debatable assumptions. Time and events have tended to confirm the muted voices that questioned their validity at the time. Moreover, it proved easier to formulate the new doctrine than to install corresponding changes in the use of Congressional appropriations. Facts and motives that the principles would not readily

tolerate proved to have a stubbornly unyielding reality. The allocation of funds proved to be not very different from that under the preceding collection of illogical and poorly related justifications. When Congressional converts to the economic development rationale responded by offering legislative amendments in order to give it a more mandatory character, the executive branch offered firm resistance. Increasingly, it has become clear that the doctrine is adequately related neither to the facts of international life nor to the priority interests of the United States as a donor of aid to developing nations.

When the new program failed to sustain public support, the President appointed a review committee late in 1962, headed by General Lucius Clay. The grandiloquent title of the "Committee to Strengthen the Security of the Free World" seemed to more than redress the omission of political considerations from the presentation of the 1961 program. Seldom has the product of a committee's labors so justified the observation that public monuments are erected to the memory of men, not of committees. The press seized on the committee's criticisms of the aid program and on an ambiguous recommendation that aid be reduced. A careful reader can hardly fail to note that the committee provided at least one sentence of comfort for all points of view concerning foreign aid, both critical and friendly. It did not reject the development rationale, but neither did it contribute to its acceptability.

The Clay committee recognized the national interest in peace and security and in the proscription of Communist expansion from the less developed world. It failed to demonstrate with any conviction that aid would serve these interests if only it were successful in accelerating economic growth, in adding a percentage point or two or three to the increase in GNP of one or all developing nations. In fact, it dramatized the gulf of uncertainties that separates economic growth in poor nations from abiding national interests. A rationale was still lacking that might bridge the chasm between the nation's priority concerns and foreign aid.

Nevertheless, the official rationale for foreign aid continued to be focused on economic development. The connection between development and the national interest has rested on administration assurance that the relationship is positive and important. The response has been fitful and insecure.

A democratic political structure requires heed to widespread public skepticism about national policy, however intuitive it may be. An abid-

ing democratic faith suggests that the public mood may prove to be well founded in reason. It is to such reason that we now turn.

Deviation from Reality: Dubious Assumptions and Inconvenient Facts

Economic Growth as the Priority U.S. Interest

The first dubious assumption of the economic development doctrine is that economic growth is the priority U.S. interest in the poorer nations of the world. Perhaps a more tenable variant is that economic development should have an overriding priority because it alone can pave the road to other objectives that may ultimately be more important.

The mid-1961 presentation devoted virtually all of its 189 pages to explaining *how* countries would be helped to expand their economies. *Why* the United States should care was answered largely by a quotation from the President's Inaugural Address: "because it is right." A rhetorical reference can be found to the decade of decision between a decade of development and a decade of crisis. A cryptic reference was made to a choice between freedom and totalitarianism. One can read very carefully without finding the phrases "national interest," "national security," "anti-Communism," or even "friendly country"—phrases that had been the touchstones of support for foreign aid from the time the Greek-Turkish program was enacted in 1947. The President's message accompanying the presentation sought to redress this deficiency, largely by strong assertion that the economic growth of the developing nations would strengthen their resistance to Communist blandishments and thus strengthen American security.

In his sympathetic and sophisticated study of the dismantlement of the colonial system, Rupert Emerson had gently challenged the assumption that economic growth must serve U.S. interests.

> The West, and particularly the United States, pays larger attention to the political consequences which are presumed to accompany development. The three major ones are the laying of stable foundations for presently unstable societies, curbing the appeal of Communism and making friends for the West, and eliminating dangerous threats to peace. Regrettably, an irrefutable case can be made for none of these.*

Events provided both refutation of the presumption and confirmation of the "larger attention" paid to political events.

Economic development enthusiasts argued that if economic growth

* *From Empire to Nation* (Boston: Beacon Press, 1960), p. 413.

could be sustained, the social institutions, political behavior, and economic environment would be transformed in the direction of democratic political institutions, protection of private property rights, and respect for the Western nations that had set the good example at home and contributed to its realization abroad. The analogy with the Marshall Plan on this score is dangerous, for the value system of the United States was derived from the very countries whose economic growth it sought to revive by means of Marshall Plan aid. The values of the developing nations, with the possible exception of Latin America, can only be described as having independent traditions and different histories and priorities from those prevalent in the West. In Europe, economic revival might reasonably be expected to strengthen, modernize, and reinvigorate traditional values. In the developing world, an accelerated rate of economic growth is more likely to shake traditional value patterns to their core. New institutions and value systems will have to evolve to replace the old, and their character is at best highly unpredictable. Deviation from Western norms, not conformity to them, is more likely to result from imposing advanced technology and modern systems of production on the traditions of the less developed world. Moreover, a high rate of economic progress, achieved at considerable cost to the political and social stability of nations, may encourage and facilitate international adventures and jeopardize the peace. It is just as reasonable to assume that a slow rate of economic progress will permit a more gradual adaptation of new techniques to old values, and hence a greater probability that the new institutions will conform to those that have been successful in the industrialized societies of the West.

A more defensible position would admit that the relationship is uncertain, and yet would advocate a U.S. association with, and major contributions in support of, economic development. Such advocacy could be justified either as an act of faith despite uncertainty, or as an alternative that is more promising than the refusal to help.

This more reasonable position, however, destroys the operational simplicity of the economic development rationale. It suggests that the American interest in development is of different intensity in different lands. It requires analysis of whether American interests are better served by an accelerated rate of development in some lands and a slower pace in others. It leaves unanswered queries about whether the purposes of the aid donor are more effectively furthered by in-

creasing the incomes of particular groups, either because they are sympathetic or because they are restive. Or perhaps it is desirable to increase the consumption of certain services—education, health, defense—because they are urgently wanted, even if such use of resources fails to maximize the rate of growth in national income. In brief, this position accepts economic development as one purpose of foreign aid or as one means of furthering U.S. interests. It requires that economic growth compete with other goals for aid funds on the open market of specific interest to the United States.

Reluctance to offer a pledge to the Pakistan Consortium meeting scheduled for mid-1965 demonstrated how poorly the development rationale fitted the principal preoccupations of the United States. It demonstrated that economic development is neither the sole nor the overriding U.S. priority. Pakistan's economic performance in the preceding year had earned high commendation; on economic development grounds, it was entitled to a substantial pledge. On the other hand, Pakistan found itself at the time in increasing conflict with the United States about its closer relations with Red China and its threatened use of force in Kashmir. United States support of Pakistan's "good development program" might also have appeared as acquiescence to cooperation with a major U.S. antagonist and as indifference to threats to peace. United States behavior demonstrated that its interest in economic development was indeed subordinate to other considerations.

Development as the Priority Interest of the Developing Nations

A second questionable assumption is that economic development is so high on the effective priority lists of governments in developing countries that they will be prepared to subordinate all other interests—that if only they have a realistic choice and a prospect of economic success, they will pursue it single-mindedly. Adequate foreign aid can certainly provide both the possibility of choice and a better prospect of success.

Evidence in support of this assumption is elusive, to say the least. Evidence to the contrary is almost universal. To be sure, there is no dearth of protestations in developing countries about the primary importance of economic development; few political leaders can refrain from proclaiming dedication to the economic progress of their people. However, a more meaningful test is the actual choice among alternative courses of action when developing countries are faced with decisions.

In practice, even governments of poor nations prove to have sundry and conflicting goals and to subordinate readily their attachment to economic progress. Even those countries that have already achieved a high rate of growth are prepared to divert very large resources from accelerating the growth process—witness Israel, Greece, and Taiwan. When one turns to countries whose economies are less successful, decisions contrary to the strict requirements of economic growth are even more striking. Brazil, Argentina, Pakistan, India, Indonesia, and Egypt come quickly to mind, but it is certainly unfair to single out any country in this regard.

The economic growth "buff" readily criticizes "noneconomic" policy behavior in developing nations. However, before he seeks a higher priority for economic growth in their decision-making, he might heed the mote in his own eye. The priority accorded comparable economic objectives in U.S. internal policy is high, but scarcely pre-eminent. Are the noneconomic priorities of developing nations then really irrational or censurable? Or are they deeply embedded in the nature of man and hence reflected in the behavior of groups of human beings, whether they be associated in rich or poor communities?

The government of the United States loudly proclaimed its dedication to the goal of full employment and economic progress throughout the 1930's while behaving too cautiously to reduce unemployment very much. In the 1950's, other values again impeded the adoption of policies and programs to reduce unemployment to minimal levels. Among them were national security and foreign policy interests, internal income distribution, social security, the social importance of the family farm, the balance of power between local and federal government, reluctance to enforce the proscription of racial discrimination in all employment situations, and unwillingness to enlarge the role of the government in spending the national income. Where the federal government desired to subordinate other national goals, it had to explain and await a greater degree of public concurrence. Both the effective priorities and caution in pursuing them are requisites of a democratic political process.

The developing countries are also societies with plural values. They do seek economic development. They also have other national interests and objectives that frequently override economic growth when put to the test. Sometimes the apparent priority given to non-growth objectives is the result of venality, sometimes of a lack of confidence

in the efficacy of the advice of their economists, and sometimes of a lack of ingenuity on the part of economists in suggesting less objectionable paths to growth. More often, it represents the effective expression of true priorities as reflected by the existing political power structure. Because that structure seeks to retain power, its choices do correspond, however imperfectly, to the nation's operative priorities. It hardly suffices to say that these countries are too poor to indulge themselves in noneconomic values. Noneconomic goals are not the prerogatives of the rich. American society respects such goals within its aid programs to less fortunate segments of its own population.

The political leadership of developing nations, like our own, is ordinarily impelled to consolidate its hold on political office. However idealistic, it must try to enlarge the consensus of political support upon which its tenure is based as a prerequisite to its larger aspirations. The weaker the political base on which that tenure is founded, the more it must be guided in day-to-day decision-making by short-term internal political considerations. Governmental leadership consists in being a short step ahead of the country, but not so far ahead that the ability of the government to execute decisions is itself threatened. Thus when the government of a developing nation is confronted by a difficult economic policy choice, the decision appropriate to its economic development objective may seem rather clear cut. But before proceeding, it must weigh the effects on such groups as the military and the clergy, landowners and manufacturers, local business interests and investors, students and peasants, one region of the country or another, various racial or tribal groupings, schoolteachers and bankers.

If one recalls the broad range of relevant decisions, one will appreciate that their political incidence is very great. They include such questions as: the size of additional taxes and upon whom they will be levied; the allocation of government tax revenues among such competing claimants as the military, the police, the school system, highways and railroads, different regional governments; the allocation of government-controlled investments between social overhead (schools, medical facilities, public recreation, public administrative facilities) and facilities more directly related to the production of marketable goods and services, such as agriculture, power, transportation, and industry; whether the banking system will restrict or expand the extension of credit to the government on one hand or to the private sector on the other; how scarce materials or scarce foreign exchange will be

allocated between government and private uses and among various governmental and private claimants. The very decision as to whether the allocation of credit, supplies, and foreign exchange will be accomplished through a market or an administrative mechanism will itself have different effects on various components of the body politic.

Even if it is assumed that the government is strong enough to insist that the sacrifices required in the name of economic growth should be imposed and borne, it must further be assumed that the overriding interests of the society as a whole lie in economic development. Yet few would urge countries that feel insecure about the integrity of their national boundaries or about highly organized internal conspiracies to neglect their military defense or their police force in order to divert resources to investment purposes.

Sacrifices by individuals or groups in the name of the future welfare of the country presuppose a sense of identification with the broad community encompassed within the national boundaries. For many governments the more pressing problems may be the creation of just such a sense of national identification. A willingness to subordinate tribal or local loyalties to the country; a willingness to compromise religious, racial, and language differences; the transfer of power and responsibility from expatriates, who inevitably symbolize vestiges of colonialism; the creation of a tangible and beneficent presence of the national government—all these considerations may legitimately deserve priority over the more measurable requirements of economic development.

Indeed, "the search for nationhood" may be a precondition for the inauguration of a meaningful economic development program with realistic prospects for effective implementation. The nationhood requirement frequently explains some of the pet peeves of economic developers about "waste" of resources by developing countries—the building of sports stadiums and imposing government buildings, the elaborate celebration of official holidays, the establishment of uneconomic national airlines, radio and television facilities, and large department stores.

In the long run, constructive progress in dealing with any of the problems of a developing nation—be it the sense of nationhood, or security, or redistribution of income, or political reforms—will contribute to economic growth and may be a precondition for sustained economic progress. Any use of aid toward the solution of a national problem, economic or not, thus becomes a contribution to economic growth,

given an appropriate span of time. A higher rate of consumption of resources and a lower rate of investment may even be conceived as the best path to a successful economy. Such use of resources may involve a low rate of growth in national income in the immediate future while promising faster expansion at a later date. At this point, the economic development principles once again lose their clear prescriptive value for either justifying or managing foreign aid programs.

Knowledge About How to Maximize the Rate of Economic Growth

Third, the economic development doctrine presupposes a rather high degree of certain knowledge about the kinds of economic policy decisions that do maximize economic growth in developing countries.

The problem of inadequate and unreliable data is evident, but the development expert argues that it is better to base decisions on whatever quantitative material is available than on judgments that defy objective evaluation. Aid recipients are particularly skeptical about this argument and are resistant to advice based on statistics they distrust. It is not uncommon for differences between aid-receiving and aid-giving agencies to be rooted in a choice between the judgment of individuals who know their country and its ways and the judgment of foreign experts who are inevitably dependent on the application of tests of logical internal consistency to partial and even misleading data. Both groups suffer from an inadequate basis for making the decisions that nonetheless must be made.

Even where reasonably adequate statistics are available, the analytical tools may be much too dull to suggest unequivocal policy conclusions. Noneconomic goals such as security, political stability, and national loyalty may affect such vital imperatives of economic development as the willingness to undertake investments with long gestation periods, to save and pay taxes, to render disinterested service in public office. The relationship, however, is scarcely quantifiable. Moreover, the available techniques for objective calculation cannot prescribe the allocation of funds between such needs as defense, police, and public buildings, and such conventional investments as highways, power production and distribution facilities, and factories. Even if productivity were the dominant criterion, many major decisions concerning the use of resources must be largely subjective.

Much the same is true of such social overhead as education, health,

and housing. Again a positive relationship may be presumed to exist between such expenditures and the economic growth of the country, though they may be, and usually are, justified in terms of their noneconomic contributions. This relationship is easier to define and measure than that between "nation-building" expenditures and economic growth. Indeed, some investigators have concluded that the contribution of social overhead expenditures to a rising national income is much greater per dollar than that of conventional investments.* As their contribution to economic growth is better understood, the wisdom of giving them more emphasis in planning for economic development may be confirmed. In the meantime, they remain as politically important claims on the resources of all societies, since people want education and medical services whether or not it makes them more productive. Any government that neglects such desires because other expenditures promise more future income may find its political power lost and its good development programs discarded.

Even within the areas of investment, where more precise quantitative evaluations of the contributions of alternative expenditures are attempted, definitive policy prescriptions must be regarded with a wary eye. Cost-benefit ratios are numerical results, but the spurious nature of their precision is apparent to anyone who understands the pyramid of hazardous forecasts on which they are based—prices, costs, demand, and the time period required to complete construction and to reach the predetermined degree of operational proficiency.

Perhaps the crucial gap is in knowledge of the importance of rates of savings and investment. Economic development theory treats the investment rate as the critical determinant of the rate of increase in production; the rate of savings is supposed to be the principal test of an effective self-help effort. Other things being equal, the theory is unquestionably sound, but the "other things" appear to be grossly unequal in poor societies. At any rate, the lack of a positive relationship between savings and investment rates and growth in GNP in various developing nations is very disturbing to the usefulness of the theory for policy purposes.

In 1964, an AID research project assembled such data for twenty-five countries, covering the years 1957 through 1963 for all, and going

* F. Harbison and C. A. Myers, *Education, Manpower and Economic Growth* (New York: McGraw-Hill, 1964), chap. i.

back to 1950 for many.* The data showed that thirteen countries had maintained an increase in savings and investment adequate to support a 2.5 per cent per capita growth in GNP. The others had not. Seven of the thirteen countries with adequate rates of investment nevertheless failed to sustain a 2.5 per cent growth in output; four out of the dozen countries with inadequate investment rates did achieve such an increase. The deviations from an adequate rate of investment, on the one hand, and from a 2.5 per cent per capita growth of GNP, on the other, appear to be unrelated. Moreover, some countries with low rates of savings managed to achieve high rates of growth anyway, achieving large increases in production per dollar of investment. Others with high rates of savings and investment have failed to attain a high rate of economic growth. The procreative power of invested capital appears to vary considerably from one country to another.

It takes but a cursory glance at the literature produced by careful students of the economic growth process to appreciate the breadth of dissent and controversy about the basic choices that must be made. Balanced versus unbalanced growth, the priority to be given to the modernization of agriculture, the effects of inflationary policies and exchange rate policy—these are all questions that fall within the scope of the economist's competence and where he is accustomed to prescribe with assurance. Nevertheless, highly competent professionals have called orthodox views into question with cogent argument and empirical evidence.†

It would be malicious and mischievous to conclude from the foregoing that economic development is an uncharted sea that must be sailed without foreknowledge or rational calculation. The more appropriate lesson to draw is that we are far from ready to turn the helm over to programmed computers or even to the consensus of professional opinion. The proper course to be followed is so uncertain that intuitions based on firsthand experience may be correct, while a mass of calculations based on incomplete and incorrect data may steer the ship onto the reefs. Such data and analytical competence as we possess can

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* Mimeographed statistical tables reproduced by AID under the title *Economic Growth, Investment, Savings and Foreign Trade, Selected Less Developed Countries, 1950–1963.*

† For an iconoclastic view of some of these issues, see Albert O. Hirschman, *The Strategy of Economic Development* (New Haven, Conn.: Yale University Press, 1958).

contribute and do need to be brought to bear more often and more effectively. But political judgment, based on experience in leading the particular society in question and directed toward amelioration of non-economic tensions, may best steer a country on a progressive course, carrying economic progress along in its wake. It certainly should not be overridden by calculations, whatever the validity of their underlying data, nor by a preference for logically consistent analysis, however debatable its assumptions.

The Early Prospects for Self-Sustaining Growth

Finally, skeptics have never been convinced by the promise of self-sustaining growth. The record to date is largely on their side. The picture of needy countries receiving first soft loans, then borrowing normally in the capital market, and finally relying on their own savings is too enticing to be either rejected or believed. The problems are perhaps less those of false assumptions than of false time perspectives. Ample evidence exists to suggest that such an evolutionary process is no mere wishful thinking. The examples of the United States and Japan do exist. However, no basis exists for assuming that self-sustaining growth will soon be upon us in many of the aid-receiving countries.

The professional literature is replete with caution about the "preconditions" for a rapid movement toward self-sustaining growth, but few of the developing nations today possess these "preconditions," except in the eyes of the most optimistic observers or in the words of those who would solicit or justify foreign aid by the development rationale. In his deservedly renowned book *The Stages of Economic Growth,* Rostow described the preconditions stage with great sophistication and professed to see evidence that a wide variety of countries either were emerging or already had emerged from that difficult condition. He believed that Turkey and India, for example, had reached the next stage of "take-off" in the 1950's. Today a reader can easily assume that his discussion of the "preconditions for take-off" well describes both countries in the 1960's, though Turkey's continuing problems appear much more tractable. Perhaps the disappointingly slow rate of economic growth in both countries is the best evidence of his excessive optimism about the pace of the process he pictured so well.

It is sometimes forgotten that Rostow found that the "take-off" stage continued for twenty to twenty-five years after the country first entered that stage; presumably it is during these years that large amounts

of economic aid are most needed. It is only in subsequent years that self-sustaining growth is attained, with its capacity to borrow and pay normal rates of interest on debt.

It is unrealistic to expect self-sustaining growth in Africa or Asia within the next quarter-century, nor is it possible today to foresee the moment when many of the nations of these continents can dispense with foreign aid. The Alliance for Progress was originally envisaged as requiring a full ten years of sustained aid to Latin America on a substantial scale, after which it was expected that the need for aid would decline and an increasing number of countries would be able to progress satisfactorily without further aid. By mid-1965, the Alliance for Progress experts, themselves under pressure to justify aid as a contribution to imminent self-support, began to warn that the task would require more than a decade. By mid-1966, the United States Government formally acknowledged that its aid commitment would need to be of longer duration. Yet few would question that more of the preconditions for rapid economic progress exist in Latin America than can be expected in Asia for some years to come, and in Africa for many more years to come.

To be sure, the discovery of oil or diamonds, a tourist boom, or some other windfall may reduce the need of some countries for aid. Others may be able to do without it for a while because their populations passively accept low levels of consumption or because favorable market conditions produce a spurt in their exports. However, economic progress for most lands will require the continued receipt of more resources than they can pay for with their own foreign exchange earnings. Indeed, as the growth process accelerates, as the preconditions are put into place, the need for resources is likely to expand. The more that countries with basically weak economies borrow now, the larger the volume of aid they will need for some years to come in order to pay interest and dividends and amortization. Certainly this has been the experience of all but a handful of developing nations with the loans contracted in the years since World War II.

Yet ephemeral prospects of self-sustaining growth and the end of aid are held out to the Congress and the public. A "numbers game" is played, listing countries that have passed from the aid rolls as evidence that self-sustaining growth is possible. The bulk of the list consists of developed countries; they received aid for reconstruction, not development. Almost without exception the rest fall into special cate-

gories. Some have benefited from windfall additions to their foreign exchange position, from petroleum production or from offering a safe haven for the funds of the petroleum rich (Lebanon). A few have renounced small aid programs for political reasons (Cambodia). Others continue to receive aid from sources other than AID appropriations—food programs, military equipment donations, or contributors other than the United States. A few have benefited from large amounts of aid in the past on a grant basis and have been pushed off all "assistance" rolls to borrow substantial sums from private lenders, the Export-Import Bank, and international institutions. Whether these borrowing countries will be able to service such rapidly accumulating debt remains to be seen. Surely it is only this latter handful of countries that may properly be cited as having demonstrated the capacity of developing nations to achieve self-supporting growth within a brief time span.

The promise of a not-too-distant cessation of aid carries in its train the seeds of another wave of disillusionment with foreign aid, and perhaps even of new tensions with less developed lands. Because India has failed to make the predicted progress, it is belabored for failing to make an adequate self-help effort. Self-help efforts can and should always be improved, India's perhaps more than most. However, the fault probably lies as much with unrealistic donor expectations as with inadequate self-help. India is perhaps already the victim of the intellectual fantasies of half a decade ago.

Much has been made of the "revolution of rising expectations" in explaining the restiveness of developing nations and their need for aid. More attention could be paid to the frustration of U.S. expectations. The proponents of economic development have been less realistic about what can be achieved in developing nations than the long-suffering populations themselves.

Deviation from Reality: Practice Inconsistent with Principle

The foregoing reservations and qualifications are prevalent in the professional literature and are taken into account by the practitioners of foreign aid. An examination of the actual uses to which funds have been put shows considerable deviation from the development rationale. To conclude that U.S. aid, after the full-fledged adoption of the development rationale in 1961, has been guided much more than previously by its tenets requires a determined resolve to be enslaved by the language of legislative appropriations categories.

In the previous two chapters, doubts were raised about whether the resources of the Development Loan Fund served more of an economic development purpose in the late 1950's than did aid under other labels. The same kind of question must be asked about the new appropriations categories established by the 1961 legislation. To be sure, funds were switched to the development loan category, with a consequential increase in the proportion of funds lent to developing countries rather than transferred as gifts. However, in itself such a switch hardly made the aid program more developmental in intent or in effect. Neither did such housekeeping changes in the legislation as calling technical assistance by the new name of development grants or combining defense support and special assistance into a "supporting assistance" category. These steps were symbolic, designed to persuade both domestic opinion and developing countries that henceforth the purposes of U.S. assistance would be primarily developmental.

Whether the substance of the program has in fact been as radically transformed as the form of the legislation depends on the answers to other questions. Were countries with strong indigenous development efforts rewarded with more assistance and laggards penalized by reducing their aid? Were the priorities in discussions with aid-receiving countries radically revised to reduce the use of aid as leverage for U.S. security and foreign policy purposes? Has discussion and negotiation of better domestic economic programs and policies assumed a much greater importance in U.S. relations with other countries than in the past? Has there been a significant increase in the quantity and quality of economic development planning?

The record to date is, at best, ambiguous. If changes have occurred, they appear more as minor shifts of emphasis, as variations on the periphery of the aid program rather than dramatic changes in its character and direction. Were it otherwise, notable variations should have taken place in the amounts of money received by individual countries before and after the 1961 legislation. Good development plans would have been rewarded; slothful and corrupt governments would have been penalized. Allies would be relatively less well endowed, since presumably some of them were rewarded previously for their friendship rather than their economic merit.

A comparison of the program for fiscal year 1963 with fiscal year 1960 shows little change in the allocation of funds among countries. The changes that did take place are more readily explained by factors

other than a strict application of the development rationale. In both years, economic aid commitments under the Foreign Assistance Act were about the same amount for countries outside the Western Hemisphere. Hence a comparison of the sums provided to individual countries in the two years should give evidence of a radical change in purpose.

Aid commitments to Latin American countries under this act were sharply increased, from less than $100 million to some $550 million, fulfilling the promise made at Punta del Este in the summer of 1961, when the Alliance for Progress was formally adopted. The Bay of Pigs disaster had markedly strengthened the influence of Castro throughout Latin America, to the point where the United States felt threatened by increasing hostility in its own hemisphere. The potential dangers were readily apparent long before they were dramatized by the appearance of Soviet missiles in Cuba. While the long-term aid commitment was formally conditioned on the preparation of development programs and the adoption of a wide range of "self-help" policies, a billion dollars a year of U.S. Government-financed aid of all sorts was promised and was provided without waiting upon Latin American performance.* More than four years after Punta del Este, not a single Latin American country had an operational multi-year development plan; several were submitted but failed to receive international endorsement. Nevertheless, all Alliance members except Haiti were allotted larger amounts of U.S. aid in fiscal year 1963 than in 1960. Haiti offers a solitary example of withdrawing aid from a government that had been abusing past largesse. Brazil was promised a larger program in return for a major financial stabilization effort. When the effort failed to materialize, the additional aid was withheld but the aid level nonetheless remained much larger than in 1960.

Alliance aid has undoubtedly improved United States relations with its hemisphere neighbors, reducing both the attractions of Castroism and the proliferation of Communist adherents and apologists in key positions. The increased assistance essentially took the form of project aid, supplementing a further increase of similar assistance from the World Bank, the Inter-American Bank, and the Export-Import Bank. Because projects take time to carry out, actual expenditures by the United States Government on behalf of Latin America increased much

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* Food, Export-Import loans, and contributions to the Inter-American Bank, as well as AID assistance.

less rapidly. Some economic and social progress will inevitably flow from these projects; the focus of the governments of Latin America on improving economic policies has undoubtedly been sharpened as a direct result of the Alliance. However, the notion that significantly increased aid would only be provided as reward for substantially improved economic performance has had hard sledding in the face of hemisphere political realities.

The record is even less clear cut in the rest of the developing world. In 1960, twenty-eight countries received assistance under the defense support and special assistance programs, with a dozen defense support countries receiving most of the money. Presumably, development was not the primary purpose of the programs for any of the twenty-eight. Despite the disappearance of the military alliance criterion from the new legislation and a drastic reduction in funds for the "supporting assistance" category, twenty-five of them were still receiving assistance under the act in 1963. Spain, Yugoslavia, and West Berlin were removed from the list. The rest were allotted about as much U.S. assistance in 1963 as in 1960, a reduction in Foreign Assistance Act funds being matched by an increase in other programs, primarily the Food for Peace legislation. Reduced allocations of Foreign Assistance Act funds were not primarily visited on those countries whose self-help policies were inadequate or whose development programs left much to be desired. Aid was reduced where the need for assistance was diminishing, whether as a result of greater production and increased foreign exchange earnings set in motion by a mixture of aid and better economic policies in the 1950's (Spain, Taiwan, and Greece) or as a result of finding oil (Libya). Moroccan aid was reduced because U.S. bases there were no longer needed and because the French resumed their assistance.

By fiscal year 1965, the original list of twelve defense support countries had been reduced to seven still receiving funds out of Foreign Assistance Act appropriations. However, eleven of the twelve still obtained substantial new commitments of economic funds of one sort or another. Cambodia was the exception, having itself renounced further American aid in a fit of political pique. The remaining eleven countries received commitments of $1.34 billion. Excluding Vietnam, total United States economic aid to the defense support countries was about the same in 1965 as in 1960.

Two-thirds of the Foreign Assistance Act savings on such countries

in 1963 were used to increase aid to India. The rest made possible increased assistance to the Congo, Nigeria, East Africa, Israel, Egypt, and a number of other newly independent countries. Nigeria may offer a reasonable example of rewarding economic merit, though its role as a potential bulwark of Western influence in a disorganized and unstable continent undoubtedly influenced the decision to provide substantial aid. Israel was making a serious and successful enterprise of its economic development, but its need for increased aid was political and military, not economic. Aid to the Congo represented a response to a serious internal crisis with strong overtones of Communist intervention. The other African countries received increased project aid after achieving independence.

As for India, increased assistance was loudly advertised as the first application of the new principles. In fact, a major commitment was made to India even before the act of 1961 had completed its course through the Congress, nominally in recognition of the excellence of its development record. The soundness of its new Five-Year Plan had been endorsed by the World Bank and a group of international experts. Actually, India's economic performance has been less than exemplary.* Its growth rate has been modest under both second and third plans. While internal investment has been high, the resulting production increases have been unexpectedly small and export performance has been poor. Prior to 1965, aid was hardly used as an important lever for persuading India to improve its economic policies. The increased commitment in 1961 and thereafter more truly represented a revision of the previous policy of penalizing India for her neutrality. The political eclipse of Krishna Menon, the attack by Communist China, the moderation of an anti-Western tendency in India's neutrality, the elevation to leadership of a more moderate and pragmatic faction after the death of Nehru—these were the immediate events that produced increases in U.S. aid to India. Always in the background has been an awareness that only an increasingly prosperous India could thwart the expansion of Communist Chinese influence and power in Eastern Asia. To justify the program as a developmental one because India's intentions are serious, though her actions are ineffectual, may be no more than realistic. However, it does turn the development rationale

* See Edward S. Mason, *Foreign Aid and Foreign Policy* (New York: Harper & Row, 1964), p. 43; and Wilfred Malenbaum, "Growth Theory and Indian Development," *The Indian Journal of Economics*, April, 1963.

into a justification for concentrated aid to many more countries than in fact receive it.

Nevertheless, within the group of twenty-eight former alliance or crises countries, only eight obtained larger annual commitments of economic aid between 1963 and 1965 from Foreign Assistance Act funds than in 1960. The eight countries were Turkey, Afghanistan, Bolivia, Burma, Ethiopia, Indonesia, Liberia, and Somalia. Of these countries, only Turkey showed markedly improved self-help policies and development programs. Reductions for the remaining countries are evidence of an attempt to administer these funds consistently with the rationale. The result would be more impressive if so many reductions were not compensated by increases in other U.S. programs.

The concentration of economic aid under the Foreign Assistance Act was affected by the changed legislation, but not strikingly so. To be sure, the sums committed out of individual legislative categories are concentrated in a relatively small number of countries, but this has always been true. The chairman of the House Committee on Foreign Affairs observed that the program presented for the fiscal year 1967 programmed three-fourths of the funds for nineteen countries getting over $20 million apiece. For the previous year, seventeen countries were programmed for $20 million or more each, again accounting for three-fourths of the total program. The chairman observed that the countries were pretty much the same. For the fiscal year 1960, the same calculation would have yielded eighteen countries, but the countries would be somewhat altered. Yugoslavia, Spain, Morocco, Cambodia, and Taiwan were on the 1960 list and were presumably absent from the 1967 group. No Latin American countries appeared on the 1960 list; presumedly half a dozen were programmed for $20 million or more in 1967.

In 1960, six countries received 54 per cent of the sums provided outside of Latin America. In 1963, six countries received 56.5 per cent and five of them were on both lists (India, Pakistan, Korea, Vietnam, and Turkey). Taiwan was on the 1960 list; the United Arab Republic replaced it in 1963, barely edging out Israel for sixth place. In 1964 and 1965, the top six countries received 64 and 67 per cent, respectively, of total Foreign Assistance Act economic aid commitments; Laos replaced the United Arab Republic on the list in both years. Moreover, the number of countries receiving something more than a limited amount of technical assistance had been substantially increased by the

provision of capital assistance to virtually every Latin American country except Cuba, to virtually every newly independent nation in Africa, and to most of those still in colonial status. Criticism produced some reversal of this tendency. The list of recipients of new AID loans outside the Western Hemisphere was pruned to twenty-two in 1964 and twenty-one in 1965; there were twenty-seven such recipients the previous year.

Some Proposed Logical Extensions of the Rationale

As the Congress became sensitive to this disparity between professed rationale and the purposes for which funds had actually been allocated, a new wave of attack set in. It was joined this time not by the old enemies of any U.S. foreign aid, but rather by the more dogmatic converts to the economic development rationale. The first reaction was to reduce appropriations. The amounts approved for fiscal years 1963 and 1964 were slashed drastically below the President's request, and the same fate was avoided for fiscal years 1965 and 1966 only by the device of having the President anticipate the cut and make it himself. The roster of Congressional critics who have been asking for yet another "new look" at the program continues to grow.

Attacks for failure to adhere more rigidly to the economic development criteria have been a natural consequence of the oft-reiterated rationale for the program. Most recent Congressional proposals for amendments to the legislation or changes in the program flow as a logical consequence from the development creed.

Thus the country programs that involve financing a handful of small projects in a given country—the so-called presence programs—have been challenged for their inconsistency with the rationale. Aid should have been concentrated in those countries with the best economic growth prospects. The small programs can be defended either by reverting to the earlier World Bank concept of development by project financing or by reference to the political advantages of maintaining some constructive contribution to the economy of the recipient, however minor its impact on the economy as a whole and however poorly the country may be using its own resources in general. The elimination of all programs where U.S. aid makes only a minor contribution to the economy would reduce the number of recipient countries from seventy to perhaps twenty at most. Some $275 million was divided by the AID among fifty countries in 1963. Even allowing for the small

size and population of many of them, it seems unlikely that the size of their national incomes ten years hence would be noticeably affected by the continuation or absence of aid at this level. If one wishes to defend these programs, one must look elsewhere for a rationale.

Nevertheless, U.S. interests would certainly suffer if most developing nations were removed from its aid clientele because they have not fulfilled the preconditions or because they lack appropriate development programs. The notion that aid should be focused on a few prospects for early self-sustaining growth while the rest are left to mark time is hardly consistent with U.S. national interests in the external world. In 1960, prior to the Kennedy Administration reforms, the notion that aid might fruitfully be concentrated on the best development prospects was suggested to the Congress. A proposal to focus U.S. aid on "islands of development" produced protests from a vast number of excluded countries and from the U.S. officials responsible for dealing with them. Someone dramatized the problem by asking in private whether the United States intended to leave the rest of the Third World in a "Slough of Despond." The effort that is under way to concentrate U.S. aid further and to reduce the number of recipients may appear inadequate to the proponents of economic development; it may also be damaging to more important U.S. concerns.

Other critics have attacked the "softness" of AID loan terms. Its interest rates have been increased somewhat since 1962, and a number of senators suggest each year that it be raised further. The case for "harder" terms is another logical extension of the investment philosophy of the development rationale, with its explicit preference for loans rather than grants and its promise of self-sustaining growth. If the investments will in fact yield high rates of return to the borrowing government in the form of rapidly rising national incomes, it might reasonably be asked to repay not only the principal but also a market interest rate, or at least the cost to the taxpayer of borrowing by the United States Government.

Finally, it is suggested that development loan money be turned over to an international institution such as the International Bank, for allocation among developing countries as well as for administration. The Chairman of the Senate Foreign Relations Committee, Senator Fulbright, long a thoughtful and perceptive student of the uses of foreign aid, has given unqualified support to this proposal.* Essentially the

* *The New York Times Magazine,* March 21, 1965.

argument is that such an international institution would make money available only in response to economic development criteria, while decisions of the U.S. Government are inevitably influenced by non-economic considerations. Once again the proposal is a logical extension of the development rationale.

These proposals have all been opposed by the Agency for International Development, by the Department of State, of which it is a part, and by the White House. The opposition must be based on a tacit admission that development is not the be-all and end-all of the United States program. Money appropriated by the Congress, even under development appropriations categories, has not been used in rigid conformity with development criteria, perhaps not even in loose conformity. The development purpose has been subordinate to other, higher-priority U.S. objectives, before the 1961 rationale and after. The United States cannot afford to eliminate or reduce aid significantly to the vast majority of countries that subordinate economic development to other considerations—as long as their policies are not in conflict with basic U.S. priorities. If funds had been used only when the development criteria were rigidly met, higher-priority U.S. purposes would certainly have been sacrificed in the process. Yet the failure to articulate these other goals clearly and effectively and to provide the Congress and the public with a better-balanced perspective on the relationship between economic development and foreign aid has been costly. It has deprived the executive branch of an effective explanation of what it is, in fact, doing with foreign aid money and why that use is, in fact, consistent with the best interests of the American people.

Inadequacy of the Economic Development Rationale

With economic development as its central theme after 1961, United States foreign aid offered an internally consistent philosophy to the Congress and the developing nations alike, perhaps for the first time since the Marshall Plan. Unfortunately, many of its basic assumptions proved to be either dubious or inadequately related to basic U.S. foreign policy interests. As a result, the actual use of funds did not seem to be properly related to the philosophy. Those who had rallied to the economic development rationale then began to feel abused and to suggest changes that would compel rigid adherence to the professed criteria. In countries such as India, Argentina, and Brazil,

development aid failed to promote much economic growth because noneconomic considerations were neglected. In others, such as Pakistan and the U.A.R., economic growth proved to be an unreliable conduit to the strategic objectives that motivate U.S. involvement in developing nations. Thus, by 1965, the economic development enthusiasts were becoming disillusioned with the program, and the foreign policy enthusiasts were increasingly critical of the economic development rationale.

This lengthy critique suggests the need for modifying the economic development rationale, not for discarding it. To argue that it is not the overriding concern of both the United States and the developing nations is not to suggest that it is unimportant or irrelevant. A realistic rationale must, however, allow for the priority U.S. interest in more basic objectives, which may be furthered by economic growth but need not be. It must alert aid recipients to the true order of U.S. priorities. It must signal that their aid will be jeopardized if conflict with basic U.S. interests becomes acute—irrespective of their economic performance. Room should be provided in the rationale for relating aid more directly to such strategic interests, rather than resting the relationship solely on the uncertain by-products of economic growth. The rationale should further allow for the legitimacy of noneconomic aspirations in developing nations. It should acknowledge the inadequacy of knowledge—both ours and theirs—concerning how foreign aid can best contribute to the various objectives of both sides, economic development among them. Finally, it should be chary of optimistic predictions about the early end of aid.

The economic development syndrome characterizes an abnormal interest in developing the economy, while a good government seeks to develop the society. To the extent that the United States has an interest in the growth of a foreign country, it is again the society, not merely the economy, that should command its attention. If the society is to develop successfully, economic growth will surely be required, but a high rate of growth in the economy to the neglect of both social and national security problems is unlikely to serve the purpose of either the indigenous government or the United States. It may well even fail to sustain itself.

Seen through the eyes of the dedicated "developer," the foreign aid program today is still out of focus. But looking at it through his eyes is like looking at the reflection of a pretty girl in a circus fun-

house mirror. One catches glimpses of an attractive reality, though the actual image in the mirror is grotesque and distorted.

If the development criteria do not justify the actual allocation of United States foreign aid, the notion that it is unworthy to extend aid where they are not met is a distortion of true priority interests. Were the criteria rigorously applied, much of the present project aid and technical cooperation program would be withheld, the volume of loans would be much reduced, and the number of recipient countries would be drastically curtailed. Moreover, economic growth is taking place in countries that do receive aid, although neither the amount of aid received nor the pattern of growth is dictated primarily by economic considerations. The administration does feel that the international interests of the United States would suffer if the development criteria were followed more closely, as shown by its resistance to proposals that would enforce a stricter compliance with the ostensible rationale.

Indeed, one must question whether the economic development rationale is not itself a current weakness of the foreign aid program and a disservice to the national purposes it is intended to serve. The very existence of the professed criteria limits both the availability and the use of funds. The actual use of funds appears to serve the nation's interests better than a program rigorously geared to economic development; the principal current deficiencies of the program appear to stem from excessive zeal on behalf of economic development criteria. What is needed is a more persuasive case for justifying uses that are beneficial to the nation. The absence of a realistic rationale and the consequent difficulty of getting adequate appropriations harm the security and foreign policy goals that the aid program is intended to serve.

III

The Values and Limits of Foreign Aid

In the preceding three chapters, the evolution of foreign aid ideology in the United States was critically reviewed. The criticism was not made as a complaint, but as a foundation for building a more realistic and useful structure of purposes.

The United States was progressively plunged into the operation of foreign aid programs in poorer countries as the consequence of a series of specific problems. Increasingly aware of the necessity for a protracted effort, it sought to evolve a rationale that would give purpose and dimension to the work of aid recipients, as well as aid programmers and administrators, while maintaining support at home for the repeated appropriation of funds. A rationale corresponding to the needs of all these groups has yet to emerge.

For a minority of Americans, large-scale foreign aid programs are a matter of moral conviction and require no other justification. For most—and for the United States Government irrespective of the party in power—its values derive primarily from usefulness in serving national interests.

Affluent as it is, the United States cannot afford to finance all its needs and aspirations, at home and abroad. It must choose among the many alternative claims on its resources. For this purpose, it requires not only an acceptable structure of goals for the use of aid, but also some assurance that higher-priority items will receive prime consideration in the operation of the programs. If foreign aid in practice

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has so far resembled muddling through more than the implementation of a well-conceived and well-ordered policy, the results have nonetheless been affirmative, as we shall see. However, more forthrightness and more realism about objectives would both buttress domestic support and increase the effectiveness with which U.S. aid resources are applied.

Clarity of purpose would also be helpful to developing nations. The views of givers and receivers about priorities inevitably differ at times. The process of reconciliation can be difficult, though it is seldom acrimonious. Harmonizing such divergences can better begin with an understanding of what they are. In practice, the area of common purpose has been found to be broad. Differences frequently stem from inadequate communication rather than real conflict.

Nevertheless, the persistence of various different goals and emphases constitutes the first limitation to the usefulness of aid. Other limits must also be understood, both in the United States and in developing nations, for a structure of purposes that is not sensibly related to the realistic potentials of the program is bound to be a major source of frustration and disenchantment.

Internal instability in less developed countries and inadequate knowledge about how to overcome their problems are two further major limitations. In such circumstances, it is all too easy to transfer resources from rich to poor states for relatively unimportant ends while doing considerable damage to the priority interests of all concerned. A structure of purposes alone can hardly prevent this, but it is a first step in that direction. If the abuses of foreign aid cannot be eliminated, they can be reduced. An acceptable set of goals should contribute to that end.

Part III, therefore, seeks to establish a set of purposes that both coincides with priority American interests and might realistically be served by appropriately conducted foreign assistance programs. It begins with durable interests: the larger goals of U.S. policy toward the Third World that seem likely to persist. It continues with economic values, which should not rank as high in the U.S. scale of interest in developing nations but can nevertheless be better served than in the past. Finally, the tactical interests are considered—the internal or external policy actions that the United States desires the recipient country to take. The tactical interests should, of course, reflect both abiding concerns and economic interests.

6

Durable U.S. Interests in the Developing Nations

The crux of U.S. interests in developing nations is the fact that they are the least stable element of the international community. Therefore, they are most likely to become the scene of conflicts, from which the United States may be unable to abstain. Elsewhere, stalemate or stability prevail on most matters that can threaten U.S. peace and security.

Whatever the tensions within the Communist world, they are highly resistant to U.S. manipulation. The East-West conflict is likely to remain deadlocked both in areas now under Communist domination and in the other industrialized countries. Disharmony within the non-Communist industrialized world and between some of its members and the United States threatens their cohesion on lesser international issues but not their solidarity in the event of any threat of attack. Patience and inactivity appear to be the most appropriate U.S. response to issues that primarily affect relations within the Atlantic Community.

The less developed world, on the other hand, is rent by internal and external conflict in which constructive U.S. intervention is both appropriate and required. It is on this stage that three dynamic forces confront each other: Communist expansionism, Western aspirations for congenial values and institutions, and the internal instability of the developing societies themselves. It is in the developing nations that the basic East-West conflict of competing ideologies and interests is both fluid and unlikely to be resolved for an indeterminate period. Most of the less developed countries seem to see their interests in remaining uncommitted. Where commitment has occurred, it has frequently proved to be unstable.

In domestic policies, those in power in developing states appear to be primarily concerned with consolidating their own position, pragmatically adapting inherited social, political, and economic institutions to that end. "Nation-building" or "modernization" summarize their most promising avenues to consolidating authority as well as any short phrases can. En route, they frequently find it preferable to deviate from a single-minded concern with economic progress. Where they attempt to provide an ideological label to adaptations of inherited values to modernization and nation-building, they seem to search for a "middle way"—for example, Arab or African or Islamic socialism or guided democracy.

On the international level, regional political interests and a preoccupation with avoiding big-power domination seem to dictate an absence of commitment. The principal exceptions are those countries where the retention of internal control is directly dependent on the international support of one or another side of the East-West conflict—Taiwan, the two Koreas and the two Vietnams, and Cuba.

In this contest, the United States suffers from important handicaps but also enjoys considerable advantages. The Leninist theory that Communism is the indomitable wave of the future is yet to be proved. Communist ideologists originally assumed that their system would first find favor in the industrialized world, using a series of hypotheses that time and events appear to be rejecting. As modern Communist ideologists increasingly focus attention on the less developed world, they have encountered the usual human resistance to changes that are more drastic than the objectives of the society require, or than the elites prefer. In all but exceptional circumstances, Communists must therefore pursue their goals within a framework of given preferences for evolutionary methods. It is where those in power have been unresponsive to internal social pressures and resistant to demands for modernization that Communist ideology and subversion have found their most fertile medium—China, South Vietnam, and Cuba.

Finally, we have traced the evolution of U.S. policy as it moved from a rather doctrinaire anticolonialism to a progressively increased sense of responsibility for what happens in the developing nations, for building more effective nations with more intimate and less extricable ties to the United States. The pattern of reluctant response to the pressure of events has, however, left the United States bereft of a rationale for its policy that will find acceptance both at home and abroad and still be reasonably consistent with its need to deal with

problems as they materialize. Money—the aid program—has been a principal instrument of that policy, used rather flexibly as circumstances and pressing issues seemed to dictate.

Neither the military–national security, nor the anti-Communist, nor the economic development rationale has proved adequate either as a definition of the primary national interest or as an explanation of the purposes for which funds have had to be used. Yet all have been involved, not only in different countries at various times, but more often in the same country throughout the past two decades. It is the quest for simplification that has divorced the various rationales from reality. The answer thus appears to lie in a structure of purposes that can accommodate the variety of national objectives.

The National Security Interest

Durable U.S. interests emerge rather forthrightly from the historical and analytical propositions of the preceding chapters. Fundamentally, they are centered on protecting its own national interests, especially its national security, without becoming involved in open hostilities. To say that security and peace and a congenial international community describe the nation's highest purpose is, however, little more than a truism. It does not help much, whether in formulating a long-range strategy for conducting foreign policy or in preparing day-to-day operational decisions. The difficult questions arise when one asks how developing countries can threaten U.S. peace and security or how they can contribute to strengthening it. (See in Chapter 2 the section entitled "Are Less Developed Countries Important?")

Security is never absolute; national policy can seek only to minimize the dangers. Both past and present suggest that rivals will always exist. They will seek to exploit whatever weaknesses appear in our armor and will vary their attack in order to take advantage of whatever opportunity presents itself. A strategy to maintain security must begin by recognizing that the nature and intensity of threatening forces become less predictable the farther ahead we try to look. It must respond to the threats and the weaknesses as they now appear. It must seek to forestall potential menace, to consolidate strength, and to shore up targets that may seem attractive and opportune to antagonists. Moreover, the government must plan and act while recognizing the fallibility of its decisions, made as they must be from the obscure vantage point of current positions and recent trends.

The U.S. national security interest in developing nations appears to

fall into four categories: (1) rebuffing Communist threats to take them over by overt or covert aggression; (2) using their military forces and territory for reinforcing U.S. ability to defend both its own land areas and others threatened by Communist aggression; (3) minimizing conflicts among developing nations; and (4) the propagation of congenial values and institutions, however much they may vary from U.S. norms, to suit the conditions and traditions of poorer societies. Each of these brief phrases requires more specific definition and explanation.

The Communist Threat

Like dominant powers in earlier times, the United States is challenged by others who seek to supplant its power and influence, derogate its institutions and achievements, and advocate the superiority of their own. For the past two decades, that challenge has come from the Communist camp, most recently from the Chinese as well as the Russian variant. The U.S. national interest, and the function of its foreign policy, is to oppose and resist as effectively as possible. It seeks to protect what it has achieved for itself. Perhaps no less pressing is the defense and the strength of friends in other lands who wish to adapt and develop values, institutions, and experiences similar to, or compatible with, those of the United States.

However, for the foreseeable future the threat to American security does not come from the possibility of a deliberate direct Soviet attack on the United States, whether nuclear or conventional. The U.S. nuclear deterrent exists and deters. Even a substantial Chinese nuclear capability is unlikely to be used to menace the United States directly for a considerable period of time.

The dangers originate in possible threats to other countries, which would then have to choose between yielding or calling upon the United States to support their defiance. In either case, the kind of world order that U.S. foreign policy must protect and pursue will be endangered. If a threatened country yields, the United States must increase its efforts to forestall further erosion of the non-Communist world. If it seeks help, the United States can hardly refuse without further multiplying the erosion problem, as insecurity grows in other lands if not in the United States itself. Through various arrangements, including the Organization of American States, SEATO and CENTO, the United States is bound by treaty to join in the defense of about

a third of the less developed nations. Its commitments to the rest are less formal, but it can hardly refuse to come to their defense without some cost to its own security.

In the event of any nuclear threat by the Soviet Union or China, the United States has little choice but to inject its countervailing power. The alternative scarcely would be different in the event of the threatened use of conventional force by the Soviet Union. The dilemmas become real in the case of a Chinese attack with conventional forces. The United States chose to resist in Korea, to ignore the invasion of Tibet, and to offer assistance short of committing its own manpower to India. The choices become increasingly difficult as one considers a possible attack by a lesser Communist country or by a non-Communist country encouraged and supported by either China or the Soviet Union. Currently one thinks of possible threats by North Korea or North Vietnam, Egypt, Syria, and Cuba. Obviously the list could multiply or contract and is likely to change over time.

Even more difficult is the choice in the event of internal revolution, as in the Dominican Republic in 1965. It is invariably difficult to ascertain the nature and extent of foreign support for the revolt and the degree to which indigenous support is widespread and genuine.

Once the decision is made to commit U.S. manpower to the situation, the possibility of open Soviet and Chinese involvement comes to the fore and the risk of major escalation must be faced. The consequences of full escalation are such that both allied and neutral countries will seek to avert the use of U.S. forces unless they feel the threat to their own security to be direct and imminent. Of course, the ability to commit substantial U.S. manpower simultaneously to a variety of crisis situations is limited. The manpower resources of the Sino-Soviet world are much greater in an absolute sense. They are also much easier to mobilize and commit to military purposes in adjoining areas, partly because the internal political limitations are weaker in authoritarian societies and partly because manpower is less valuable to their economies.

Ideally, it would be desirable for all developing countries to possess a military and police capability adequate to deter aggression of all sorts, though realistically they could hardly be effective against direct attack by either the Soviet Union or China. Alternatively and preferably, an international force or a coalition of military forces of non-nuclear powers could provide a deterrent capability with much less

risk of escalation. The United States has sought to employ such alternatives to the commitment of its own manpower through participation in regional and global agreements and through the provision of training and equipment, as well as direct financing of military budgets.

The United States thus has a continuing interest in the creation, support, and maintenance of adequate police and military forces in less developed nations whose governments are friendly. If such forces are effective and reliable, they create a deterrent to aggression, whether of the internal or the external variety, thereby increasing the effectiveness of the U.S. military establishment.

Military Forces and Bases

If U.S. military might is to deter Communist territorial ambitions, it must have access to bases in or near threatened areas. The value of such bases has changed considerably over the past decade as the intercontinental ballistic missile has much diminished their usefulness in protecting the United States itself against direct attack. They still have some military value for purposes of intelligence, training, testing of weapons and tactics, and space flight communications. Precluding their use for such purposes by Communist forces may be more important than their availability to the U.S. military services.

Moreover, they retain a very substantial value for both deterrence and operations in dealing with localized aggression. To underline the credibility of a U.S. military commitment, the United States must be able to respond quickly and effectively in the event of either threats or actual fighting. The existence of local forces assures some time for such a response, if the attack exceeds the capabilities of local forces. For U.S. forces to become available quickly, they need both adequate landing fields and forward locations for communications, supplies, equipment, and maintenance. Thus the threat in Southeast Asia has led to the establishment in Thailand of U.S. logistical support troops. They are engaged in manning air and supply bases, enlarging and maintaining lines of communication, building a fuel pipeline to jet airfields, maintaining a storage depot for equipping U.S. forces that might be needed, and expanding the local road communications systems.

The interest both in rebuffing aggression and in the availability of local forces and bases suggests a series of subsidiary objectives: (1) assurance that any overt aggression will be met by a superior force, manned by the attacked population, and reinforced as necessary by

neighboring forces as well as by the United States and its allies; (2) a military force in the threatened country adequate to delay its conquest at least long enough for such external guaranties to be made effective; (3) an adequate police force to resist *coups d'état;* (4) a will to fight in the threatened country against both overt and covert attack, at a minimum on the part of the armed forces and the police; (5) foundation of this will to resist on government responsiveness to the urgent social, political, and economic grievances of articulate and effective groups of the citizenry; (6) a sense of national loyalty and cohesion within the country sufficient to induce resistance to both threats and blandishments; and (7) foundation of this sense of nationhood on the confidence of leaders both in the steadfastness of U.S. support and in their own capacity to cope with the internal tensions of their society.

Minimizing Conflicts Among Developing Nations

One further source of weakness in the less developed world must engage U.S. attention—conflicts among developing nations. Concern about a peaceful and stable international society would warrant emphasis on placatory behavior by developing nations even if its own security were not menaced by their conflicts. The threat to basic American interests is much magnified by the opportunities that such quarrels afford for Communist intervention and penetration. Hostility between developing nations provides as important an entering wedge as grievances against colonial masters or inadequate social, economic, and political progress. The festering of such conflicts is little better than their degeneration into open hostilities.

Once outright hostilities erupt, Communist intervention runs serious risk of escalation, as it did in the Suez and Congo crises. In that event, the United States can hardly stand aside. The Soviet Union has often found it advantageous to aggravate the conflict by supplying arms and support in international forums (including the use of its veto power in the U.N. Security Council). This aggravation forces the United States into the role of urging mediation and restraint on both sides, thus irritating and even antagonizing both.

Even immediately prior to open battle, the United States tends to avoid taking sides, hoping to wean both parties to a peaceful compromise that will reinforce its position in each. Until recently, the Communists took sides in quarrels between two less developed states, either in order to prolong them by reinforcing the weaker or to gain new

adherents by supporting one party. At the minimum, they aspired to greater influence over the foreign policies of the country they upheld. Optimistically, they hoped to see Communist groups organized or their popularity and political power strengthened. Thus, a decade ago, the Soviets arranged themselves on the side of the Arabs against Israel and on the side of India against Pakistan. The Chinese encouraged Indonesia to pit itself against Malaysia, and Cambodia to rail against Thailand and South Vietnam.

However, the conflict between the Soviet Union and China has made the posture of each less predictable in the event of hostility between less developed countries. Pakistan found a Chinese advocate in the Communist camp to range against Soviet encouragement of India's intransigence about Kashmir. Chinese support intensified Pakistan's impatience with failure to gain attention for its claims. When hostilities erupted in the fall of 1965, Soviet intervention took the form of hosting an armistice conference at Tashkent. Nevertheless, it continued to support India's claims to Kashmir.

A placatory Soviet policy appeared in the latest Turkish-Greek conflict over Cyprus. Moreover, the U.A.R. has apparently been discouraged from expecting support in the event it should attack Israel. At the same time, the Soviet Union encouraged it to step up attacks on the more conservative Moslem states. Additional Soviet arms have been furnished to the Yemeni Republic forces as well as to the U.A.R.

Minimizing such conflicts is also closely related to the U.S. interest in seeing successful societies evolve in the developing countries. Quarrels with neighbors may well strengthen the internal cohesion of new nations, and leaders may be tempted to exploit them for this purpose. But if their short-term purpose is thus served, the longer-range interest in resolving all problems through accommodation and the due processes of responsive institutions are sacrificed. Moreover, the diversion of energies and resources to external conflicts must delay economic and social progress at home, putting off further the day when the nation becomes successful in the eyes of its own people.

Thus the United States has a particular interest in moderating antagonisms among developing nations, through mediation if possible. Where there is no receptivity to mediation, U.S. interests lie in altering the balance of power between expansionist-minded countries and their neighbors, so that the latter are relatively strengthened. If this policy is successfully pursued, not only are overt hostilities likely to

be arrested but the willingness of both sides to reach a peaceful agreement should be reinforced.

Promoting Congenial Values and Institutions

The consolidation of congenial values and institutions in developing countries is an important element in the U.S. quest for peace and security. Its aspirations in this regard have little to do with the "cultural imperialism" so beloved by Communist propaganda. Coca-Cola, jukeboxes, and milkshakes are not basic ingredients to the success of American society. The U.S. objective is not to make a carbon copy of itself in every foreign nation-state. Such an aspiration is neither wise nor feasible, nor is it desirable. Institutions need to be adapted to local conditions and traditions. The international community of the future will be richer and more satisfying if cultural diversities are maintained.

It is, however, impossible to transfer Western technology and to install modern organizations for producing goods and services without some alteration of the traditional value patterns and institutional arrangements of the society. The basic ingredients of successful Western societies are as much in the sphere of social organization as they are in technology. If the developing nations want to find quicker and better paths to modernization, they must seek out the positive elements that have contributed to Western success. Few institutions can be copied without more or less extensive transformation. But adapt and adopt they must, if they are to progress with a minimum of false starts and inefficiency.

The U.S. interest in an adaptive transplantation of its institutions is partly based on the experience that they are more effective than those offered by the Communist world, that they are therefore likely to lead more quickly and more surely to a stable modern society. Interest is also partly grounded on the gratification that comes to any community that sees its own social recipes successfully transferred to a different society. But perhaps more important is the fact that rejection of its formulas for organizing society is bound to heighten its insecurities. At the minimum, the U.S. must seek the rejection of the antagonistic system that challenges its primary position in the international community.

Moreover, the U.S. assumes with some reason that a common structure of values and institutions will create a predisposition to community behavior in dealing with external problems. The relation between

internal arrangements and foreign policy is sufficiently tenuous to require the cautious word "predisposition." Nevertheless, both ancient and recent history suggest that a positive relationship does exist.

In modern times, the World War II alliance between fascist regimes in Germany, Italy, and Japan called attention anew to the intimacy between internal arrangements and external behavior. Despite the rift between its Soviet and Chinese segments, the Communist world has for two decades exhibited much more unity than divergence in its stance on current international problems. Perhaps most relevant to current concerns has been the behavior of Yugoslavia. When the Soviet Union threatened its national sovereignty, Communist Yugoslavia successfully sought succor and support from the West. At the time of the rupture, U.S. aid well served its foreign policy by encouraging other bloc members to seek greater independence and by dramatizing to nonaligned countries the rigidity with which the Soviets sought to control other Communist countries. Yet once Yugoslav independence was firmly established, the Soviet Union apparently succeeded in re-establishing an intimate relationship with its obstreperous ideological cohort. Interference in the kind of Communist system installed by the Yugoslavs has been suspended; freedom to develop its economy apart from the material requirements of the Soviet Union is no longer threatened. On this basis, its stake in the same basic ideology and social system as the Soviet Union appears to have sufficed to reduce Yugoslav cooperation with the West on foreign policy matters and to restore its advocacy of the Soviet position in world affairs.

The Yugoslav example may well carry an appropriate lesson for the United States, in addition to the obvious one about the centripetal power of a similar social system. Its international cooperation with the Soviet Union was only re-established after the Soviet Union recognized that Yugoslav Communism would not conform in every detail with the institutional patterns of the Soviet Union. Nor will its relations with the developing societies grow in harmony if the United States insists on the adoption of its values and institutions in every detail. Nevertheless, a question does arise about where essentials cease and where details begin.

On this score, the United States has not been without fault. It needs a better definition of the values and institutions that are truly basic to its own success. It has been much exercised by the prevalence of socialist professions and anticapitalist imprecations in less developed lands. Yet, with rare exception, they have also resisted the

Communist formula for social organization. On the whole, their urge for national identity on the world scene has counseled neutrality on ideological matters as well as in foreign policy. They have searched for a middle ground between capitalism and Communism, frequently mistaking the preaching of both for their practice. The United States, for its part, has frequently paid too much attention to the ideological professions of leaders in developing nations and not enough to their much more pragmatic behavior.

The United States has sometimes encouraged misunderstanding by urging values on developing nations that are scarcely treated as absolutes within its own borders. For example, voices that oppose any role for the state in economic life sometimes seem to have more influence on external policy pronouncements than they are accorded in internal decision-making. Economic decision-making without governmental participation or intervention is a vision that bears little resemblance to either current or historical American practice. The United States is a "mixed economy," incorporating an important role for government in managing and manipulating private economic decisions as well as in operating many public utilities, such as TVA and urban transportation. In the very matter of aiding developing nations, a substantial degree of government risk-sharing has been introduced in order to encourage private investors and private exporters. Within the United States, the precise role of government is in flux, as it is in most other Western nations. Moreover, the current "mix" is different in each Western "capitalist" nation.

In developing nations as well, the appropriate combination of public and private responsibility is likely to be different, varying with individual circumstances. Indeed, evidence of a pragmatic approach on this issue should be encouraging, since it would correspond to U.S. practice. To be sure, the pragmatic approach in Western societies is characterized by a general bias against government interference or participation in economic life when the private sector can do the job. If a predisposition to the use of government machinery seems to exist in many developing countries, it may reflect more the weakness of the private sector than a prejudice against it. In only a few countries has socialist ideology seriously hampered the growth of native private enterprise.

If the argument against government ownership of some economic enterprise and about government interference in economic life is both sterile and detrimental, what are the essential values and institutions

that the United States offers and should seek to have emulated? Above all, it is the personal freedoms expressed in the Bill of Rights. It is the notion of representative government, with provision for the orderly transfer of power through free elections rather than through violence. It is the idea of equal opportunity and equal justice for all, irrespective of class or station or membership in a group. In the economic sphere, it is a decent respect for property rights so long as they are not abused by their owners, and an environment in which free enterprise is given its fullest possible scope though regulated to protect the public interest. It is a bias against the achievement of national economic purposes by the use of direct controls whenever indirect methods can induce acceptable behavior.

Such values—and the related institutions developed in the United States to promote them—draw a sharp line between the American view of society and that of the Communists. They are still not fully realized within the United States. Nor will they all be practicable in many developing nations for some time to come. However, so long as they are held up as aspirations and goals, so long as progress toward their realization is both sought and maintained, durable U.S. interests will be promoted. To the extent that they are realized, a better basis for lasting cooperation with developing countries on external policy will have been established.

Viable Societies and Durable U.S. Interests

Having defined U.S. strategic interests in terms of its own peace and security, we have been able to pinpoint four enduring U.S. concerns in developing nations. Foreign aid programs may contribute directly to alleviating these concerns in moments of crisis, or on less dramatic occasions when key decisions are being made. But times of crises and decisions are, by definition, moments of uncertainty. U.S. interests will be better assured if crises are obviated while more favorable conditions are created for the making of decisions. Therefore, before turning to the role of the foreign aid programs, a subsidiary set of objectives requires attention—the basic conditions in developing nations that are likely to be most propitious to U.S. interests. "Viable societies" is the term that seems best to summarize such conditions.

The Implications of Viability

What is meant by a "viable society"? In the present era of exaggerated concern with quantification, it is an unsatisfactory concept to

some because it does not lend itself to rigorous, quantifiable definition. That it may nonetheless be valuable is suggested by the continued social force of equally imprecise concepts, such as freedom and democracy.

Viability may be defined for our purposes as a socially acceptable relation between aspirations and achievements. It must, of course, be a dynamic concept. Unless a society can accomplish progressively more in the future than in the present, frustration will greet the new desires that invariably appear at least as rapidly as old ones are sated. If the term "development" is enlarged beyond the primarily economic context of current usage, the end product of successful development policy may be termed a viable society. Viability must involve economic growth, but the required rate will depend on the structure and problems of the particular society. It substitutes an emphasis on a favorable environment for the current preoccupation with "self-support"—that is, with the end of aid. Viability thus permits balancing the desire of each sovereign nation for independence against its willingness to accept the necessities of interdependence. Until viability is secure, continued aid should serve the interests of both donor and recipient; neither should feel put upon or humiliated.

The viable society thus exists where goals and the satisfaction of crucial wants seem sufficiently attainable to restrain attack on basic institutions and values; the more attainable they appear, the stronger will be the attachment and the more aggressively people will rise to their defense. In every society, there will be some anxious to preserve it and many more who will be sufficiently content to refrain from attack. In every society, there will be those who feel they have little to lose and perhaps much to gain from its overthrow. Viability is far from synonymous with imperviousness to change and reform. On the contrary, it implies that their pace and direction are satisfactory, fulfilling some old aspirations while offering a practicable prospect for attaining new ones.

According to this definition, it is meaningful to assert that Western Europe and Japan are viable today, though they could hardly be so characterized in the late 1940's. The ingredients that accounted for their transition to viability provide a good starting point for identifying what is needed in the developing nations. As explained in Chapter 2, they were: (1) a reasonable assurance of external security; (2) political development, founded on both reasonably competent government and political institutions that permit widespread participation as well as responsive decisions; (3) social reforms to meet the grievances of im-

portant disadvantaged groups; (4) regional integration, both to assure the solidarity of stronger neighbors with weaker ones in the face of threatened military attack and to facilitate a high degree of mobility of goods, people, and capital among neighboring states; and (5) a high rate of economic growth.

Promoting Viability: Experience in Developed and Developing Nations

At the end of World War II, the developed world needed modernization, the adaptation of existing resources and institutions to current needs and realities. An atmosphere of stagnation and frustration had persisted in Europe since the end of World War I; it is easy to forget today how difficult the re-creation of successful societies seemed to be in the 1940's. To be sure, the advanced level of education, social skill, national loyalties, and political institutions facilitated an effective address to the problems. The importance of each of these ingredients varied from country to country. However, in retrospect, it is clear that success was based on an essentially simultaneous attack on whatever problems seemed critically responsible for weakness. Each success, each progressive move, reinforced the efforts in other sectors and facilitated decisions about neglected problems that had earlier seemed too difficult to tackle. The absence of an overriding priority for economic growth, or regionalism, or social and political reform, or national defense appears in retrospect to have been helpful and healthy. Success was founded on the interdependence of success across the entire spectrum of national and regional problems.

The ability of these countries to undertake such a many-pronged attack was facilitated enormously by the United States. Under one program or another, the United States allotted to Western Europe more than $35 billion in aid over the twelve years from 1946 to 1957, an amount equal to about $15 per year for each resident.* Moreover, their security was guaranteed by a U.S. commitment under the NATO Treaty and dramatized by the stationing of U.S. troops in areas most likely to bear the first brunt of any possible attack.

Equally important was U.S. participation—intervention if you will—

* The comparable figure for Japan is less than $4 per capita, but Japanese security has rested almost exclusively on U.S. guaranties and on a relatively larger American military force stationed in Japan. The absence of a military establishment of its own reduced the Japanese need for aid; in addition, the U.S. forces provided substantial dollar income.

in the entire process of modernizing both the internal society of the "developed" nations and their international relations. In the ex-enemy countries, it insisted on the establishment of democratic political institutions, the replacement of direct economic controls by indirect economic policies, major reforms in education, and an overhaul of the Japanese land-tenure system. In the former allied countries, it urged the introduction of modern economic policy techniques for promoting greater production and domestic trade, the acceleration of the decolonization process, and the liberalization of foreign trade and payments arrangements. It encouraged initiatives toward European integration in both the economic and the military field.

Except for the occupation phase in the ex-enemy countries, this intervention was not a matter of fiat by a dominating partner. The developed nations recognized that U.S. contributions to their security and resource problems gave it a right to be heard. The United States used that right, by and large, to support those elements in each society that sought evolution, modernization, and progress. Its views and judgments were neither infallible nor necessarily decisive. Their contribution depended heavily on both the existence and the capabilities of local groups who were eager to come to grips with national problems but lacked sufficient political strength of their own to produce appropriate decisions.

NATO and the OEEC provided forums where the collective weight of European opinion could be brought to bear against the United States when its views about necessary European action seemed premature, exaggerated, ill-informed, or ill-conceived. But its over-all record in these forums was quite favorable and it did enlist considerable support for its views.

The aid relationship established for the United States a right to be heard rather than uncritical acceptance of its views. Rarely did support for U.S. policy prescriptions come from an aid-hungry government that was courting its favor. After hearing the United States and other regional members, recipient governments made their own decisions.

Only in a few instances was the threat to withhold or reduce aid used to induce a recalcitrant government to alter policies to which it had become firmly committed. Dutch resistance to Indonesian independence was a striking example. Perhaps more frequent was deference to U.S. views on matters in which the Europeans did not expect to be seriously hurt by acquiescence. The embargo on so-called strategic exports to Eastern Europe through the COCOM mechanism provides an illustra-

tion. In some instances, the promise of additional aid elicited participation in regional European activities that might not otherwise have been acceptable to all parties, though a substantial number of European governments energetically supported the programs on their own merits. The birth of both the European Payments Union and the European Productivity Agency was much facilitated by such promises.

More important than the use of aid as carrot or stick was the United States predilection for modernization. The regional forums enabled the more imaginative and less cautious to find support from both the United States and from many fellow Europeans. Those hostile to change were readier to compromise with native reformers when they found little encouragement from either the aid-giving United States or from neighbors participating in regional forums.

It is perhaps significant that in the mid-1960's, the industrialized country whose continuing problems are most in the public eye is Great Britain, the European state that most resisted intervention. Britain joyously renounced United States aid at a relatively early date, resisted advice on the importance of modernizing its industrial plant, and was wary of participation in the European integration movement. Of all the European countries, it alone insisted on employing its own productive capacity to equip the increased military establishment that all NATO countries mounted after the attack on Korea. Current British problems are only in part attributable to its exaggerated resistance to intervention by fellow members of the Atlantic community. Nevertheless, it could have gained much in the late 1940's and early 1950's had it been less preoccupied with maintaining a status of *primus inter pares* and had it been readier to take advantage of the insights into its problems of its partners and neighbors. This fact is worth reflection on by those developing nations whose zeal for independence obscures the constructive potential of friendly intervention on behalf of a less cautious approach to modernization problems. In a world of growing interdependence and of accelerating rates of social change, a high price can be paid for an excessive preoccupation with the niceties rather than with the potential gains from intervention.

Such experience in re-establishing viable societies in the industrialized world is relevant in many respects to the less developed countries. It is common to explain their poorer record of progress by stressing that conditions are different and less favorable. It is sometimes suggested that failures are attributable to an uncritical application of Marshall Plan ideas and methods to the less responsive problems of the

poorer nations. The latter charge is difficult to substantiate, and indeed the opposite may be closer to the truth. The United States was so preoccupied with the difficulties and different circumstances that it assumed only minimal results could be expected. It therefore hesitated to attack the problems as aggressively as it had in Europe. The very assumption helped to assure modest results.

Administration after administration has shied away from accepting a comparable degree of responsibility for results in developing areas because it instinctively or explicitly realized that the costs would be very large over a long period of years. Each considered that the price tag would frighten the American public away from the entire task. Accordingly, it sought acquiescence of that public in proceeding with partial measures; and the results have been no more than commensurate with the modest responsibility undertaken. It offered limited technical assistance, aid for readily bankable projects, food for whoever would take it in virtually whatever amounts they sought, security guaranties only where overt attack took place or seemed imminent, rather reserved support for measures of regional integration, sporadic concern about political development and social reform. Such an approach to developing nations differs markedly in essentials from U.S. policy toward the developed world. It is doubtful that limited U.S. participation and assistance would have been adequate to produce viable societies so rapidly in Europe and Japan.

Military security, political and social development, regionalism, and economic growth are all as important for viability in less developed countries as they were in the chaotic developed world of the immediate postwar years. The noneconomic elements are essential to sustain a high rate of economic growth. In turn, they will themselves be difficult to support unless economic progress takes place. A high rate of economic growth alone is unlikely to suffice for viability, though favorable circumstances may make it possible for a period. For the most part, economic development is critically hampered by noneconomic limitations.

Nevertheless, the less auspicious conditions prevalent in less developed countries do give rise to some important differences. The process of modernization must be spread over a longer period of time. New values and motivations come slowly to a less developed society, as do new institutions and increased understanding of the ways of an industrialized society. Success will therefore require the provision of resources over a longer period of time.

Moreover, more external initiative and involvement is needed if

less developed countries are to conceive reasonable and responsive programs for meeting social and political difficulties, as well as for promoting investment and trade. Regionalism and the conciliation and sublimation of differences among neighbors also appear to require more aggressive outside participation than was necessary in Western Europe. As in the developed world, indigenous groups must be found which are enthusiastic and capable enough to organize local acceptance and local execution of such programs.

However, the mere provision of resources in large amounts and the support of indigenous initiatives for reform and modernization are unlikely to suffice. Of course, external involvement must be acceptable to the developing states themselves. Preferably, it should come at their invitation. However, developing nations that have resisted such participation appear to do less well than those who are more receptive. In Latin America and Asia, Argentina and India seem to aspire to the proud and lonely role sought by Britain in Europe. Resistant to external advice and regional cooperation, they have progressed less favorably than many of their neighbors. Like Britain, both of these countries had a particularly difficult heritage from the recent past, but they too should have done better with their own resources and the aid that has been available to them.

As the newly independent states become more accustomed to sovereignty and therefore less suspicious of outsiders, and as they experience difficulties with solutions of their own divining, most of them grow less resistant to intervention. Even Burma shows signs of modifying its do-it-alone stance. By building regional organizations, they can more effectively control and limit any possible abuses of intervention by Western societies. Nevertheless, they need considerable counsel as well as financial and personal contributions if their modernization is to be accelerated.

The duration of commitment and the extent of involvement are thus perhaps the critical differences between the less developed and the developed world as they should appear to a U.S. Government eager for their success. The mutual interest of the United States and the developing nations in their viability should provide a solvent for the difficulties of working out acceptable arrangements.

The more cooperative and responsive the government of any particular state, and the greater the devotion to its own viability, the greater the U.S. interest in its viability should be. Neither of these conditions

can be neglected. Diem, Rhee, and Batista were friendly enough for the United States to develop a strong interest in the viability of South Vietnam, South Korea, and Cuba, but their resistance to social, political, and economic change cost them their office. Chiang apparently drew appropriate lessons from the mainland China failure; as a result his regime in Taiwan has enjoyed remarkable support. Brazil has made commendable efforts in the economic field, but political repression must be a matter of concern. Nasser's drive to dominate the Arab world has tempered both his friendliness with the United States and his dedication to internal progress in Egypt; the U.S. interest in Egypt's viability is correspondingly tempered. The U.S. interest in the viability of Indonesia under Sukarno's dominance was difficult to discern; viability based on stirring the emotions of the populace against neighbors and Westerners is hardly consistent with U.S. interests. In fact, when countries are antagonistic, U.S. interests in accelerating the viability of the well-disposed neighboring countries are intensified. Such hostility has added to the urgency of its commitments to countries such as Israel, Taiwan, Thailand, and the Central American states.

Neglect of the Noneconomic Ingredients

If the noneconomic ingredients of viability have been especially neglected in U.S. policy toward developing areas, the explanation is not to be found in official insensitivity to their importance. Neither the U.S. Government nor the governments of developing areas themselves are oblivious to such considerations. Counsels of caution about the uncertain consequences of too rapid social change are, of course, to be found in all governments, but there is also considerable concern and impatience with failure to move forward in these fields.

Neglect seems more attributable to frustration and resignation about what to do and how to do it than to any lack of interest. In the case of economic development, principles exist and command considerable professional acceptance. It has even been said that economic progress would carry along in its wake successes in other fields, so that the latter could safely be neglected for the present. The noneconomic ingredients of the viable society have no such body of received doctrine, certainly none that provides prescriptions for action. Moreover, doctrinaire partisans of nonintervention have been much more effective in noneconomic affairs, while they have been forced to retreat progressively from the economic domain.

Political and social development have received increasing professional attention in recent years. Many who once regarded economic growth as a universal solvent for the problems of developing nations are increasingly concerned about the slow pace of political development and the resistance to social reform. They have come to question whether retarded economic growth in many developing nations is attributable merely to inadequate foreign aid and inadequate economic policies, as the economic development doctrines suggested.

One scholar has argued impressively that a high rate of economic growth presumes the prevalence of an intense concern with achievement.* Another has pointed to the importance of the creative spirit in tackling social as well as technical problems. He suggests that severe social tensions may be needed to impel leaders to adopt new attitudes.† The changing of attitudes is sure to be a slow process, but it can be stimulated by political and social reforms. It is institutional reform that can open up new opportunities for participation and achievement.

Intellectual attention to problems is undoubtedly a step forward, but not necessarily a decisive step. Prescriptive material in these fields remains scarce; what material there is lacks the inner logic and conviction of the economic growth propositions.

The literature on political development is growing in volume, sophistication, and wisdom. The importance of political development in motivating and facilitating economic growth; the definition of various concepts of political development; the classification of political systems in less developed societies; the role of ideology, political parties, local community organization, labor unions, armies, government bureaucracy, and charismatic leadership—in all these areas the literature is expanding rapidly.‡ Useful policy prescriptions may not be far distant.

One author has urged primary emphasis on building at least one

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* David McClelland, *The Achieving Society* (Princeton, N.J.: Princeton University Press, 1961).

† Everett Hagen, *On the Theory of Social Change* (Homewood, Ill.: The Dorsey Press, Inc., 1962).

‡ The articles contained in the March, 1965, issue of *The Annals*, "New Nations: The Problem of Political Development," summarize and contain references to much of the relevant literature in this field. The January, 1965, issue of *World Politics* contains articles by Almond and Lasswell that probably represent the current front line of formal doctrine about the theory and strategy of political development.

strong non-Communist political party.* Certainly, Western political life has thrived on the organization of both political parties and interest groups. Their struggle for power and support has illuminated acceptable solutions to problems and has promoted attention to widely felt needs. The successful resolution of their conflicts has provided a basis for political stability. It has uncovered new political leadership and developed those talents for organizing human beings in large groups that are critical to effective modern societies. The transfer of Western experience in the form of organizers—whether of unions, cooperatives, local communities, or political parties—needs more emphasis. It has been inhibited by the fear—felt by the United States as much as by the developing countries themselves—of intervention in internal politics. As in the economic field, such intervention, if controlled and restrained, can be an important accelerator of progress toward viability.

An operational doctrine for the social field seems to be even further away. To fill the gap, the United Nations recently established a Research Institute for Social Development, but it has just begun to scratch the surface of the problems. In a 1965 report on first results, the highly qualified Associate Director of the Institute reports that "while favorable social levels tend to produce more rapid economic growth, and vice versa, it is also true that more rapid economic growth tends to result in more rapid subsequent improvement in levels of social development."† The sentence is reproduced not to scoff but to illustrate the primitive intellectual foundation on which policy in this field must be built.

In the field of regional associations, unreasoned fears and reservations interfered with constructive thinking until quite recently. Proposals for political and military associations were derided because the potential members were so weak or so divided. Scorn was heaped on initiatives toward trade and payments arrangements because the members conducted so little of their foreign trade or international financial relations with each other. In a word, pronouncement of the difficulty of the problem was substituted for an imaginative quest for sensible solutions. As an increasing number of regional institutions have come

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* Samuel Huntington, "Political Development and Political Decay," *World Politics*, April, 1965.

† H. W. Singer, "Social Development: Key Growth Sector," *International Development Review*, March, 1965.

into being, largely at the initiative of the developing countries themselves, intellectual doubts have been pushed into more reasonable perspective. Nevertheless, there is little doctrine to guide those who see the need for regional associations, but wonder how to begin or what kinds of association are likely to be most rewarding.

The lack of satisfactory doctrine should no more inhibit action in these fields than it did in developing the economy of the United States or Japan. Problems arise in the real world and must be met, even in the absence of guiding principles. A pragmatic approach to pressing problems is likely to be better than retreating to preoccupation with economic growth, merely because its requirements seem to be better understood.

The problem posed by weak doctrine is that it provides little guidance about priorities, bottlenecks, and areas for concentrating effort in a particular society at a particular time. The general objectives in the political and social spheres are clear enough: reduced discontent and grievance, political stability, broader participation in decision-making, and improved effectiveness and efficiency in both public and private administration. Clear, too, are the kinds of activities that have and can contribute to such general objectives: (1) liberal education of potential leadership and expanded opportunities for acquiring such an education; (2) increased specific training in key social skills—such as teaching and public and business administration; (3) more elementary education; (4) increased participation of leadership below the central government level in decision-making and policy execution, including leaders in local communities; (5) improved communication between the central government and the elite groups, on the one hand, and discontented peasants, labor, and local communities on the other; and (6) alleviation of the most acute disadvantages of discontented groups —more equitable tax systems, improved land tenure arrangements, an approach to urban slum housing, better educational opportunities and health facilities, improved opportunities for minorities, and more even-handed justice.

It is the relative importance of one or another of these activities that remains without adequate objective analysis, but the developing society itself should not neglect any major effort in the spectrum of political and social development for lack of an adequate doctrine to indicate which activities are most deserving of time, effort, and financing.

All the problems faced by developing nations have existed within the

United States and have been met with some success, even if they have not been solved completely. Although our own experiences of success and failure are difficult to apply to radically different societies, their value is demonstrated wherever U.S. officials make persistent efforts to bring their experience to bear and where they find receptivity. The effort should be attentive to the different environment, not precluded by it.

Undoubtedly, the first three steps are an affirmation of the importance attached by the United States to noneconomic problems, full support to foreign governments that seek to give them more attention, and a willingness to make more aid available if needed for these purposes. Specific local initiatives that appear to be constructive should be given appropriate moral and material support. Activities that have been successful in a country should be continued there, and fruitful experience in one country should be adapted to others. Links between group and community leaders in the United States and their counterparts in developing countries are bound to be helpful in finding and promoting reasonable solutions to these problems. American teachers and businessmen, youth leaders and trade association executives, mayors, police chiefs, and leaders of women's groups, corporations, and trade unions need to become more involved with their counterparts in developing nations.

Obviously, the need for personal involvement is great. The United States, perhaps because of its recent and limited experience in aiding developing nations, readily lapses into a feeling of being over its head in its commitment. Untapped resources for supplementing United States aid exist in the rest of the developed world, and the United States has made an effort to induce other developed countries to provide more money for the poorer nations. However, it has not invited them to a greater degree of personal involvement in other developing nations, to share broader responsibilities in addition to providing money, to coordinate with them strategies for promoting viability, to take advantage of their experience with such involvement arising out of their commercial history as well as out of administering colonies. Yet this appears to be the area where U.S. limitations are greatest: personnel with knowledge and sensitivity to local conditions and capacity for suggesting practicable approaches to social, political, and regional organization problems. In fact, it is likely that reluctance to encourage outside involvement in such matters has seriously impeded U.S. en-

deavors to elicit larger aid programs from other developed countries to other than former colonies.

A further resource may be those less developed countries that have made considerable progress already. Israel, Taiwan, and Mexico have some limited but highly successful experience in helping others, undertaken at their own initiative.

By and large, progress in noneconomic matters should also promote economic development. However, conflicts between economic and noneconomic goals will arise, for which guidelines are no more available than they are for determining the most important activities for political and social development. Land reform, cooperatives, stronger trade unions, a less regressive tax structure, more local participation in decision-making—all may conflict demonstrably with short-term production or investment in the more conventional economic fields. So too may some economic policies that are usually considered to be essential for long-term economic growth—anti-inflationary policies, for example. In the interests of the developing nation as well as the United States, decisions should be guided by judgments about the viability of the society as a whole, not simply its economic viability in the next year or two, or over the life of its five- or ten-year plan.

Our structuring of enduring U.S. interests in developing areas has produced a set of objectives on three levels. Only the first—security and peace—is simple and obvious. The second defines four intermediate goals that are directly related to security. The third describes the basic conditions of viable societies; without them, pursuit of other goals is likely to be futile. Economic development falls into its normal place as one aim of human society and as one important means of contributing to other goals that are at least as important.

Before turning to the actual and potential value of foreign aid programs, it may be useful to recall some conclusions that emerge from the foregoing analysis of purposes. (1) The national security of developing nations, as well as that of the United States, requires them to have some military capability, both for deterring attack and for contributing to international peace-keeping forces, whether regional or global. (2) A U.S. security guaranty to all developing nations against Communist attack will be little more than explicit recognition of a commitment that is implicit today. It should reduce the drain of excessive military establishments on their ability to deal with inter-

nal problems. (3) American interests require a more concerted effort to compromise and deflate festering conflicts among developing nations. (4) Better definition is needed of the values that are basic in American society; definition needs to be followed by active advocacy. (5) Political development and social reform are the great neglected areas in U.S. concern with developing areas. (6) Regional associations among developing nations are needed for purposes of security, economic efficiency, and better use of the constructive potential of external intervention in coping with the difficult process of modernization. (7) Other developed nations are sorely needed to help with U.S. concerns in developing nations, not only for additional funds but also to join in security guaranties, to provide experienced personnel, and to help formulate and execute strategies for promoting viability. (8) Finally, viability in developing nations will be a long time in coming and will require the commitment of the personnel and resources of the developed nations for many years to come.

7

Foreign Aid and Durable U.S. Interests

Now that criteria for durable U.S. interests in developing nations have been formulated, the role of foreign aid programs can be examined more systematically. The relation of foreign aid to this array of U.S. interests raises a series of questions: What now hampers the evolution of developing societies in directions compatible with U.S. interests? How can foreign aid contribute to accelerating such an evolution? What limits the usefulness of foreign aid in serving these purposes?

With foreign aid, as with most public policy issues, it is easier to ask the questions than to give definitive and incontrovertible answers. Nevertheless, rational and realistic answers are possible. In the present chapter, foreign aid is discussed in terms of its potential and its record. The review of the record is limited to some specific evidence of past success and failure, with the purpose of discovering some lessons for the future.

Obviously foreign aid is not the only means available to the United States for advancing its interests in less developed areas. Diplomacy, military power, official programs of information and cultural exchange, private communications between individuals and organizations, and private information media—all have a function to perform. Foreign aid has, however, been a principal tool for the past fifteen years. Some would say that it has been relied upon too much.

Inexperience with the other instruments and unfamiliarity with less developed lands and peoples made the nation uncertain about whether the traditional techniques of foreign policy could be employed with sufficient effect. Also, the obvious advantage of the United States over the rest of the world was a greater ability to afford and deliver resources to other lands, and its leaders sought to exploit that advantage through foreign aid. It should not be surprising, then, that they ex-

aggerated the potential of foreign aid and neglected other instruments. Nor should it be surprising, on the other hand, that the willingness and capacity to contribute resources has proved a valuable asset.

Our conclusions are not startling, nor should they be controversial. First, the programs have been a major U.S. instrument in the pursuit of abiding interests and should continue to be so employed. Second, a more purposive and better-directed employment of aid resources could enlarge their contribution, probably to a substantial degree. Third, the programs operate within inherent limitations: their objectives cannot always be attained, and certainly not within any brief span of time. No matter how well conceived the goals, no matter how imaginatively the programs are directed, and no matter how realistic the assessment of the problems, some delays and some failures are inevitable.

It is sometimes argued that aid helps to create and sustain unrealistic expectations, thus contributing to instability in the developing nations. If so, it is equally true that exaggerated expectations on the part of aid donors also lead to frustration. The ensuing disillusionment may jeopardize benefits that donors may realistically expect to receive.

The Potential Value of Foreign Aid Programs

The Flow of Resources

The value of foreign aid programs begins with the actual flow of resources, once agreement has been reached on an aid program. In its most elementary terms, an aid program finances the transfer of more goods and services to receiving countries than they would otherwise be able to obtain. In each of the years 1963 and 1964, the U.S. Government financed deliveries to developing nations worth over $4 billion. The figure covers the entire range of foreign aid programs and the full array of goods and services imported by less developed countries with aid financing. It is the net figure obtained after deducting $.5 billion a year of amortization and interest repaid to the U.S. Government on account of previous loans, largely contracted with the Export-Import Bank.

However, it must not be assumed that the United States *exports* $4 billion more in goods and services to developing nations than it imports from them. Exclusive of investment income, the United States export surplus to these countries in 1963 and 1964 was much less:

$1.5 to $2 billion over-all, and $2 to $2.5 billion in goods alone. Although other developed countries conducted aid programs, as a group they actually ran an import surplus in both trade and services with developing nations that totaled about $1.5 billion per year.

The difference between the aid and net resource figures is a matter neither of profound mystery nor of fraud and corruption. Without large aid programs, most of the aid-receiving countries would be unable to import as much as they export. This was the case historically; it remains so in their exchanges with Western Europe. Much of their foreign exchange earnings is needed to pay for amortization, interest, and dividends on previous private loans and investments. In 1963 and 1964, such payments to all developed nations were at least $5 billion per year. Moreover, some citizens of developing countries prefer to keep part of their savings abroad. Foreign exchange is also required to pay for various services such as transportation, insurance, the cost of diplomatic missions to foreign countries, and the services of foreign experts and teachers.

Therefore, foreign aid programs only permit a less developed country to import more goods than it exports after the sums provided exceed their foreign exchange needs for services and transfers of private funds. Only the relatively few less developed countries that benefit from large concentrations of aid or U.S. troops, and the few more that have exceptionally large earnings from tourists or large new private investments, have been able to maintain an import surplus of goods over a period of years.

It is easier to measure the additional resources provided by aid programs than to define the difference they make to the developing country. Fundamentally, aid increases the receiving government's flexibility over a broad range of public policy choices, both internal and external. The ultimate effect of the additional resources depends on the choices actually made among alternative policies. These choices in turn determine whether the aid programs serve U.S. interests, which ones are served, and how effectively they are served.

The Policy Choices of Aid-Receiving Governments

The critical elements determining the impact of foreign aid are the following: (1) the intentions of the receiving government with respect to all the resources at its command, whether they be aid-supplied, domestically produced, or imported with its own foreign exchange earn-

ings; (2) its managerial capacity to carry out its intentions with the resources available; (3) its understanding of, and attentiveness to, the expectations of the aid donor in making its contributions; (4) environmental limitations, including the internal skills, loyalties, and motivations of its populace; the effectiveness of its social and political institutions; and the external pressures and antagonisms that affect its international behavior.

A donor cannot effectively limit the choices of the recipient or control the effect of his aid by a mere declaration of purpose, whether it is political or economic development, mutual security, or food for peace. Nor can he guide the impact of his generosity very much by insisting that it take the form of capital equipment, fertilizer, foodstuffs, or technical advisers.

One of the least-understood aspects of the aid program is the receiving country's ability to substitute aid resources for other goods and services. Substitution makes it possible to alter both the kind of products that are effectively added to the recipient's economy and the purposes actually served. The point is so crucial that it warrants further explanation.

For example, wheat provided under a "food for peace" rubric may neither add to the recipient's food supply nor contribute to the peace. Not only can such wheat be substituted for some that would otherwise have been purchased from the United States or another exporting country, but it may also replace fertilizer that would have been imported to increase domestic wheat production. When substituted for food that would otherwise have been imported or produced at home, it scarcely can be said to feed the hungry. The receiving government may believe that it can obtain more aid in the future by asking for wheat rather than other products, and it may then neglect policies for improving the productivity of its own farmers. If that expectation of more aid proves unfounded, the country may actually have less food available for its people than it would have had without the aid-provided wheat. The point is more than theoretical; both India and Indonesia may be suffering from precisely such substitutions.

If the wheat replaces food that would have been imported and paid for, it can release foreign exchange for expenditure on other things: industrial raw materials or equipment, military supplies, or repayment of old debts. If distributed free to the needy, it will probably raise consumption levels in the country. By the more usual procedure, where it

is sold through normal distribution channels and the receipts accrue to the government, the government may use the receipts to increase its welfare or education budget, as well as its budget for defense or investment. Or the government may be relieved from pressure to increase or even to maintain tax collections or tax rates.

With its foreign exchange and domestic budget both increased as a result of the food, the receiving government may feel less impelled to promote exports or to restrain the transfer of capital abroad by the more affluent of its own citizens. It may be less constrained to direct domestic investment into agriculture or away from luxury housing; it may raise the salaries of the military or civil servants.

Or it may decide it can now afford social reforms—land tenure or low-cost housing. It may consider that its political position has been sufficiently enhanced by a more abundant and lower-cost food supply to undertake measures that meet with substantial internal opposition—anything from favorable conditions for foreign investors to more aggressive enforcement of law and order against dissident minorities, from relaxation of restrictions on civil liberties to granting base rights or supporting U.S. policy in Vietnam. The food aid may also finance and facilitate domestic support for, or acquiescence in, a more active foreign policy—ranging from a more aggressive posture toward neighboring countries to a willingness to conciliate neighbors despite domestic antagonism.

For example, in both the U.A.R. and Indonesia it is quite clear that U.S. Food for Peace in the 1960's helped to finance military adventures, against Yemen and the Congo in the first instance and against Malaysia in the second. It has also fed those who would otherwise have been hungry in Brazil, nourished workmen on useful construction projects in Tunisia, and helped to finance improvements in the agriculture of Taiwan.

The same easy substitution of both resources and purposes applies to other forms of aid, whether military or development, whether technical assistance or imported steel. It has already been observed that recipients of defense support in the 1950's were in effect helped with their economic development and social reform efforts. (See Chapter 4.)

It is equally clear that by 1965, development aid to India had acquired as much of a "defense support" character as most of the programs to which that term was applied in the 1950's. India's defense budget takes up about a third of its total government budget, its for-

eign-exchange earnings are being used in part to buy military equipment abroad, and its economic growth rate remains relatively low. In India, the substitution is largely agreeable to the Government of the United States and may be presumed to represent a use of aid that is consistent with U.S. strategic interests.

The interchangeability of resources means that the effect of aid stems from the use made of the sum total of the available resources of a country, whether domestically produced or supplied under aid programs, financed by the United States or by other aid donors, or supplied under bilateral or multilateral programs. That use, in turn, is determined by the intentions and the effectiveness of the country's government. It is true that the allocation of resources and the effective purposes they serve also depend on the behavior of the private economy, but the behavior of private citizens is heavily influenced by government policies, sometimes by their absence or their inappropriateness, but nonetheless by the action or inertia of the government.

Hence, the first step in appreciating the value and limits of aid is recognition that it begins by adding resources to a given social situation, presumably to one that is unsatisfactory to the governments of both recipient and donor countries. The potential value of an aid program depends very much on the receiving government's view of the urgency of the different problems enumerated in the preceding chapter: security, responsive government, social reform, regional collaboration, and economic growth. Extra resources can help the government to deal with more of them, or with some of them in more depth.

Country Programming

Aid also gives the aid donor both a right and a responsibility to intervene in behalf of a more determined and effective address to the problems it considers most urgent. Otherwise the donor has little possibility of relating his aid to his purposes and interests. A recipient that denies the right of the donor to intervene is asking for a far-reaching expression of faith. Faith in the recipient's good intentions may well be justified. Faith in his capacity to carry out those intentions seldom is warranted, for the very reasons that account for underdevelopment and the need for assistance.

Outside counsel may suffer from inadequate knowledge and a lack of sensitivity to the limitations of the less developed society. However, it has the advantage of an external point of view, usually of more ex-

tensive experience, and above all of disinterestedness in most of the internal conflicts of the society. Aid can provide a lever for focusing the attention of the leaders of developing nations on problems they might otherwise neglect and on possible solutions they might not conceive if left to their own devices. Constructive suggestions can provide a valuable supplement in the typical situation in which less developed countries find themselves—a wide variety of unmet needs and social strains and a capacity to respond that is severely limited by inadequate knowledge and skills, as well as deficiencies in physical resources.

The impact of aid thus depends largely on the extent to which the aid-giver can affect motivations, public policy, and private-sector decisions—whether by formal agreement, by persuasion and cajolery, or by the announced fact of the aid-giving. Agreement about the uses of the specific aid resources is seldom in itself of much importance. The form in which the aid is supplied and the agreement concerning its use may set some limits on possible substitutions, but it is difficult to make them very effective. Recognition of these facts about foreign aid led President Kennedy's 1961 task force to recommend a stress on "Country Programming"—providing aid in response to a recipient government's program for the use of both its own and aid-financed resources. Gingerly, to be sure, it recommended substantial departure from detailed project appraisal on the part of the donor wherever an adequate basis existed for country programming.

Experience, however, suggests that the compass of country programming must be much broader than was understood at the time. It was then conceived primarily in terms of the economic development syndrome. Today it appears that country programming must cover more than an over-all economic development plan and the concomitant emphasis on a high rate of investment and internally consistent estimates.* The capacity of the government to execute plans needs a more realistic assessment than was manifested in 1961 in the case of India or Nigeria, for example. Essential, too, is a better understanding of external policy behavior than was then achieved with Pakistan. Country programming also requires more attention to the noneconomic factors that limit progress toward viability than has been paid in virtually all U.S. aid programs in the 1960's outside of Latin America.

* See Watson and Dirlan, "The Impact of Underdevelopment in Economic Planning," *The Quarterly Journal of Economics*, May, 1965.

On the U.S. side, country programming must be undertaken with all government–financed resource flows in hand, not merely the 40 per cent or less programmed by the Agency for International Development. Food and military assistance, for example, need to be programmed within the same framework of U.S. interests as all other forms of aid. Otherwise, they may conflict with, or even countervail, the intent of other programs.

Country programming can provide a mechanism for expressing the structure and priority of U.S. interests and views to the receiving country, within the context of the country's desire for additional resources. The United States provides additional policy flexibility to the recipient government by offering resources. It should expect to be informed about the intended use of that flexibility and should make its aid-giving decisions accordingly.

On the other hand, if this is the principal emphasis in the relationship between donor and recipient governments, the recipient should receive the promised resources with a minimum of detailed surveillance over their specific use. (See Chapter 13 and the section of Chapter 3, "Response by Gimmickry.") Supervision of the recipient should be confined to receiving reassurance that the agreed policy intentions were forthright and unaltered by subsequent events and that the recipient is carrying them out to the best of its ability. Harrying the recipient's detailed execution of its programs has proved to be a poor substitute for adequate communication of donor expectations concerning recipient policies.

The 1961 concept of country programming assumed that it should be centered on economic development plans. However, most aid-receiving countries still lack operative plans, despite offers of specific assistance for their preparation. Even where plans exist, the donor's interests, if not his attention, will be affected in the first instance by decisions affecting the government's budget and its management of foreign-exchange resources. The second focus, though by no means secondary, should be the policy decisions the recipient hopes to execute with that budget and foreign exchange, supplemented as they are by the donor's aid. In these two focuses, defense, social and political reform, education, foreign policy, and other strategic U.S. interests can be observed and advanced. All governments must have budgets and policies, however good or bad. They may be more effective if formulated within the framework of a long-range economic development plan, but formu-

lated and executed they must be. It is in these domains that U.S. interests and views are likely to be both reflected and affected. Government budgets, policies, and foreign-exchange management are thus the essence of the endeavor to attain more purposive programming of U.S. foreign aid.

Environmental Limitations

Realism in country programming depends heavily on accurate assessment of the circumstances in which the receiving government will be operating its budget and its policies. Some of the noneconomic obstacles to economic growth can be modified, however slowly, by direct attack, applying resources to education and training and reform. Others may be completely beyond the control of the developing country and may critically limit its accomplishments. Despite rising foreign aid levels, economic growth rates in less developed areas as a whole are calculated to have fallen steadily for the past fifteen years. (See the discussion below on "The Adequacy of Economic Growth Rates.") The explanation probably rests as much in environmental limitations as in poor use of resources.

Among the circumstances affecting the use of aid, the most neglected has been the international environment. The existence of this limitation in the remaining handful of supporting-assistance countries is recognized. Jordan, Laos, Vietnam, and Korea are the principal countries. However, similar liabilities exist among recipients of "development" money as well. India's use of development aid for its defense build-up is perhaps the most striking case currently.

The aggressive tactics of Stalinist Russia toward less developed countries on its borders; the emergence of a dynamic Communist power in China; the convulsive, poorly prepared yielding of independence to colonies—these phenomena of the past two decades have all been very costly. Insecurity in the face of hostile neighbors, combined with an unstable internal political structure, has required resources that contributed little to investment or to economic growth.

In these circumstances, developing nations must simultaneously expect: (1) old foreign investors to repatriate their capital; (2) potential new investors to be discouraged; (3) private domestic savings to be directed in part to safer foreign lands and the rest to domestic short-term, high-yield uses such as luxury real estate; (4) youth to seek education and roots abroad with a view to possible migration; (5) a

populace reluctant to commit money and efforts unreservedly to a government and political system whose prospects for survival are risky at best.

Moreover, as colonies are transformed into independent nations with arbitrary boundaries, they frequently come into conflict with their neighbors. Understandably, they then feel compelled to enlarge their military establishments. Most have also had to deal with disaffected minorities within their artificial borders. Inevitably and properly, such new nations have put a high priority on using resources to create a sense of nationhood, to enlist the loyalties of minorities, and to suppress disaffection.

Much of the aid to developing nations so far has, in fact, had to compensate for resource drains caused by just such phenomena, and no solid reasons exist for expecting such resource drains to disappear soon. Aid has to be used to prevent deterioration before it can be used to finance progress. And success or failure, waste or positive contribution must be judged in terms of the probable state of U.S. interests in the absence of aid. It is hardly reasonable to blame the aid program for failing to achieve goals that would only have been feasible under more favorable circumstances. Nevertheless, much of the disenchantment with the effectiveness of foreign aid stems from a reluctance to recognize this stubborn reality. If the lack of visible progress is frustrating to the aid donor, his interests may nonetheless be well served by such uses of his resources.

The constructive impact of foreign assistance is also heavily restricted by basic limitations within the underdeveloped societies themselves—inadequate skills, motivations, loyalties, and even knowledge of their own societies. The addition of resources can overcome such limitations, or rather it can reduce the time required to overcome them.

Specialized skills can be imported, though not in large quantities. The more generalized skills of a large mechanically oriented labor force cannot be imported and take time to develop, as do capacities for organizing large numbers of people for modern production, education, or public administration. New institutions for education and training in all the skills of a modern society are desperately needed in virtually all the less developed nations. The large number of these institutions that have been brought into being may represent the most important "investments" of the past decade and a half.

The urgent needs for research seem almost infinite. "Grossly in-

adequate" is a phrase that aptly describes the knowledge and understanding of cultural and statistical matters, as well as physical resources and social relations. Research is essential for the adaptation of foreign technology and foreign social institutions and for ascertaining the responsiveness of the populace to alternative government policies. Though there has been an explosion of research facilities in less developed countries, their quality as well as their quantity remains wholly inadequate.

Loyalties and motivations obviously cannot be imported directly. Indeed the temptation is great to motivate and mobilize citizens by stirring them up against strangers—whether white men, colonists, rich foreigners, or old tribal antagonists. Particularly in Africa has such internal disaffection been costly. Ethiopia, the Congo, the Cameroon, the Sudan, Liberia, and Nigeria have all had to face minority problems involving indigenous groups. Few Asian countries have been free of similar problems. Physical force has been required in many cases to suppress dissidence; the enlisting of energies in more constructive enterprises has been severely handicapped. Resources have been dissipated in repressive activities, probably necessarily so. More resources for such countries—and the more constructive policies such resources make possible—could be an important claimant in a more purposive aid program.

With respect to all such environmental limitations, the most important contribution of the aid donor may be his influence over the policy choices of the recipient government. Particularly in Asia, local priorities on social reform, on developing educational institutions, on political organization, and on expanding popular participation in the society's decision-making leave much to be desired. The dam, the road, the steel mill, and the factory offer tangible evidence of progress, and governments have devoted considerable resources and energies to their construction. Other matters promised less conspicuous and less easily identifiable results and tended to be put aside. These neglected areas now appear to represent the principal limitations to further progress, to economic growth as well as to the other essential features of viable societies.

The Record of U.S. Foreign Aid Programs

The assessment of past programs has a certain intrinsic interest, whether in taking narcissistic delight in dwelling on accomplishments

or masochistic pleasure in belaboring failures. A full $65 billion worth of resources has been delivered by the U.S. Government to less developed lands since the end of World War II. A detailed evaluation of the use of these resources in the light of U.S. interests would certainly gratify both of these drives.

The programs have been much like a scalpel in the hands of a medical intern. Conscious of his instrument's destructive capacity and aware of his own inexperience, the intern may operate successfully on the least delicate areas. He may learn much in the process, performing some successful corrective surgery and making mistakes that are unlikely to be fatal. He needs to review his experience regularly in order that he may undertake more difficult operations in the future and perform subsequently with more skill. Similarly in the case of foreign aid, a review of the record is appropriate in order to extract the lessons of experience, rather than for self-justification or castigation.

Some generalized judgments are possible in the light of the structure of durable interests established in the previous chapter and the potential role of aid described in the present one. It is impossible, to be sure, to separate the contributions of the other instruments of U.S. policy from those of the aid programs. Nor is it possible to isolate the role of events that were independent of any action the United States took or failed to take. The aid programs have, however, been so prominent an instrument of U.S. policy toward developing nations that they must bear both blame and credit for what has happened.

Containment of Communist Power and Influence

Perhaps most conspicuously on the positive side is the cessation of Soviet military threats against the less developed countries on its periphery, although direct threats have now been replaced by subtle blandishments. The Shah of Iran, the Premier of Turkey, and the President of Pakistan were received with acclaim in Moscow in the summer of 1965 and each was promised important material assistance. Threats of Communist take-over no longer seem imminent in Greece, Iran, Guatemala, Bolivia, Malaya, Taiwan, South Korea, the Philippines, Lebanon, the Congo-Léopoldville, and Guinea. At times, Iraq and Afghanistan, Ceylon, Yemen, Algeria, and Laos seemed to be targets of opportunity that were being successfully exploited by the Communists; in each of these countries Communist forces appear to have been frustrated, for the present at least. So, too, have been Latin

America's pro-Communist forces, which seemed to burgeon in strength half a decade ago, first at the instance of Castro's Cuba and later at the resentment engendered by the Bay of Pigs fiasco. In Brazil, Chile, Venezuela, Colombia, and British Guiana, the tide seems to have turned. Recent changes in the governments of Indonesia and Ghana removed those countries from what appeared to be a growing proximity to the Communist side.

Every one of the above countries was written off to the Communist camp by Western pessimists during the period when its situation seemed most critical. The dire predictions have not been borne out, and some of the credit must accrue to the aid program. It was liberally used in threatened countries; insofar as it helped strengthen societies, it reduced their vulnerability to both threats and subversion. Recent withholding of aid from both Indonesia and Ghana undoubtedly contributed to disillusionment with Sukarno and to the downfall of Nkrumah.

On the other side of the ledger, mainland China, North Vietnam, and Cuba have passed under Communist control since the end of World War II and continue to harass their neighbors. Communist ideology and influence has made deep inroads in several African countries—Mali, Somalia, and the Congo (Brazzaville).

In a number of other countries, the balance is no more stable than a seesaw. The Arab world has yet to discover the path to either stability or progress and continues to invite Communist attention; neither the security nor the viability of its members appears more firmly founded than the sands of its expansive deserts. The Chinese attack on India weakened Communist influence in that country but has also dealt a serious blow to its halting progress toward viability. The creation of Tanzania counteracted an apparent Communist take-over in Zanzibar, while also weakening the Western orientation of its other constituent, Tanganyika. A once intimate U.S. relationship with Pakistan has turned into estrangement. The prospects for South Vietnam are still somber.

Nevertheless, it would be grossly premature to assume that lasting containment of Communist power and influence has been achieved anywhere. The more subtle Soviet tactics of recent years may prove effective, at least in alienating countries from the United States. The East-West struggle for influence continues; the vulnerabilities of most

developing nations remain considerable. Nor is the containment of China yet a reality.

Military Bases and Armed Forces

Military bases have been generally available to the United States and with few exceptions have been denied to the Soviets. However, the need for such bases is declining with the increased range of modern weapons. Increasingly, it is possible to satisfy base requirements somewhere else if the country in which one is situated prefers to have it evacuated. Although some bases have been shut down or reduced to satisfy local desires, on the whole U.S. needs have been met, and aid funds have been helpful to this end.

Similarly, military forces with some deterrent capability have been created in a number of countries adjoining the Communist bloc. Except for protecting their own borders, however, their utility for reducing the involvement of American manpower in specific hostilities has been limited.

The United Nations provided an endorsement of U.S. resistance to the attack on South Korea, thanks to a tactical mistake by the Soviet Union in boycotting the Security Council—an error that is unlikely to be repeated. But even in the Korean conflict only Turkey provided a substantial body of troops after the U.N. endorsement. Small forces have been contributed by developing nations for U.N. policing of an already agreed cease-fire or armistice (U.N. Emergency Force in the Israel area and the Congo operation). Only Korea and the Philippines have made a significant manpower contribution to the U.S. effort in South Vietnam; only Brazil contributed an important force early in the Dominican crisis—although more Latin American troops were subsequently sent to the Dominican Republic to keep the peace. However, the U.S. attempt to create an inter-American peace-keeping force has yet to succeed. The United States itself insisted that NATO should not be a world-wide deterrent force, a notion that may deserve review now that the European members are no longer colonial powers.

In Korea and Lebanon, Iran and Guatemala, Laos and Vietnam, Cuba and the Dominican Republic, the United States has thus had to rely on the actual or threatened use of its own military power, combined with whatever capability the threatened country itself possessed.

Until more effective multi-government arrangements can be devised and tested, it must expect to meet future contingencies in the same way.

Regional Quarrels and Cooperation

U.S. interests in increased regional collaboration have progressed well in Latin America, despite reluctance concerning joint military operations. Elsewhere, the cause of regionalism has been poorly served, if at all, by American aid. This conclusion is as valid for conflicts among neighbors as it is for the creation and reinforcement of institutions for constructive regional cooperation on economic and political matters. American statesmen and the Congress have repeatedly reiterated the national interest in furthering regional cooperation. Every revision of the aid legislation since the Marshall Plan has carried a strong endorsement for both regional organization of smaller countries and for the use of foreign aid to encourage positive steps to that end. The clauses were inserted largely at Congressional initiative; rarely had the executive branch greeted them with much warmth. In 1966, for the first time in many years, the presentation of the aid program to the Congress contained a positive emphasis on the value of regional economic integration in Southeast Asia and Africa.

There appears to be something about the desk officer–ambassador–mission chief organization of the Department of State and the foreign aid agency that inhibits conscious and positive promotion of collaboration among other governments. Fears of working within a more complicated and less maneuverable framework and concern about dealing with stronger foreign entities appear to have been decisive in U.S. behavior. The record is bleak enough to deserve some detailing of events.

The Department of State was a relatively late convert to European integration. A Middle East development bank was first authorized in the foreign aid legislation of 1951 and later stricken in conference between the two Houses of Congress at State Department urging. When an already unpopular aid administrator organized a conference of Asian leaders at Simla in 1955 to explore the possibilities of regional economic integration in the Far East, ambassadors of the invited countries had little difficulty in ascertaining that the State Department had little enthusiasm for the project. United States cooperation with the British-organized Colombo Plan was of the arms-

length variety, although the breach was somewhat narrowed after 1961 by the transfer to the AID of responsibility for handling U.S. relations with that organization. The Johnston Plan for the Middle East of a decade ago was regarded with considerable skepticism in official circles and suffered from a minimum of follow-up once objections and lack of interest were registered by some of the expected participants. Its rejection neither led to a reduction in aid to the Near Eastern countries concerned nor inhibited increases in aid to meet requirements arising out of continuing conflict among them.

The very same attitude prevailed in European capitals. They, too, seemed to find solutions to the difficult problems of decolonization in establishing multiple nation-states where colonial administration had been unified or highly coordinated. The South Asian subcontinent was divided into India and Pakistan; French Indochina into three (or four) states; and French, British, and Belgian Africa into a full score of independent nations. The British did make belated and unsuccessful attempts to foster federation in East Africa and the Caribbean.

In virtually every part of the less developed world, it is recognized that both politics and economics require regional cooperation at the minimum, extensive integration at the optimum. Transforming that recognition into important functioning institutions for cooperation is undoubtedly difficult. Yet an imaginative and persistent carrot-and-stick use of foreign aid, encompassing the cooperation of all important donors, should facilitate progress, as it once did in Europe. For ten years, the skeptics and pessimists insisted that Latin America was not a fit subject for economic integration, yet a firm start has been made in very recent years. The Alliance for Progress coordinating machinery and the Central American Common Market have both benefited from the strong moral and material support of recent U.S. aid programs.

A less happy example was the Indus Basin Plan. It was widely advertised as a device for promoting cooperation between India and Pakistan and supported as such by the Congress. Long-term commitments involving over $1 billion were entered into in great haste in 1961, with totally inadequate cost estimates. It was argued that speed was essential to promote joint use of the water, to avert an outbreak of fighting over its division, and to initiate discussions looking toward a settlement of the Kashmir problem. A meeting or two was held

between the two governments, but the agreements and the financial commitments were already in hand; neither pressure nor incentive was available to induce any compromise in long unreconciled positions. The failure of the plan to promote cooperation was dramatized by the 1965 fighting.

After the Simla Conference, a modest fund of $100 million was established as an Asian Economic Development Fund. Doubtless too small to provide much carrot or stick, it was nevertheless obligated over a five-year period to support a number of small projects that had some multi-national aspect, but little political or economic significance.

But necessity, as well as the example of Latin America, is giving regionalism in the Third World a new surge of interest. An African Development Bank was established in 1964, essentially at African initiative. Though it was greeted with warm words from aid donors, little imagination has been directed to reinforcing its role and scope by providing it with additional resources. The United States offered technical assistance and joint financing for such individual projects as might prove suitable. In the meantime, however, aid continues to be channeled to individual African countries without indication that more would be available in support of a joint approach to common problems.

In 1964, Pakistan, Iran, and Turkey formed an organization for economic cooperation called RCD, which has shown considerable vitality in its first years of life. It has been virtually ignored by the United States, presumably because it was organized outside the framework of CENTO, the military treaty organization to which the three countries belong and with which the United States is affiliated.

The unhappy circumstances of Vietnam served to reawaken interest in regionalism in Eastern Asia, on the part of Asian countries as well as the United States. U.S. initiative, including the offer of a direct financial contribution, sparked the organization of an Asian Development Bank. The geographical scope of its membership is so extensive—stretching from Iran to the Philippines—that its practical value as an institution for regional integration is limited. Nevertheless, it did spark interest in regional economic cooperation. Subsequently, several attempts have been made to organize more comprehensive economic institutions, but with a more limited and manageable membership. The Association of Southeast Asia (ASA)—Thailand, the Philippines, and Malaysia—is being revived, possibly

to be joined by a reformed Indonesia. In June, 1966, nine East Asian countries—including Japan, Australia, and New Zealand—formed a very loose and tentative economic association. The United States has encouraged all these endeavors.

Meanwhile, the persistence of serious antagonism among neighboring less developed countries continues both to create targets of opportunity for Communist foreign policy and to retard progress toward viability for the countries concerned. About one-fourth of all U.S. aid in recent years has been directed to South Asia. This heavily populated subcontinent is certainly one of the major prizes in the East-West struggle for the Third World. Yet the relationships of the United States with both India and Pakistan, as well as their own progress toward viability, have been enormously handicapped by mutual antagonism, regularly reignited by the Kashmir problem. First, massive U.S. aid to a friendly Pakistan was interpreted by India as a rearming of its rival for an attempt to recapture the Kashmir. Much of India's economic aid in the 1950's was offset by expenditures on modernizing its own armed forces. India treated Pakistan's offer to accept arbitration of the Kashmir dispute with a "stop bothering me" attitude. Failing to gain Western support for reopening the Kashmir question, Pakistan became increasingly vulnerable to the blandishments of Communist China.

The foreign policy, as well as the resource use, of both South Asian countries has been much affected by a determination to create a military capability for a decisive struggle. The United States has been essentially passive in the dispute itself, hoping that massive aid to both sides would promote economic development and cause their mutual antagonism to dissolve. Development of every variety has been difficult and retarded, in part because of that very antagonism. Without agreement to conciliate and mediate their disputes, without machinery for increasing trade relations and for complementary investment, the road to viability for both India and Pakistan will be prolonged and the journey will be much more expensive. India has resisted participation in regional economic groupings in the belief that its aid requirements would receive better consideration if it dealt separately with aid donors, rather than in association with other claimants.

In the Middle East, Israel has managed to build a strong, pro-Western society in the face of antagonism all around her, based in part on substantial public and private aid. Much of its need for assistance in recent years stems from defense requirements in the face of sur-

rounding hostility. Moreover, progress toward viability of the neighboring Arab states has been minimal, despite an increasing flow of Western aid, largely from the United States. As in South Asia, determination to overcome an unloved neighbor has distorted both foreign policy and the use of resources in the Arab states. Also as in the case of South Asia, U.S. aid has flowed in the hope that it would ease economic problems, promote viability and create a more propitious climate for resolving disputes. Neither in the Middle East nor in South Asia has this theory yet found much substantiating evidence.

The regional organization of poor nations is heavily handicapped by differences in size and in the strength of centripetal forces in each of the neighboring countries. The larger and stronger may be primarily interested in such organization for the purpose of dominating weaker neighbors. The weak will resist joining, unless they see both major advantages and some possibility of resisting the strength of the more powerful. The power and wealth of the United States can be used to diminish such difficulties, as it did in Europe and is doing in Latin America. Aid can provide an incentive for economic cooperation, if it is consciously and manifestly used for that purpose. Some form of U.S. participation may be appropriate. It can provide greater security against the opposition of antagonistic neighbors as well as against the aspirations for regional hegemony of the stronger members. It can also provide resources and external counsel.

Progress Toward Viability

That progress has been made in the Third World is undeniable to anyone who is prepared to regard its constituent societies with some objectivity while remembering their situation two decades ago. Very many of the prerequisites for viability have been put in place and the process of reinforcing them continues. Stability is far from assured, but stagnation is no longer a dominant characteristic. Despite a variety of powerful influences for instability, the gap between aspirations and achievements seems to be narrowing.

The liquidation of the colonial system is virtually complete. Given its speed and poor preparation, decolonization has had a surprisingly unturbulent aftermath. The new states are functioning and gaining experience in managing their own affairs. Independence has provided them with the opportunity to develop capacities for leadership and responsible government. The governments exist and govern—more

effectively than most colonial officials would have predicted two decades ago. As for countries with longer histories of independence, most of them also show evidence of forward movement.

A significant pace of social modernization and expanding participation in political life is widely evident. People are leaving rural societies and becoming urbanized. Cities are acquiring the water, power, roads, housing, and educational facilities that characterize a modern society. Elections are widely held with universal suffrage despite the prevalence of illiteracy. Such countries as South Korea, Turkey, and Pakistan have held freer elections in recent years than they have ever known. Charismatic figures such as Sukarno, Nkrumah, and Ben Bella have passed into eclipse, to be replaced by less personality-oriented leadership. Income taxes are becoming more prevalent and are yielding more revenue. Some land reform has been carried out and more is in process. As traditional a government as that of Iran has promulgated a "White Revolution." It is pressing forward with extensive land reform and an aggressive literacy campaign.

Moreover, new indigenous private enterprises are sprouting in such countries as Taiwan, Korea, Pakistan, Iran, and Nigeria. Rudimentary forms of a private capital market have appeared for the first time in Turkey. In 1965, four full-time investment-banking houses first opened their doors in the Philippines. The institutional apparatus of a modern society, deriving its essential characteristics from Western forms, is being created in much of the less developed world.

On the ideological plane, the intellectual Marxists of the less developed world have tempered the prescriptions they learned as students in Europe. As they grapple with real responsibility in their newly independent countries, they have become increasingly pragmatic and decreasingly doctrinaire. Where they have been inflexible, salutary results have been notably lacking, as events in Ghana have illustrated.

Typical of this intellectual evolution is an article that appeared in a Yugoslav periodical, written by the Senegalese Minister of Planning, an avowed Marxist. It was cited at length in *The New York Times* of January 1, 1966, as follows:

> As for the class struggle, . . . the social structure of African countries made this concept inapplicable. We have common fields, common harvests, common seedbeds, and above all, we have no bourgeois class. . . . In our countries, there is no antagonism between Socialism and religion. When I say that our people are deeply religious, I am simply stating a fact. . . . We have therefore left the industrial sec-

> tor full freedom as we need foreign capital to develop our country. . . . We do not consider the word "nationalization" a fetish or an "open sesame." There are too many cases of nationalization having been transformed into ordinary state capitalism. . . . We are trying to make room for the private sector in a way that is commensurate with the general interests.

Moreover, the capacity for greater and more effective participation in modern society is receiving a basic underpinning. The growth of educational opportunity has been so rapid that some evidence should be cited. In Taiwan, 75 per cent of the population is literate and in Korea, 85 per cent. Major drives to extend literacy are being mounted by the newly independent governments of Africa. The percentage of children in school is rising rapidly despite population growth. In 1964, 60 per cent of all Tunisian children reaching primary school age were able to attend, as compared with 30 per cent only seven years before. The number of secondary school students rose from 16,000 in 1958 to more than 40,000 in 1963. In fifteen years, India's school enrollment at all levels has grown from 25 million to more than 60 million. Secondary school enrollment in Nigeria rose by 80 per cent in the five years ending with 1963. The number of students in Turkish primary schools has doubled since 1953.

Moreover, the economic indices all bear testimony to growth rates that must be rated high by any historical criteria. Since the beginning of this century, economic growth in the United States has averaged about 3.5 per cent a year, or about 40 per cent every decade. Between 1950 and 1963, most developing countries increased their gross national product by a third to a half. Again with some exceptions, industrial production doubled or tripled, while agricultural production rose by 20 to 40 per cent. Data on rail transport, electric power generating capacity, tons of steel and fertilizer consumed—all show substantial increases.

Some sectors have expanded more rapidly than others and some countries have better records than others. The growth rate has been higher for nonagricultural production. In too many less developed countries, agriculture is struggling to keep pace with the growth of population; significant improvement in per capita food consumption is rare. Yet the number of developing nations whose agricultural production over ten or more years has remained well in excess of population growth is large and varied—Morocco, the Sudan, the Philip-

pines, Kenya, Tanganyika, Thailand, Cambodia, Brazil, Ghana, Mexico, Peru are among them. In all of overpopulated Asia, only Jordan, Iraq, Afghanistan, Syria, Indonesia, South Korea, and Taiwan failed to produce more agricultural products per capita in 1963 than a decade before; the latter two countries suffered from unusually poor weather conditions in 1963. A recent detailed study by the Department of Agriculture covered twenty-six recipients of U.S. aid. It found only two—Jordan and Tunisia—in which crop production failed to increase faster than population over the 1955–63 period. Five of the twenty-six countries failed to do so in the preceding eight year period.*

Rates of economic growth in the 1960's have been particularly high in such countries as Peru, Mexico, Pakistan, Korea, Turkey, Morocco, Iran, Taiwan, and Thailand. Those whose current economic progress gives room for acute concern—apart from a few instances where recent stabilization programs have produced a desired temporary slowdown—constitute an important, though hardly overwhelming list: Argentina, Vietnam, Algeria, Indonesia, Haiti, Ghana, and the Congo (Leopoldville). With the exception of Argentina and Haiti, the "internal security" or "relations with neighbors" problems of these countries are acute.

The contribution of aid to the progress noted above is no more measurable than the advance itself. The quality of the country's investments and its managerial capacities are at least as important as the volume of aid in assessing the factors contributing to the rise in production. An unfavorable international environment, or the inadequacy of native skills and institutions, may sharply limit the effectiveness of a large aid program. Conversely, favorable conditions and a more determined or a wiser domestic effort may yield large results, despite a modest aid program.

Nevertheless, aid has been provided and it does account for part of the progress. Since 1949, United States programs have trained 113,000 foreign technicians and professionals. More than 670,000 teachers have been graduated from colleges and schools established with its assistance. These graduates provide 70 per cent of the teachers in Ethiopia, 28 per cent in Korea, 45 per cent in Iran, and nearly 33 per

* U.S. Department of Agriculture, *Changes in Agriculture in 26 Developing Nations, 1948 to 1963*, Foreign Agriculture Economic Report Number 27 (Washington, D.C.: GPO, November, 1965).

cent in Turkey. Where U.S. aid programs are relatively large, they may provide the equivalent of 25 per cent or more of the country's imports, 20 per cent of the government's budgetary expenditures, 25 per cent of the nation's gross investment.

Moreover, the presence of aid has facilitated a concomitant participation in policy formulation. Thus it played a major role in Taiwan land reform and the initiation of a program to distribute land to Iranian peasants. It is credited with the community development programs that dotted the Philippines during the Magsaysay period; with exchange rate and fiscal reforms in Korea; with tax reforms in Latin America; with rapid progress toward economic integration in Central America. In both Korea and Turkey, military officers exposed to American values and institutions during training periods in the United States led military revolts that overthrew repressive and ineffectual regimes. More responsive political systems and better economic policies followed in the wake of both these revolts. In all the foregoing countries or regions, economic growth subsequently accelerated. In each case, better policies appear to be at least as responsible as the volume of aid or increases in investment ratios.

Nevertheless, the U.S. address to policy problems has not been comprehensive. A "viable society" approach is not in evidence outside Latin America. The United States has worked on one or another of the ingredients, in one or another country, at one or another time. Governments have been stimulated to move toward reform and regionalism; some have fallen back as U.S. emphasis changed or simply waned. The effort has been partial and fragmented; it needs to be persistent and inclusive.

The importance of managing aid programs in terms of the total environment of the recipient societies is suggested by the experience of Latin America in the 1960's. The Charter of the Alliance for Progress blueprinted a comprehensive program for accelerating progress in virtually every aspect of society. It predicted that $20 billion would be made available over the ensuing decade to support such a program, including about $1 billion a year in U.S. government aid. The actual transfer of resources to the Latin American republics has not increased thus far. Net aid from all sources was slightly more than $.5 billion in 1961 and slightly under that figure in 1964; in 1962 and 1963 it averaged about $575 million. Exports consistently exceeded imports between 1959 and 1964. AID figures show a net outflow (a net loss) of resources from international transactions in both 1963 and 1964

for thirteen of the republics—the first years since 1953 in which this balance was negative.* Moreover, the ratio of investment to GNP was lower in 1963 and 1964 than in any of the preceding dozen years.† Yet the economic growth goal of the Charter, a 5 per cent annual increase in GNP, was achieved in 1964 and again in 1965. A higher figure is forecast for 1966.

Neither the actual flow of aid, the net import of resources, nor the investment ratio accounts for the higher growth rate in Latin America. Other elements of the Latin American situation do show observable improvement in 1964 as compared with 1961. Among them were the reduced fear of Castroism; the Central American Common Market; greater political stability; emphasis on improved educational opportunity; a more determined effort to improve tax systems and urban housing; more cooperatives, community development, and community water supply projects; increased school construction and rural housing; a better prospect for land reform.

Such differences in the noneconomic elements of Latin American life are difficult to measure. Even if quantifiable, the statistical changes are relatively small because such matters do not alter rapidly. Nonetheless, the existence and direction of change were established. If complaints about the slow pace of progress are nevertheless prevalent, it may be the most encouraging evidence that Latin American growth is founded on better government policies and an improved atmosphere for productive endeavors. With the establishment of an environment of progressive evolutionary change, merely the promise of a larger flow of aid has sufficed to spark an increase in GNP.

The Adequacy of Growth Rates

To be sure, the relevant question is not whether growth has taken place but whether it is adequate to sustain orderly progress toward viable societies. In an era of rising expectations, growth rates must be high if they are to sustain progress toward viability. It is the gap between the progress people expect and the progress they attain that should command attention, from the governments of developing countries no less than from the United States.

On this score, the evidence suggests cause for neither alarm nor complacency. Expressions of grave foreboding nevertheless persist.

* Agency for International Development, *Latin America: Trends in Economic Growth* (Washington, D.C.: GPO, June, 1965).

† *Ibid.*

The U.N. organizations lump all developing nations together, fix the target of an annual 5 per cent increase in GNP for each and every one of them, and compare the results with the rate of growth of developed nations. They define the problem in terms of "gaps" between the level of living in the developed and less developed world, rather than in terms of the problems of individual developing nations.

In developing its argument about this widening gap, the United Nations 1963 survey asserts that the living standard of the developed world grew at an annual rate of 4.4 per cent between 1960 and 1963 while the less developed increased their output by only 4 per cent per year. The World Bank notes that the growth rate of developing nations dropped from 4.9 per cent for 1950–55, to 4.5 per cent for 1955–60, and 4 per cent for 1960–64. The U.N. World Economy Survey of 1965 points with alarm to a retardation in the rate of economic growth in the 1960's, noting that the 5 per cent target has grown more remote. An AID calculation, on the other hand shows all developing nations growing at an annual rate of 4.7 per cent from mid-1957 to mid-1964, while developed countries grew at only 4.4 per cent. Moreover, the Food and Agriculture Organization of the United Nations finds that food production per capita is declining.

The foregoing numbers are repeated because of their currency rather than their significance. Even their statistical value is highly suspect. Few developing countries have a reliable estimate of their agricultural crop production. Production trends for the less developed world as a whole require the addition of growth rates in such divergent and geographically remote nations as Argentina and India, Tanganyika and Cambodia. It is unlikely that progress toward a viable society anywhere is much affected by the trend of such global estimates; and what is important to any developing country is the pace of its own progress and perhaps that of its immediate neighbors.

Setting aside doubts about the accuracy of the measures, the gap between growth rates in developed and less developed societies as a whole has even less significance. Averaging and comparing gross and imprecise measures of discrepant rates of change in highly diverse societies is hardly meaningful to the inhabitants of either group of countries. Differences in production and living standards between the developed and less developed countries are beyond the grasp of most individuals, certainly beyond the much less mobile, highly isolated masses of the poorer countries. That this is so eases the problem considerably. For, if less developed peoples en masse demanded current

U.S. living standards even for their children, the situation would be thoroughly hopeless. No amount of sacrifice by the residents of India or Africa can achieve this end, however desirable and however much foreign assistance might be provided.

The real problem is less formidable. If people aspire to a degree of material welfare comparable to others, it is likely to be that of more affluent neighbors in their own local communities. Fortunately, their hopes are usually limited to continuing improvement in their present lot, though perhaps at a rapid pace. Tangible evidence of sustained progress at home seems more relevant to social stability than abstract comparisons with different and distant societies.

The adequacy of the rate of growth must be defined in terms of specific countries. For the government concerned, the determination must be related to the aspirations and values as well as the stresses and capacities of its own society. The U.S. interest in a particular rate depends on the basic orientation of the developing nation, the internal policies required to attain it, and the effect of such policies on the stability of the society. The appropriate goal will differ from country to country and will vary over time. The United States may be indifferent to a slow rate of growth if the government concerned would be likely to use greater economic strength to sustain aggression against neighbors. In the case of a large and friendly country, such as Mexico, Brazil, or Turkey, it may hope to gain substantial benefits from a highly accelerated growth.

Nor do production statistics alone tell whether rates of growth are sufficient to the viability of a developing nation. The unanswerable question is whether economic progress suffices to motivate renewed effort and thus reinforces itself, or whether it only reinforces grievances and discontent with the existing order. Unrest attributable to unsatisfactory economic conditions provides some relevant immediate evidence. Riots and demonstrations against established authority on this account have been the exception rather than the rule. Strikes do not seem to be more prevalent in developing nations than in developed nations. Peasant revolts and food riots are not the common currency of newspaper reports from the poorer nations; nor is a rapid growth in the membership of Communist parties or other political movements that promise a share of the worldly goods of more affluent neighbors.

However, to cite the infrequency of extremism provoked by material distress is not to demonstrate that the rate of economic progress

is sufficient. One may properly question whether recent rates of economic growth can be sustained unless investment is increased or its quality improved, or unless the food supply can be expanded at a faster rate. One may legitimately wonder whether the vast majority of the less developed peoples, engaged in traditional occupations involving little money income or expenditure, will remain quiescent while efforts continue to be concentrated on expanding the smaller money sectors of their societies. One may reasonably query whether the aggressive foreign policies of such countries as Indonesia and Egypt stemmed from the efforts of leaders to divert attention from the slow pace of economic progress at home, or whether the continued turbulence of political life in many African countries results from the failure of independence to confer many more worldly goods on the populace. A more prescient question may be whether the present rates of growth will have proved adequate a generation hence, when the developing countries will have more citizens, with more education and knowledge of the world around them, and perhaps therefore less passivity about deprivation.

The questions are more readily asked than answered. They can be multiplied in terms of the rate of political development, social reform, educational opportunity, regional integration, or the availability of housing. All provoke profound uncertainties, however, that may strike at the core of U.S. interests in the world around it. The achievement of a substantial rate of economic progress can be a stabilizing force. It can facilitate better policy decisions by enlarging the resources and hence the alternatives available to governments. The critical question is not how fast the economies are growing. What is important is the policy choices that will be made by governments as their economies grow, the decisions that will be made if economic growth is not maintained or accelerated, if political development and social reform are frustrated, or if regional quarrels are exacerbated.

The Adequacy of the U.S. Aid Level

Finally, we come to the relation between current aid levels and U.S. strategic purposes. Some argue that aid is excessive. The absorptive capacity of developing nations is said to be strained by the existing levels. AID has regularly failed to obligate all the money voted by Congress, though the Congress voted less than was sought. All aid-giving agencies—American as well as others—complain about the shortage of projects suitable for financing. Less food aid in some

cases would compel increased preoccupation with the agricultural economy, to the economic and social benefit of the aid-receiving country. Poor fiscal, monetary, and exchange-rate policies have persisted longer than they should because aid made it possible for governments to delay necessary policy changes. Some of the money voted has undoubtedly been obligated hastily out of a concern for the effect on the succeeding year's request for funds. Appropriations cuts have frequently been justified by the argument that the previous year's funds were not fully used, though Congress had itself reduced the original request.

Food has also been supplied with minimum regard for its impact on U.S. interests. It is questionable whether the sums committed to unfriendly countries such as Ghana, Mali, Indonesia, Egypt, and Yugoslavia really served U.S. strategic interests. Each of these countries could have bought the food it received, though at the expense of other imported goods. Doubt about strategic interests might also include aid to a few countries that essentially serves to finance exportation of capital by ex-colonials or the newly affluent.

Nevertheless, such questionable aid accounts for only a small proportion of U.S. commitments in the 1960's. Perhaps a tenth of all U.S. foreign aid may be involved. If all the elements of U.S. interests had received proper attention, additional activities and programs would have been financed that were neglected. However, it is unlikely that the additions would have exceeded the sums that should properly have been withheld.

Estimates have been prepared of the additional resources needed by developing countries to achieve a specified rate of economic growth, as defined by United Nations resolutions. This resource gap is variously estimated at between $5 billion and $20 billion per year more than they now receive.* The World Bank estimates that net foreign capital requirements of the developing countries may be $3 to $4 billion higher per year for the rest of the decade than in the recent past. None of these estimates is very convincing. All begin with bad data and on this poor foundation build a towering edifice of assumptions, estimates, and computations. Aid officials with extensive experience in putting large sums to effective use in developing nations almost unanimously contest the practical value of such estimates. They

* *Foreign Aid Through Private Initiative.* Report of the Advisory Committee on Private Enterprise in Foreign Aid, AID (Washington, D.C.: GPO, July, 1965), p. 2.

do not believe that a *rapid* rate of increase in aid is feasible, so long as reasonable standards are maintained for its use.

Nevertheless, it is difficult to regard the state of the developing nations without concluding that durable U.S. interests would be served by offering a rising volume of resources to most of them. So long as the governments are receptive to Western values and institutions and so long as they are responsive to its interests, the United States has a major stake in seeing rising rates of material, social, and political progress. The interests of other developed countries in the fate of the less developed world are at least as great as that of the United States. Foreign aid alone will not make progress possible, but combined with the efforts of the governments and people of developing lands, it can make an essential contribution.

The record of recent years offers strong testimony in support of the view that aid levels should rise, but not rapidly. Between 1956 and 1961, economic aid expenditures by all developed governments together increased from $3.2 billion to over $6 billion, a full 90 per cent. The commitment level continued to increase thereafter, exceeding $8 billion in 1964. However, expenditures on the aggregate have not surpassed the 1961 level in the three subsequent years. Evidence of specific countries needing a much larger volume of imported goods and services than they can finance is difficult to find, except in cases where the aid donors were dissatisfied with the policies pursued. The failure of Latin America to increase its net imports, despite a generous outpouring of new U.S. aid commitments, bears further witness to the inherent limitations on a rapid rise in aid levels.

It may nevertheless be assumed that the higher level of recent aid commitments by most developed countries will be reflected in rising expenditures during the rest of the 1960's. As funds are absorbed, a shortage of aid for worthwhile purposes can be expected unless the level of new commitments continues to grow. The essential lesson of the past ten years is that aid needs do in fact rise, though at a modest rate if the funds are used purposefully and effectively.

It is sometimes forgotten that the large sums provided by the United States to developing nations are surrounded by an aura that enhances their contribution to U.S. interests. Citizens and governments of developing nations may feel disenchanted at times by the meager material improvement that large foreign aid programs seem to make in the life around them. So, too, Americans feel disillusioned by evidence of neglect of U.S. interests and views on the part of recipients.

Nevertheless, the sums involved are large, and most developing nations do seek more for themselves. Even if the pace of current progress is slow—and it inevitably is for those eager for growth and social change—the availability of massive external assistance helps overcome the sense of hopelessness and desperation in the face of great difficulties. To nourish hope is in itself to contribute to U.S. interests. It is to enhance U.S. ability to elicit friendlier and more peaceful behavior on matters that have no discernible relation to actual or promised transfers of resources.

Governments of less developed countries that receive, or hope to receive, relatively large sums are, on the whole, reluctant to jeopardize their share unless they feel that truly basic interests of their own are involved. If U.S. aid falls into a downward spiral, they may re-examine the priorities under which they have been operating. The potential power of wealth is impressive, particularly if the willingness to use it purposefully is readily observable. Nor will countries cavalierly gainsay the social, political, and economic system that makes possible largesse on such an unprecedented scale.

Yet, alone among aid donor governments, the United States fails to take advantage of the aura cast by the absolute size of its program and by the actual growth in its contribution. Other donors, including the Communist countries, exaggerate their contributions by every conceivable device. The United States, on the other hand, for fear of alienating domestic supporters, boasts that its foreign aid program is smaller than ever. This calculation is correct if one counts past aid to developed countries and confines the figures for the present to the Foreign Assistance Act.

In fact, the gross amount promised by the U.S. Government for specific uses in developing nations in calendar year 1964 was more than $6.5 billion, three times the sum supplied a decade previously.* Almost every country in Latin America and such Afro-Asian countries as India, Pakistan, Turkey, the United Arab Republic, Nigeria, Jor-

* This figure covers all kinds of government-financed aid, including military assistance. Nor have interest and amortization on older loans been subtracted. The figures in this section do not measure either the flow of aid resources to developing areas or the economic cost to developed nations. They do measure the expressed political willingness to contribute current government revenues at the expense of other possible uses. If commitment levels are well above the current flow, it is because it has been so difficult to convert the promises into effective use. Time is likely to overcome such difficulties.

dan, Thailand, and Vietnam benefited from new U.S. aid commitments that were larger in that year than in any other. Countries with record U.S. aid commitments in 1964 accounted for two-thirds of the total population of developing countries. Furthermore, gross commitments by other developed countries, almost $3 billion, were at least twice as great as a decade before, an increase attributable in part to United States prodding. Aid from the Communist countries is scarcely one-tenth of the combined total provided by the West; a third of it is required to sustain Cuba. Minimizing the actual size of the U.S. program in order to protect aid appropriations requests reduces such of the impact as depends on its aura.

Ten years hence, it is estimated conservatively, U.S. GNP will be $250 billion larger than it is today. Twice this amount is well within the realm of the possible. If at that time the United States could find fruitful employment in developing nations for an additional $5 billion per year, the burden would hardly be staggering. The cost of conflicts over less developed nations should not be forgotten in judging the burden of foreign aid. Korea absorbed $18 billion out of a much smaller U.S. national income than the current one. The Vietnam intervention is estimated at about $15 billion per year. Small-scale interventions in Lebanon and the Dominican Republic cost the Defense Department some $150 million. The value of the lives lost in these endeavors is harder to estimate.

A publicized readiness to undertake increases as they are needed might serve U.S. interests today, just as the Marshall Plan and the Charter of Punta del Este furthered them in the case of Europe and Latin America. A declared willingness to use expanding U.S. economic power to improve those less developed societies that are prepared to cooperate for constructive and progressive purposes might promote U.S. objectives as much as the actual outlay of funds. Absorptive capacity will effectively limit the rate of total aid increases to a volume that is unlikely to strain an expanding U.S. economy.

The beneficiaries of the American experience would be denying its validity were they to assume either that developing countries cannot become viable, or that additional resources cannot contribute positively to that end. The U.S. interest in viability is sufficient to warrant increases above the current level of foreign aid, provided the resources would in fact be used for purposes that appear constructive in its eyes. A sober assessment of the likelihood of major benefits should both increase U.S. foreign aid programs and limit the extent of that increase.

8

U.S. Trade and Investment Interests in Developing Nations

The Importance of Economic Interests

The preceding chapters dealt with the major long-term interests of the United States in the less developed world. Some readers may have been struck by the lack of attention to economic benefits, actual or potential. The neglect of economic interests was intentional because they are, in fact, minimal. Minor though they be, however, they deserve special treatment for a number of reasons.

First, the very meagerness of material recompense explains much of the weakness of Congressional support for foreign aid programs. It is part of the genius of the American political system that public policy depends on the active support of beneficiary interest groups, while the public interest is protected reasonably well over time through the interaction of competing groups. In the case of foreign aid to developing nations, this genius fails. As described in the preceding chapters, the national interest in these programs is great. Nevertheless it has been difficult to focus support from economic interest groupings, because few of them have much to gain from the legislation. Hence, the programs depend for enactment year after year on a substantial investment of the political power and prestige of the Presidency. President Kennedy is reported to have complained repeatedly about the need to expend for this purpose an unduly large proportion of his limited leverage with the Congress. Yet the necessity is inherent in the character of the program and the nature of the American political process.

The quest for support from economic interest groups is bound to be quixotic because it flies in the face of the facts. No conceivable set of

incentives can alter these facts—that the domestic U.S. market and the economies of other developed nations provide far more fertile ground for cultivation than do countries needing large aid programs. The nation's gains from aid to developing nations are not economic in nature, nor are such benefits likely to become significant for decades to come. The principal recipients of U.S. aid are not the most promising outlets for U.S. foreign investment; neither are they the most attractive markets for U.S. exports nor the principal sources of supply for the nation's rising import needs. Such economic gains as do occur, or can be foreseen in the near future, are of relatively minor importance if compared with those available within the United States itself or in the markets of other developed nations. Domestic beneficiaries of the aid programs cannot, therefore, be expected to devote much effort to mobilizing votes in the Congress for aid appropriations. Every President must expect to continue to invest his own power and prestige heavily in obtaining the requisite authority.

The second point is a corollary of the first. The effort to gear the program to satisfying such internal economic pressures as do exist, or can be stimulated into action, is as likely to damage the program as it is to garner significantly greater political support. This corollary begs for assertion, because political leaders invariably feel that there must be some way to build support for the program along the conventional lines that bring success in passing domestic legislation. The weakness of the underlying economic interests creates temptations to pay an excessive price for minor support.

Over the years, the two principal groups that have found a significant stake in the programs are the shipping interests and the farmers. The former has succeeded in embedding in each of the various pieces of bilateral aid legislation the so-called fifty-fifty shipping clause, requiring half of all aid to be shipped in U.S. bottoms. The effect is to increase transportation costs to developing countries and to diminish somewhat the value of the aid dollars they receive, while providing some increase in the cargoes carried by the U.S. merchant fleet. The administrative complexities and the irritation of relations with foreign governments that result from this proviso defy belief. It should be possible to assure the use of American ships in all reasonable circumstances, while eliminating the rigidities of the legislative requirement. Administrative flexibility would reduce U.S. shipping revenues, but hardly in substantial amounts. The retention of the fifty-fifty clause

contributes very little support to the annual battle for foreign aid legislation. At best, the effort required to meet the literal requirements of the law avoids an encounter with one small though articulate pressure group.

As for the farmers, in 1954 they succeeded in authorizing the disposal of surplus agricultural products abroad under separate legislation to be administered by the Department of Agriculture. As a result, farming interests have little stake in the enactment of any aid legislation other than their own surplus disposal program. That program has been a major element in U.S. assistance to developing nations, accounting for a third of its commitments in the 1960's. However, much of its substantive value has been lost through the erection of an administrative barrier within the U.S. Government between responsibility for agricultural surplus disposal and responsibility for promoting broader U.S. interests in developing nations. As observed in Chapter 3, farm surpluses have been furnished with minimal regard for the recipient's over-all foreign or domestic policies.

Moreover, the easy availability of agricultural surpluses has diverted the attention of planners in developing countries from the importance of increasing domestic agricultural production. Indeed, in the late 1950's, the foreign aid program was under a legislative mandate not to help countries expand the output of goods that were in surplus in the United States. America gained little from this petty effort to protect its farmers from competition. The very attempt by the most affluent world power to exploit the needs of the weak in order to protect the overseas markets of its farmers negated the value of many a dollar expended for foreign aid. Moreover, given exploding populations and the growing need for foodstuffs, it is doubtful that any significant cash markets were secured to American farmers. The use of the foreign aid program in support of such low-return U.S. economic interests makes little sense. But it does exemplify the high price paid repeatedly for domestic support by a program that has failed to convey to the public the urgency of its own primary purposes.

The third point is that possibilities do exist for enlarging the economic benefits accruing to the United States from foreign aid, without significant diversion of the program from its fundamental goals. Scarcely 60 per cent of the value of economic aid appears to produce a net addition to U.S. exports, a discrepancy that can and should be reduced. The development and exploitation of possibilities for doing so should

reduce domestic opposition and might increase domestic support. Nevertheless, such benefits will not be enormous to the economy as a whole. Nor are they likely to be sufficiently concentrated in important sectors of the economy, or in many communities, to create a major concern with the size of foreign aid appropriations.

Because the prospective short-term payoff in terms of domestic support is not impressive, opportunities to increase such benefits are apt to be neglected. Aid officials, as well as ambassadors, frequently become so sensitized to U.S. domestic pressures for employing aid in ways that are harmful to its basic objectives that they tend to resist all suggestions for enlarging U.S. economic benefits. Indiscriminate resistance is neither constructive nor wise, the more so since the usual question is whether economic benefits accrue to the U.S. or to other developed countries. Increasing U.S. exports to less developed areas is largely a matter of capturing some of the economic benefits that U.S. programs now confer on industrialized allies who are quite capable of financing their own economic interests.

For example, aid can be programmed so as to contribute more to the development of future markets for U.S. products without reducing its current value to the receiving country. If the United States finances the construction of large power complexes, while other developed countries furnish power-using machinery and equipment involving substantial follow-up business in spare parts and replacement, it has effectively and perhaps needlessly helped create markets for its competitors. Much the same results follow from training teachers while others train lathe operators. In both cases, some reversal of roles by the United States and other donors could benefit U.S. exporters without damage to the developing nation. Indeed, if such programming removes the temptation to buy from European or Japanese sources that dangle short-term, high-interest exporter credits, the United States and the developing nation may both gain materially. (See Chapter 3.) Deference to the economic interests of other developed countries still prevails as an anachronism carried over from the last decade, when their economic recovery was still unconsolidated and their balance-of-payments equilibrium was recent and uneasy. It is neither necessary nor desirable in the 1960's.

Finally, concern about persistent balance-of-payment deficits is a major factor in current U.S. policy-making, affecting both domestic and international decisions. So long as the deficits continue and wide-

spread belief persists that a reduced aid program would improve the U.S. balance-of-payments position, political support for foreign aid in the United States will be reserved at best. The relation between the foreign aid program and the balance-of-payments deficit needs to be better understood. But it is more important to manage the program so that its damage to the balance of payments is minimized. The deficits are too serious to be permitted to continue. But some of the possibilities for reducing them can do serious harm, either to the domestic economy or to the nation's international posture. If the foreign aid program cannot rely for domestic support on an important positive contribution to the material well-being of the country, it must at least take care that the economic damage is minimized.

In this chapter we will trace the significance of the foreign aid program for American trade and foreign investment interests, explaining and exploring the foregoing points. The balance-of-payments problem is reserved for the succeeding chapter.

U.S. Trade Interests in Developing Nations

Trade with developing areas has never played a large role in the American economy. Measured by the total turnover—the sum of U.S. imports and exports—such trade totaled about $1.75 billion in 1938, equivalent to 2 per cent of the gross production of goods and services. By 1964 it had risen to $15 billion, still only 2.4 per cent out of a much expanded national output. However, if one subtracts exports financed by foreign aid, the total trade turnover in 1964 falls somewhat below 2 per cent of GNP.*

U.S. imports from these countries are less important than they were before World War II. The demand for products such as coffee, cocoa, bananas, minerals, and natural rubber has risen far less than the tremendous expansion of the economy as a whole. The importance of foreign supplies of some raw materials has risen—iron ore, bauxite, copper, and petroleum. However, the cost of procuring them from developing nations is a small item in the total U.S. import bill, and the foreign aid program has probably been of minor significance in assuring their

* Throughout this section, the aid figures refer to all types of economic assistance. Military assistance is excluded because few of the shipments financed under this program appear to be included in foreign trade statistics. Trade figures are taken from the *United Nations Yearbook of International Trade Statistics* and from the Department of Commerce. Aid figures are from OECD publications and U.S. annual submissions of data to the OECD.

availability. For the most part, private U.S. capital has had little difficulty in doing the job, without the participation of the aid program.

On the other hand, U.S. imports of various types of manufactured products have grown tremendously. Unfortunately, the less developed world remains an unlikely supplier of large quantities of manufactured goods, despite efforts to increase their industrialization with the help of foreign aid. Hence, the very character of the expansion in U.S. demand for imports reduced the share of developing areas in the U.S. import dollar from 44 cents in 1938 to 36 cents in 1963, while the share of other developed countries rose from 50 to 63 cents. A postwar comparison may help to fortify the point. In the ten years before 1964, U.S. imports from the rest of the world rose more than 50 per cent; imports from less developed countries increased less than 10 per cent.

U.S. exports to developing nations have grown faster than its global exports, increasing ten times between 1938 and 1964, while exports to other developed lands grew eight times. The rise has been large enough to increase the U.S. share of the market of the poorer lands. However, the gain is completely attributable to a foreign aid program equal to half the value of U.S. exports to the less developed world. Net of aid, the U.S. share of their 1963 imports was only 14 per cent. Despite the absence of U.S. aid programs, in 1938 16 per cent of the imported commodities of the less developed countries came from the United States. Moreover, U.S. commercial access to these markets was seriously restricted before World War II by the operations of the colonial system.

On the other hand, a change in the opposite direction occurred in the U.S. share of the markets of other developed countries. These countries bought 14 per cent of their imports from the United States in 1938 and 16 per cent in 1963. The ability of the United States to sell more of its goods in such larger and more competitive markets suggests that it should have had comparable success in developing nations. Had the United States enlarged its share of the markets of poor nations as much as it did in more affluent countries, its paid exports (excluding those financed by aid) would have been about $1.5 billion larger in 1963 than they actually were.

It is frequently suggested that without aid U.S. exports would be reduced by a corresponding amount. In 1963, this amounted to $3.8 billion. While that sum was not much more than .5 per cent of the U.S. GNP, it was equal to 15 per cent of total U.S. exports. Short-range benefits are thus claimed for the farmers and business firms

that supplied the products, as well as for their workers and communities. It is further contended that the economy should benefit in the longer run from such "gift" exports, since they introduce U.S. products that may be purchased and paid for, once aid recipients become more prosperous. If the economies of the aid-receiving countries expand faster as a result of the aid they receive, it is said, their incomes and foreign exchange earnings will rise, permitting them to pay for the American products to which they have become accustomed.

Unfortunately, the record provides little support for these theories—proving neither that aid-financed exports would have been lost entirely to the United States in the absence of the aid program, nor that such programs are building important cash markets for United States exports in the not-too-distant future. As we shall see, aid-programming practices reduce the potential short-range trade benefits. The longer-term prospects are clouded by the slow growth of export earnings in the major aid-receiving countries. Of course, if one gazes upon a sufficiently remote horizon, trade benefits should accrue. A generation or two is a minimum period for significant results of this sort, if the record of the past decade is any guide to the probable course of future events.

Aid and Near-Term U.S. Exports

As for near-term exports, a detailed review of the statistics suggests that U.S. aid expenditures of some $3.8 billion in 1963 added little more than $2 to $2.5 billion to U.S. exports in that year. Most of the increase went to countries where U.S. aid financed the bulk of all imports of U.S. products. Yet even these countries imported much less from the United States than a comparison of their aid level and normal purchases would indicate. The remaining $1.3 to $1.8 billion of U.S. aid, including contributions to international organizations, apparently financed payments to other developed countries. Part of such payments financed imports. The rest consisted primarily of transfers of capital and personal earnings, and remittances of interest and dividends.

If other developed countries had used such additional receipts to buy more U.S. goods and services, it could be argued that aid produces a corresponding increase in exports. Unfortunately they did not, rather permitting their own foreign-exchange reserves to rise. U.S. expenditures for foreign aid in 1963 thus increased total U.S. exports much less than should have been expected.

The preceding conclusions are worth closer inspection because they conflict with official emphasis on the contribution of the aid program to U.S. exports. Moreover, they point to changes in the management of the programs that might improve their contribution to such exports. The first step is to understand how these results can occur under present aid-programming practices.

In its earlier stages, U.S. aid was geared to an "additive principle." It was explicitly programmed to finance imports over and above the amounts that recipients were expected to buy with their own earnings. Under the Marshall Plan this was achieved by programming aid on the basis of the anticipated balance-of-payments deficit. It made little difference whether that deficit was incurred directly with the United States. Any dollars these countries earned from each other were likely to be re-spent on increasing their own imports, and sooner or later a commensurate expansion in U.S. exports could be anticipated.

Admittedly, such programming criteria were difficult to apply with any rigidity—balance-of-payments forecasts are hazardous at best and any statistical definition of "normal imports" is vulnerable. Nevertheless, the principle—and the programming procedures that resulted—did seem to produce some correspondence between the volume of aid and the U.S. export surplus of current goods and services.

However, aid to developing nations came to focus on financing individual projects, or budget deficits, or investment gaps, not on balance-of-payments deficits. It seemed reasonable—and has proved realistic—to assume that developing countries would continue to spend whatever funds they received; increased reserves are unlikely to rank high among their possible uses for foreign exchange. Accordingly, it was argued that one need not be concerned with the complexities of determining "additiveness" in administering aid to developing nations. If aid financed imports that might otherwise have been purchased for cash, the savings would nonetheless be spent by the developing countries on still further imports. Even if such other imports were purchased outside the United States, the selling country would spend the proceeds. Eventually U.S. exports should benefit by the value of the aid. The theory obviously placed a heavy burden on re-spending by other developed countries in the United States. In the circumstances of the past decade, the burden proved excessive, as re-spending failed to materialize. (See Chapter 9.)

It has already been noted that in the past the United States was not

an important source of supply for most of the less developed countries. In 1938, other developed countries furnished over four times as much of their imports as did the United States. Those in need of large amounts of aid naturally tended to turn to their regular suppliers when U.S. programs began to furnish them with additional foreign exchange. In the 1950's, they were free to use U.S. aid for purchases anywhere outside the Communist bloc, so long as the business was awarded to the supplier or contractor whose bid was the most attractive.

After 1959, American aid was increasingly tied to procurement from domestic suppliers, but the aid recipients were still free to select both the products and the projects they tendered for bidding. The United States has not refused to provide goods and services under its aid programs that the poorer countries would probably have bought in this country anyway. The P.L. 480 program has been careful not to substitute its agricultural products for the normal sales of other exporters. However, recipients of surplus foodstuffs have not ordinarily been asked to buy their "normal" requirements from the United States, paying in hard currencies at the time of the purchase. Not surprisingly, aid recipients have used "tied" aid as much as possible for precisely such normal requirements. Much of the aid program has thus financed those very imports from the United States that would normally have been bought and paid for out of the recipient's foreign-exchange earnings.

On the whole, it is only where aid recipients have obtained more U.S. aid than the value of their normal purchases from U.S. suppliers that the program has financed additional American exports. Many aid recipients have been in this position, particularly those that have been receiving large sums. With virtually all aid tied, the U.S. share of the developing area market was bound to increase, and it did grow from 16 per cent in 1938 to 23 per cent in 1963. However, due to substitutions for normal imports, the increase was considerably smaller than the aid program itself.

The resultant savings were freely available for expenditure outside the United States. Some were "fed back" into financing U.S. exports, but the greater part found their way eventually to other developed countries, primarily in Western Europe. Since continental Europe failed to spend its additional income, U.S. exports have not been increased by the full value of its aid.

The pattern can be traced more meaningfully if the relation between aid and source of imports is examined separately for three groups of

countries: (1) those whose aid finances the bulk of their imports from the United States; (2) Latin America; (3) the rest of the developing nations.

An arbitrary criterion—bilateral U.S. aid disbursements equivalent to 75 per cent of U.S. exports—identified twenty-three countries that received enough American aid in 1963 to pay for the bulk of their imports from the United States. The list covers virtually all recipients of large sums of U.S. aid. It includes one Latin American country (Bolivia), as well as half a dozen countries whose aid and imports from the United States are quite small.

Though these twenty-three countries accounted for 32 per cent of all imports, they furnished only 17 per cent of total exports from less developed countries. They received 70 per cent of U.S. bilateral aid disbursements in that year. Improved primary product prices made 1963 a relatively favorable year for developing-nation exports, enabling all other developing countries to run a sizeable trade surplus. The twenty-three countries nevertheless ran an aggregate trade deficit with developed nations of more than $3 billion. Their foreign-exchange reserves were less at the end of 1963 than in 1960, though other developing nations added $1 billion to their foreign-exchange reserves during the same period. In brief, these countries are heavily in need of aid to pay for imports, even in years when other poor countries are benefiting from better terms of trade.

Between 1955 and 1963, global U.S. exports rose by $7.5 billion. Exports to all less developed countries accounted for one-third of the increase—$2.5 billion. Exports to those that paid for an important fraction of their U.S. imports increased by almost $1 billion; increased U.S. aid accounted for only $300 million of this increase. However, the twenty-three countries bought only $2.3-billion worth of goods from the United States in 1963, though U.S. bilateral aid payments alone on their account totaled $2.4 billion. For the entire postwar period, U.S. aid and exports to these countries have grown in step with each other. In 1950, 1955, and 1960, aid was about $200 million larger than exports. By 1963, the tied-aid policy was fully operative. Nevertheless, aid to these countries remained $100 million larger than imports from the United States. Success in actually selling more goods both to the industrialized countries (whose aid was terminated during the 1955–63 interval) and to other developing countries (whose aid was increased modestly) suggests that U.S. exports were reasonably competitive over

these years. It might thus have expected to earn foreign exchange by selling more to these twenty-three countries, had it not been impelled for policy reasons to increase aid to two-and-one-half times the 1955 level.

Similar conclusions emerge from a recent study by N. R. Danielian of the International Economic Policy Association.* Danielian used twenty-five nations that received $2.5 billion of U.S. aid in 1963—for the most part the same countries that were included in the twenty-three referred to above. Comparing U.S. aid and its surplus of exports over imports, he found a total difference of $1.5 billion in 1958 and $1.4 billion in 1964. In every year from 1960 through 1964, the same difference of $1.4 billion appears, though aid increased from $1.9 billion to $2.5 billion. He concludes that "net U.S. economic assistance is resulting in substitution, and is financing some things other than imports of U.S. commodities."

The conclusion is reinforced by a glance at the composition of the increased aid. Almost half the increase consisted of local currency "sales" of surplus agricultural commodities. In the absence of aid, the countries concerned would have had to choose between buying such products from the United States with foreign exchange, or doing without. All other exporters in the aggregate disposed of their production, so that U.S. surplus stocks were the residual supply available. Since the surpluses obtained for local currencies were resold to consumers in the developing countries, their absence from the market would have meant significant food shortage, higher food prices, and considerable social and political disturbance. It seems doubtful that many of the governments concerned would have been willing or able to bear these consequences. They would undoubtedly have bought, at the expense of other imports, much of the $800-odd million worth of food they purchased for local currencies in 1963. Perhaps the same should be said for all such "sales" to less developed countries, which in 1963 totaled more than $1.1 billion at world market prices.

Where would poor countries have found the money? The twenty-three countries earned $5.5 billion dollars from exports and obtained another $120 million net in aid from multilateral institutions. None of this sum was needed for expenditures in the United States, since

* Presented in testimony before the Foreign Relations Committee, U.S. Senate, on April 27, 1966, *Hearings on Foreign Assistance, 1966* (Washington, D.C.: GOP, 1966), pp. 318–19.

American bilateral aid financed more than the equivalent of their imports of U.S. products. Had they paid for some of the U.S. goods they received without charge, they would have had to curtail the expenditure of export earnings and multilateral aid in countries other than the United States. The application of any sort of a "normal imports" principle to the twenty-three countries should have led to the spending of at least $600 million of their own foreign exchange on U.S. products. This amount is roughly equivalent to 75 per cent of their 1963 "purchase" of U.S. agricultural products for local currencies, or 10 per cent of their total earnings from exports, or 25 per cent of the value of their total imports from the United States.

The importance of the "additive" principle is also seen readily in the case of Latin America, which accounted for a further 15 per cent of U.S. aid in 1963. The U.S. trade and aid relation with Latin America is completely different in character from that with the twenty-three countries considered above. Even in 1963, the third year of the Alliance for Progress, net aid expenditures were small relative to imports from the United States. Latin American purchases of imports from the United States have stemmed primarily from its own export earnings. The U.S. share of their imports therefore depends primarily on the availability and competitiveness of other potential supplies. Particularly in Latin America, offers of export credits are important in understanding the word "competitiveness."

For a decade after the end of World War II, other developed countries were unable to deliver goods promptly and competitively to Latin America because their own reconstruction needs had first claim on production. Before the war, the United States supplied 35 per cent of Latin America's imports, the other developed countries 45 per cent. In 1955, these percentage shares were reversed. Thereafter, the other developed countries began to compete more aggressively for Latin American business and their share of the market rose. In 1963, other developed countries exported just about as much to Latin America as did the United States—approximately $3 billion each.

Neither a modest increase in U.S. aid nor the tying of aid to U.S. exports appears to have had much effect on these market shares. Net U.S. aid disbursements to Latin America were $200 million in 1960 and about $500 million in 1963, but Latin American export earnings rose over the same period by a much larger amount—$1.2 billion. The additional foreign exchange was used to increase reserves, to finance

service costs of debt and investment, and to move funds out of Latin America. The exports of both the United States and other developed countries to Latin America were somewhat lower in 1963 than in 1960. U.S. aid was too small a proportion of U.S. exports for tied aid to have had any important effect on the sources of Latin American imports. It could readily be substituted for normal imports, with the resulting foreign-exchange savings being spent freely in other parts of the world.

Moreover, Latin America received further aid through the World Bank and the regular operations of the Inter-American Bank, both of which offer financing on the basis of free competitive bidding open to all international suppliers. Though other developed countries failed to increase their own bilateral assistance, they did provide increasing amounts of guarantied export credits. More recently, through the Inter-American Bank, several of them have provided small sums to be used to finance the exports of the aid-giving country. Thus other developed countries were able to maintain their share of these markets without providing much aid, offsetting the increase in bilateral U.S. aid on a tied basis. The failure to program U.S. aid to Latin America on an additive basis appears to mean that $.5 billion a year of net aid did little to increase current U.S. exports.

As for the rest of the less developed world, the level of U.S. exports also appears to bear little relation to the amount of U.S. aid they receive. In 1963, $.5 billion of U.S. aid was equivalent to little more than 25 per cent of their imports from the United States; they too were free to buy those U.S. goods they most desired, including normal imports. As in the case of Latin America, earnings from exports provided most of their foreign exchange and permitted considerable flexibility in arranging imports from the most attractive sources. They, too, were wooed by exporters in other developed countries, who freely offered guarantied export credits on a "buy now, pay later" basis. Their export earnings were rising in the 1960's and U.S. aid was virtually unchanged. Imports were $1 billion larger in 1963 than in 1960 and the United States received about 40 per cent of the additional business. Apparently, U.S. exports advanced on the basis of its competitiveness in meeting import needs.

Aid and the Longer-Range Prospects for U.S. Exports

The prospect that aid is building cash markets for U.S. exports in the longer-term future is equally gloomy. In principle, the creation

of larger cash markets for U.S. exports requires that aid recipients either earn more from exports, or require less foreign exchange for purposes other than financing imports, or come to prefer U.S. products to those of other suppliers. In developed countries, aid programs enlarged markets for U.S. exporters primarily by building up their ability to export and thus to pay for U.S. goods. Western European exports doubled once between 1948 and 1955, and again by 1965, while Japanese exports have been growing even faster.

The countries now receiving U.S. aid show no signs of expanding exports at any such pace. Moreover, unlike the industrialized countries, their need for foreign exchange to service debt and investments is growing rapidly. Nor is there any recent evidence of a greater preference for U.S. products. Barring the discovery of oil or some other such unforeseen bonanza, increases in their imports are thus likely to depend heavily on increased aid for many years to come.

The less developed countries as a whole have been expanding their exports at about 4 per cent each year, adding some $700 to $800 million annually to their earnings. However, a third of this sum is attributable to a few that have petroleum resources and receive little or no aid. Another fourth has been registered by countries which also do not receive much U.S. aid at present, such as Taiwan, Hong Kong, the Philippines, and Israel. For the past decade, Latin America's earnings from sales to developed countries have been increasing by no more than $140 million per year; the twenty-three countries, by some $200 million per year. Latin America and the twenty-three countries together account for 85 per cent of recent U.S. aid.

Recent performance thus suggests that $.5 billion a year represents an optimistic assumption about the likely annual increase in exports of those countries that now receive significant amounts of U.S. aid. If they continue to spend about 15 per cent of it on American products, they would buy $75 million more each year. While such a sum is not negligible, neither is it exciting. Over the past decade, U.S. world-wide exports have increased annually by over ten times this amount. A continued high rate of economic expansion in the more affluent countries points to further substantial growth in their demand for U.S. products. The market for paid U.S. exports to aid-receiving countries will therefore continue to be dwarfed for many, many years. Such prospects can hardly justify $4 to $5 billion a year of economic aid, nor are they likely to generate much support for the aid program from U.S. exporters.

Private Investment Interests Abroad

Few subjects are so suffused with emotional overtones as relations between capital-exporting countries and the nations in which their private citizens have chosen to make investments. Anti-imperialist literature depicts foreign investors as rapacious intruders, exploiting the resources and peoples of the countries in which they operate as they extract disproportionate gains for their efforts. They are presumed to dominate their own governments and to use the power of those governments to protect their privileges in the poorer lands in which they operate. The general level of prosperity of the capital-exporting nations is claimed to be heavily dependent on such exploitative activities by its foreign investors.

On the other hand, panegyrists of private investment depict it as the only possible salvation of the poorer states. Without private capital and know-how, the developing nations are said to be unlikely to make much headway. The profits of investors are a proper and indispensable recompense for their efforts. The endeavors of governments to obtain favorable treatment for their investing citizens are consistent with the long-range economic interests of the capital-poor countries, though they may conflict with the narrow political interests of leaders seeking demagogic issues around which to rally supporters.

Neither of these diametrically opposed doctrines suffers for lack of ardent adherents. Neither doctrine gains very much from a dispassionate review of the facts, though each side can find examples to buttress its attitudes.

As far as the United States is concerned, the evidence suggests that its interest in private investment in less developed areas is highly specialized in nature and modest in size. The total value of such investments in 1965 is estimated at some $15 billion, two-fifths of it concentrated in the petroleum industry.* Of the eighty less developed countries, ten account for two-thirds of all U.S. direct investments; all ten are situated in the Middle East and South America. The largest U.S. investment stake in Asia is in the Philippines, where it totals less than $.5 billion. The heaviest concentration of U.S. investment in Africa—Libya—scarcely exceeds $.33 billion.

By almost any criterion relevant to the economy of the United States,

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* Report by Assistant Secretary of Commerce Brimmer to the American Management Association on the *U.S. Balance of Payments Problem in Relation to the Less Developed Countries,* June 14, 1965. Press release.

these sums are exceedingly small. *In toto*, they account for a third of all U.S. direct investment in foreign enterprise. However, the total stock of $15 billion compares with gross new investment in the United States at a rate of $100 billion *per year*, half of it in new plant and equipment.

Direct U.S. investments in developed areas have been rising—by $9 billion between 1950 and 1965, and more recently at a rate close to $.75 billion a year. Yet this latter sum is but .75 per cent of new investment within the United States.

The recent growth of U.S. foreign investments in the more developed areas of the world has proceeded at a much more impressive pace. Consequently, while the developing nations accounted for half of all U.S. direct foreign investment in 1950, their share had dropped to a third by 1965. Economic recovery, a sustained high level of growth, stable currencies, greater confidence in political stability, and a diminished threat of conflict have combined to attract a substantial outpouring of private U.S. capital to Western Europe and Japan over the past decade and a half. Such conditions have not been attained in the less developed regions and their attractiveness to private investors has suffered in consequence.

U.S. investments in developed countries are concentrated in the very manufacturing operations that have failed to attract much U.S. capital to the Third World. Nor is it likely that U.S. manufacturers will turn to developing nations with investments on a scale approximating that in Western Europe, at least for many years to come. The American industrial genius is focused on large-scale production, using large amounts of capital and a skilled labor supply. The lower labor costs of developing nations have little appeal for American businessmen, who find them associated with low labor productivity, small markets, small-scale operations, and an unstable political and economic environment.

Nevertheless, the investment that has taken place in developing areas has been lucrative on the whole and earnings should continue to grow. The petroleum industry brings home about $1.5 billion per year from the Middle East and Venezuela, a rate of return of some 25 per cent. Other investments have seldom been so profitable. Inflation, regulation, and expropriation have combined to keep the over-all yield on U.S. capital in Latin America at modest levels. Nevertheless, repatriated earnings alone of manufacturing enterprises in Asia and Africa have recently been equal to 10 per cent of the reported value of the invest-

ments. To be sure, the capital involved is small, hardly aggregating $1.5 billion. Yet such rates of return are bound to attract an increasing flow of capital, as high actual earnings overcome resistance to undertaking new financial commitments under unfamiliar and hazardous conditions.

In brief, the U.S. investment interest in developing nations, apart from the petroleum producers, is exceedingly modest. Despite considerable expansion it is likely to remain so for some years to come. Both individual and corporate investors will properly expect protection from their government and will seek conditions that will render their capital as profitable as possible. However, given the small sums involved, the health of the U.S. economy as a whole is unlikely to be seriously affected by their fate.

Neither in its professed objectives nor in its allocation of funds has the U.S. foreign aid program demonstrated a primary concern with furthering the interests of its private investors. The ten states that harbor two-thirds of all U.S. investment in developing areas have received less than 7 per cent of U.S. postwar economic aid. The oil-producing states have been generously endowed with foreign exchange from royalties and have not been in need of massive foreign aid. Iran obtained U.S. assistance for a period, but containment of the Soviet Union was clearly the predominant motive. Its oil-poor neighbors along the southern perimeter of the Soviet Union were treated more generously. Aid to Iran is to be terminated, now that the Soviet thrust has diminished and the authority of the Shah has been restored. The relatively small net amounts of U.S. aid to Latin America were noted earlier. Yet Latin America is the site of the bulk of U.S. investments other than petroleum, and continues to entice more new U.S. capital than does Africa or Asia.

During the 1950's, U.S. aid policy was dominated by the curious notion that aid should be denied countries that are potentially attractive to U.S. investors. Latin America was considered capable of attracting all the foreign capital it needed from private sources; aid was considered to be a palliative that discouraged countries from creating appropriate conditions to attract foreign investors. Thus the Alliance for Progress was greeted with suspicion, if not outright hostility, by many American businessmen and bankers with long experience in Latin America. They feared the effect on their own operations of both the promised government aid and the explicit support for social reform.

On the other hand, the U.S. framers of the Alliance expected it to improve the status of existing investments and to create attractive opportunities for an expanded flow of private capital to the area. In part this was to have resulted from a better political environment, as the Alliance encouraged friendlier attitudes toward both the United States and the existing social order, newly committed to gradual modernization. In part, attractiveness to private investors was expected to stem from a Latin American commitment to stabilize its own finances and currencies. Perhaps the most important lure to private capital, however, was to come from the achievement of a high rate of economic growth. Economic expansion was expected to improve the profitability of existing investments and to create opportunities for new enterprise.

While it is too early to draw definitive conclusions, it may be significant that the value of U.S. investments in Latin American manufacturing doubled between the end of 1957 and the end of 1963, while net earnings rose by almost 50 per cent.* Apparently, new North American capital has indeed been attracted. Presumably, earnings will continue to rise as new facilities reach full-scale operation.

At the same time, older U.S. investments in Latin America have had difficulties with both regulation and expropriation on the part of the local authorities. Public utilities in Brazil, the petroleum industry in Argentina, and the copper interests in Chile have experienced well-publicized problems. These troubles all had much older origins than the Alliance. They were obviously aggravated in the early 1960's despite the Alliance, rather than because of it.

In 1962, the Congress added an amendment to the foreign aid legislation requiring the suspension of assistance if countries seized ownership or control of U.S. investments or took action that had a similar effect, without taking prompt steps to arrange for adequate and effective compensation. A small assistance program in Ceylon was suspended in order to comply with this provision. Clear warning was thus given to all aid-receiving nations that assistance would not be continued without reasonable treatment of U.S. investors within their territory.

Obviously, this linkage between aid and the treatment of investors provided raw material for the propagators of neo-imperialist doctrines in developing nations. Were this evidence sufficient to turn the tide of political power in favor of Communist adherents, it might be said that the purse and power of the American public had been used on

* *Ibid.*, Tables 6 and 7.

behalf of a few of its citizens to the detriment of the overwhelming majority. In practice, the political effect of this amendment in less developed countries has not been prepossessing. Nevertheless, its enactment was resisted by the executive branch of the U.S. Government. It had no reservations about the intent but many about the wisdom of using foreign aid in this way.

According to economic growth theory, government aid programs should be but an early way station along the highway to prosperity. Further along the road, the developing country should be able to borrow capital and attract private investment, generating enough profits and foreign exchange in the process to pay interest and dividends at market rates. Even in the aid stage, private capital should be encouraged to move into these areas, partly to economize on scarce aid and partly to acclimate both foreign private investors and the developing nations to the mutual benefits to be derived. The encouragement of private capital flows has, in fact, been an important element in U.S. aid programs. Urging aid recipients to treat older investments favorably has been a corollary policy, since potential new investors are bound to be influenced by the experience of their predecessors. The desirability of promoting greater familiarity between foreign private investors and developing nations has hardly been questioned. Capital flows, particularly in the form of direct investment, have been sought through exhortation, as well as various types of subsidy and risk-sharing arrangements. The meager response by investors has stimulated further proposals for new and expanded subsidies.*

If skeptics about the wisdom of promoting private investment in developing nations have received little attention, it is because most of their concerns are significant only where foreign investments are large. Conflicts between investors and local governments and business interests are to be expected, and the U.S. Government must clearly try to protect the interests of its citizens who invest in foreign lands. When it does so, its influence on other matters in the affected country is bound to suffer to some extent. An American can better understand the problem if he thinks of the effect on his attitude toward, say, Germany or Japan, if their investors owned and operated urban bus lines in the United States. If U.S. investors come to dominate important sectors of the economy, a potent focus is created for anti-American agitation. The appearance of such issues in much more sophisticated societies, such

* See *Foreign Aid Through Private Initiative.*

as Canada, Germany, and France, is indicative of the problems that may lie ahead in developing nations if the growth of private U.S. investment in any one of them becomes dramatic. However, such dominance is an exceedingly remote contingency in most underdeveloped countries.

A more immediate problem concerns repatriation of income from private investments in countries that still require substantial governmental aid. The investors may at first reinvest their earnings, but before long they will wish to bring home some of their profits. The combination of high rates of return and reinvestment of earnings means that after a decade, annual earnings will be large relative to the size of the original capital brought into the country. Unless natural resources are developed for export, additional foreign-exchange earnings from the investment are seldom sufficient to finance the repatriation of earnings. To incur a heavy obligation during the early stages of a development program for transferring income on foreign private investment is therefore bound to have two consequences. The developing country will need more aid to finance the payments. The burden of repatriating earnings on old investments may itself discourage new ones, delaying the moment when normal capital market operations can substitute for official aid programs.

Nevertheless, modernization does require the importation of the business experience and techniques of the more advanced countries. Foreign private investment has to date been the most effective channel for expediting this process. Neither investors nor their governments have yet recognized that this process implicitly increases the need and duration of government aid programs in the less promising countries. For the United States, such recognition is not directly relevant so long as its aid program is large relative to the earnings its investors wish to repatriate from foreign-exchange-hungry nations. Its immediate importance is in developing countries where the United States provides most of the aid and where citizens of other developed countries have substantial earnings on old investments. The principal examples are in South and Southeast Asia and Latin America.

The German Government has been the most vigorous proponent of pressing the flow of private capital at all stages. Subsidies to its investors have been generous. Even before its aid program reached significant proportions, it advocated the promulgation of a multilateral code on the treatment of private investors that developing countries could refuse

to adopt only at considerable jeopardy to their continued receipt of government aid from all Western industrialized nations. The code remains on the active agenda of international organizations, though the implied threat for assuring its acceptance has long since been submerged. Meanwhile, German private direct investment in developing nations has increased remarkably, from a position of virtually zero after the war to around $1 billion in 1965.* Because its investments are relatively new, the repatriation of German investment income from developing lands is not yet a significant matter. On the other hand, the service charges on its export credits already account for a significant part of the aid requirements of a number of less developed countries.

The interest of former colonial powers in the investments of their citizens in developing areas is very different from that of non-colonial nations like the United States or Germany. Before World War II, the colonial possessions of Great Britain, France, Belgium, the Netherlands, and Portugal provided important outlets for the savings, energies, and talents of many of their most enterprising citizens. Most of the investment in colonies was undertaken with capital raised in the metropole. Europeans owned much of the capital in the money sector and dominated the principal administrative posts in governmental and private sectors. Earnings on capital and personal services, as well as trading profits, could be freely remitted to the metropole by its expatriate citizens, while the government at home contributed significant sums as budget subsidies and as financing for public investment—roads, public utilities, schools, etc.

With progressive decolonization after World War II, the position of expatriate citizens and capital has changed. With some notable exceptions—Dutch property in Indonesia, the Suez Canal—expropriation has been rare. Caution in this regard has recommended itself to most new governments, as they have recognized their inability to pay off old investors and have hoped to continue to attract new private capital from abroad. However, large numbers of expatriates in public positions were released from their posts. Inevitably, new governments want to replace expatriates as rapidly as possible, though most have sought to retain talents until the skills of the native population could be upgraded. Increasingly, the native population has taken over private as well as public functions. In any event, expatriates have inevitably

* Kreditanstalt fuer Wiederaufban, *Annual Report 1964*, p. 23. Net direct investment rose by $450 million in the four-year period 1961–64.

wanted to build up some assets abroad and to repatriate at least some of their capital, preferably before they leave the country.

Whenever new governments have sought to limit repatriation by denying applications for foreign exchange, they have seldom met with success. New channels for transferring money invariably develop if the incentive is great; the imposition of controls tends to enhance insecurities and to raise incentives for circumventing them. The movement of funds has generally proceeded to the limit of the available supply of foreign exchange in such cases. The evidence exists in the large losses, explained as "errors and omissions," that occur year after year in the balance-of-payments accounts of most newly independent nations.

The metropole governments have felt responsible both for the viability of their former colonies and for their expatriate citizens and investors. Responsibility to the new states is compounded of a sense of moral obligation and a desire to retain cultural ties and political influence. Responsibility to expatriates is compounded of a desire both to minimize economic losses at home and to maintain good faith with individuals and firms who had invested personal energies and capital in the colonies in the expectation of continued governmental protection.

With independence, the colonial powers have therefore tended to increase government aid programs to their former colonies and to encourage other potential donors to join in this effort. France solicited U.S. assistance for Indochina and assistance from its Common Market associates for its former African colonies, while greatly expanding its own African aid programs. Belgium and the United Kingdom have looked to the United States and the World Bank for such capital, increasing their own aid with greater reluctance than France exhibited. All have sought to maintain as close a monetary relationship as possible with these states (sterling area, franc zone), as much to facilitate the free return of capital and earnings as to minimize the dilution of their predominant trading relationship. With independence, the ex-colonies have all tended to diversify their trading relations at a substantial pace. On the whole, the metropoles have recognized this tendency as inevitable and have come to accept it, while maintaining and even increasing their aid programs.

Thus, unlike the United States, the former colonial countries have a significant stake in their investments and in their investors in developing countries. Much of the investment produces food and raw materials that are in substantial demand in Europe to sustain economic expan-

sion. Receipts of earnings and capital have done much to eliminate the shortage of dollars in Europe and to build up foreign-exchange reserves. With a continuing shortage of capital in Europe, receipts from developing areas have been very welcome. Accordingly, the countries in which their investments are situated have received most of the foreign aid provided by the colonial powers. In addition, U.S. aid has been directed to many places where the investment stake of the colonial nations was high.

Though the U.S. purposes were based on foreign policy and national security considerations, its aid has enhanced both the security and the profitability of European capital. It has also facilitated the transfer to Western European countries of funds deriving from these investments. Aid programs have not been particularly important for U.S. interests in its own overseas private investments, largely because its investments in aid-receiving countries are so modest. The investments of other industrialized countries have benefited considerably from U.S. aid, on the other hand, contributing significantly to the prosperity of the investor's homeland.

9

Foreign Aid and the U.S. Balance of Payments

The Conflicting Contentions

If the benefits from trade and investment appear modest when set against the cost of U.S. aid programs, the balance-of-payments effects loom large and serious. To say that the United States can no longer afford the balance-of-payments costs of foreign aid is to echo one of the most effective attacks on the programs. Long-standing antagonists have thus found in the balance-of-payments deficits a new argument for reducing, if not for eliminating, foreign aid programs. For the first time, they can contend with some reason that aid causes significant damage to major American economic interests.

Of course, aid only contributes to the balance-of-payments problem when a deficit exists. During the Marshall Plan period, massive aid was not associated with balance-of-payments deficits. On the contrary, it was justified in part as a responsible way for the United States to deal with its balance-of-payments surplus. Nevertheless, the appearance of deficits on a substantial scale in the late 1950's did occur at about the same time that U.S. expenditures on aid to developing nations began to rise sharply. Whether larger disbursements for aid caused part of the increased deficits is difficult to establish because other factors were also at work. Moreover, the sequence of causation is more important for understanding the problem than for prescribing remedies. To define the cause of an ailment is not to determine the cure. Britain's deficits in the 1940's were caused by its war effort; no one would have recommended that it sue for peace on that account.

In the first flush of official concern about the balance of payments,

a variety of measures were adopted, among them tying U.S. aid to direct expenditures on U.S. goods and services. All the measures were to be abandoned as soon as the balance-of-payments deficit disappeared. With perhaps more wistfulness than wisdom, the administration placed its faith on a series of gentle policies, cautiously applied. Its trust proved to be misplaced, and increasingly more rigorous measures had to be taken. Aid remained outside the program for balance-of-payments redress, however, apart from a progressively more effective application of the tied-aid policy.

There were even minor relaxations in the endeavor to reduce the balance-of-payments effects of foreign aid. For example, the World Bank was restrained from increasing its new borrowings on the U.S. capital market from 1962 through 1964. In 1965, it borrowed a further $200 million, and in 1966, an additional $175 million. It has also been permitted to refinance old loans on the U.S. capital market as they mature. At the urging, if not the initiative, of the U.S. Government in 1963, further funds were pledged to the Bank's soft-loan affiliate—the International Development Association. The same process was initiated in 1966.

Although these international institutions bring some foreign exchange income to the United States, supplementing their funds from U.S. sources does add somewhat to the balance-of-payments problem. Their loans are not tied, and their disbursements on behalf of developing nations are made largely outside the United States. Because needs for U.S. goods and services are so fully financed by the bilateral program, aid clients tend to seek World Bank and IDA assistance for their other requirements. Were these institutions to obtain more of their money from other developed nations, or were U.S. contributions to them to be administered bilaterally, the latter's balance of payments would benefit. However, the sums involved are not very large, and strong argument has been offered for maintaining some continuity in the programs of the World Bank family. (See Chapter 15.) Indeed, the need for continuity has provided much of the argument against using the aid program to help the U.S. balance of payments further.

Harried defenders knew that any important redress of the balance-of-payments deficit through the foreign aid programs would take a period of years. The lapse of time between the appropriation of funds, their commitment to specific projects and programs, and their eventual disbursement means that reduced appropriations could not produce balance-

of-payments savings until several years after Congressional action. Even the tied-aid policy took three to four years to halt the direct expenditure of aid funds in other developed countries. The value of reducing or tying aid could thus only be symbolic if one expected the deficits to disappear in a year or two.

Though a drastic reduction in foreign aid could not help the balance-of-payments problem before the elapse of several years, it could do damage to major long-range U.S. interests that would be both pervasive and prolonged, however temporary the cutback in aid. Except in situations of immediate crisis, aid to developing nations only makes sense as a continuous and sustained effort over a long period of years. New institutions must be developed and strengthened, in aid-giving as well as in aid-receiving countries. The contribution of external influence in progressing toward viability has already been mentioned. (See Chapters 6 and 7.) Such influence grows progressively and cumulatively, as the product of a continuous relationship between donor and recipient. To disrupt the relationship even temporarily, because of fluctuations in the balance-of-payments position of the donor country, is bound to be costly to both sides. A stop-and-go policy offers a dubious foundation for success in foreign aid to developing nations.

Nevertheless, as the balance-of-payments problem persisted, the opposition to foreign aid has recruited new strength to its ranks. Supporters have come to regard the balance-of-payments problem as the principal substantive reservation of wavering Congressmen. Proponents of the program have been sorely strained to defend their position on this score.

Some defenders have sought refuge in the contention that a country as rich as the United States should deal with its balance-of-payments problems at the expense of the domestic economy. Popular and Congressional conviction about the fundamental benefits of the program to the nation has been much too shaky to lend effectiveness to such an argument. Nevertheless, the defense rests heavily on a basic conviction, albeit poorly articulated and ineffectively communicated, that those benefits far outweigh the costs—including the balance-of-payments costs. Reluctant to consider ways of further modifying foreign aid in order to contribute more to reducing the balance-of-payments deficits, the defense has contented itself with implying that the problem must have other roots and other remedies, since foreign aid accounts for very little of it.

Two lines of argument have been employed. The first, and by far the most widely used, points to the high proportion of tied aid and suggests that tying avoids any possible adverse effects on the balance of payments. Since tied-aid funds are disbursed within the United States, it is said that they do not affect the international accounts. The argument is superficially reasonable, but in fact it is blatantly deceptive. For recipients can and do use tied aid to finance their *normal* purchases in the United States. (See Chapter 8.)

The second argument admits the weak economics of the first, but says that it is nonetheless good accounting.* The argument holds that accurate accounting is only possible for direct expenditures of taxpayers' funds. At least in the first instance, it can thus measure the balance-of-payments effects of foreign aid. To probe more deeply involves asking whether such expenditures deprive the United States of income from purchases that would have been made in any event, even were U.S. aid not available. Further inquiry into where countries spend the money they save on normal purchases is necessary; and still further, it is necessary to inquire into what their foreign suppliers do with the money they thus earn. Such a meaningful economic analysis can be intricately tortuous. No "good estimates" exist of the elements that must be considered in a proper economic analysis of the balance-of-payments effects of foreign aid. This second line of defense concludes by asserting that the true effect "would not differ very much" from the accounting estimates of the drain.

If this second argument is not very convincing, it is at least intellectually respectable. In the minds of skeptics who rightly reject the popularized "accounting" analysis, it seeks to create uncertainties about whether a more sophisticated assessment would yield any different results. To estimate the net effect of aid programs on the balance of payments does indeed require analysis of some complexity. However, reasonable estimates are possible. Though their precision should not be exaggerated, such estimates provide a more accurate picture of the balance-of-payments effects of the aid program than do the incomplete "accounting estimates." They readily point to a much larger drain.

The aid programs cannot be defended simply on the grounds that the arguments of critics are complex and their doubts imprecise. If U.S. strategic interests are indeed heavily dependent on the foreign aid pro-

* Agency for International Development, *Foreign Aid and the Balance of Payments* (Washington, D.C.: GPO, 1965).

gram, and if that program's domestic difficulties are significantly related to the nation's balance-of-payments deficit, it would be better to develop corrective action proposals than to ponder over whether the problem is either real or large. The first step is to turn to the balance-of-payments problem itself and then to the balance-of-payments relationship between the United States and the developing areas.

The U.S. Balance-of-Payments Problem

Few subjects appear more arcane and elusive to the layman than international finance, balance-of-payments statistics, and the causes and cures of foreign exchange deficits and surpluses. The very intangibility of the subject inhibits public criticism of assertions by those who speak about the problems with authority. Concern about the U.S. deficit has, however, become widespread, perhaps for the very reason that expert assertions have grown more contradictory. Some experts have been arguing that the reported balance-of-payments deficits can safely be ignored, since they represent an assumption of short-term liabilities in return for long-term assets. Ignored they nevertheless have not been; instead, remedies continue to be proposed by foreign and domestic officials. All of them conflict with either the interests or the entrenched views on public policy of such groups as business, labor, tourists, and farmers. Large deficits continue to be reported and the nation's gold reserves continue to be depleted, despite repeated announcements of new corrective measures and regular predictions about their early success.

Yet the rudiments of the subject are not difficult to understand, nor are the possible solutions. It is distaste for the various available measures of redress that accounts for the persistence of the problem. The year 1966 promises to be the ninth successive year of significant U.S. balance-of-payments deficits. Surely the time has come for a fresh look at possible corrective measures and for recognition that the problem will not disappear without further sacrifice of interests and further compromise of doctrinal imperatives.

Only a few years ago, Americans were told that a tendency existed for the rest of the world to be perpetually short of dollars, and that increased assumption of international economic responsibilities by the United States was essential if world trade was to flourish. The United States has, in fact, persistently exported far more goods and services to the rest of the world than it imports from them. In the five years

beginning with 1961, this export surplus averaged almost $8 billion per year. Balance-of-payments deficits result from offsetting this export surplus with other expenditures. U.S. military forces were stationed abroad at American expense, U.S. tourists were encouraged to visit foreign lands, and U.S. investors were urged to re-examine previously discounted opportunities for profitable operations in other developed nations. Combined with the foreign aid program, such expenditures have transferred a large volume of dollars to foreign lands. The responsibilities were assumed; the dollar shortage was overcome. Indeed, the corrective process has manifestly gone too far.

At first, foreigners were delighted to get the dollars. They had long sought to increase both their official reserves and their working balances of foreign exchange in order to facilitate the conduct of their international business operations. However, as the U.S. payments deficits have continued, the reserves of some countries have grown beyond all foreseeable needs. Most European nations admit they no longer require increased reserves. Some even complain that the continued accumulation creates difficulties for them in restraining domestic inflationary pressures.

As U.S. liabilities have swollen to several times gold reserves, recipients of additional dollars have increasingly been converting them into gold. Conversions were stimulated by rumors of possible increases in the price of gold, of a devaluation of the dollar, or of other measures that might reduce the value of dollar holdings. The French have found gold purchases to be politically useful, and the Germans could hardly stand alone in refusing to convert their rising dollar balances into gold. Unless foreign holders of unneeded dollars can be guarantied against any possible loss, they must be expected to continue to prefer to hold gold rather than to retain the additional dollars they receive. From the end of 1958 until mid-1966, ten industrialized countries in Western Europe increased their gold reserves by almost $10 billion, while U.S. gold holdings declined by $7 billion. New gold production and sales of gold by Communist countries account for the difference between Western European accumulations and U.S. losses. The gold reserves of all other countries combined scarcely changed. U.S. reserves were reduced to about two-thirds their size at the beginning of the persistent deficits. This phenomenal transfer of gold reserves was made possible by U.S. balance-of-payments deficits.

More precisely, the problem is one of America's international liquid-

ity, since the nation's net international assets have actually increased. Privately held assets abroad have risen by over $12 billion since 1958, even after allowing for an increase in foreign private claims on U.S. assets. The country has not been impoverished by its exchange of gold for valuable foreign assets. Nevertheless, both the magnitude and the persistence of the decline in gold reserves worry Americans as well as foreign holders of dollars. This concern influences both individual behavior and national policies. Each further loss of gold reduces the liquidity of the United States in its transactions with foreign lands and calls attention to the persistence of balance-of-payments deficits.

Developing Countries and the U.S. Balance of Payments

Though West European countries have been buying gold with surplus dollars, they do not earn many of these dollars in direct business dealings with the United States. In the three years ending in 1965, such transactions brought Western Europe a net sum of only $523 million, according to the U.S. Department of Commerce.* Over the same period, its total holdings of gold and dollars increased by more than ten times that sum, estimated by the same source at $5,663 million. A substantial part of this increase was founded on net earnings from the less developed world.

On the other hand, the developing countries as a group receive substantially more dollars each year than they wish to spend on goods and services produced by the United States. For the same three-year period 1963–65, their known transactions with the United States showed a surplus of about $3.6 billion. Much of this was spent in other developed countries, adding to the latter's foreign-exchange reserves. It is in this indirect fashion that aid-receiving nations contribute to the U.S. balance-of-payments problem. A concerned U.S. balance-of-payments watcher should thus look to the impact of U.S. foreign aid on the over-all balance of payments of developing nations with the United States on the one hand and with Western Europe on the other. Whether, in the first instance, aid dollars are spent in the United States or abroad is a question that becomes so enmeshed with other elements of the U.S. balance of payments that it may have little significance. Indeed, the question has diverted attention from more relevant concerns.

Prior to the effective application of the tied-aid policy, AID spent as much as $600 million a year on commodities furnished by foreign

* *Survey of Current Business*, XLVI, No. 6 (June, 1966), 42.

suppliers. Such purchases were reduced to about $100 million by 1965; most cuts were made in purchases from developed countries. Moreover, AID reduced all its direct expenditures in foreign countries by some $700 million between fiscal years 1961 and 1966, although the sum total of its disbursements at home and abroad increased by more than $600 million.* By the latter year, less than $400 million, out of total AID expenditures in excess of $2 billion, were spent abroad. Other U.S. assistance programs added considerably to these expenditures. Aggregate foreign aid spending overseas totaled $702 million in 1964, and $749 million in 1965.†

Stanching the flow of aid program disbursements in other developed countries has not, however, altered much the balance of payments of the United States with developing nations. The surplus of U.S. exports to aid recipients has not increased. For the most part, increased AID purchases in the United States have been offset by reduced sales that were previously paid for out of the foreign-exchange earnings of the less developed countries themselves. (See in Chapter 8, "Aid and Near-Term U.S. Exports.") Once such indirect effects are considered, the foreign-exchange cost to the United States of all its aid programs mounts to at least $1 billion per year, and probably to as much as $1.5 billion.

Traditionally, developing nations have earned dollars from the United States and spent them in Europe. This pattern originates in the character of U.S. foreign trade. The United States has long imported raw materials from the less developed world while exporting to it relatively modest amounts of foodstuffs and manufactured goods. Western Europe has traditionally earned dollars from its colonies and used them to pay for U.S. goods. What is new is the magnitude of both the U.S. deficit and the European surplus with the developing nations. Enhanced European foreign-exchange earnings from developing nations are a product of the trade, aid, and investment relationships described in the previous chapter.

The most important new phenomenon is the failure of the continental European countries to convert their traditional surplus with developing nations into purchases of American foodstuffs and manufactured goods. Developed countries other than those on the Continent have done so, with the result that their gold holdings have not increased in the 1960's.

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* Agency for International Development, *Summary Presentation to the Congress, FY 1967* (March, 1966), pp. 14–15.

† *Survey of Current Business,* XLVI, No. 3 (March, 1966), 25. The estimate covers all types of U.S. foreign aid.

To some extent, continental Europe has been spared the need to spend its foreign-exchange earnings by the flow of U.S. capital and tourists to its own shores and the expenditures of U.S. troops stationed within its borders.

The previous chapter identified a group of twenty-three countries that need little, if any, of the earnings from exports to the United States to pay for U.S. goods and services. U.S. investments in these countries are small, so that dividends have added little to U.S. foreign-exchange receipts. U.S. aid has taken the form of grants, sales against local currency payments, and long-term loans at nominal interest rates and with long grace periods before amortization payments begin. For such countries, debt service on U.S. Government loans has therefore been of negligible proportions.

The other developed countries, on the other hand, have provided only a fourth of the aid received by this group of countries under Western bilateral programs. Moreover, the French have important claims on the foreign exchange earned by these developing nations, arising from large investments in the Indochina successor states and in North Africa. The British have similar earnings from South Asia and East Africa. Then, too, substantial numbers of French and British citizens are still resident in the former colonial territories. Their current earnings are substantial and their future in these territories is far from assured. Accordingly, withdrawal of funds has been as substantial as it has been inevitable, facilitated by the available surplus of U.S. dollars as well as by their own aid programs. Only in former French Africa south of the Sahara, where U.S. aid is negligible in amount, does the French Government's own aid program appear to be the primary catalyst for such withdrawals.

As for Latin America, despite the annual transfer of $1 billion of income on U.S. private investments, it has earned a significant surplus of dollars directly from the United States. Almost $1.2 billion was recorded between 1963 and 1965. Most of this sum appears to have been added to reserves, though not in the form of gold. Latin America traditionally has a substantial trade surplus with the other developed countries, but the funds are currently required largely to service the latter's investments and credits. Interest and amortization on public and guarantied indebtedness alone totaled well over $1 billion in 1965.*

* Total debt service payments by Latin American countries to all creditors

The remaining less developed countries may be divided into two groups: Middle East oil producers and the rest. The former receive virtually no U.S. aid and buy only slightly more goods from the United States than they sell. The bulk of their oil is purchased by other developed nations and a large part of the receipts accrues to the United States as investment earnings. The rest of the less developed countries received about $.5 billion of aid from the U.S. Government in 1963 and had neither a significant trade deficit with the U.S. nor a significant liability on account of investment income. For the most part they are current or recent European colonies, largely in Africa, and are the recipients of more than half of all bilateral aid provided by other developed countries (about $1 billion a year). Their trade deficit with the other developed countries is considerably smaller than that of the twenty-three countries. Much of their aid, including U.S. aid, would appear to permit substantial movement of funds to developed countries other than the United States—whether as remittances of surplus income, interest and dividends, repatriation of investments, or investments abroad by the newly affluent local middle or upper classes.

While these relationships are difficult to quantify with precision, available statistics do suggest that a major cause of the loss of U.S. international liquidity in recent years is the transfer of dollars from the United States to continental Europe via the less developed countries. The withdrawal of funds from the colonies and former colonies is on the whole larger than the aid provided by the colonial powers; other developing countries receive substantially less in aid and export earnings from developed nations apart from the U.S. than they spend for imports, debt service, and withdrawal of funds. If one adds interest on both government loans and guarantied exporter credits, as well as the return on private investment, it seems possible that in 1963 the other developed countries withdrew from developing countries some $3.5 billion in the form of private capital and service charges on various debts and investments, while their governments provided about $2 billion in net aid.

The findings of other observers point in the same direction. Thus, the Jeanneny Report notes that to the extent that French aid finances the repatriation of capital by Frenchmen, it is not aid for the receiving

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totaled $1.8 billion in 1965. See Foreign Affairs Committee, House of Representatives, *Hearings on the Foreign Assistance Act of 1966* (Washington, D.C.: GPO, 1966), Part II, p. 404.

country but rather a transfer of funds from French taxpayers to other Frenchmen.* A less circumspect Annex to the same report, prepared by the French Ministry of Finance, observes that the huge increase in the so-called net invisible receipts of France from the franc zone (rising from less than $40 million in 1952 to over $1.2 billion in 1961) can only be explained by the repatriation of capital by Frenchmen living in the outer franc zone.† For the two years 1960 and 1961, it estimated that the net movement of private capital and earnings to France totaled some $2.7 billion.‡ According to the Bank of International Settlements of Basel, Switzerland, "not more than about half of Europe's net capital receipts in 1961 and 1963 ($2.6 billion) can be attributed directly to U.S. sources. Hence it would appear that the inflow of capital into the less developed countries, mostly from the United States, has been to a significant extent offset by an outflow from them —mostly to Europe."** An OECD Development Center Study estimates the 1962 balance of payments for all its members combined with the less developed world. It shows unaccounted receipts by the developed countries aggregating $5.9 billion.†† The figure is exaggerated because the author accepts at face value the large figures reported by European countries as increases in their private long-term capital investments in developing countries; the reverse flow of private money thus appears entirely as "errors and omissions." The U.S. Department of Commerce reports, "Net payments to these countries [the less developed countries of Asia and Africa] in 1965 were nearly $1.25 billion, and they appear to have become a major channel through which U.S. funds move to Western Europe."‡‡

Recent balance-of-payments figures for some major recipients of U.S. aid clarify the character of these relationships and the nature of the U.S. problem.*** For example, India has been by far the largest re-

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* *La Politique de coopération avec les pays en voie de développement.* Report of a Commission of Inquiry (Paris, 1963), I, 63.

† *Ibid.*, Annex No. 10, p. 166

‡ *Ibid.*, pp. 173, 175.

** Bank for International Settlements, *Thirty-Fourth Annual Report* (Basel, June, 1964), p. 28.

†† Goran Ohlin, *Foreign Aid Policies Reconsidered* (Paris: OECD, 1966), p. 62.

‡‡ *Survey of Current Business*, XLVI, No. 3 (March, 1966), 28.

*** International Monetary Fund, *Balance of Payments Yearbook*, Vol. XVII.

cipient of U.S. aid in the 1960's. Despite large pledges announced at consortia meetings, donors other than the United States have delivered relatively little net aid to India, at least until recently. OECD data show that India received $2.2 billion in aid disbursements from Western governments and multilateral organizations in 1963 and 1964, net of Indian repayment of principal to them on prior loans. Of this total, the United States provided $1.6 billion directly as well as financing much of the contributions from international organizations that supplied half of the remaining $600 million. Indian imports from the United States were almost completely financed by its tied bilateral aid; the United States derived scarcely $50 million over the two-year period from interest on government loans and private investment income. On the other hand, India paid out about $200 million as investment income to other countries. New private investment in the country, except for reinvested earnings, was negligible. However, $.25 billion is unaccounted for in India's balance-of-payments records, undoubtedly representing short-term capital movements to developed countries other than the United States. In addition, India's trade deficit with other developed countries, over and above the bilateral aid it received from them, totaled another $250 million; about half of this was with Germany. Thus India appears to have paid some $700 million net to other developed countries during this two-year period. Though much of the movement of funds was undoubtedly directed in the first instance to Great Britain, Britain itself was running a substantial balance-of-payments deficit with continental Europe. Thus did the surplus dollars accruing to India find their way eventually into the Continent's reserves.

The successor states to Indochina—South Vietnam, Laos, and Cambodia—represent another important drain on the U.S. balance of payments. In 1963, over $300 million was made available to them from U.S. aid, military expenditures, and imports, yet they obtained only $130-million worth of their own imports from the United States. Their trade deficit with other developed countries net of aid totaled $50 million, and transfers of funds appear to have totaled another $50 million. With the expanded U.S. involvement in South Vietnam, these figures have multiplied. France has been an important recipient of the transfers; Japan accounted for most of the paid trade deficit. Net payments to continental Europe came to rest there, for all practical purposes adding to gold reserves. Japan, however, is not an accumulator of officially

held reserves and is a major market for U.S. exports, so that the impact of its net receipts from developing nations is minimal for the U.S. balance of payments.

The Republic of Korea does not appear to represent an important balance-of-payments drain, though it is a major recipient of U.S. aid. In 1964, it received from the U.S. Government nearly $139 million, virtually all of its foreign aid. Private relief and U.S. troop expenditures added substantially to its dollar receipts. Since its aid has been essentially on a grant basis, it had little expense for service on government debt, nor did foreign private investors have much income to transfer. In aggregate, it had a surplus of some $82 million in its trade and payments balance with the United States, of which $70 million was spent in other developed countries, mostly in Japan. Korea's deficit of $15 million with other OECD countries may therefore be considered to represent the extent of its drain on the U.S. balance of payments.

Unlike India, where the drain equals three-fifths of the U.S. aid program, and the Indochina successor states, where the relationship is substantial, the balance-of-payments cost of U.S. aid to Korea has been relatively small. The comparison underlines the fact that the critical element in redress of the U.S. balance-of-payments problem is the policy and behavior of the other developed countries.

Balance-of-Payments Remedies

The reader has been led through this lengthy exposition of the relationship between aid and the U.S. balance of payments in order to prepare him for considering balance-of-payments remedies. The less developed countries are a conduit for channeling American dollars into gold reserves on the continent of Europe. U.S. citizens and the U.S. Government are providing the less developed countries with at least $1 billion a year more than they need to spend for U.S. goods and services. Without tied aid, this surplus might be even larger. However, the present tied-aid policy can hardly be expected to reduce it as long as aid recipients can substitute imports under the tied-aid program for their normal U.S. purchases, and can then spend the free dollars they earn in ways that add to continental European reserves.

European investment income and net receipts of capital from other developing areas, on the other hand, dwarf its government aid programs. Even after spending the surplus of dollars they obtain directly from the United States, the less developed countries as a whole fail

to achieve a net surplus of imported resources from other developed countries as a group. In 1963, this resource deficit in their economic transactions with this group exceeded $1.5 billion.*

In these circumstances, a drastic reduction in U.S. aid programs would improve the U.S. balance of payments at the expense of fundamental long-range U.S. interests. Aid recipients would probably be deprived of resources by the full amount of the reduction. The political and social consequences would be damaging to the orderly evolution of their societies and thereby to the United States. For the repatriation of capital and the transfer home of income earned in less developed countries is a consequence of the dismantling of the colonial system and is likely to continue. A reduction in U.S. aid might reduce the profitability of investments owned by the citizens of former colonial powers, but it could also enhance the incentive to liquidate such investments and repatriate remaining capital. Not until the former colonies achieve stability in their internal and external relations—a stability that must be political as well as economic—can this movement of capital and earnings be expected to abate. If programmed stringently, a contraction of U.S. aid could reduce European exports to U.S. aid clients significantly more than U.S. exports. However, a large reduction in total aid is also likely to stimulate the transfer of funds from the developing country, so that total U.S. exports might be reduced by more than the contraction of the aid program. In any event, less aid is likely to mean increased social strain, shortages of needed foreign goods and services, and jeopardy to whatever progress was initiated with the help of past foreign aid. The United States may resent financing the cost of the liquidation of empire, but it must beware of the consequences of acting out of blind resentment.

A much happier solution would be increased European expenditures for foreign goods and services. None of the available measures to this end appears, however, to be acceptable to the European body politic. The suggestion that Europe provide the foreign-exchange costs associated with U.S. troop deployment presents a variety of problems. Abandonment of European protection of its farmers, however gradual, would increase purchases of lower-cost U.S. agricultural products, but it would also confront a host of seemingly insurmountable political and

* The resource deficit is here defined as the current account surplus customarily employed in balance-of-payments statistics, exclusive of investment income.

social obstacles. Higher wages or an appreciation of continental European exchange rates are other corrective methods that seem unacceptable to European governments.

Europeans would prefer that the United States itself take steps to eliminate its deficit, but the measures usually suggested are not attractive either to Americans or to other Europeans. Devaluation of the dollar flies in the face of a substantial U.S. surplus of exported goods, suggesting that its competitiveness on world markets is already high; higher U.S. interest rates have been largely negated by rising rates in Europe. Deflation appears as likely to reduce U.S. competitiveness, and thus give rise to longer term balance-of-payments difficulties, as it is to provide any immediate relief. Withdrawal of U.S. troops and stricter limitations on U.S. capital exports would be as objectionable to other European countries as it would be welcome to the French Government. The list of possibilities can be multiplied; it seems unlikely that any of them can become acceptable without creating more difficulties than they resolve.

Though the U.S. balance-of-payments problems may be eased by drawing upon one or more of the foregoing courses of action, the elimination of the U.S. payments deficit is difficult to foresee unless the loss of U.S. dollars to the less developed world is itself brought to an end. The changes that have taken place in the international economy since the halcyon days of the dollar shortage are unlikely to be reversed. The conditions under which Europe will once again need to earn dollars from the developing world in order to finance payments to the United States are not visible on the horizon. Indeed, it seems more likely that the United States itself needs to earn European foreign exchange in the less developed world, if it is to balance its international accounts. This could mean a violent disruption of the normal channels for international trade and payments. The channels are, however, in constant flux; the gradual introduction of suitable policies can shape the speed and direction of change without abnormally violent adjustments.

The constructive way to move toward such a balance in the U.S. foreign-exchange position with developing areas would be to increase the importation of U.S. goods and services into aid-receiving countries by about $1.5 billion a year, at present aid levels. The volume of paid U.S. exports then would rise as a result of substituting purchases in the United States for purchases in Europe.

If this seems brutal with respect to European interests and crass with respect to the use of U.S. aid, the alternatives must be considered. The United States cannot indefinitely support the present deficits in its balance of payments. If they continue, pressures to reduce U.S. aid will grow. Developing areas would then have to do with fewer imported goods and the decline in sales would be borne essentially by Europe. Europe could spend the dollars it now acquires on importing more goods and services from the rest of the world, but it appears to be unwilling to take the required policy measures. Under the present circumstances, its acquisition of dollars that originate in developed areas can only be cut off by reducing paid European exports. Moreover, the result can be brought about while still preserving the developing area market for the most competitive of European exports. Much of its exports to the developed world are based on extremely aggressive sales techniques, including the use of guarantied export credits and offers of government loans to those who will award contracts or make purchases over and above normal marketings. These devices gain business for Europe that is not necessarily competitive in terms of price and quality.

The first and perhaps the most effective step would be European adoption of the basic aid-programming technique employed by the United States—determining the amount of aid to be offered each developing country and permitting it to purchase any goods it needs from the aid-giver, including those that might otherwise be bought for cash. Aid could continue to be available only for the acquisition of the goods of the aid-giver. Present continental European practice confines the bulk of its aid to contracts awarded to its own citizens. Rarely are such awards based on an international competitive bidding process. With European consent, recipient countries could first call for bids, then award contracts to low bidders, and finance the contracts out of the predetermined aid level offered by the government of the low bidder. Under such a system, the United States would undoubtedly win more contract awards. Even more important advantages to developing nations and to the U.S. balance of payments might result if the former could pay with European aid funds for normal imports of manufactured and semi-finished goods.

A second major contribution would be the consolidation of existing indebtedness to other developed countries on the same repayment terms offered by the United States—in most cases forty years, with a ten-

year grace period before amortization payments begin, and a nominal interest rate. If such consolidation were extended to government-guaranteed exporter credits, the balance-of-payments position of many developing countries would be eased substantially, particularly those in Latin America.

Both of the foregoing measures would free a substantial amount of the foreign exchange earnings of developing nations for expenditure on a competitive basis. The United States would be likely to get some of the business, increasing its exports and raising its export surplus to a level more closely approximating the size of its aid program.

A third step would involve a reallocation of aid by the United States, on the one hand, and the other developed countries on the other. (The reallocation suggested in this paragraph is consistent with European views of its own longer run political and trading interests; see Chapter 12.) If more of their aid were offered to areas where the United States has a strong marketing position (Latin America, for example) and less were provided to countries where U.S. exports are nominal (Africa, for example), continental European exports would tend to be reduced and U.S. exports increased. Such a re-programming need not change the amount of aid received by any developing country from all donors, nor need it alter the size of the world-wide aid program conducted by any one donor. All that is required is a reallocation of intended donor aid programs among recipients. More aid to Africa (to compensate for reduced aid from continental Europe) would increase exports to that continent, where the United States still finds little interest in its export offerings. More European aid to Latin America, even though tied to Europe's own exports, would probably increase U.S. exports to Latin America, despite reduced aid to its neighbors to the south. A similar switch between Latin America and any of the twenty-three countries should produce similar results. Such results, of course, depend on European aid being available to finance its normal exports to the countries to which its aid is newly diverted by such re-programming. An important effect of the reallocation would be to bring the export surplus and the aid volume of individual donor countries closer into line.

Finally, of course, an increase in the total level of aid provided by continental Europe would have similar effects, again assuming that the increase can be used to pay for normal imports. So, too, would an increase in their share of the programs of the World Bank family or of

the Inter-American Bank. These institutions already award contracts on the basis of international competitive bidding. Presumably, the European share of the contract awards would be unaffected by an increase in the relative size of their financial contributions.

The advantages of such steps to European countries may seem even more obscure than the balance-of-payments problem itself, but they are nonetheless as real. Obviously, the existing situation is preferable to them. However, the proposals do little more than define the consequences of one way of reducing U.S. balance-of-payments deficits. Continental European countries would be foregoing, for a period, increases in exports to developing nations that have averaged about $300 million per year over the past decade, accounting for 10 per cent of the expansion in their global exports. By giving up such expansion in exports for a period, they would be easing the U.S. balance-of-payments problem, which in turn has become a problem for Europe.

Moreover, the consequential increase in U.S. exports to developing nations should contribute to renewing political support within the United States for its foreign aid programs. The continuation of U.S. aid is not a matter of minor importance for Europeans. It made possible both increases in their exports and the freedom with which they have been able to receive funds from former colonies. It has protected sources of raw materials that are of considerable importance to European prosperity. Perhaps more fundamentally, it has contributed heavily to such stability and security as has been achieved in the less developed world. Without U.S. aid programs, European interests would have suffered a serious set-back, whether political influence, valuable business relations, or security considerations be the criterion.

But perhaps the most compelling advantage is that such a step would forestall more damaging unilateral action to which the United States may be impelled out of concern about its balance-of-payments deficits. Where its aid program is predominant, the United States can insist that developing nations spend more of their foreign-exchange earnings on U.S. goods. It can do so by programming its own aid on the basis of additions to normal imports from the United States, requiring the aid-receiving country to buy from the United States as much as it could reasonably have been expected to purchase in the absence of an aid program. It can ask those developing nations that benefit from large amounts of U.S. aid to reject further European supplier's credits and to seek a deferment of payments on all existing indebtedness to such

suppliers. It is already under increasingly vigorous pressure from its own exporters to launch an indiscriminate government-guarantied export credit program of its own.

On the other hand, if aid can be administered so that it yields an equivalent increase in exports, the size of the program need no longer be limited by balance-of-payments considerations. In that event, the United States could well view an increase in the volume of its aid as desirable. If necessary, it could compensate with increased aid for such higher prices as the redirection of trade to U.S. sources of supply may impose on the aid-receiving country.

Such a unilateral approach by the United States is hardly calculated to produce optimal results. It involves the use of its aid program and its other international power to compel a major shift in trade away from competitive sources of supply. Compensating less developed countries for the resultant costs through expanded aid is a satisfactory device neither for promoting international economic cooperation nor for enlarging the interdependence upon which security and peace appear increasingly to depend. However, if a cooperative approach cannot be developed in harmony with its continental European allies, the United States may be compelled to such less desirable alternatives for protecting its international payments position. Such alternatives are preferable to a drastic curtailment in aid to developing nations.

Continued balance-of-payments deficits and continued loss of domestic support for foreign aid programs are both likely to push the United States to seek an increased share of import markets in the countries that seek its aid. Unless the deficits themselves can be otherwise eliminated, resistance to this pressure will be pointless and fruitless. From the standpoint of the needy nations, European dollar surplus countries, and the United States itself, an orderly and cooperative program to this end seems to be the preferable alternative.

10

Tactical Objectives in Developing Nations

Interdependence and the New Diplomacy

A modern Rip van Winkle, looking at international affairs after a twenty-year sleep, would probably be most struck by the enormous increase in the number of sovereign states and the variety of contacts among them. Together, they have caused a proliferation in the number and size of embassies. They have also swollen the employment rosters of the State Department and the international divisions of most other U.S. Government departments. Such phenomena are, however, but superficial manifestations of the expanded field in which contemporary intergovernmental relations operate. As for U.S. relations with developing nations, over the past two decades aid programs have become a major instrument in the New Diplomacy.

Veteran diplomats complain about the egregious inflation of their ancient craft. They decry the dissipation of the Old Diplomacy in the multifarious technical complexities of the New. This is, however, baying at the moon. For modern technology renders increasing interdependence inevitable, and interdependence itself requires regular and repeated international contacts.

Apart from a tiny affluent class, the citizenry of developing nations is particularly dependent on government to manage its needs in the outside world and to organize its interdependence. The middle class is small and relatively unsophisticated, and many of its problems require intergovernmental collaboration. Difficulties may concern traditional fishing rights or modern air landing rights, telecommunication frequencies or educational materials, seeds or soap, music or science, tourist travel or prices. In such matters, governments of less developed countries must play a large role in protecting and promoting the indi-

vidual and collective interests of their people. Inevitably, they seek to arrange their affairs with the United States through U.S. Government officials. Relatively minor officials on the U.S. side handle most of the business satisfactorily, with minimal reference to the formal machinery of the Old Diplomacy for resolving intergovernmental disputes. Neither U.S. ambassadors nor first secretaries of embassies are involved, certainly not cabinet officers.

A sizable foreign aid program increases both the variety and intimacy of such contacts. It requires a vast iceberg of relationships, largely submerged below the surface of newsworthy controversy or major policy differences. Moreover, this submerged part of the iceberg—the unpublicized working together to accomplish a constructive task—embodies the long-range importance of the foreign aid program and may also represent its major short-run contribution.

Concrete achievements depend on resources being imported and put to work within the recipient country. In the process, the two governments have to work together, thereby increasing their understanding and sensitivity to each other's values and problems. A degree of interdependence develops that transcends the specific operation at hand.

Such a substructure of interdependence thrives on prideful achievements and deteriorates when the programs patently fail in the eyes of one or both parties. If the recipient societies become successful, as have those in Western Europe, interdependence tends to be carried over long after the cessation of the foreign aid program—through a multitude of private connections either of a business, personal, or intergovernmental variety. Thus, headlined conflicts with the French Government currently overshadow a tremendously expanded network of day-to-day working relationships between the United States and France.

Even where the results are less dramatic or positive, the very experience of working together is likely to have lasting consequences. The network of interrelationships does not eliminate differences of interests, but it does improve the prospects for eventually resolving them in a mutually constructive fashion. A common interest is established through reconciliation, or at least by not exacerbating disagreements to the point where the total connection between the two societies is itself threatened.

Such a mass of relationships cannot escape constant differences of opinion and occasional disagreements of a more serious character. From time to time, their resolution requires the use of the more formal

channels of diplomacy. Conflicts may stem directly from the operations of the aid program or they may have no obvious relation to it. Even in the latter case, the substructure of the aid program plays a role. The precise ways in which it operates are both highly diverse and unpredictable. A former aid program trainee may become a cabinet officer, a key military figure, or a business leader. A Minister of Health, of Education, or of Public Works, heavily involved with the U.S. aid mission, may subsequently become the Prime Minister, or Foreign Minister, or an ambassador. Even if the individuals disappear from public life, the aid program is likely to leave an important heritage in the ministry concerned. Attitudes, motivations, and goodwill developed out of the aid relationship can and do contribute to the constructive resolution of conflicts.

By and large, the United States prefers to handle its problems with less developed nations through its embassies in their capitals, where the technicians and staffs of military and economic aid missions can be called upon. Responsible to the ambassador, the missions seek to maintain regular contact with bureaucracies and organized private groups at high and low levels and to understand local needs and habits. On the one hand, they must seek accommodation from public and private groups at home to the legitimate desires and requirements of the country in which they work. On the other, they must try to moderate demands and attitudes in the aided country while engendering a responsiveness to U.S. interests. If their work sometimes gives rise to problems that must be resolved at the diplomatic level, it should also facilitate a better settlement of the more traditional issues of the Old Diplomacy. In the years ahead, the basic U.S. interests discussed in the preceding chapters must rely heavily on the structure of interdependence erected by the New Diplomacy, particularly by aid missions and aid programs.

The Choice Among Priorities

If aid programs thus enlarge the areas of both interdependence and mutual understanding, the results nevertheless must be used in a purposeful and reasonable way if they are to have significance. Obviously, all issues cannot be resolved satisfactorily, the less so while the substructure of interdependence is still under construction and perhaps only very partially completed.

Some years ago, while Western Europe was still heavily dependent

on American aid, a European ambassador visited the U.S. Secretary of State. He reported that over the preceding two weeks, a dozen different requests for action by his government had been transmitted to one or another officer in his embassy by one or another U.S. official. All had been duly telegraphed home and a single message had been received in reply. In essence it read as follows: We cannot do all of these things; we want to do as many as possible; what are the priorities of the U.S. Government?

The preceding chapters sought to define the enduring interests of the United States in the less developed countries. Week by week, each of these interests unfolds in the form of specific actions that the U.S. Government would like to see taken, whether of an international or a domestic character. Nor is there any shortage of actions that developing nations solicit of the United States.

Overwhelmingly, the tactical interests of the United States concern its own international responsibilities and interests in the East-West struggle and the internal management of the less developed country. U.S. concerns about internal policies center on the aid recipient's progress toward viability and on the likelihood that its current actions will create a durable basis for congenial relationships with the United States. Just as overwhelmingly, the tactical interests of the developing nations concern their current economic needs or their desire for support in difficulties with neighbors.

The priorities fixed by the United States vary with each developing country. Moreover, they change over time, as the intensity of particular problems varies. Unless they are essentially whimsical, however, tactical priorities must be related to the structure of durable purposes. The long run is, after all, nothing more than a succession of short runs.

Moreover, tactical emphases must be adapted to the possible and the practicable. Any number of environmental conditions can preclude effective progress in the short run toward major U.S. goals, while less vital ones may be within the grasp of the aid program. Tactical preferences must thus be attuned to the more important long-range purposes that can realistically be advanced by appropriate management of current aid programs. They must also refrain from easing the way for recipient policy decisions that are incompatible with high priority U.S. goals. These principles can perhaps better be understood in the context of specific situations.

During 1965, the United States wanted the Government of Chile to

check the rate of inflation, support the establishment of an inter-American military force, oppose the admission of Red China to the United Nations, accelerate the reform of its tax-collection arrangements, and reach a workable agreement with its embattled U.S.–owned copper companies. The list is not exhaustive, but each of these steps was important to one or another basic U.S. interest. Each raised difficulties for the Chilean Government.

The Christian Democratic government had taken office in 1964 after a closely contested electoral victory over Communist-supported opposition. Its program had called for agricultural and tax reform, but also for re-examination of traditional Chilean acceptance of U.S. foreign policy leadership. It was representative of reform-minded opposition to the conservative oligarchy that had long controlled the country. Despite heavy concentration of U.S. aid funds in previous years, economic growth had averaged only 3 per cent a year and living costs had risen 45 per cent in 1963 and 39 per cent in 1964. Continued U.S. aid in substantial amounts was essential to the success of the new government's program for modernizing Chile through evolutionary processes.

U.S. officials undoubtedly pressed for all five points without any clear demonstration of its priorities. Chile abstained on the U.N. vote to seat Red China, the first time it had failed to add its vote to that of the United States and most of its Latin American neighbors in support of Taiwan's right to the Chinese seat. On the more critical question of whether the admission of Red China was sufficiently important to require the endorsement of two-thirds of the U.N. General Assembly, Chile joined with the United States in registering an affirmative vote. It reluctantly concurred in further OAS study of the inter-American military force. It has moved forward with tax reform as well as with the implementation of an agreement with the copper companies. During the first six months of 1965, tax collections were 26 per cent larger than in the same months of 1964, even after allowing for rising prices. Price increases were held to 25 per cent, a sharp reduction in the rate of inflation that had previously prevailed.

The aid program has also continued. U.S. aid commitments to Chile have totaled close to $150 million in each of the five years ending in June, 1965, an amount exceeding $15 per capita per year and equal to the rate of Marshall Plan assistance to Europe. The usual multitude of technical problems endemic to the administration of aid are being resolved in a reasonably constructive fashion. The government promises

to reduce the rate of inflation still further and to introduce further legislative and administrative reforms. It has already achieved a dramatic expansion in educational opportunities. The United States thus continues to subsidize the new Chilean Government as it did the previous one, in the hope that the present regime will move the country forward with greater vigor and effect. It also accepts less cooperative international behavior than had been forthcoming from previous governments.

It would be false to infer that the United States is either placing a lower priority on Chile's international behavior or gambling that a more viable society will eventually become more cooperative on international policy issues. Such apparent priorities have been established by the lack of more promising alternatives. Meanwhile, U.S. strategic interests in Chile's international behavior have not been wholly thwarted, nor have its aspirations for cooperative behavior on critical international issues that may arise in the future been precluded.

Brazil offers an example of judicious tactical use of foreign aid to promote U.S. strategic interests over a period of several years. By far the largest and most populous country in Latin America, Brazil is probably the most critical country to the success of the Alliance for Progress. Over the years, it has had a more persistent record of cooperation with U.S. foreign policy than most Latin countries. Yet at the time of the signing of the Charter of Punta del Este in mid-1961, Brazil was a highly uncertain quantity. Its Presidency had recently fallen into the hands of an unstable personality who threatened to reverse traditional Brazilian anti-Communism and staunch support for U.S. foreign policy. The Castro revolution in Cuba had struck strong responsive chords within the country; a pro-Communist peasant leader had managed to organize a considerable following in rural areas where 90 per cent of the landowners held but 20 per cent of the farm land. The Brazilian economy had recorded rapid growth over the years after World War II, despite an annual price inflation of some 25 per cent. However, this situation was in the process of being superseded by retarded economic growth and a truly runaway rise in prices. New U.S. commitments of $661-million worth of economic aid in 1961 reflected the government's alarm.

Prior to the Punta del Este Conference, the United States received reports that the Brazilian delegation had been ordered by the President to break up the Conference in an anti-*Yanqui* spirit. The U.S. delegation

stopped in Brasília en route to the Conference, was received by the Brazilian President and confronted with the suggestion that a $20 billion aid pledge to Latin America over a ten-year period was indispensable to the success of the Conference. In their preparatory work, U.S. officials had debated the advisability of a highly qualified offer of this very magnitude. The association of a specific promise of assistance with recipient commitments to undertake a major effort of their own had been the basic general formula of the Marshall Plan. To some, it seemed equally applicable to the Latin American situation. The Brazilian demand precipitated a decision to incorporate the $20 billion figure in the Charter. The decision, in turn, led to a highly constructive relationship between the U.S. and Brazilian delegations and contributed significantly, and perhaps critically, to the success of the Conference.

Nevertheless, the United States thereafter continued to find itself confronted by an unpredictable government and by predictably ruinous economic policies. It could have withheld all aid to Brazil pending the framing of a sensible program, attuned to the social as well as the economic reforms involved in the Charter. Or it could have continued a large aid program on the order of the 1961 commitment rate, hoping that a substantial inflow of additional resources would make it both politically practicable and desirable for the government to conform better to its obligations under the Alliance Charter.

In fact, the United States did neither. In the fall of 1961, the Agency for International Development came into being, with a newly appointed Administrator and a Coordinator for the Alliance for Progress. A new U.S. Ambassador was appointed who had considerable background in the uses of foreign aid as well as personal knowledge of Brazil. Aid was provided more selectively thereafter. The United States focused its attention on the Northeast of Brazil, scene of the heaviest concentration of population and the most abject poverty. In this area, a major food relief program was initiated, concentrating on child feeding, school lunches, and assistance to mothers and to the indigent. In 1962, the central government was persuaded to sign an agreement under which it joined the United States in providing funds to the long-neglected Northeast. The use of these funds was concentrated on projects that would demonstrate the concern of both the United States and the central government for the basic human needs of the populace—education and potable water supplies as well as food relief. Elsewhere, individual construction projects were financed, notably in the State of

Guanabara, whose governor was unhappy with the policies of the central government. Aid administration was artfully designed to demonstrate a U.S. desire both to help improve the lot of the most deprived Brazilians and to disassociate itself as much as possible from the less responsible acts of the central government.

When the President resigned in displeasure at his inability to gain the cooperation of the Brazilian Parliament, he was succeeded by a demagogic figure whose political career was based in part on the support of the outlawed but nonetheless active Communist Party. His period in office saw an even more conscious use of the central treasury to strengthen his position, financing public works in states controlled by friendly governors and permitting a liberal distribution of public funds to his supporters. Anti-Americanism was not discouraged. Some well-publicized expropriations of U.S. investors took place, and cooperation on international problems deteriorated. U.S.–Brazilian relations fluctuated from good to bad, depending on the tides of the continuing domestic struggle for power.

As inflation accelerated, private capital fled the country. Foreign exchange became increasingly scarce and the need for additional imports became more pressing. The Brazilian Finance Minister came to Washington in 1963 to seek a substantial addition to the foreign aid program. The so-called Dantas-Bell agreement promised aid in return for Brazilian adoption of a strict anti-inflation program, including specific measures to reduce the government's cash deficit, to reform tax collection, and to tighten control of the money supply. Aid funds were to be released as and when the program was implemented. It was specifically agreed that they should be withheld if the Brazilian side of the agreement were not forcefully implemented. The agreement initialed in Washington was never formally accepted by the Goulart government and most of the promised funds were not forthcoming. Throughout this period, funds were deliberately withheld from programs that might have helped the government's budget. New U.S. aid commitments totaled $185 million in 1962, $171 million in 1963. Toward the end of the Goulart regime, U.S. aid was almost exclusively confined to "areas of sane administration" within the country. In some states, older U.S. aid proposals were held up by Brazilian officials who were antagonistic to the aims of the Alliance.

Continued inflation, increasingly insistent foreign creditors, and the growing shortage of imported goods provided the backdrop for a revolu-

tion that saw the President forcefully deposed and succeeded by a conservative military junta. The immediate causes of the revolt were internal to Brazil. Military leaders were agitated by an apparent government effort to organize the sergeants against them. Moderate and conservative elements of the country were aroused by the government's fiscal and political irresponsibility.

The disregard for constitutional procedures and the extreme acts of political repression that followed the revolt were not pleasing to the United States. They were hardly consistent with its goals of political development and responsible government. In other respects, however, the new government was clearly preferable to its two predecessors. Accordingly, over $.5 billion of U.S. bilateral funds were committed to Brazil during the calendar year 1964. Multilateral institutions were successfully encouraged to supplement this sum. Moreover, assistance was given in consolidating the heavy indebtedness to both European and U.S. creditors. New loans helped to pay some old bills, finance an increased flow of imports, and initiate new investment projects. For its part, the Brazilian Government undertook an energetic program to restrict inflation and introduce new incentives for investment in sensible long-range projects. Its program included tax, land, and social reform, though it moved cautiously. Once again the Brazilian Government joined hands with the United States on inter-American political issues and on other foreign policy problems.

By the end of 1965, economic growth on a more stable basis had reappeared. The government then began to turn more attention to land and tax reform. Its political base remained weak, however. An earlier promise of free elections for a new President was amended to confine the election to the Parliament, where an existing conservative majority could be counted upon to continue the existing regime.

Obviously, factors other than foreign aid were at work in the Brazilian situation. The motivating forces and the principal actors in these events were certainly Brazilian. Nevertheless, skillful administration of U.S. aid did help. Had aid been extended without restraint prior to the 1964 revolt, it would have made a mockery of the principles of the Alliance throughout Latin America and might have discouraged the opposition within Brazil. Complete termination of aid, on the other hand, would have given the Brazilian Government a nationalist issue to use in rallying popular support. After the revolt, to have refused a major aid program would have undermined the new government that took office

at a moment when the economic conditions inherited from its predecessor were approaching the intolerable. A better alternative to the military regime was not apparent. Much of its behavior was constructive and congenial, nor was it immune from influence concerning a broad range of policies.

The United States thus had to subordinate its political-development and social-reform priorities for a time. Yet it must remain uneasy about the continued longevity of the present government and hence about the stability of its renewed close ties with Brazil. A sound political structure can hardly be built unless the regime becomes more responsive to popular grievances, pursues programs of social welfare and reform more vigorously, and enlists more widespread participation in decision-making. Close ties with Brazil can be hazardous to U.S. interests if the government fails to construct a solid political base for itself. Its violent downfall could be followed by a new period of anti-Americanism. Moreover, since Brazil's foreign-exchange reserves have been rebuilt and its foreign credit restored, the foreign aid program becomes a much less effective device for restraining disruptive international behavior than was true in the Quadros-Goulart era.

If Brazil illustrates the problems of selecting objectives, it also demonstrates how tactical priorities tend to be determined by the limited availability of practical alternatives. Yet without a structured set of objectives, no benchmarks exist against which decisions can be made and revised as circumstances require or permit. If Brazil does in fact become a viable society over the next two decades, the aid program will deserve much credit. Not only has the volume of resources supplied been important; under prevailing conditions aid has been applied and managed with considerable dexterity to encourage policies consistent with the variety and priority of U.S. interests.

Divergence, Congruence, and Conflict of Interests

It would be as surprising to find that U.S. interests always coincide with those of developing countries as to discover that they are forever irreconcilable. For good (if not sufficient) reasons, the U.S. Government has tended to stress the identity of interests and to omit discussion of divergences. By playing down conflicts of interest, it is hoped that cooperation in the pursuit of common objectives will be facilitated. A U.S. policy that asserts the egocentricity of its motives has been

considered likely to stimulate caution and induce reserve, if not hostility.

Yet the reiteration of altruistic purpose is itself a source of suspicion. Europeans liked to believe that they were rendering a service to the American economy by accepting Marshall Plan assistance. Less developed countries, particularly those newly experiencing independence, or with unpleasant memories of foreign intervention, tend to pry even more deeply for hidden motives when the United States proclaims the disinterestedness of its purposes. This is particularly true when such professions are accompanied by policy advice or requests for action that are contrary to, or at least different from, the views of the less developed country itself.

On the other hand, avowals of interested motives for aid seldom stir resentment, even though they provide grossly inadequate clues to basic U.S. purposes. The Congressional Record has published embarrassingly explicit descriptions of aid as a method for acquiring inexpensive manpower for U.S. defense or for finding outlets for price-depressing agricultural surpluses. Such explanations are treated by recipient governments with understanding and a lack of rancor, for these are all credible motives that governments of nation-states recognize and accept. They may know they would have had to buy the food in any event, were it not available under the aid programs. They may know that their armed forces would be no less numerous without U.S. military assistance. Yet the definition by the United States of a tangible contribution on their part makes aid a more understandable and a more acceptable transaction.

This desire for an explicit reciprocal obligation may also lead to a preference for loans, however subsidized and "soft" the terms of repayment and however remote the prospect of any repayment unless financed by further aid. Thus, in the 1950's, Morocco was quite insistent on receiving U.S. aid as a loan rather than a grant, though such aid was intimately related to U.S. military-base rights. India has repeatedly expressed its preference for loans. In both cases, provision for reimbursement was at least as important to the recipient as to the donor. To the former, the obligation to repay with interest emphasized the reciprocal nature of the aid transaction. Yet it was perfectly obvious to both that the U.S. purpose in making the loans was not to earn interest on its tax revenues.

Divergent purposes of donor and recipient thus raise few problems if they can be translated into mutually acceptable reciprocal obligations. It is where major interests are in direct conflict that difficulties may arise. However, so much aid has been extended for so many years through intergovernmental agreement that the problem must be fairly manageable. Donors and recipients can and have found a sufficient common interest in the aid process to warrant the reconciliation of conflicts, at least to an extent that permits the aid programs to continue. Such reconciliation is both the function of diplomacy and the basis for commercial transactions. The management of a foreign aid program partakes of both commercial and diplomatic enterprise. In a sale, the buyer would rather have the goods than keep his money at the price, and the seller would rather have the money than the goods at the same price. Nor is it unreasonable for the prospective purchaser to speculate about hidden motives if a seller offers to make an unrestricted gift of his merchandise; so, too, the recipient of aid. Both partners may well be better satisfied if the seller states the full price he seeks. The buyer can then decide to make the purchase or reject it unless the seller is willing to improve his terms. If he buys, he feels free of any other obligation.

U.S. interests have elements of both compatibility and conflict with those asserted by the developing nations. The latter do not want to be engulfed by the expansionist aspirations of the Communist world. However, they tend to be less concerned than the United States with the success or failure of Communist groups elsewhere. This is partly due to a preoccupation with problems within their own borders or on the edge of them. In part, they fear becoming a more intensive object of Communist "liberation" attention. Many would rather benefit from both sides of the East-West conflict.

Countries that feel directly threatened are less reluctant to join openly in support of a U.S. containment policy. Taiwan, South Korea, Guatemala, and Nicaragua come readily to mind. At one time, Turkey and Pakistan fell into this category. More recently, these two countries have been engaged in mending fences with Communist powers, largely as a result of acute conflicts with neighbors in the course of which they were denied full U.S. support. Yet neither country desires an increase in Communist strength, whether within its own borders or anywhere else.

On three successive days in June of 1965, *The New York Times*

carried statements by leaders of three less developed countries, none of them committed to the U.S. containment policy. In the June 2 issue, President Kenyatta of Kenya asserted that "there was no place for Communism in the country. It represents no less a threat to the freedom of Africans than did imperialism in its heyday." The following day, the paper carried a letter from Prince Sihanouk of Cambodia, stating that he well knew what fate the independence of his country would meet if U.S. power were removed from Southeast Asia. On the third day, the paper recounted that President Nyerere of Tanzania had spoken bluntly in the presence of the visiting leader of Red China about the unwillingness of his country to jeopardize its institutions in return for the aid or the blandishments of his visitors.

Nevertheless, the number of less developed countries willing to fight by the side of the United States against Communist aggression in other lands is small and their ranks are thinning. The list of those that would deny their own land to Communist control, however, is as long as ever. A common interest does therefore exist. It is reflected in the expanding number of countries that have welcomed increased U.S. assistance in training local police forces and gendarmes to handle civil disturbances.

A common interest in evolutionary progress toward viable societies is also readily identifiable. The interest of the less developed country is obvious; the interest of the United States was developed at length in Chapter 6. However, differences do arise about the priority of one or another ingredient of viability or about the suitability or efficacy of one or another policy designed to promote it. It is such disagreements that should constitute most of the day-to-day business of aid diplomacy.

The most difficult conflict of interest between the United States as a donor and its aid clientele centers on disputes with neighbors. Some conflicts also persist about the rapidly diminishing colonial possessions of other developed countries. In these cases, the United States inevitably seeks accommodation and peaceful solutions from both sides. The less developed countries seek to gain their own ends and may indeed regard their goals as essential to the internal cohesion of their nation.

Whether the donor-donee conflict concerns the preferred road to viability or the resolution of the recipient's international disputes, aid can be used to induce greater attention to U.S. views. It is in these areas that the tactical use of aid may have a critical role to play. Where there is a recognized harmony of interests or an acceptable divergence of interest, aid may facilitate progress but scarcely needs to be em-

ployed to obtain specific policy behavior. It is in the presence of conflicting interests or disagreement about the proper way to advance common objectives that aid can appropriately be used to serve the purpose and judgment of the aid-giver.

Limitations on the Tactical Use of Aid

The most obvious limitation on the tactical use of aid is the adverse impact of withholding it on the recipient, on the society as well as the government in power. Where aid finances a large proportion of the country's imports, the government would be seriously threatened by its suspension. Where such programs provide a large fraction of the total budgetary resources of the government, as in Laos, Vietnam, or Jordan, cessation would mean that the government could not meet its bills; the overthrow of President Diem in Vietnam was probably accelerated by a more stringent administration of aid. In such countries as Turkey, India, and Pakistan, U.S. aid finances so large a fraction of total imports that a drastic revision in the economic life of the country would be required if U.S. aid-financed goods were long withheld from the stream of its imports.

Confronted by a sharp decline in supplies of imported goods as well as government revenues, an aid-receiving government must choose between yielding to the donor's policy views or facing domestic difficulties. In 1965, the U.A.R. decided to accommodate its policy rather than accept the economic consequences of defiance. Less dependent on aid, the Indonesian Government picked the opposite course in 1963. Whether growing economic difficulties that promised soon to get out of hand precipitated the Communist power play of 1965 will remain a matter for speculation. However, Indonesian Communists were able to strengthen their position for a while by stirring nationalist emotions against both Malaysia and the West; they made a political virtue out of the government's defiance and rejection of any aid linked to restraint of Indonesia's aggressive foreign policy. As economic difficulties grew, the force of the nationalist appeals appeared to diminish. The Communists may well have sought to increase their power while their political appeal was at its peak. The successor government has been pressed by public demonstrations to devote itself to resolving the country's economic difficulties rather than furthering the foreign policy objectives of its predecessor.

These two cases indicate the risks inherent in a decision to cut off

an aid program that contributes significantly to the economy of the receiving country. The government may be able to exploit the cutoff to increase its own support and to move even further away from a pattern of policy behavior congenial to the donor. Indeed, it must be assumed that estrangement will increase as an immediate consequence. The donor must also assume either that the government will eventually fall or that it will be so weakened as to become incapable of carrying out its policy intentions.

The weakening of a government that is unresponsive, if not antagonistic, will suit the donor's purposes only if happier alternatives are available. If a sophisticated political structure exists, with opposition parties or groups whose views are known, the risks can be assessed with some confidence. Such structures, however, are notably lacking in most less developed countries. The overthrow of a government may well produce an even less congenial situation. It is precisely such uncertainties that make the U.S. Government so reluctant to withdraw its aid even from governments whose policies are uncooperative.

The hope always exists that continued aid will change attitudes over time. Few governments are so monolithic in structure that they lack powerful forces of dissent. The dissidents may see the merit of the donor's views, or at least the merit of being responsive to its interests in order to clear the way for a more generous aid program. Skillful direction of the aid program can encourage and strengthen such groups and may eventually help them come into the ascendancy.

In the meantime, the continuation of aid to uncooperative governments invites criticism of the aid program from the public and the Congress. It is rare to find situations in which U.S. interests would be better served by withholding aid for a prolonged period of time, but the executive branch has been extremely reluctant to face them when they do arise. It may well exaggerate the possibility of changing the behavior of an antagonistic government by continuing the aid program. However, it is also true that critics exaggerate the effectiveness of cutting off aid as a means of either compelling better policies or producing a better government.

The wisdom of a sterner U.S. aid policy is also complicated by the diversity of U.S. interests. The government of Pakistan has been pursuing domestic policies that give much promise of progress toward economic growth, responsiveness to internal social grievances, and political development. Its domestic political and economic policies do appear

to represent a reasonable adaptation of basic U.S. values and institutions to its own situation. Its policies toward both India and China, however, have given rise to considerable concern. The withholding of U.S. participation in the consortium meeting of June, 1965, in order to press U.S. concerns about the expansion of China's role in Asia, damaged Pakistan's progress toward viability.

There are other cases—Korea and Turkey in the late 1950's and Paraguay and Guatemala in the 1960's—where U.S. aid has been continued to governments whose foreign policies are congenial though their domestic behavior seems unlikely to promote viability. In the first two cases, U.S. patience did eventually pay off, as more responsive governments took over the reins of power.

Clearly the risks of withdrawing aid and the opportunities inherent in its continuation are considerable. The United States must continue to act with restraint before the temptation to eliminate largesse to less developed societies whose authorities either abuse it or are unresponsive to U.S. interests. The withdrawal of aid should obviously be reserved for the most important departures from desired policy behavior. It is rare that a vote in the United Nations decisively affects basic U.S. interests, irritating and unpleasant as it may be to see a heavily dependent country vote contrary to U.S. concerns. Much the same is true for most individual economic-policy decisions. A considerable degree of dissent can be tolerated without fundamental damage. Frequently other ways can be found to salvage U.S. objectives. Unfavorable decisions can be blunted or subsequently overturned before the particular interest has been irretrievably impaired. It is not the absence of dissent that characterizes basic U.S. interests. It is the preservation of opportunities for progress toward fundamental U.S. objectives.

U.S. interests do not lie in requiring conformity with each and every one of its views. Abroad no less than at home, pluralism and diversity do not threaten a democratic tradition. Rather, they enrich and nourish it. At the same time, the United States seeks a world of viable societies in which hostilities are minimized, whether of attitude or action. The tactical use of aid cannot assure conformity to U.S. views and interests on the whole host of issues that continually arise between nations. It is neither necessary that it succeed in doing so nor wise to make the attempt.

Were aid to be used to compel acquiescence at every turn, it would fail completely. To impose decisions on reluctant and resentful societies

abroad is to pursue a course that will inevitably be self-defeating because it nurtures hostility against the United States. Moreover, such use of aid may render it unavailable or ineffective when truly critical values and interests are at stake. Yet there are situations where U.S. interests require the contraction or the suspension of aid, with all the attendant risks, in order to underline the seriousness of the aid recipient's behavior on a matter of high moment. What is required is a well considered structure of priorities and conscientious judgment about the wisdom and efficacy of using aid to further priority interests.

That aid has limitations as a tactical instrument scarcely means that it should not be used. On the contrary, it is a congenial pattern of current behavior on the part of aid-receiving governments that warrants and sustains domestic support for the program. Aid can and must be employed purposefully in behalf of U.S. interests. Moreover, recipient societies expect it to be so used, though they will resist whenever they fail to identify their own interests with that of the U.S. on the specific issue. The limits on the effectiveness of a tactical use of aid require only that it be associated with attainable objectives and with high-priority U.S. purposes.

If aid fails to elicit more acceptable internal and external policies from receiving governments, it will be robbed of much of its justification. On the other hand, if its objectives are premature or impractical, it will be neither successful nor supported. To prevail and endure, power needs to be used wisely and selectively. As an instrument of U.S. power in the modern world, foreign aid must obey its maxims.

IV

Aid Policy Issues and U.S. Interests

The author has so far stopped short of formulating recommendations. Only in a few cases where they seemed particularly pertinent have operational conclusions been explicitly stated. The remaining chapters deal with policy problems. The issues are numerous, though few of them arouse public passions and those that do generally recede quickly from view. All involve questions that can readily be exposed to lay judgment.

The durable interests and tactical objectives developed in the preceding chapters provide the focus for this review. The policy issues are discussed in the following six chapters. For the most part, the topical headings within each chapter define matters of controversy. Each is treated in an essay that attempts to convey the essence of the principal arguments of advocates and critics. While seeking to do justice to contrary views, the essays contain the author's own recommendations.

In the author's mind, his conclusions flow reasonably from the values and limitations of foreign aid programs as they were analyzed in the preceding chapters. On the basis of his own experience, he considers them to be practicable and negotiable, as well as logical. Yet experience also suggests that once accepted in principle, changed policies can be introduced only after coping with a host of difficulties and after much experimentation and many compromises. Fact and reason are not the sole determinants of behavior, either in the halls of Congress, in intergovernmental forums, or within the interstices of national bureaucracies. Yet in the long run, they remain the mainsprings

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for better policies, as they are also the pride of the democratic policy-making process.

Readers who find the recommendations compelling should therefore not be put off by the practical difficulties adduced by those who resist change. It is in the nature of governmental experts, and perhaps it is their legitimate function, to explain the problems and uncertainties in altered policies. Yet they are also remarkably adept at making new policy decisions work. With time and effort, practical problems can be overcome if the desire and will exist to demand their resolution.

However, the fundamental obstacle to better aid policies does not lie in technical, administrative, or legislative difficulties. It is in the continued reluctance of the West to assume responsibility for helping with the problems of developing nations. It is in the lack of commitment, by other developed countries as well as by the United States, by private circles as well as by governments.

The search for resources and solutions to problems suffers from lack of priority attention and from the absence of a sense of urgency. Yet all developed countries have an abiding interest in their own peace and security, in minimizing international conflicts into which they may be drawn, in containing the expansion of hostile societies, and in strengthening congenial institutions within wavering states. These concerns all point to much more pressing involvement in the less developed world. It is in the poorer nations that the international tides of conflicting interests and values ebb and flow the farthest. It is there that the turbulent waters of international conflict are apt to be most amenable to control and channeling before they reach the flood stage. There the demonstrated capacity of the United States and of other industrialized nations to produce goods and services and to organize progressive societies can contribute both to the betterment of the local populations and to the security of the donors themselves. Results will be neither quick nor easy, nor even always positive. Without commitment, and the consequential better aid programs and better aid-giving arrangements, the results will assuredly be meager.

The acceptability of the policy suggestions that follow therefore depends in large measure on a heightened perception of both the needs of the developing areas and the opportunities they afford to the affluent West. New policies and procedures, sufficient to these needs and opportunities, presume above all a willingness to accept responsibility more forthrightly and to subscribe to a more profound commitment of persons as well as resources.

11

The Conditions for Extending Aid

Conditions or Influence?

Enough has been said about exacting conditions and requiring adequate "self-help" before aid is granted to create the impression that each aid-giving decision is the product of an extended argument. It would appear that the United States lays down certain conditions to be met by the recipient before each new aid commitment is made. The amount of aid and the precise conditions are presumably subject to negotiation and compromise, though the impression is sometimes given that the recipient has very little leverage in such bargaining.

The U.S. position seems both obvious and uncomplicated. Countries that refuse to take action sought by the United States can be denied aid, or their aid can be reduced, or decisions to provide more aid can be delayed until the desired action is taken. Sometimes a "carrot" approach is suggested, in which a needy country would be offered additional aid if it agrees to particularly onerous conditions.

In such a picture, the aid-receiving government appears as a humiliated supplicant, prevented from wrongdoing only by the power of the aid-giver. The aid donor is represented as having to approach clients with the attitude of a small loan shark, properly suspicious of chicanery and constantly preaching virtuous conduct. It is easy to conclude that such conditions and negotiations can only exact the demanded behavior from penurious governments at the expense of their self-respect and dignity. If the foregoing picture is somewhat overdrawn, it is less so than the conduct implicit in the self-help liturgy and the castigations of the donor-recipient relationship.

If these were the normal conditions, it should be expected that "Yankee, Go Home" signs would be the inevitable product of a bilateral aid program. If the United States were as arrogant and sanctimonious,

or less developed governments as ignorant and indifferent to the best interests of their people, as the self-help literature implies, the negotiations would indeed be acrimonious. If recipients were compelled to surrender sovereign rights as abjectly as Communist propaganda suggests, the U.S. presence would be highly unwelcome in less developed lands, and U.S. aid would be spurned by recipients at the earliest opportunity. That this is rarely the case should sound a note of caution about the "conditions" doctrine.

Acrimony and Aid-Giving

Fortunately, the foregoing simplifications fail to reflect what usually happens, or indeed what can happen. A credible threat to deny aid or an offer to increase it can be applied only where the United States attaches an overriding priority to a particular action or series of actions, sees no other way to achieve its ends, and is prepared to accept adverse consequences for other interests. Such circumstances are unusual, not typical.

The carrot and stick techniques have not been used regularly and cavalierly, because neither necessity nor wisdom call for them as a rule. Accordingly, the supposed accumulation of resentment by aid recipients, smarting under the abuse of American economic power, is rare.

Where anti-American demonstrations have occurred and U.S. diplomatic relations with developing countries have deteriorated, the explanation does not lie in the conditions sought in return for aid. They reflect antagonism to U.S. views and behavior in the more traditional spheres of foreign policy, an antagonism that has been the traditional fate of world powers, whether or not they were conducting foreign aid programs. Rather, the programs should be regarded in large measure as a technique for mitigating this normal resistance to predominance and leadership.

In large part, U.S. difficulties with developing nations reflect a reluctance to support their foreign aspirations. Presumed U.S. encouragement to the antagonistic neighbors of Cambodia, India, or Pakistan, as well as endorsement of the territorial integrity of Malaysia and Israel, have drawn well-publicized attacks from neighboring countries. Demonstrations have also been provoked by policies that the U.S. Government considered essential to its defense against Communist aggression, such as nuclear testing, the Bay of Pigs invasion, and

military action in South Vietnam and the Dominican Republic. Opposition has been registered both to U.S. intervention in other weak countries and to its failure to intervene on the side of the protesting country. Resentment has sometimes been provoked by unwillingness to intervene at all—in Angola, or South Africa, or Southern Rhodesia. None of these episodes was related to the conditions exacted in return for foreign aid. Rather, it is the foreign policy of the United States—or, perhaps, its role as the principal power outside the Communist community—that is responsible for deteriorated relations with some developing nations.

Indeed, foreign aid has probably been used to buttress U.S. interests abroad less frequently than developing nations anticipated. At any rate, resentment against its use in this fashion seems much less widespread than antagonism to the foreign policy itself. The use of power to support interests and policies is an ancient tradition of international affairs that is accepted by most participants. The right of sovereign powers to register their views and, as best they can, to act in accordance with them, is equally well established. Resentment seldom plays a large role in what is a traditional—in what is a reasonable exercise of sovereign rights by both donors and recipients.

Thus, at a moment of high drama and pathos near the conclusion of the Punta del Este Conference, Che Guevara, the Cuban delegate, sought to take credit for the U.S. promise of a much expanded aid program to the rest of Latin America. In effect, he said that had it not been for the threat posed by Castro's Cuba, the United States would scarcely have been so generous. Many of the delegates unquestionably agreed. However, Guevara stopped well short of counseling the Latin countries to reject American aid, though at the time some of the governments had serious reservations about this country's policy toward Cuba. During the conference, public demonstrations in the host country, Uruguay, caused the government to demand and receive a specific pledge of aid in return for signing the Charter. Nevertheless, the delegates who accepted Guevara's diagnosis did not seem to be particularly perturbed by either the stated or the implied conditions surrounding the offer of aid.

There are no instances of a U.S. aid mission's being asked to pack its bags because of the conditions demanded in return for the continuation of the program. Technical conditions concerning the use of aid resources constantly lead to much muttering and grumbling. In a

few cases—Burma, Cambodia, and Indonesia—countries have asked the United States to terminate a modest aid program because of displeasure with its foreign policy, not because of difficulties in concluding aid negotiations.

Aid programs in Haiti and Ceylon were terminated by the United States after a protracted but unsuccessful effort to induce the recipient governments to meet essential conditions. Haiti refused to permit close supervision of the use of funds, and Ceylon failed to arrange payment for expropriated American property. In neither case did the termination lead to outrage and deep-seated hostility. Both governments were unwilling to take the measures requested, whether as a matter of principle or as incommensurate with the value of the proposed aid. In Ceylon, a change of government led to the satisfaction of U.S. requirements for the resumption of aid. The Haiti government would still welcome a U.S. program if standards for the management of funds were relaxed.

Critics have difficulty in citing many instances where the power implicit in aid-giving has been employed crudely and abused to the point of creating great animosity toward the United States. The Aswan Dam decision of 1956 has been belabored in this connection, perhaps because of the paucity of further examples. A more legitimate criticism is that the power has not been used in some situations where substantial amounts of aid have been provided, despite adverse recipient behavior on matters of internal or external policy of considerable importance. India, Ghana, Yugoslavia, Indonesia, and the U.A.R. provide important examples from a brief period in the early 1960's. Some aid commitments, during the same period, to Chile, Brazil, Colombia, and Argentina might well be added to the list. In many other cases, the aid programs have not been large or important enough to command much influence over the recipient's policies.

If the aid programs have not produced "Yankee, Go Home" reactions, the essential explanation is that the aid relationship is one of gradually increasing interdependence and constant mutual accommodation. Seldom are nonnegotiable ultimatums issued from either side. The flow of aid is not like a faucet that is turned on and off at regular intervals, with a new fee exacted every time that the faucet is opened. It more closely resembles a river that flows continuously, though its level may be regulated by a series of dams. Used in this way, the aid program can serve U.S. interests without stirring fundamental resentments.

Where the programs are large enough and the relationship between aid and U.S. interests is established and understood, a process of mutual accommodation must operate. The process should parallel the regulation of the level of the aid stream, though without direct linkages in time. The material contributions should overshadow resentments that are normal accompaniments to compromises. Both sides should gain sufficient benefits to make the continuing relationship worthwhile.

Limiting Aid Conditions

Understanding how aid can best be used to affect the policies of the recipient begins with the ways in which the flow of the aid stream is sustained. The imposition of important policy conditions in return for each new decision to extend additional aid must be highly circumscribed by the very nature of this aid-giving process.

Once a U.S. aid program is initiated, a flow of resources is set in motion. Technicians, advisers, and aid administrators are sent to the recipient country; contracts are let; goods are ordered, shipped, and introduced into the economy of the receiving country. As the goods are sold, local currencies are received by the government of the country. The flow of resources being sought, ordered, produced, and transported resembles the contents of a pipeline. The pipeline must be refilled periodically lest the flow eventually cease. Yet delays are unlikely to affect the outflow of resources at its mouth for some time to come. Thus, several years after aid to Haiti and Ceylon had been terminated, each was still benefiting from bills paid by the U.S. Treasury to the extent of several million dollars a year. What is vital to the recipient is this disgorgement at the mouth of the stream, not changes in the level.

As a rule, the replenishment of the aid stream should not be the occasion for demanding changes in important recipient policies, whether domestic or foreign. Conditions in the form of major policy demands in return for new aid commitments can only be applied effectively to a restricted number of issues. While such conditions must be exacted in extreme cases where matters of high moment are involved, they must also be imposed sparingly. U.S. interests relate to a very broad range of recipient policy behavior and are likely to be better served by the continuous exercise of less formal influence than by the overt imposition of specific conditions necessarily limited to a few items.

New injections of aid into a pipeline already containing a substantial volume of resources do require some formal negotiations. However,

it is only narrow technical concerns that must be resolved. Broad internal and external policies are not an essential part of these discussions. Therefore, both parties usually prefer that problems not directly associated with the use of the aid should be kept apart from the aid negotiations. Technical issues concerning the new aid commitment are difficult enough. Such conditions must be exacted each time additional funds are injected into the pipeline.

For example, replenishment of a Food for Peace program will involve negotiations about matters such as the kinds of food to be supplied, the amounts to be sold for local currency or distributed through relief programs and work projects, and the uses of the local currency. A new project loan under the authority of the Export-Import Bank or the AID development-lending program may involve discussions about the technical and economic feasibility of the proposed project, the funding of local currency costs, the terms of repayment, provisions for managing and training skilled personnel, the price to be charged for the service or goods to be produced under the project, and arrangements for marketing the resultant production. A new technical-assistance project may entail negotiations about the contributions of personnel and local currency costs by the recipient government, the numbers of U.S. technicians to be supplied and local personnel to be sent abroad for training, and the selection of a U.S. university to execute the project. The extension of a military-assistance program may require the negotiation of such matters as the mission of the particular military units to be trained and supplied with new equipment, the kind and quantity of matériel to be furnished, the number of personnel to be sent to the United States for training, the contributions to be made out of the country's own defense budget, and provision for maintaining and replacing the equipment to be supplied.

Such matters must be negotiated to assure the proper use of specific resources contributed by the United States, as well as to comply with the legislative directives and conditions that limit the authority of the executive branch to inject additional resources into the pipeline. All too often, the negotiation of technical matters has become so absorbing that the aid missions, the recipient government, or both, have lost sight of broader interests. The technical conditions must be fulfilled in order to permit support and make it effective; their satisfaction is not the purpose of the aid-giving.

The need to replenish the pipeline nevertheless provides an occasion

to call attention to broader U.S. interests that may not have received adequate consideration by the aid-receiving government. The larger the amounts in relation to the government budget or the supply of foreign exchange, the greater the incentive to conclude the negotiations affirmatively. The more eager and needy the recipient, the more likely will be respect for any donor interests that may interfere with the prompt commitment of the funds. However, only under special circumstances does formal negotiation concerning broad policy conditions that are not directly relevant to the specific use of the proposed aid become appropriate at that time. It should be regarded as an exceptional device, to be employed when the influence potential of the aid program has broken down.

Expanding the scope of aid-renewal negotiations to include major policy issues of a general character is symptomatic of failure of one sort or another. The recipient government may have failed to understand the importance attached to the issue by the United States. It may have failed to comprehend the intimacy of the relationship between the aid decisions it seeks and its own policy behavior. Or the failure may be attributable to U.S. insensitivity to the limitations within which the recipient government functions. It has been the experience that few governments or individual ministers will compromise strongly held views about the basic interests of their country in order to obtain aid. Rarely can decisions be elicited if the recipient government believes that its tenure in office would be threatened thereby.

Moreover, for the most part, the broader U.S. interests in specific action or inaction by the receiving government seldom arise in proper phase with the exigencies of the timetable for replenishing or enlarging the aid pipeline. Major aid-giving decisions are compressed between the completion of the Congressional appropriations process and the end of the U.S. fiscal year, a seven- or eight-month period. Recipient governments have their own cycles for proposing and adopting government budgets and legislation. Nor do international meetings on major policy problems and foreign policy crises conform to the U.S. aid-giving season. Thus U.S. interests in general policy decisions are better resolved separately to accord with the timing of the problem at hand. Only if such resolution has been impossible, or has been impossibly unsatisfactory, should the issue be injected directly into the aid negotiations.

When aid is thus conditioned, the donor must be aware that he has

used a tool that deteriorates rapidly with employment. It can only be used with effect by drawing heavily on an existing reservoir of influence. Much of the intimate relationship previously developed will be impaired; the value of the tool will be vitiated.

However, the fundamental reason for avoiding general policy conditions is that the continued life of the aid program and the aid relationship is brought to formal issue. Seldom is an indefinite suspension of further aid preferable, for either side, to compromise and resolution of differences. The termination or sharp reduction in aid flows serves the long-term interests of neither the United States nor the recipient country, unless it reflects a genuine decline in the latter's need for help from abroad. Whenever such action is the result of acute displeasure with the behavior of the recipient, the donor is likely to be as distressed as the recipient. For the United States, the money saved is unlikely to be put to more important use. From the point of view of the recipient, it will have lost resources that would have enlarged its flexibility and permitted a more effective address to other problems. If such losses are the result of miscalculating the intensity of U.S. interests, they are unfortunate from the point of view of both countries.

Using Aid to Influence Recipient Policies

It is vitally important that any of the recipient's policies can be subject to review in the formal negotiations of new aid commitments if the donor finds it necessary. It is on this possibility that the donor's influence over a broad range of recipient behavior is founded. It establishes a significant incentive for the recipient government to avoid further burdening the technical difficulties of negotiating for additional aid. The aid-receiving government will wish to obviate delays that may arise out of the injection of issues extraneous to the administration of the aid itself. Rarely are the conflicts of broad policy interests sufficiently irreconcilable to warrant the termination of the aid program. More normally, time for discussion and compromise will achieve better results than a head-on collision spurred by the exigencies of pipeline replenishment.

The very nature of the governmental decision-making process commends the employment of aid as a source of informal influence rather than as a basis for imposing conditions in formal negotiations. Once a government has reached decisions, or even begun to consolidate its views, it is difficult for the aid donor to induce it to alter its course.

Influence on important decisions is best exerted when the recipient government is in the early stages of considering a policy problem, when it is exploring the available alternatives. Once it has resolved internal disagreements about the appropriate course to be followed, the government will resent the question's being reopened as a condition for receiving new aid, particularly if this is a frequent occurrence.

Influence stems from an intimate relation between resident U.S. officials and the government's policy-makers and principal advisers. It is enhanced by aid programs past, present, and prospective. Founded on awareness that the aid mission is an integral part of the embassy, and that the embassy processes new aid requests and controls the U.S. response, aid can on occasion be used to induce the reversal of seemingly firm decisions about policies far removed from the specific use of aid funds.

On matters important enough to warrant withholding aid, aid-seekers need to be able to judge what is asked of them accurately and early. The recipient government must at least be able to identify which of its disagreements with the United States Government are the most important. An effective U.S. embassy and aid mission will seek to anticipate and communicate such possible conditions and will attempt to have them met before new aid commitments are sought.

However, discussions of recipient policies should be continuous and pervasive. Their range should extend well beyond the matters on which the continuation of the aid program depends. In turn, the influence of the resident American officials depends on their knowledge of the local scene, of who makes or affects decisions of critical importance to the United States, and of what motivates them. The effectiveness of aid in influencing recipient behavior relies as much on this knowledge and the skill with which it is employed as on the amount or nature of the aid itself. In the case of a particularly thorny problem, months of talk may be a necessary and a desirable preliminary to the actual decision.

In addition to the resident U.S. officials, an aid-receiving government may turn to its own embassy in Washington, to the foreign aid legislation and statements of Congressional intent, to the rationale used by the U.S. executive branch in seeking aid legislation, to the treatment of other aid recipients, or to the advice of international institutions known to have the support of the U.S. Government. Indeed, the U.S. Government may prefer to communicate its concerns and expectations through such channels, either for reasons of tact or to preserve its own

flexibility in the event that its views prove unacceptable. Whatever the technique, constructive results depend on the clarity and timing of the communications.

In practice, the process of communicating U.S. policy views and influencing recipient behavior is well entrenched and operative in U.S. relations with most aid-receiving countries. With time and experience on both sides, it tends to function more smoothly and more effectively. It is the failures that command the attention of the press and the public, precisely because they are relatively few and infrequent. Unless one assumes that irreconcilable conflicts of interest are fundamental, breakdowns in the flow of aid arising out of policy differences should become increasingly rare.

However, discussion of disagreements and efforts to influence policy decisions cannot be abated. They are vital to the smooth operation of the aid-giving process, to the interests of recipients as well as donors. So too are competent embassies and aid missions, living in the recipient country and conversant with its decision-makers and policy advisers. The degree of intimate association required is more than a mere tool for better aid programs and better policies. It is itself a positive contribution to better understanding between the different societies that make up the contemporary international community of increasingly interdependent nations.

The effective management of U.S. aid programs in order to influence major policy decisions is thus more akin to playing a pipe organ than to orbiting a rocket. There are many keys and pedals, and the result depends on the quality of the instrument as well as the skill of the players. It is the over-all performance, not occasional false notes, that deserves attention.

Influencing Economic, Social, and Political Reforms

Economic Stabilization Programs

Most instances to date of formally conditioning aid on the acceptance of specific policy prescriptions have involved economic stabilization programs. If the country concerned is a major aid recipient, the need for such a program reflects an absence or a breakdown of the donor's influence, either as a result of inadequate representation or the intransigence of the recipient. In any event, the country will be experiencing inflationary pressures, rapidly rising prices, usually

as a result of budgetary deficits, and excessive expansion in the money supply. The rising price level will mean increased demand for imports and reduced exports; it may require an adjustment in the foreign-exchange rate of the currency. This is the kind of situation for which the International Monetary Fund was established and in which it has developed considerable competence. Out of its experience, it has forged both a substantive and a procedural approach to these problems.

Usually, the country in question must present and subscribe to a set of policies of redressment before the IMF will provide credit. Such conditions generally prove acceptable because important elements in the recipient society are suffering from inflation and balance-of-payments deficits. The measures of redress are either conceived or strongly supported by these groups. They seek foreign financial support in large measure to buttress their own endeavors to introduce better policies.

Moreover, IMF credits must be repaid within three to five years, so that stringent conditions are both appropriate and essential. Its resources are intended to reinforce foreign-exchange reserves while programs for redress take effect. Hence the borrower's program must give promise of both eliminating the balance-of-payments deficit of the moment and producing a surplus at least as large as the loan within a three-to-five year period. The Fund must decide whether the stabilization program of the prospective borrower is adequate to yield such results. Though other considerations inevitably intrude themselves from time to time, the Fund has properly sought to minimize their impact on its judgment. "No adequate program, no money," fairly describes its mandate as well as its policy.

Of course, the IMF is also concerned with the general welfare of borrowing countries. It has stretched its mandate considerably over the years and continues to seek a broader framework and a larger horizon for its operations. It assists, advises, and offers policy suggestions to member countries even in the absence of loan requests. However, under its charter, it must decide on loan requests with an eye principally on the likelihood of repayment rather than on the prospective long-range economic progress of the borrower. The effect of either the credit or the associated conditions on the borrower's prospects for political and social evolution is still further beyond its mandate.

Nor would it be appropriate for the IMF to make loans if its conditions were not satisfied. The retention of influence over the economic policy behavior of the borrowing government is a dubious motive

for relaxing prerequisites for its credit. However desirable, the Fund should not properly commit funds in the name of economic influence unless it is reasonably content with the prospect for repayment on schedule. Influence over policy in the social, foreign affairs, or military sphere would be an even less appropriate rationale for its lending.

Accordingly, the Fund has required that a specified list of actions be taken by the borrowing country in return for a credit. Though limited in scope, such negotiations have nonetheless established valuable precedents for the acceptance of external advice and the discussion of internal policies with foreign representatives. They have helped to make similar negotiations acceptable in connection with bilateral government aid. The charge of interfering with sovereignty has become increasingly rare when potential lenders suggest changes in exchange rates, a less inflationary government budget, less resort to central bank credit, or foreign trade liberalization.

U.S. loans have frequently been joined to the IMF's credits and conditions. For example, the IMF developed the conditions set forth in the previously mentioned Bell-Dantas accord. This association has advantages for both the IMF and the recipient. The addition of U.S. aid usually provides funds on softer repayment terms than the IMF offers, —sometimes no repayment is required at all. The government concerned typically seeks as large a credit as possible, for two reasons. It wishes to render the accompanying stabilization measures acceptable internally, and it must make their prospective success credible to private traders and bankers. The IMF, on the other hand, may question the adequacy of the measures to generate a large enough foreign exchange surplus to permit early repayment of all the assistance that is required. If a large part of the credit need not be repaid within the IMF's three-to-five-year limit, the stabilization program can be less restrictive. The United States, which is concerned with political stability and security as well as economic stabilization, with long-term influence as well as with foreign policy behavior, has frequently been willing to finance the additional cost.

Aid extended in support of a stabilization program has thus been the outcome of a well-defined negotiation involving the IMF as well as the United States. In numerous cases, a basis for agreement has been found. The policy measures required of the borrower have usually been reduced to a handful of specific actions. Normally, all the steps have to be taken within a short period of time, if not simultaneously.

Development Plans

As the United States turned its attention to the multi-year economic development plans of poorer nations, it has sought to use the same basic mechanisms. If aid can be successfully conditioned on the adoption of a stabilization program, why not a development program? In practice, uncritical transposition has encountered major difficulties.

The United States has learned that a development plan can remain tantalizingly intangible, even though it has been elaborately quantified. To be meaningful, such a program must represent much more than a set of calculations that convert quantities of raw materials, machinery, and labor into goods and services for sale on domestic and foreign markets. A quantitative description of the expected state of the economy at the end of the plan period must be examined for realism as well as for the internal consistency of its computations. At issue is not only the program's economic and technological validity but also the availability of social skills and motivations needed for its execution.

Much more than a good government investment program is involved. Most of the populace of less developed societies exists outside the money economy. The success of their development programs depends heavily on the response of peasant farmers, small craftsmen, and private entrepreneurs. As important as the supply of raw materials and machinery is the likely response of the citizenry to the incentives offered for saving, investing, changing jobs, or paying taxes.

The voluminous quantifications of the development program are no more valuable or reliable than the administrative machinery established to assure their implementation. Opportunity must be provided for constant revision and adjustment in the program, in order to keep the intended use of resources consistent with accomplishments and shortcomings as the plan unfolds. Moreover, policies will have to be amended, either because of unavoidable changes in external circumstances or because the early results inevitably differ to some extent from the forecasts.

Because the development plan must embrace the whole process of preparation, implementation, and revision, as well as incorporate hazardous forecasts about the responses of the private sector, it becomes a difficult subject for negotiation. Neither the so-called Three Wisemen sent by the World Bank to review India's Third Five-Year Plan in 1960, nor the subsequent meetings of the India Consortium, were able to negotiate major changes in the long-range program presented to them. They could either accept it as "not unreasonable," as

the best that could be done under the circumstances, and urge that the requested aid be provided, or they could insist on major changes. The latter, however, would have entailed delays in a process that was moving from a long preparatory stage to an even longer period of operations. If they had refused their endorsement and thus failed to trigger an increased flow of foreign aid, they would inevitably have derailed the process.

Even wisemen could scarcely negotiate any of the basic magnitudes of the Plan; for example, whether the proposed growth in GNP or the rate of savings or investment should be raised or lowered by a few percentage points. Once such matters are embedded in an elaborate plan, potential donors of aid must either accept or reject them. A plan contains a starting date and builds on the resources assumed to be available on that date. If significant modification is demanded, a prolonged delay in inaugurating the plan may result and a full reconstruction of the plan itself may be required.

Thus it has been the experience that promising aid after reviewing and approving a long-range development plan provides more of the illusion of imposing major policy conditions on the recipient than the substance. Some policy emphases will be revealed by the plan—an increase in taxes, more or less reliance on the private sector for investment, a changed emphasis in the allocation of budgetary funds for agriculture, or heavy industry, or education. However, intended emphases are something less than behavior. It is the taxes and policies actually enacted that count. It is the annual government budget that translates plan provisions into effective operation. With the best of intentions, changed circumstances and the inadequacies of forecasting will compel alterations in the plan. In the process, many of the emphases of the original plan can be submerged.

The difficulties of conditioning aid on development programs were revealed after the United States endorsed the development plans of four countries in 1961 and 1962. It pledged substantial sums of aid over a period of two or more years to India, Pakistan, Tunisia, and Nigeria. The first two plans had received the prior approval of the World Bank; the last two were reviewed by special U.S. missions.

Approval of the Pakistan plan was rather grudging, formally delayed from June, 1961, to January, 1962, in order to permit improvement in certain cost estimates and engineering studies of proposed projects. Delay in approval had limited significance because a generous defense

support program and P.L. 480 continued to meet Pakistan's need for imports. Even so, approval was motivated largely by political considerations—unwillingness to rebuff an ally after a generous commitment to support neutralist India's plan. At the time, Pakistan lacked ready projects to carry out the indicated investment targets. Nor were the Washington experts too sanguine about its economic prospects. However, the U.S. aid mission had developed over a period of years both a competence in the country's problems and a close working relationship with the Pakistan authorities. Moreover, a Ford Foundation economic advisory group, recruited and managed by Harvard University, had been intimately involved in preparing the programs, policies, and administrative machinery for the country's economy.

Under the plan, Pakistan began to replace direct internal controls by a greater reliance on fiscal and monetary policies. Economic activity in the country rose, and the increase in tax revenues became considerable. However, by 1963 the resident U.S. experts were persuaded that Pakistan's growth was retarded primarily by a shortage of imported raw materials and equipment. Excessive concentration on getting new investment projects started appeared to result in neglect of those already in progress, as well as those completed but operating well below their potential. Pakistan was accordingly offered a large sum for purchasing raw materials, spare parts, and replacement machinery, provided that the government would agree to a major relaxation in its quantitative restrictions on imports. The 1964 import reform led to a spurt in industrial production, which reached 30 per cent above the 1963 level by the second quarter of 1965. For the period of the plan, Pakistan increased its GNP more than had been projected.

India's Third Five-Year Plan suffered from unfortunate and unpredictable developments soon after it was inaugurated. Military attack by China led to a sharp expansion in its defense establishment. A series of bad harvests derailed the expected progress of its agriculture. Nevertheless, its economic policies had long left much to be desired, as India successfully resisted foreign advice and the targets of its earlier plans were generally not achieved. Notwithstanding this record, aid for 1961 and 1962 had been linked to the forecasts in its elaborately formulated Third Plan.

Resident advisers in India have traditionally lacked much influence. The aid mission seldom bothered to staff itself with experienced economic talent. Neither policies nor preparations for implementation have

received as much attention as the internal logic of the program itself. India's economic experience over the past decade and a half has been poorly reflected by the forecasts in its plans. Excessive optimism and inadequate policies combined with unpredictable adversities to yield more modest results than had been foreseen. Continued difficulties and uncertain prospects for the Fourth Five-Year Plan, scheduled to be inaugurated in 1966, led India to accept a large advisory mission from the World Bank in the fall of 1965. As the year 1966 unfolded, a succession of changes in long-entrenched policies were announced.

Both Nigeria and Tunisia experienced difficulties in carrying out their plans. Both fell short of their growth targets in the early years while suffering from inflationary pressures. Nigeria soon stretched its rudimentary five-year plan into a six-year plan. U.S. loans foreseen for the fiscal year 1961 failed to materialize because projects were not ready for financing. By 1964, planned public investments were far short of the forecasts because of delays in preparing projects. Tunisia was persuaded to introduce a stabilization program and devalue its currency. Thereafter its economic advance accelerated. Nigeria was less subject to policy advice, and its problems have been compounded by political instability. Nevertheless, the discovery and rapid exploitation of petroleum reserves spurred Nigerian production and helped establish significant economic growth, though of a rather different character than had been envisioned in its plan.

All four countries have had the assurance of generous foreign aid during the first half of the 1960's. The varying success of their aspirations for economic growth has had little apparent relation to the technical quality of their original development program. Changing circumstances and flexibility in adjusting to these, as well as receptivity to policy advice, seem to account for the differences. This experience needs to be assimilated into U.S. strategy for influencing the policy behavior of aid recipients.

The development plans have not in themselves proved a very potent device for enlarging the influence of foreign advisers unless the advisers bring their views to bear at an early stage in the preparatory work. Policies for implementing the plan—and for adjusting them as the plan unfolds in practice—have been more significant than either the projections or the investment projects formulated in the planning stage. Neither commitments based on internally consistent plan projections nor adequately prepared projects have yielded the expected results

in the form of over-all economic growth unless joined by a responsiveness to advice about current economic policy problems. As proved true in the case of the Marshall Plan countries, it is less superior wisdom than a degree of objectivity and disinterestedness in internal power struggles that makes the influence of outside advisers important for the success of national economic programs.

The linkage between decisions to replenish the aid pipeline and the current policy behavior of the aid-receiving country points a more promising path to the use of aid for promoting economic growth, even in the case of countries with long-range development plans. The multi-year aid commitments, entered into in 1961 and 1962, weakened that linkage and reduced the effectiveness of U.S. aid as a consequence. Subsequently, the United States has refrained from entering into any more such engagements, to the distress of the economic development school and developing countries alike. Its reluctance, however, was well warranted by its experience.

In principle, at least, discussions concerning a development plan can affect social and political objectives as well as economic policies. Financial considerations may be the critical limitation on progress in these spheres and a meaningful development plan must make budgetary provisions for all the nation's goals. The allocation of budgetary funds for housing or education, or for particularly distressed regions of the country, may be the major determinant of the pace at which social and political grievances will be redressed. Budgetary provision for military and police forces will effectively limit or facilitate both the domestic and international political behavior of the government. It can decisively affect a government's capacity to deal with opposition at home or abroad through the use, or threatened use, of force to impose its will. Obviously, the larger the budgetary allocations for housing, education, or the military establishment, the smaller the funds that will be available for highways, power installations, and industrial or agricultural investment.

It is, however, more usual for the plan to take allocations for purposes other than "investment" as a datum and to focus the programming effort on the best use of the resources available for investment. In Pakistan, for example, the size of each of its first two five-year plans was based on estimates of the total likely to be available after such non-development expenditures as consumer goods, raw materials, civil administration, and defense had been taken into account.

Pakistan's Third Five-Year Plan places much more emphasis on social objectives. In his foreword to the published plan, President Ayub Khan summarizes such goals in the rather grandiloquent term "Islamic socialism." However, the specific content is both modest and reasonable and could lead to the conclusion that the United States, however unwittingly, has attained a very advanced state of Islamic socialism. Ayub Khan stresses equal opportunity rather than equal income distribution, universal free primary education, merit scholarships for secondary and higher education, competitive entry to jobs at all levels, the industrialization of East Pakistan to improve national cohesion, and increased economic cooperation with Iran and Turkey. The plan is to initiate a twenty-year effort to improve health services and provide every family with decent housing as well as a specified minimum income.

Verbal stress on such goals is matched by planned budgetary provision for them, as well as for the more usual investment projects. Both language and specific objectives reflect the influence of aid donors and a desire to placate their sensitivities as well as those of its own citizenry. Some expansion in the scope of the public sector is provided in order to accommodate anticipated aid from Communist countries with whom Pakistan's political ties were being reforged. Yet restrictions on the expansion of the public sector are as tightly drawn as in many Western societies. The social emphases take cognizance of a growing U.S. interest in such noneconomic problems of developing societies as education, health, and housing.

The plan has required substantial readjustment as a result of the refusal of the United States in mid-1965 to increase its aid commitments and the outbreak of hostilities with India several months thereafter. The nature of those adjustments provides a relevant commentary on the aid-giving and aid-influencing process. Though Pakistan's plans for raising domestic revenue from its own people had previously been praised as a self-help effort, it succeeded in raising still more money to meet expanded military costs. The reduction in new aid commitments was not expected to offset the arrival of aid shipments for almost a year after the cancellation of the consortium meeting. Some public investment was delayed but the reduction in development expenditures was heavily concentrated in the "social" sector. The relaxation of import restrictions—a result of the influence of the U.S. aid program and an important contributor to the previous expansion of the private sector —was suspended. Much of the impact of the United States on Pakistan's

social and economic programs and practice was reversed by the suspension of its new aid commitments. In the early spring of 1966, a much sharper reversal was threatened if aid were not renewed. Indeed, the hope of such a resumption was exercising substantial restraint on Pakistan's behavior, in the social and economic field as much as in matters of foreign policy.

Self-Help

Whether placed in the framework of long-range development programs or not, the measures of internal reform expected by the United States of an aid recipient have come to be summarized as their self-help efforts. The phrase has become imbued with self-righteous fervor as Americans seek both to justify their own aid efforts and to evaluate those of their aid clients.

The phrase self-help is an ancient one. A popular book first published in English in 1860, and reprinted in several European languages, bore it as a title.* The author observed that his counsel was as old as the Proverbs of Solomon, and possibly quite as familiar. In a subsequent edition, he noted that his title had proved to be unfortunate, as it led some to suppose that the book was in praise of selfishness. On the contrary, the author asserted, his intention was "to re-inculcate these old-fashioned but wholesome lessons—that youth must work in order to enjoy—that nothing creditable can be accomplished without application and diligence—that the student must not be daunted by difficulties, but conquer them by patience and perseverance—and that, above all, he must seek elevation of character, without which capacity is worthless and worldly success is naught."† "Heaven helps those who help themselves" are the first words of the first chapter.

Neither the passage of time nor the reference to poor societies has diminished the emotional aura of the concept. Nor has it become more susceptible to useful definition or application. All societies help themselves, after all, even as did the young men of humble origin to whom Mr. Smiles first addressed his precepts. The question is whether any particular society is doing enough, and the answer requires a judgment about its capacity to do more. To be significant in the case of develop-

* Samuel Smiles, *Self-Help, with Illustrations of Character, Conduct and Perseverance* (1st ed., New York: Harper Brothers, 1860; rev. ed., New York: A. L. Burt, *ca.* 1866).

† *Ibid.* (rev. ed.), p. vii.

ing nations, the concept must include efforts to promote political development and social reform as well as economic growth. It must be all-embracing, and yet it must be practicable.

Only when self-help is used in referring to very specific actions in specified circumstances does it acquire significance. A century ago, the author made his points through profuse illustrations from the lives of successful men, from potters to statesmen. His readers were as capable of reproducing the successes of Josiah Wedgwood or Sir Robert Peel as are India or Upper Volta of following in the footsteps of the United States, or Japan, or Israel. The importance and, indeed, the indispensibility of self-help in the abstract is undeniable. The specification of an adequate self-help performance by a particular society in a given year, however, continues to be an occult art. It is all too easy to mistake its shadow for its substance, to deplore the absence of the unattainable, and to cavil at real but modest achievements.

Thus, self-help is often defined in terms of the willingness of a government to pay part of the cost of an aid project, or the readiness of a society to invest a greater percentage of its current output than in the past. Such factors may offer important evidence of self-help in some situations and circumstances. In others, they may be deceptive, even to the point of reflecting thoroughly wasteful uses of resources.

For example, to finance part of the cost of an aid project by printing new money may be far from salutary evidence of native effort. Nor will the extra self-help be real if financing comes from diverting tax funds from other important uses that fail to attract aid or from increasing taxes in ways that discourage productive private investment. The rate of investment may be raised impressively by diverting resources to the erection of steel plants that the society is ill-prepared to operate efficiently, while potentially productive uses for resources in small-scale industry, agriculture, and education are neglected. The inadequacies of the investment ratio were dealt with at length in Chapter 5.

Self-help can be meaningful only in terms of greater determination and effort by the government of an aid-receiving country to take advantage of its most fruitful opportunities for strengthening progress toward viability. The entire range of governmental policies must be considered in the light of prevalent circumstances and limitations. So defined, judgment about the adequacy of a self-help effort becomes exceedingly delicate.

Nevertheless, it is precisely such judgments that the modern apostles

of self-help evade in identifying worthy aid candidates. Evidence of self-help efforts is cited in terms of specific measures taken by a recipient country—a piece of tax legislation, a self-help housing project, a land-reform law, an increase in the number of children in school, or the irrepressible rate of savings and investment. Few countries fail to measure up to this standard by neglecting any and all measures for self-improvement.

The adequacy of a government's total effort to reform its society can be evaluated in a meaningful way by identifying specific additional measures it might reasonably be expected to take in each succeeding year. Such an approach is at least practical and practicable. It is likely to bear more fruit than the search for precise measures and quantitative criteria that has characterized part of the economic development syndrome. A progression of policy actions then provides a significant if imprecise test both of the willingness of the society to help itself and of the usefulness of the aid program. The adequacy of the progression and the wisdom of the priorities can scarcely be more than a joint judgment on the part of aid donors and the recipient.

The quest for better self-help is likely to be most fruitful if it rests on a close cooperative arrangement between donor and recipient. Their exchange of views needs to cover the entire range of possible uses of additional resources and desirable changes in policies that affect the evolutionary growth of the society. Defense and education, health and housing, land reform and income distribution, should all be involved, as well as proposed investments in infrastructure, agriculture, manufacturing, and service industries. The intensity of the recipient's motivation and capacity for carrying out constructive programs with reasonably effective results will require constant assessment. A wary eye will always be needed to see that foreign aid is not used to do a job that might better be done with domestic resources—or that domestic resources are not neglected or wasted because foreign aid is available. However, a sophisticated evaluation of the self-help effort of an aid-recipient must recognize that the concept of self-help has many facets and manifestations.

An aspirant for aid should be expected to listen to advice and argument, to seek to meet the donor's point of view, and to offer reasoned explanations if advice is rejected. In such circumstances the self-help effort is likely to be as adequate as the capabilities of the recipient will permit. Moreover, positive results are likely to follow, probably in the

fullest measure attainable within the existing social situation. As for the donor's interests, they are likely to be well-served if the assistance is provided.

Influencing Foreign Policy Behavior

No use of foreign aid finds readier acceptance by the American public than its contribution to national security and foreign policy. The minority that dissents from U.S. foreign policy objectives manifestly finds little joy in the employment of tax funds to promote them. Those who support the general policy expect foreign aid to be used in its behalf. Support for such use of foreign aid may be morally distasteful and consequently reluctant, but no more so than the voting of funds for the U.S. defense establishment.

The American public would be delighted if peace and security could be assured through discussion and persuasion alone. It has, however, come to accept the fact that this is not the reality of international life. Consequently, it acquiesces year after year in huge defense appropriations. It would probably also support the additional 10 per cent or so involved in the foreign aid program if such appropriations were clearly related to the nation's security and peace. It is precisely because that relationship seems ephemeral that the foreign aid program has found it difficult to muster public opinion and Congressional votes on its behalf.

In the years immediately following the attack on South Korea, the United States expected the less developed countries to follow a foreign policy that could be specified in fairly simple and obvious terms—support for the U.S. policy of containing overt Communist aggression, improvement in defense capabilities near the borders of Communist countries, and the granting of base rights as desired by U.S. forces. A formal military alliance signaled the essential step of compliance and triggered U.S. aid in the form of weapons and other military supplies as well as goods and services needed for the civilian economy. Countries that were threatened by Communist neighbors and sought U.S. backing received the bulk of U.S. aid.

The years that followed have made it increasingly difficult to follow any such simple formula. The completion of the post-Korea military build-up, and the declining value of military manpower, have been accompanied by a Communist resort to an aid program of its own and to more subtle techniques for seeking influence and expanding

power. Support of dissident forces and wars of national liberation has replaced actual and threatened overt military acts. U.S. aid increasingly began to flow to countries that sought assistance from both East and West, to those that endeavored to maintain sufficient neutrality between the two sides to avoid jeopardizing their assistance from either one. In cases such as India and the U.A.R., the United States provided generous aid in support of governments that were simultaneously restraining their domestic Communist movements and opposing U.S. efforts to contain Communist forces in other parts of the world. Moreover, as the threat of overt aggression by the Soviet Union has abated, the bordering countries have become increasingly embroiled in quarrels with each other.

Increasingly, less developed countries have been behaving like "the mouse that roared," to recall a motion picture on the theme that cynical defiance is the most effective way to share more in American largesse. The U.S. aid program in the 1960–64 period seemed to carry a "disincentive" for cooperative foreign policy behavior, except in the case of Latin America. For whatever reasons, U.S. aid to other dependable allies —Greece, Iran, Israel, Taiwan, Korea—declined. Turkey found itself short of foreign financing despite unequivocal support of U.S. policy. On the other hand, India, the U.A.R., and Indonesia were treated more generously than before. Pakistan received more aid and promptly began to disentangle itself from its U.S. alliance as it established a closer relation with Communist China. Even in Latin America, increased aid seemed to be more of a reaction to the threat of spreading Communist influence than a reward for close cooperation with the United States on foreign policy matters.

It should thus occasion no surprise that the intimacy of the foreign policy ties between the United States and a number of developing countries began to erode. Even Iran and Turkey are showing signs of acute restiveness. CENTO has become a shadow organization, kept alive in the hope that relations between its regional members and its overseas allies will improve. SEATO is scarcely more effective.

Such loosening of ties is not a simple consequence of a reduced flow of U.S. aid to the countries concerned. It appears to be as much a matter of the increased strength of some developing nations and the growing complexity of both their own foreign policy interests and those of the United States. A reduced threat from the Soviet Union has permitted—and even facilitated—attention to quarrels with neighbors. In-

stability in Latin America, spreading independence in Africa, and the containment of Communist China have confronted the United States with new priority foreign policy issues in which many older allies feel less intimately engaged. The United States can thus expect to find itself increasingly faced by the Pakistan dilemma—whether to penalize a government for opposing major U.S. foreign policy interests despite the merit of its internal policies.

Whatever the reasons, the essential fact is that U.S. aid programming seems to be less responsive to the foreign policy behavior of recipient nations than it was a decade or so ago. Accordingly, the aid program appears to be less an instrument for inducing desired foreign policy behavior and inhibiting unfriendly actions than it once was. This very appearance has had damaging consequences both for domestic support of the programs and for foreign responsiveness to U.S. foreign policy leadership.

The 1965 suspension of aid to the U.A.R., India, and Pakistan undoubtedly helped to stem this process of deterioration. Increased aid to Thailand, the Philippines, and Korea—related to their support of the U.S. position in South Vietnam—has also served to underline the relation between U.S. aid and the recipient's foreign policy. So, too, should the emphasis in the President's aid message of 1966 on the availability of aid only to those who are "not hostile." Such examples, however, indicate incentives for attentiveness to U.S. interests only in matters bordering on extreme crisis.

What is needed is attention to the establishment of better foreign aid incentives for those countries that are willing to maintain a basic commitment to U.S. leadership in the international community. Obviously, the United States should not seek to starve a poor country into support of its foreign policy. An incentive system cannot operate in the case of every vote in the United Nations or every meeting of developing nations. Nor can it operate any longer as a simple matter of adherence to military alliances. Sovereign states will have different views on international issues and cannot be expected to refrain from expressing them on all occasions out of deference to U.S. sentiments. A decent respect for diversity may offer more hope for a workable international community than an unnatural demonstration of unanimity on every international issue. Moreover, military alliances may not be appropriate in the circumstances of the mid-1960's, as appears to be the case for Africa.

Nevertheless, a pattern of general support for U.S. foreign policies should carry rewards in the form of a more generous aid program. Conversely, a pattern of general opposition should carry with it a more rigorous examination of the need for aid. Where the broad structure of U.S. interests finds general acceptance, the developing country might well expect U.S. financial assistance in support of a more ambitious development program and a higher rate of economic expansion. It might also expect U.S. assistance for a faster growth of domestic consumption levels. Moreover, the United States should stand ready to replace aid from Communist countries in cases where the developing country feels constrained from supporting U.S. policy lest it jeopardize assistance from one or another bloc member.

What is suggested is not a moral condemnation of neutralism in the East-West conflict. Those nations that prefer to be neutral have a right to be so. Their neutrality can take a variety of forms and positions, ranging from abstention to condemnation of Communist efforts to expand or of Western efforts to contain the Communist system within its present boundaries. In view of their own internal and regional problems, it is understandable that some refuse to take any position on international issues that arise in areas distant from their own borders, except insofar as they may see an opportunity to play a pacifying or mediating role.

Some may wish to move from one edge to the other of the broad band that defines the neutralist position, in order to extract maximum financial, military, and political support from both sides for purposes that strike closely to the heart of their own interests. If they choose to do so, however, they can scarcely invoke moral considerations to condemn either side for refusing to respond. Indeed, U.S. interests would be better served if it managed its aid program so as to favor those who abjure such a stance in their international relations. Those who are prepared to align themselves with the United States on current international issues of critical importance, as well as those who commit themselves to the U.S. side in the ideological conflict, should expect recognition and recompense in the form of a more forthcoming aid program, less stringent standards of self-denial in return for aid, and a firmer U.S. commitment to help maximize their economic growth and redress their social disadvantages.

It is indefensible to deploy U.S. foreign aid resources as though they had no relation to the nation's international concerns. These concerns

do motivate U.S. aid-giving; the distribution of aid must reflect them. Recognition of the complexity of purposes requires more sophistication in programming aid, not the abnegation of any sense of purpose. It certainly need not lead to the elimination of incentives for a cooperative foreign policy. The incentives need not be tied exclusively to international behavior; nor need their announcement be clarion clear for their application to be both apparent and effective. The signal that is emitted need not be overpowering to be received in developing countries. In such matters, most of them are quite developed.

12

The Allocation of Aid

The annals of Congressional hearings and press discussions of foreign aid suggest that the most critical complaints concern its allocation among countries. Why has a particular country been given so much aid? Or why any aid at all? From time to time the collapse of an aid-financed roadbed or bridge, or the dubious utility of an aid-financed railroad, receives attention. On occasion, countries that do not appear to employ aid honestly and productively suffer the fires of Congressional frustration. However, the most festering criticisms center on aid to a country that appears to use resources for purposes that are incompatible with U.S. foreign policy and national security interests.

Less dramatic questions should also be asked. Is the U.S. aid program overextended, because some seventy countries benefit? Or is it excessively concentrated, neglecting countries and regions of great potential value? From the beginnings of the program to this date, ten to twenty countries at most have received in any given year an overwhelming preponderance of U.S. aid expenditures. The rest—some fifty to sixty countries—receive small sums, either because they are themselves small, because their economies are so primitive and ineffectual that it is difficult to provide them with additional resources, or because their needs seem less pressing. Some would strike such minor recipients from the aid roster, while others believe that their comparative neglect is shortsighted. Finally, the ostensible lack of rhyme or reason in the pattern of U.S. aid expenditures requires examination. Attention is directed first to this latter proposition.

Relating the Allocation of Aid to U.S. Purposes

The actual distribution of aid among countries gives no obvious clue to its underlying doctrine. The allocation of defense support and military assistance among developing nations has borne little relation to the

relative usefulness of their military forces. Nor has the allocation of development money corresponded to the comparative rates of economic growth of the recipients. Perhaps one should ask whether it is possible or useful to maintain a pattern of aid allocation that conforms to any such precept, or at least to any simplified one. The more sophisticated rationale suggested in Part III points the way to a more purposeful employment of aid funds. However, the structure of goals suggested is complex and must lead to complexity in allocating aid. It will thus continue to preclude obvious explanations for differences in the amounts of U.S. aid received by individual countries.

Nevertheless, aid levels continue to invite invidious comparisons by the developing countries themselves. Their governments do try to draw lessons about the conduct that seems most likely to produce generous U.S. aid allocations, though they may not consider it worthwhile to act responsively. If the allocation pattern seems to deviate from a professed doctrine, neither official pronouncements nor the efforts of U.S. representatives will affect behavior for long. Governments will seek to divine which principles are in fact operative and will be guided accordingly.

Most country comparisons of U.S. aid are distorted by the inclusion of India and Pakistan, which have been receiving a fourth or more of the total. Yet their citizenry accounts for some 40 per cent of the population of the developing world. One can instead wonder why a few small countries, such as Jordan, Laos, and Tunisia, receive so much U.S. assistance per capita ($34, $26, and $16 per year, respectively, for the period 1960–64), while assistance to India and Pakistan per capita averaged but $2 and $5, respectively. Nor did net aid to the Philippines, Thailand, or Latin America as a whole reach $3 per capita, despite a priority U.S. interest in their well-being and progress.

The wisdom of the actual distribution of U.S. aid among the foregoing countries is open to criticism but hardly on the basis of such statistics alone. It is inconceivable that aid per capita should be so distributed among countries that differences would measure with any precision either their importance to the United States or the intensity of U.S. concern with their problems.

Translating broad national goals into specific uses of funds is no mean task. Much U.S. aid must take specific forms or uses that cannot readily conform to the nation's priority purposes. To some degree, variation in the total sums received by different countries is due to technical explanations that bear little relation to any priority pur-

pose. Such uses of funds stem directly from circumscribed legislative authority and from dispersed administrative machinery for carrying out the laws. They finance a project, they pay for the shipment of food, or raw materials, or machinery, or military supplies. They cover the expenses of expert advisers, or Peace Corpsmen, or trainees sent from the developing nations. Funds cannot be allotted unless such uses can be identified and agreed upon. U.S. agreement rests primarily with the U.S. administrative agency charged with the particular kind of aid, whether AID or the Peace Corps, the Department of Defense or of Agriculture. To a considerable extent, the sum total of all such uses per receiving country is an accidental result rather than the fruit of a national programming decision about the allocation of available aid resources.

Even if total U.S. aid were programmed centrally, and even if restrictions on its form could be abolished, variations in the amounts of aid extended to different countries would not closely reflect the intensity or priority of U.S. interests. The nature of U.S. objectives may explain differences in aid receipts more than their intensity; the circumstances of the receiving nation may limit the size of an aid program more than the donor's willingness to contribute generously.

Some specific U.S. objectives, such as increasing the defense establishment or improving the educational system, have a price tag requiring increases in domestic as well as foreign expenditures. Aid can obviously pay for the foreign costs, but domestic spending will also raise the demand for imports and the need for aid. However, the magnitude of the need for aid that emanates from larger expenditures within the country depends on whether the program calls upon unused or under-employed domestic resources. Some activities have more significant employment effects than others; some countries have larger reservoirs of usable under-employed resources than others at any given point in time. Hence the amount of foreign aid required to sustain a specified increase in the defense or education budget of different developing countries can vary considerably.

Many purposes are even more difficult to relate to actual aid expenditures than those requiring large local currency costs. Mitigating hostility toward neighboring states or easing restrictions on the private sector are instances where the achievement of U.S. purposes would reduce the need for aid. Such policies should permit the recipient to spend less on its military establishment or on public investment. However, if the re-

cipient reluctantly agrees to U.S. urging of such policies, either in order to obtain more aid or to forestall a threatened reduction, it may well wish to expand other programs in order to counteract domestic opposition to its acceptance of U.S. suggestions. Both the public budget and the country's foreign-exchange needs may increase, although the policies themselves appear, at superficial glance, to permit savings.

The foregoing paragraphs point out some of the reasons why it is not practicable to allocate U.S. aid so that it manifestly rewards virtue and penalizes vice. Nevertheless, the apportionment should and can better reflect U.S. policy intentions than it does. Centralized programming of all U.S. aid resources and fewer restrictions on the forms in which aid is made available are essential first steps to an improved allocation pattern. Without them, a large element of haphazardness is inevitably introduced into the relative treatment of different countries. With such reforms, it would become possible to improve the allocation pattern. If the possibilities inherent in better legislation and better administrative arrangements are then employed more purposefully, the program should gain both in support at home and in effectiveness abroad. Both the Congress and the developing nations would better comprehend the priorities that affect U.S. aid-giving decisions.

The Role of Congress in Allocating Aid

Legislating Aid by Country or by Function

U.S. foreign aid programs are now voted by Congress for functional uses, not for individual countries or even groups of countries. The registration of Congressional approval or disapproval is categorized in terms of military assistance, supporting assistance, development loans and development grants, contributions to various international organizations, surplus-food disposal, Peace Corps, and Export-Import Bank lending authority. Most aid-receiving countries receive funds from several of these functional categories; a considerable number benefit from all but one or two.

Only in the case of Latin America does the Congress allocate sums for a geographic region. The Asian Development Bank, approved in 1966, is the first legislation in many years to set aside funds for a specified group of countries outside the Western Hemisphere. The rest of the aid program operates through the various functional accounts that are allocated among recipient countries at the discretion of one or another

executive branch agency or of the several international institutions. The executive branch does present illustrative country allocations of AID funds to the Congress, so that its intentions are known. Such information is classified, however, and not readily available to most members. The Congress has to take no decision at all about the relative usefulness to the United States of aid to the Philippines, Indonesia, Iran, or Tunisia. It does not even pass on the relative importance of aid to Africa versus aid to South Asia, the Near East, or the Far East.

As a result, the Congress feels little responsibility for the actual apportionment of funds. It freely criticizes that apportionment whenever the policies of individual recipients appear to be objectionable. Under the current system, it is freed of responsibility for the impact on individual countries of its decision to reduce appropriations in one or another legislative category.

The situation of some individual countries is described in the current Congressional presentation, but the balancing of virtues and deficiencies is played down since the Congress is not asked to share in the executive branch assessment. When legislators spot an isolated unfavorable act by a recipient, they belabor the aid program as a whole. When the committees are faced with making recommendations to the Congress about the legislation actually before them, they seldom refer to the testimony they have heard, for it is difficult to relate the record of hearings to the specific decisions that Congress is called upon to take. Visceral reactions, rather than a weighing of realistic alternatives, determine legislative decisions about requests for funds and authority to continue with world-wide functional programs.

Nor is the Congress impelled to responsibility for the consequences of its action on foreign aid legislation for American peace and security interests in specific countries or regions. Though both public and Congressional interest centers on the effects of U.S. aid on individual countries or groups of countries, the Congress neither advises nor consents to the allocation of foreign aid among countries. At most, it acquiesces in the decisions of the executive branch.

Four principal reasons are advanced for preserving this system. First, the requests and justifications for legislative authority and appropriations must be complete a year and a half before the final allocation of funds. The illustrative country programs are based on assumptions about matters that cannot be predicted with great precision, such as contributions from other donors, policy actions by the recipient coun-

try, the size of the harvest, exports, tax collections, and, finally, the speed with which projects will be advanced to a point where firm financial commitments are practicable. To give such programs the status of legislative sanction is to exaggerate their significance and utility.

Second, advance public announcement of proposed country allocations would greatly reduce the leverage of the executive branch in dealing with the recipient country. The executive branch requires considerable flexibility in amending tentative allocations in the light of country responses to policy suggestions. It is further contended that the allocation of aid to a foreign government is intimately related to the making of treaties and the reception of ambassadors of foreign governments, functions specifically reserved by the Constitution to the President.

Third, Congressional voting on the total aid to be offered each recipient country could unleash a lobbying campaign that would put to shame the circumstances surrounding the enactment of the Smoot-Hawley Tariff in the 1930's or the foreign sugar import quotas in 1965. Indeed, for a number of years a specified sum was reserved for Spain by Congressional mandate, presumably as the end-product of such lobbying.

Fourth, Congress might act rashly in either penalizing or rewarding countries. The executive branch believes it is better able to evaluate the subtleties of individual situations in the light of the long and complex pattern of U.S. objectives.

These are all serious arguments that deserve careful consideration. However, they must be weighed against the disadvantages of the present system and the advantages of giving the Congress more responsibility for parceling out U.S. aid.

With voting responsibility, the Congress would also assume part of the burden of publicly defending aid provided to clients of debatable merit. As we have seen, aid clients are not always responsive to all U.S. objectives. Aid-giving must therefore reflect a balancing of the total behavior pattern of recipients and a judgment about whether the result of such assessment warrants cessation, continuation, reduction, or increase of the program. If the Congress had to review and approve judgments about individual countries or groups of countries, it would also have to explain why the decisions conform to U.S. interests. The Congress would thus be moved away from its traditional position of carping critic and reluctant accomplice to the aid program.

If the legislation authorized and appropriated funds to countries, the emphasis of the executive branch presentation to the Congress would have to be altered. The program would have to be advocated in terms that are more meaningful to the lay public—the needs of sovereign countries. It would gain from better public and Congressional understanding of the complexity and priority of U.S. interests in developing nations.

Finally, the present program permits the larger American pressure groups to support particular segments of the program in which they have a special interest—food, technical assistance, or loans to U.S. exporters. Such supporters tend to be passive or even negative with respect to other parts of the program in which they have a lesser stake. Legislation by countries would force them to support the program as a whole.

As for the contrary arguments, their importance can be reduced to manageable proportions. The illustrative country programs are not so far removed from reality as is suggested by the long time span between their preparation and completion of the actual allocations. Prior to 1964, such programs bore little resemblance to the actual distribution of funds because they were based on optimistic estimates of requirements. The executive branch sought considerably larger funds than it expected the Congress to provide, or indeed than it could reasonably expect to use effectively. Requests were founded on the theory that Congressmen would find it easier to explain votes for needed foreign aid if they could tell constituents that they had voted for substantially less than the executive branch sought. Despite cuts, adequate appropriations resulted. However, over the years, legislators were spared the necessity of explaining the values and merits of the program in order to justify their votes. Instead of educating a comprehending and sympathetic public opinion, they were able to brush off critics with recorded votes for less money than had been requested. More recently, requests have been more realistic, so that the tentative allocations have been much closer to the actual need for appropriated funds.

The negotiating leverage of the aid program with recipient countries stems from the ability of the U.S. Government to withhold hoped-for or expected funds. Concealing information about the amounts planned for a country is hardly calculated to strengthen continuous influence over its policies. The present system purports to deprive re-

cipients of knowledge of how much they may expect to receive. Nevertheless, many aid missions have found it preferable to convey such figures informally, sometimes without authorization. Country legislation would make possible the provision of specified amounts, but would not make it mandatory. On the contrary, the need to face the Congress for the next year's funds would strengthen the hand of the executive branch in insisting that recipients heed U.S. concerns. Moreover, actual reductions from planning figures should become increasingly rare phenomena as aid missions become more effective instruments of national policy.

The need for some flexibility in amending the tentative sums for individual countries will nevertheless remain. It should be maintained through such devices as a contingency fund and the granting of authority to the executive branch to switch a fixed percentage of the country allocations. Such provisions have existed for many years. They have provided useful flexibility and negotiating leverage in the past and would continue to be needed.

Country appropriations would certainly require stringent legislation to restrain developing nations from improper lobbying with the Congress. The need for such legislation exists in any event, and the Congress already is at work on the problem. On the other hand, if legislating aid by country increases serious contacts on matters of substance between foreign embassies in Washington and U.S. Congressmen, some important benefits would be gained. Aid recipients would be brought closer to the reasons that deter American generosity from being as openhanded as they expect. The Congressmen, in turn, would be better informed about the needs, concerns, and limitations of less developed countries.

Essentially, the argument against legislation on a country basis boils down to an abiding suspicion that the Congress cannot be depended upon to act responsibly. The risk that it will not do so is inherent in our form of democratic government, in foreign aid as in other matters. The likelihood of irresponsible behavior is, however, heightened by the failure to put responsible questions before the Congress for decision. It is the record that points to such a judgment, not abstract conjecture. The only conjecture is whether the Congressional response to foreign aid might deteriorate still further if the real issues were put before it. Given Congressional reaction to the foreign aid presentation in 1966,

it might well be asked whether any realistic alternative exists to taking such a risk.

The Need for Multi-Year Funds

The present system requires that the total appropriation in each functional category be obligated by the end of the fiscal year, June 30, usually eight to nine months after Congressional appropriations are completed. Most of the money is actually committed between January and the end of June. By January, the request for the next year's appropriation has already been locked into the President's budget and into AID's Congressional presentation documents. Failure to obligate the previous year's funds undermines the argument for maintaining or increasing the next year's appropriation. Inevitably, the President's integrity in seeking no larger appropriations than are essential becomes linked to the actual commitment of funds before the end of June.

Thus the commitment of last year's funds becomes linked to the battle for next year's appropriations. A less developed country has often been urged to speed in order to meet the June 30 deadline, lest it lose appropriated funds. Frequently, projects in low-priority countries have been funded near the end of the fiscal year, largely because they were ready for an obligation of funds, while higher priority uses for the same money were not ready. Much of the policy leverage of the aid program with recipient governments is lost as a result.

In 1961, President Kennedy sought to break this linkage by seeking authority for AID to borrow from the Treasury, as do a score of other U.S. government programs. The foreign aid programs administered by the Export-Import Bank and the Department of Agriculture have long had such authority. The notion of using it in aid for developing countries had been proposed a decade previously and many times in the interim.* The Congress rejected the 1961 request, lest it lose some of its constitutional authority over the use of tax funds. Nevertheless, the present system has worked to defeat the proper desire of the Congress for improvement in the use of foreign aid funds. If borrowing authority is an unacceptable device, surely some other means can be devised to accomplish its legitimate purpose—executive branch authority to provide adequate foreign aid without the full utilization of appropriations in any one year jeopardizing the availability of funds in

* J. J. Kaplan, "U.S. Foreign Aid Programs," *World Politics*, April, 1951.

the succeeding year. The 1966 effort to pass five-year authorization legislation was irrelevant for this purpose, since it was intended that appropriations continue to be limited to a single year.

If funds could be carried over beyond the fiscal year in which they are appropriated without adversely affecting the amounts appropriated for the subsequent fiscal year, the leverage value of the aid program would be considerably enhanced. Giving the Congress responsibility for allocating funds to individual countries would bring it face to face with the necessities and merits of such legislative authority. As the administration seeks to justify the specific amounts sought for individual countries, the Congress will inevitably acquire more insight and understanding of the crucial problems in administering aid programs. With increasing sophistication may come greater comprehension of the need for multi-year authority to commit funds—and a greater willingness to legislate such authority.

Legislating Aid by Regions or Sub-Regions

If legislating aid by country seems too daring a departure from existing practice, its intent might be achieved in part through a more modest proposal. Aid has been legislated by regions in the past; much of Latin American aid is so legislated currently. For fiscal year 1966 and again for fiscal year 1967, the executive branch publicly announced the proposed allocation by region of each category of economic aid sought for administration through AID. Legislating aid by region rather than by functional categories would therefore require only a minor departure from present practice, at least insofar as AID money is concerned. Each region encompasses so many countries that such a change would have only modest effects. Yet it would direct Congressional attention more to whether the present distribution of funds to Africa, Latin America, South Asia, the Far East, and the Near East is consistent with U.S. interests. The present system, on the other hand, tends to rivet Congressional attention on the much less interesting issue of the relative merits of technical assistance and development loans.

The present four large AID regions could be divided into smaller units for the purpose of such legislation. A tentative distribution of the sub-regional appropriations requests by individual countries could be presented openly to the Congress. Legislating by sub-regions would, however, maintain more executive branch flexibility than country legislation. As previously noted, flexibility would also derive from the con-

tingency fund as well as from authority for switching a given percentage of each sub-regional appropriation to another area.

Combined with long-term authority, such a proposal would focus attention on the amounts of money provided by the U.S. to individual countries, the issue that excites most public interest. Some loss of flexibility through such sharing of responsibility with the Congress could prove to be a small price for greater understanding and support of the program.

Concentration and Priority Treatment

Few suggestions for reform have struck a more responsive chord in the ranks of constructive critics than the notion of concentrating aid on fewer countries. Limited aid funds and even scarcer aid personnel would be concentrated in a few "show cases." With a more intensive application of aid resources, the policies of these countries would become more responsive to U.S. influence, their manpower would be rapidly trained, their economic growth would be accelerated, and they would make substantial strides toward becoming viable societies. Their progress would set an example for others who would thereby be induced to meet the eligibility criteria for membership in this exclusive club.

Yet, despite lip service to this idea, and protestations of actual progress, the programs show little evidence of being more concentrated than before. The explanation lies in the concept of concentration itself. Superficially reasonable and sensible, upon closer examination it proves to have little substance and even less logic. Limiting the program to ten countries for development loans and forty for technical assistance, as the Congress ordered in 1966, scarcely serves U.S. interests in peace, security, and viable societies in the Third World. The U.S. balance of payments will suffer and opportunities for advancing trade interests will be lost.

The elimination of twenty small country programs could be achieved without reducing the cost of all U.S. aid by more than 1 per cent. Most of the countries eliminated would be in Africa. These small programs may carry more benefit per dollar to the U.S. economy than any other. Nor are their contributions in Africa and elsewhere negligible to peace and stability. In terms of U.S. interests, a strong case can be made for expanding many such small programs, even at the expense of larger ones. If funds are to be allocated with some regard to benefits to the

United States as well as costs, the case for concentrating on some countries to the neglect of the rest is seriously weakened.

Much of the popularity of the concentration concept is generated by frustration with the seemingly inadequate accomplishments of existing programs. A superficial diagnosis of the difficulty is that too much is being done for too many, with the result that too little is accomplished for anyone. With seventy-odd aid-receiving countries, it appears that the United States is trying to give everybody something. Allied countries get aid as a reward for their friendship. Neutrals are helped in order to render their neutrality more partial to us and less so to our antagonists. Minor Communist countries get help in the hope of weaning them away from the Soviet Union or China. Help is given to aggressive nations in order to gain a restraining influence over their impetuousness. Aid to dictatorships is rationalized in terms of persuading them to the notion of more responsive and more representative government. Those that espouse socialist ideology receive U.S. aid in the hope that they can be induced to give greater scope to private enterprise. Countries get help because they have development plans, because they need inducement to prepare development plans, or because their economies are progressing well despite the absence of such plans. Some need help to encourage them to improve their economic and social policies, while others must be supported because they are incapable of doing so for reasons beyond their control.

Unfortunately, this apparent absence of clear purpose would not be remedied by arbitrarily limiting the programs to fewer countries. More purposive programming is as likely to warrant greater dispersion of U.S. aid funds among countries as to suggest more concentration. Thus, the precise amounts provided to any aid recipient should depend, to some extent, on its size and population and its ability to put additional aid resources to constructive use. It should also reflect such factors as the intensity of U.S. interests and the policies of the recipient as well as the extent of assistance from other sources. A meaningful definition of concentration can scarcely avoid taking all these elements into account. Accordingly, comparisons of the number of U.S. dollars received by individual countries, whether on an absolute or a per capita basis, cannot be very revealing. Without understanding the reasons for the country-to-country variations, it is impossible to identify meaningfully those countries that either should or actually do receive "concentrated assistance."

It is obvious that concentrated aid for a small country will not involve large sums of money. Well over half the developing lands have fewer than 5 million inhabitants each. Their combined population is about 125 million, a fourth that of India alone and not much more than the population of Pakistan or Indonesia, or the combined total for Mexico and Brazil. If concentration is measured in terms of aid per capita, a modest total aid appropriation could service a very large number of countries by selecting the less populous ones. Were all $5 billion of U.S. economic aid commitments in each recent year distributed among the fifty lands with fewer than 5 million inhabitants each, their per capita assistance would equal the relatively large sum of $25 per year. Would such a program be concentrated?

Conversely, large sums are needed for modest aid per capita to heavily populated states. The biggest recipients—India and Pakistan—rank on a per capita basis among the less-concentrated clients. The advocates of concentrated aid appear to recommend larger allocations to such countries.

More significant than the concentration of absolute or per capita sums is whether U.S. aid is so distributed among the less developed countries that some are more generously treated than others relative to their capacity to use U.S. aid for constructive purposes. Is the U.S. aid program testing the limits of the absorptive capacity of some countries? Is it seeking to raise those limits in its eagerness to accelerate the modernization and cohesiveness of some societies, while it is niggardly and passive about offering aid to others?

If this is the test of concentration, most observers would contend that India and Pakistan were already the objects of such a program. U.S. aid between 1961 and 1965 appears to have financed at least as large an operation as the economic and administrative capabilities of these giants could handle—more than they could handle, some would say, without distracting attention from the problems of employing their own resources effectively. Would the advocates of still further concentration ask the smaller countries to stand aside while India and Pakistan are encouraged to chew even more?

Moreover, any theoretically optimum concentration of the U.S. program depends on aid allocations by other donors. Were it possible and desirable to arrange a modern variant of the Congress of Vienna, assigning exclusive spheres of influence in the Third World, individual developing countries could be allotted to individual donors. Even in that

event, small donor countries would be responsible for a few developing countries and the United States would have many. Nevertheless, the number of developing countries fully taken care of by other donors would be larger and the total number of U.S. aid recipients would be smaller.

Whatever the attraction of such an arrangement, the trends have been in the opposite direction for twenty years, and for good and sufficient reasons. Not only is reversal unlikely but acceleration in the same direction is both indicated and probable. The number of newly independent countries has itself multiplied the size of the roster of aid eligibles. As each solidifies its independence, it is bound to seek to diversify its relations with the rest of the world. Moreover, as the former colonial powers see their relative position in former colonies weakened, they are bound to turn to other less developed areas for markets and raw materials, for capital investments, migration, and cultural penetration. Sooner or later, eroding preferential trade and payments relations will be replaced by fully multilateral arrangements. The last reasons for some donors to concentrate aid in former colonies will then have disappeared.

Indeed, the former colonial powers already avow their interest in benefiting from the expected economic expansion of Latin America under the Alliance for Progress. They have willingly, if not avidly, provided guarantied export credits. Moreover, they have been quite explicit about their willingness to enlarge contributions of genuine aid to Latin America, if prior obligations to former colonies, largely in Africa, could be lightened. As for Africa and Latin America, greater U.S. political and economic responsibility in the former, matched by some dilution of its responsibilities in the latter, would on the whole be applauded on both continents.

Virtually all aid is tied, in practice if not in principle, to procurement in the donor country. Heavy dependence on a single donor for a large aid program therefore means heavy dependence for imports on that country. Competition in procurement is at a minimum under tied aid, and experience in both buying and selling in truly world markets is restricted. For excellent economic reasons, therefore, developing countries prefer a multiplicity of donors, the more so as their international experience grows. Political reasons lead them to the same conclusion.

The foregoing factors have led both the United States and the former

colonial powers to provide aid to an ever increasing number of countries. The trend is likely to continue unless and until the number of developing countries themselves is reduced. The Congress may temporarily decree otherwise, requiring that U.S. aid be terminated in all but a handful of developing countries. An unnatural readjustment may thus be imposed upon the aid programs of other donors, as they seek to sustain some countries from which U.S. aid is withdrawn. However, the interests of all concerned would be poorly served. Thus, U.S. aid might be withdrawn from former British colonies in Africa, and sums added to its India program, while the United Kingdom withholds aid from India in order to replace U.S. contributions to East Africa. Such a readjustment would, however, be likely to have but partial and temporary success at best. The U.K. would be unwilling to refrain for very long from participating in aid to India. Nor would either India or the African countries be content with such an arrangement. A likely consequence would be an increasing number of chaotic situations in those less populated developing nations that were deprived of U.S. aid and were not adequately helped by others. For how long would the United States then abstain in the face of such crises as occurred over the past decade in Laos, Jordan, Lebanon, and the Dominican Republic?

As the predominant donor by far—and the only one that acutely feels its global responsibilities for peace and security—the United States should be less concerned about how its own aid is allocated among countries. Rather, it should seek assurance that the allocation of all non-Communist aid follows a reasonably satisfactory pattern. Moreover, its balance-of-payments concerns would be eased and its trade interests helped to some extent, if an even greater dispersion of its own aid program could be agreed upon.

Just as the European position in Africa has become more tenable because metropole influence has been partly diluted by American participation, so too increased European participation in Latin America might well serve U.S. interests on that continent. Some irritations and difficulties would undoubtedly multiply, just as U.S. intrusion in Africa and the Middle East has caused many a European "heartburn." Yet, on the whole, basic European interests in Africa are in a healthier state than they would have been without a U.S. presence, and a progressive expansion in the U.S. role there is probably both inevitable and desirable.

Defined in terms of the number of countries receiving any U.S. aid, the notion of concentration is but another numbers game. It bears further testimony to the urge for gimmickry that has plagued U.S. aid to developing nations, whether in managing programs or in developing public support within the United States. Nonetheless, it is legitimate to ask whether some countries do not deserve priority, though not exclusive, attention in the administration of U.S. aid. It is possible to suggest usable criteria for such priorities and to specify countries.

U.S. interest in giving priority attention to a developing country should meet three basic tests: significance within its area, a basically congenial relationship with the United States over some years, and reasonable prospects for successfully accelerating progress toward viability if only sufficient external resources are made available. On these scores, the United States will have a greater interest in the attainment of a viable society in some countries than in others. In some cases, the United States has reason to expect that a growing sense of nationhood, combined with greater economic and military power, will mean a strong and active ally in the quest for international peace and security. In other cases, an openhanded aid policy would only strengthen regimes that are likely to become less reliable allies as their own strength grows. In still other cases, generous aid programs might only delay the inevitable fall from power of governments that are neither responsive to the needs of their people nor interested in a modernization process that might threaten their own power and privileges.

Most of the candidates for priority treatment under such criteria are obvious, though each one will meet some dissent and some of the omissions may raise a few eyebrows: Mexico, Brazil, Chile, and Colombia, in Latin America; Greece, Turkey, and Tunisia, in the Mediterranean; Iran, the Philippines, Thailand, Malaysia, and South Korea, in Asia; Nigeria in Africa south of the Sahara. These countries would appear to have a legitimate priority claim on U.S. aid resources; provided, however, that they give evidence of need and of ability to absorb these resources effectively.

Countries in this group that now receive little aid because they can demonstrate few fruitful uses should receive special help and encouragement in reformulating policies and improving skills needed to absorb more resources productively. The fact that their incomes or growth rates are already high relative to other countries should be irrelevant in determining their aid allocation. It would be valuable to the United

States to have their incomes still higher and their growth rates still further accelerated. Economic growth at the rate of 10 per cent a year or more in these countries would be in the U.S. interest, if the social adjustments implicit in such a growth rate did not undermine stability and if the fruits of such growth were distributed acceptably throughout the society. U.S. interests would be served if they could put more aid to constructive use.

The omission of India and Pakistan from the list may seem striking, not only because of their size and strategic location, but also because of their record as major aid recipients. They must undoubtedly continue to receive large sums, if only because they are so heavily populated. U.S. interests would scarcely be served by instability and unrest caused by shortages of goods resulting from a drastic reduction in their aid receipts. However, a cautious approach toward their aid program is strongly indicated. They should first come closer to resolving their differences and to establishing a reasonably cooperative relationship with each other, at least on economic matters. Nor should they be added to the priority list until the foreign policy of Pakistan and the economic and social policy of India have been refurbished. Each is devoting far too many resources to arming for a decisive struggle with the other. Neither is receptive to U.S. foreign policy leadership. Both would benefit from a greater emphasis on meeting domestic needs with indigenous resources and with native effort. Size confers on both of them prestige and conspicuousness in the less developed world. When they receive preferential aid treatment despite policy failings, the signal is clearly received elsewhere. Small nations draw appropriate, though certainly unintended, lessons from such a U.S. aid policy.

In terms of their size, population, and regional importance, it would be desirable to add such countries as Argentina, the U.A.R., Indonesia, Algeria, the Congo, and Burma to the list. However, experience suggests caution about their ability and desire to maintain a stable and cooperative relationship with the United States and to put resources to effective use.

The second priority should go to countries that were omitted from the first list largely because they are small and less influential. Those that move toward a significant degree of economic association with neighboring states should be particularly strong candidates for priority treatment. The steps already taken in Central America warrant generous treatment for that area. So would comparable moves in East or West

Africa. Should such regional ideas as the Maghreb in North Africa (Algeria, Morocco, Tunisia) or ASA (the Philippines, Malaysia, Thailand) be revived in the form of concrete action programs, U.S. aid priorities should be favorably affected thereby. An economic association that added Indonesia to the ASA countries would open a major new hope for stability in Asia. Any prospective use of the aid program to help make such an association effective and durable should command special attention. The new economic association of Iran, Turkey, and Pakistan (RCD) also deserves much more constructive attention than it has received.

The preceding suggestions would involve some re-evaluation of U.S. aid priorities of recent years, though the changes would hardly be drastic. Even in the case of priority countries, actual allocations of aid would be modified in the light of the programs of other donors. Countries not included on the priority list neither should be denied aid nor should they be excluded from candidacy for priority treatment. If they receive less generous assistance than their neighbors, the means for redress would be in their own hands—changed policies would produce changes in aid policy. U.S. aid programs should be responsive to demonstrated needs. Some countries, in some years, might thus receive larger sums, both absolutely and relatively to population or per capita income, than countries on the priority list. The U.S. approach in their case, however, would be less active, and the self-help standards applied would be more stringent.

The members of the priority-aid club, on the other hand, would have no assurance of larger sums than nonmembers, since their programs would also be limited to demonstrable ability to absorb more resources. However, the United States would aggressively seek ways and means of speeding their progress toward viability in all respects. It would undertake actively to expand their capacity to use more aid constructively, and it would be prepared to meet reasonable requests for assistance to that end. It would be the donor's purpose that, over the years, their pace of progress should be faster; their assistance would be relatively larger as required for that purpose.

Aid for Slow-Growth Countries

Two further principles for allocating aid have achieved considerable currency. The first would deny support to slow-growth countries; the second would terminate aid to countries that have "taken off" into

"self-sustaining" growth. Together these provide an obverse rationalization for the concentration doctrine, offering economic justification for denying or sharply limiting the volume of aid to all but a handful of countries.

The slow-growth countries are identified by low rates of growth in their GNP, attributable either to limited human capabilities or to inadequate self-help measures. Such countries are deemed either unworthy of help or incapable of using it effectively. Technical assistance is usually prescribed as the only justifiable foreign assistance, supplemented perhaps by funds to finance the construction of educational facilities and power or transportation projects. It is assumed that foreign assistance in large sums would be wasted. Indeed, the populace may be better off without foreign aid, since its absence would force indigenous leadership to improve internal policies.

Where slow growth is the result of government indifference to the fate and welfare of its people, and the government resents and resists foreign advice about its policies, foreign aid certainly has little constructive contribution to make. However, the number of countries where such an explanation manifestly fits the facts is very limited indeed. The reasons for a low economic growth rate are seldom so simple.

The potential value of aid to a slow-growth society depends on the factors that inhibit its progress. Economic growth that escapes the GNP measure may be at least as worthy of support as the expansion of the money economy. Moreover, political, social, or security factors may be the fundamental deterrents to economic growth; they may be very susceptible to amelioration under the influence and impact of resources provided under foreign aid programs. If the society is both stagnant and resistant to all pressures for change and modernization, it is hardly a candidate for significant sums of aid. But if the society is ready to let the winds of change be fanned, it may offer fertile opportunities for the employment of aid money.

If a government is resistant to modernization and the population is passive, an aid program is unlikely to have much impact on the society. It may do little more than increase the country's foreign-exchange reserves. The Marshall Plan had little to offer Portugal, a society that provided few opportunities to the vast majority of its own people and refused to accept the inevitability of independence for its African overseas territories. Paraguay and Haiti are current examples of countries that seek foreign aid for projects yielding lucrative returns to

some members of the ruling elite without disrupting the essentially static character of the society. Special circumstances may warrant small aid programs in such countries from time to time, but the long-range results are likely to be minimal. In such cases, stringent programming of funds is indicated. Critical short-term objectives should be sought in return for the least possible amounts of aid.

Much more numerous are the countries that seek to modernize and progress but appear to be sadly lacking in the prerequisites. Holland, Japan, and Israel have demonstrated that motivation and human skills can compensate for natural resource deficiencies. It is where the skills and motivations are lacking that aid donors foresee and encounter frustration. Yet with time and patience, such countries may also benefit from a significant foreign aid program. Its very existence may be unsettling to established patterns. The impact of aid on the economies of such countries may take longer to manifest itself. Not infrequently, it appears unexpectedly after a period of seemingly fruitless effort. There have been no striking differences in rates of GNP growth between countries deemed ripe for concentrated aid and those considered doomed to an extended period of slow growth.

In the case of Korea, significant economic growth has been sustained over the past few years; optimism about its continuation seems to have a reasonable foundation. Yet until quite recently, Korea was considered to be a country with inadequate human resources and motivation to use aid for purposes other than consumption and sustenance. Only recently have observers restrained their disgust with widespread corruption and focused on the industriousness of the population and its eagerness for education and self-improvement. The focus of observers has changed as years of indigenous effort and a large foreign aid program have begun to show measurable results in the form of a higher rate of growth in both GNP and exports. Neither the corruption nor the industriousness appears to be much different than it was five or ten years ago when observers were so pessimistic about the usefulness of the U.S. aid program.

Afghanistan and Burma are two other countries that have been considered deficient in the human resources required to warrant a major foreign aid program. The former has received modest sums from the United States, largely to counter the penetration of the Soviet aid program. The latter has had little or no U.S. aid for some years. Nevertheless, until quite recently, Burma's rate of economic growth exceeded

that of India and Pakistan. Nor have the South Asian recipients of concentrated assistance raised their agricultural production measurably more than Afghanistan. The latter has multiplied its modest production of power, coal, and cement, and has done much to expand educational opportunities.

The essential lesson is that the existence of adequate skills and motivation to make constructive use of foreign aid is very difficult to identify. Human capacities appear in the most unlikely circumstances where opportunities are created for their employment. A few effective leaders can make a tremendous difference in societies where capable leadership has long been wanting. Human response to opportunity in less developed countries must be treated empirically. Few elements in developing societies have proved to be less predictable.

The large sums of aid per capita provided to such small countries as Jordan, Laos, Somalia, Liberia, and Tunisia have been frequently criticized. Jordan and Tunisia have given evidence of economic progress. The others have yet to achieve much increase in domestic production. All received large sums of aid because of special tensions they faced, either internal or generated by neighbors or Communist countries. All have been subjected to political and social change as a result; aid has facilitated increased education and communication with the outside world. If the economic consequences of such forces are neither visible everywhere nor fully predictable, trends in Jordan and Tunisia suggest the wisdom of forbearance.

To deny aid because of assumptions about human capabilities and purposefulness may be a practical policy if the affected populations remain passive and content in their lethargy. Modern communications being as effective as they are, Communist propagandists being as eager to take advantage of such situations as they are, newly achieved independence being as effective in awakening wants as it is, the policy is very suspect. The number of cases where the indigenous governments can afford to be passive is few.

In recent years, it has been asserted repeatedly that most of Africa south of the Sahara falls into the slow-growth category. Certainly it has received very little U.S. aid. Can we be so sure that its human resources are inadequate to benefit from more?

The African continent has absorbed much larger amounts of aid in the 1960's than has Latin America—in the neighborhood of $1.25 billion per year. The United States has been a minor contributor; other

nations and international institutions have contributed three-fourths of the total. The meagerness of the U.S. role reflects an unwillingness to replace European contributions to the one continent where Europe has continued to accept important responsibility. In substantial measure, however, it is also attributable to the judgment that the human condition in Africa is still not ready for a high rate of economic growth. Therefore, it is argued that U.S. aid resources are not likely to be as fruitfully employed there as in more advanced lands.

Despite the modest rate of economic growth reported from African countries, the foregoing theory is a dubious rationalization for restraining U.S. aid. The European programs, buttressed by modest additions from the United States and the multilateral agencies, have financed a remarkably successful transition of almost two-score nations from colonial rule to independence. Not even the Congo has degenerated into chaos, though the circumstances for such an unhappy outcome could scarcely have been more favorable. Despite pitifully inadequate preparation for independence, despite the absence of the strong integrating political impulse conferred elsewhere by a national tradition, despite the prevalence of tribalism and the arbitrary character of the national boundaries, the new African nations have survived and are progressing. The evidence to the contrary provided by primitive estimates of the rate of GNP growth is not very convincing.

In political terms, the socialist ideology acquired in Europe by a large proportion of the small African cadre of university-trained people has been applied cautiously and empirically. Communist seducers from both the Soviet Union and China have been met with dignified but firm resistance, despite the propitious conditions for agitation and demagoguery.

Most African countries have wisely set their priority emphases on education, training, and public administration, with subsidiary concern for developing their natural resources, transportation, and communications facilities. Such priorities do make it difficult to expand U.S. aid to Africa rapidly. But they scarcely justify the decline that has actually taken place. U.S. commitments, which reached a peak in 1962, fell by almost one-third over the next three years.

African nations need large numbers of personnel and financing for the local costs of construction works. The United States has difficulty in recruiting appropriate personnel. It is reluctant to finance local

costs lest the foreign exchange equivalents be spent on imports from the traditional European sources of supply to the African continent.

Difficulties are, however, not impossibilities. The United States has not been sufficiently aggressive and imaginative in seeking answers to the problems that have limited its aid programs in Africa. It is possible to finance local construction costs and still link increased aid to larger imports of U.S. goods and services. The aid program can be used to introduce to the African continent U.S. goods and services that are fully competitive with those offered by the traditional suppliers. U.S. exporters will require considerable prodding to explore and exploit the potentials of the African market. The market in Africa south of the Sahara is large enough to have actually absorbed some $3.5 billion of imported commodities in 1963, of which the United States supplied but $300 million. Economic as well as political interests point to a larger U.S. role.

Moreover, the total volume of aid to Africa south of the Sahara can probably be progressively increased with considerable effect on their progress toward viable societies. A high rate of economic growth as measured by changes in GNP will take time. As in other countries, it may appear unexpectedly and in unexpected places. Flexibly managed, foreign aid should help bring closer the day when measurably faster economic growth becomes possible. Educational facilities, vocational and teacher training institutions, and research installations will all in time make possible higher monetary incomes. Moreover, communication facilities, transportation, and power installations must be built before the expansion of manufacturing facilities on a significant scale will be possible.

Africans themselves are eager enough for such development but are lacking in the skills and expertise required to plan, design, and evaluate the projects. The aid program needs to provide both initiative and capabilities along these lines unless frustrations and irritations are to grow. The relatively benign evolution of independent states in Africa to date suggests possibilities and opportunities that may not persist unless the countries develop a surer confidence in the material and social progress they can obtain under political independence. That confidence can only come from actual progress; that progress cannot be achieved without significant and persistent outside help over a long period of years.

The Conditions for Terminating Aid Programs

It is understandable that the United States should have entered upon the business of foreign aid with reluctance and with a determination to terminate the programs at the earliest possible date. It is much less understandable that after two decades of experience, it should still bemuse itself with dreams about an early cessation of aid. Its constant experience is that the programs have had to be expanded rather than contracted unless major U.S. interests were to be jeopardized. It has sought to reconcile this experience with its yearnings for early termination by pretending that a rapidly expanding number of "success" stories could be expected.

Success in reconstructing developed countries is encouraging, but it proves little more than that already modernized countries can get along very well without foreign aid once their economies are highly productive and fully operative. Nevertheless, many of them—Canada, Australia, Japan—continue to be persistent net importers of a substantial volume of foreign capital, though they can comfortably service the necessary interest and amortization payments at going market rates.

The three major success stories in less developed lands are more relevant. Their situation is worth closer examination in order to gain a more objective insight into the realistic prospect for an early termination of aid to very many developing nations. The three countries are Israel, Greece, and Taiwan.

Israel is clearly a very special case. Its people were well endowed with skills, aptitudes, and intense motivation for success for the nation as well as for themselves. The hostility of neighbors to its very existence intensified motivations that were already powerful. It received substantial aid from governments and private organizations. It also attracted private investors who were eager to contribute capital and know-how in order to make the new state a success, even though the prospects for profit seemed hazardous. Therefore, despite the necessity for heavy defense expenditures, the rate of economic growth assumed unusually high proportions—over 10 per cent a year for more than a decade. Exports and reserves increased, and per capita output now rivals that of many affluent states in Western Europe. With private contributions as well as some form of reparations continuing, and with capital investment still highly remunerative, U.S. aid has come essentially to represent support for a friendly country surrounded by im-

placable enemies. Every indication points to a continued ability to meet foreign capital requirements from the World Bank, the Export-Import Bank, and private sources, paying the normal market rates of return required by these institutions.

Greece is quite another matter. In the aftermath of the suppression of a Communist rebellion, a conservative government was able to improve living standards with foreign assistance while maintaining a strict control over inflationary increases in wages and benefits to the disadvantaged rural areas. Cultural ties and geographical closeness to industrialized Europe brought a sharp increase in its foreign-exchange earnings from tourists and migrant workers. Political and financial stability encouraged the repatriation of capital. A high rate of economic growth and a persistent balance-of-payments surplus followed, despite a substantial military effort. Aid had been provided largely in the form of grants. The World Bank had refused loans because of continued disagreement about the resumption of service on the country's pre-World War II public debt.

With a strong reserve position and a capacity to service foreign debt, Greece could afford to dispense with aid on concessional terms of repayment in the early 1960's. Accordingly, U.S. assistance was terminated and Greece became a "success story." Nevertheless, the United States has continued to provide military matériel for maintaining and modernizing the equipment of its armed forces, as well as some surplus food sold for local currencies. Moreover, the industrialized countries of Western Europe and the Common Market itself had begun to provide a significant volume of assistance on terms comparable to those offered by the Export-Import Bank. Per capita GNP remained well below the level of Western Europe—and half that reported for Israel in 1963.

Nevertheless, the rate of economic growth was inadequate to consolidate the position of the conservative government. It was defeated in 1963 and its successor sought to fulfill its electoral promises, particularly to the rural population. When the Cyprus problem added to other budgetary woes, Greece again turned to the United States for assistance. The United States wished to maintain a calming influence over Greek attitudes toward Cyprus, but also wanted to avoid announcing Greece's relapse from "success." Because of Greece's unencumbered debt position, the Export-Import Bank and the World Bank were prepared to step into the breach. Military assistance, surplus food, and Export-Import Bank loans together provided Greece with larger new U.S. aid

commitments in the year ending July, 1965, than in any year since 1960.

Taiwan's admission to the "success" ranks is still unclouded, though the circumstances under which U.S. interests might require a resumption of aid are readily conceivable. Loss of the mainland to the Communists brought the Nationalist Chinese Government to Taiwan with a substantial body of skills, international connections, and lessons from recent unhappy experience. Grafted onto an economy whose modernization had been initiated some forty-three years before under Japanese occupation, these assets soon turned Taiwan into a progressive society. Heavy U.S. aid, given without requiring repayment in foreign exchange, made it possible to sustain a large military establishment, introduce a broadly conceived land-reform program, initiate six years of universal free education, and expand investments in the civilian economy. Economic growth was rapid. Moreover, stable government and authoritarian rule helped restrain wage increases, though they did keep pace with rapidly rising productivity. As Japanese wages rose and its economy turned to increasingly sophisticated production, the burgeoning Taiwan economy was able to compete successfully with Japan in selling low-wage products. Energetic and imaginative Chinese businessmen organized new production, and the country's balance-of-payments and foreign-exchange situation blossomed.

By 1963, the Taiwan Government could agree that it no longer needed concessional economic aid. Military assistance continued on a grant basis, and surplus food was provided in return for local currency payments for another two years. Again an unencumbered debt-service capacity attracted lending by the World Bank and the Export-Import Bank. The persistence of low wages and a high rate of return on capital —12 per cent interest continues to be paid freely for short-term loans— attracted further investments, in part by the affluent Chinese business community resident throughout free Asia. Nevertheless, the viability of the society is far from firmly established. Per capita GNP remains at an extremely low level—well below that of Latin America or Malaya and much below Greece and Israel. In the World Bank's classification of countries into four income groups, Taiwan's per capita income would place it in the middle of the second lowest group, "the poor." Its economic expansion was marked by growing inequities in its income distribution. Though the rural population shared reasonably well in the comparative prosperity, the expanding urban population did not. Its

urban slums consist of the most primitive of housing, their growth paralleling increased employment opportunities in the cities. The relationship between the mainland migrants and the native Taiwanese provides another potential source of disaffection.

The prestige of Chiang and the threat from the Communist mainland have provided strong motivation for national effort and cohesion. Over the next decade, such forces for economic discipline and stability may deteriorate, and with them the budget and wage restraint that have contributed so much to Taiwan's improved foreign-exchange position. Moreover, new competitors constantly threaten to enter the international market for low-wage products. South Korea is already in the picture; India and Pakistan are potential threats. A decade of heavy foreign borrowing at market terms could produce a significant burden of indebtedness if the rate of growth in Taiwan's exports recedes. Both internal and external uncertainties therefore suggest a cautious approach to the assessment of Taiwan's success.

The exchange of official letters that marked the cessation of U.S. concessional aid to Taiwan spoke only of a suspension of aid, not a termination. It is the eagerness to claim successes in poor countries that led to more glowing statements to the public and the Congress. The very announcement of the suspension of aid undoubtedly gave further incentive to the efforts of the authorities and populace of Taiwan, as well as confidence to its own businessmen and to foreign investors. Nevertheless, if Taiwan continues to progress toward viability without requiring renewed injections of U.S. aid in the form of further grants or concessional loans, it must be counted as more of a happy circumstance than a precedent for the rest of the Third World.

There are a few other cases of successful termination of aid to less developed countries, but they are marked by special circumstances. Lebanon needed aid for a few years when civil strife led to U.S. military intervention. With the return of political stability, it was able to reinstall a reasonable pace of prosperity and progress, based on an in-gathering of trade, capital, and foreign exchange from its oil-rich neighbors. A major oil strike in Libya brought a rapid increase in its foreign exchange availabilities and reduced to insignificance an earlier modest U.S. aid program. Yet neither of these societies has attained a degree of viability or a sustained rate of social progress that warrants regarding them as permanent departures from the aid rolls. Political crisis brought the need for aid to Lebanon a decade ago, and its re-

currence is not inconceivable. An oil-rich country such as Venezuela continues to make significant use of substantial U.S. assistance. So, too, does Mexico, despite a solid rate of economic growth, relatively high income, and relatively abundant earnings of foreign exchange.

The record thus suggests that less developed countries can experience a reasonable balance-of-payments equilibrium for a period of years without foreign aid. A rapid increase in the number of tourists or migrants, new mineral discoveries, or the successful exploitation of a low-wage market that a more affluent country has left behind can produce a rapid rise in foreign-exchange receipts. Political stability, wage restraint, and wise economic management can combine to restrain the growth of demand for imported goods and services. In such circumstances, economic expansion is possible with little or no aid. Moreover, if the foreign exchange windfall comes at a time when the country has a low debt-service burden, it may continue to import substantial foreign capital from both bilateral and multilateral sources while meeting their usual terms for repaying interest and principal.

In the circumstances that prevailed in the "terminated" countries, aid should have been suspended lest it provide a "disincentive" for continued sound management of the country's finances. However, if income levels are low in relation to those prevailing in neighboring countries; if political stability is seriously threatened, perhaps by the very process of political development that is encouraged by continued economic growth; if conflicts with neighbors turn into open hostilities; if continuing social problems become aggravated and intensified to the point of necessitating major corrective action—a resumption of aid may become necessary. If the country has not overloaded its ability to borrow at market rates, temporary needs may be met with loans. If not, grant aid or highly subsidized loans may have to be resumed. So long as the society itself remains a relatively poor and disadvantaged member of the international community, the United States will have an interest in its orderly progress toward viability—and therefore an interest in providing assistance to meet difficulties as they arise.

To foreclose the possibility of resuming aid is to foreclose what may be—and has been—a major tool for protecting and advancing U.S. interests. The United States may well wish that the problem giving rise to a renewed need for assistance had not arisen. But once difficulties arise, the United States should not forego its ability to minimize damage to its own interests because it has become obsessed with a yearning for

the termination of foreign aid. It should remain wedded to its interests and objectives, not to the available means of furthering them. To do so, it must remain flexible in its choice of instruments suitable to the prevailing circumstances. Where aid is the appropriate tool, its use should not be precluded by preconceived dogma. A preoccupation with claiming "success" stories in the case of countries that continue to be poor and underdeveloped and still far from successful societies in the eyes of their people, may be akin to the cliché about painting oneself into a corner.

13

The Forms of Aid

Over the years, the question of the form aid should assume has preoccupied critics both within and without Congressional circles. The problems of capital projects, technical assistance, and interest rates seem relatively tangible and comprehensible. Poorly informed, frustrated and uncertain about how to register dissatisfaction with the effectiveness of the program, observers formulate and press conclusions about its detailed application.

Brief reflection suggests that such issues are not fundamental to the success of the program. In the long run, the success of foreign aid depends on whether funds are wisely distributed among recipient countries, whether they help turn energies into constructive channels, whether viable societies are in fact established. Whether aid takes the form of food or military equipment, capital construction projects or a broad range of raw materials and semi-finished goods, is subsidiary. Nor is history likely to be much concerned with whether the interest payments transferred from less developed countries were at the rate of 2 or 5 per cent, or indeed, whether any repayment of interest or principal was made at all.

Nevertheless, questions of form are extensively debated. Such controversy has produced a wide variety of legislative and administrative restrictions that often deflect the programs from their proper priority concerns. Most of the restrictions on the form that aid can take poorly serve the interests of the aid-giving nation.

Aid can be provided in the form of any good or service imported by a developing nation. At issue is whether aid programs should finance some imports rather than others, and also how repayment should be made, if at all. Sometimes decisions are based on the domestic political or economic concerns of the donor government. It may prefer to ship

military equipment, foodstuffs, educational advisers, or equipment and services for capital projects because it can readily draw on existing stocks, on excess capacity, or on manpower willing to be recruited for service in the Third World. The donor may also seek to introduce a range of goods or services into the receiving country in order to establish a stronger competitive position for subsequent sales. It may be motivated by the relative ease of obtaining legislative sanction for giving military matériel and food, though the lawmakers are reluctant to authorize shipments of a general range of imports. In this way subsidiary purposes are introduced into the act of giving aid. However, only insofar as primary objectives suffer in the process do these secondary purposes become objectionable.

On the other hand, the choice of one form of aid over another is often based on the erroneous notion that the aid serves the purpose specified, e.g., that food feeds people, military matériel improves defense capabilities, projects and capital equipment increase investment and hence the ability to raise incomes in the future. The high degree of substitutability of money and resources that serves to thwart such intentions has been explained in Chapter 7. The frustration of intentions through substitution is, however, difficult to perceive without analysis; wheat being unloaded in ports and tanks parading in formation are easily observable and are reported in the press, and the public seldom looks beneath the surface. As a result, preferences for particular forms of aid are difficult to overcome.

On the recipient side, restrictions on the form in which aid is received give rise to the bulk of its irritations with the donor. Arranging for substitution may be complicated, in a few instances wholly impractical. Moreover, the administrative structures of developing nations are necessarily less adept and flexible than those of developed countries. To resort to subterfuge in order to obtain aid in the desired form may be both costly in terms of scarce administrative resources and annoying in the face of eagerness to get on with the job of nation-building. If a recipient accepts such necessities as the price of its aid, it will nonetheless resent them.

Sometimes the donor establishes elaborate regulations, administrative procedures, and reporting requirements in an effort to forestall substitution or make it more difficult. Whether effective or not, they create an atmosphere of irritation on both sides. Few donor officials find it either rewarding or pleasant to play the role of policeman, par-

ticularly if the law or regulation they are asked to enforce seems ill advised.

The foregoing generalities will acquire more definite substance in the discussion of specific issues. Suffice it to say that under a rational aid program funds would be allocated to the recipient government in accordance with an understanding about the intended uses of all the resources at its command, whether of domestic origin, earned abroad, or received as aid. Such matters as the allocation of the government budget and the supply of foreign exchange, including foreign aid, would be at the heart of the understanding. The granting of aid would be guided not only by plans for resource use, but also by policies for eliciting response from the recipient's citizenry. Programs for implementing the plans would be no less important than the reasonableness of the proposed allocation of resources.

Where such understanding is achieved, the forms of aid should cease to be an issue. They would flow logically in accordance with the recipient's programs and needs, the willingness of each donor to provide aid in stipulated amounts, and the ability of each contributor to meet some requirements better than others. In this nirvana, most of the issues that are raised in this chapter would vanish. Since their staying power has been amply demonstrated throughout the twenty-year history of U.S. foreign aid programs, they must be considered. Understanding should contribute to their passing, though their complete disappearance will not be easily achieved.

Military versus Economic Aid

The military-versus-economic aid controversy is, in large measure, a re-enactment of an old play on a new stage. Those who incline toward pacifism, disarmament, and antimilitarism would prefer to minimize military forces and equipment, at least in poor developing nations that require foreign assistance. They tend to regard the resources used by military establishments as unproductive and the influence of military people as nefarious. On the other hand, those who fear Communist aggression above all else would prefer to strengthen any military force that might help to discourage and resist such attack. They regard the military aid program as a direct contribution to the defense of the United States.

The first group would reduce military assistance in favor of economic aid, while the latter group would do the reverse. Both biases tend to

exaggerate the separability of military and economic assistance programs. Each group deceives itself in believing that an increase in the military or the economic component of the aid program will necessarily advance its cause.

U.S. policy-makers should reconcile such opposing points of view in fixing priority objectives for each developing country, just as they must in reaching decisions about the needs of the U.S. military establishment. They should decide whether U.S. interests would be better served by a greater or a lesser diversion to the defense establishment of the total resources available to the country, and then seek to convert the government to their point of view. Their success will depend on the amount of assistance they can offer and the skill with which they convey their views. Neither the formulation of balanced policy conclusions nor effectiveness in persuading the recipient government is served by separating the military and economic assistance programs and assigning primary responsibility for each to different U.S. government agencies, operating under varying rules about the terms and eligibility criteria for assistance. Nevertheless, the separation of military and economic aid has gained a wide degree of acceptance.

U.S. foreign aid legislation has always contained a separate title for military assistance and has set aside a specific sum for that purpose. For fiscal year 1967, at the urging of the Senate, the administration proposed a separate piece of legislation for military assistance, ostensibly to dramatize the difference between expenditures for U.S. defense and for the development of poor societies. The official U.S. aid statistics have traditionally divided U.S. foreign aid into military and economic categories. The same distinction has been maintained in all international statistics and discussions of foreign aid. The United Nations excludes military assistance from its figures, as does the Development Assistance Committee of OECD. In international aid consortia and consultative groups, military assistance is excluded from the consideration of either requirements or contributions. It is omitted from global estimates of both recipient requirements and donor contributions. Moreover, unlike most forms of economic aid, the value of military aid never appears in the budget of the recipient government.

In fact, the line between military aid and economic aid is an arbitrary one. Both programs add resources to the recipient society and free its own tax revenues and foreign exchange for other uses. Both programs may purchase similar and even freely interchangeable goods and

services. Either can be used to promote a wide variety of donor or recipient objectives, whether they pertain to national security or to social reform.

Military assistance to developing countries is particularly difficult to differentiate because so little of it consists of expensive and highly sophisticated modern weaponry. Missiles and jet fighters and bombers account for but a small fraction of U.S. military aid to developing countries. Much of it takes the form of operating costs, ammunition and other supplies, maintenance and repair parts, training and construction costs. In the absence of military aid, many of these expenditures would be made anyway, but at the expense of the civilian economy. (See in Chapter 4, "The Reality of Defense Support.") Moreover, military-assistance supplies may be quite similar to those imported under economic aid programs, furnishing petroleum, textiles, and repair parts for automotive vehicles and electronic equipment. Military aid may also provide transportation and construction and communications equipment that is similar or identical to that used in the civilian economy. Light aircraft provided for observation and reconnaissance in internal security programs is often indistinguishable from that used for civilian transportation.

Training programs conducted under military assistance auspices may be confined to the operation and maintenance of complex equipment, though not necessarily. Even if they are, most of the skills—electronics, aircraft and vehicle operation and maintenance, supply management—are readily transferable to civilian application. Trainees may be released from military service and apply their skills in civilian work. Moreover, much of the military training money is used for internal security programs. The difference between such programs and those conducted with economic aid funds consists largely in whether the training is provided to members of the regular armed services or to members of the local and national police forces.

Some of the training money is intended primarily to establish or maintain U.S. influence within the military establishment of the recipient country. Because the armed forces in developing countries are often a crucial vehicle for accelerating or retarding political development, the military training programs can be particularly valuable. Large numbers of military leaders have visited the United States under their auspices, and many have thus gained understanding and appreciation of democratic political institutions. If they have sometimes organized mili-

tary coups, they have also often turned the reins of government back to civilian hands and have acceded in the results of subsequent elections.

The blurring of the distinction proceeds as one notes that economic aid has been used in Turkey to finance a campaign against illiteracy in the Turkish armed forces and that Turkish officers, in turn, have been assigned to teach peasants to read and write. The military-assistance program also helps to encourage and supply "civic action" programs, whereby military units in developing countries are used to construct highways, bridges, and even schools.

What distinguishes military aid is not that it provides goods and services in a unique form that has no civilian application or impact. Much of the distinction is a matter of which government agency has primary control over appropriated funds, whether within the U.S. Government or within the government of the recipient. Military aid involves a transfer of resources by the Department of Defense directly to the military establishment of a developing country.

Administrative separation within the U.S. Government complicates programming the sum total of aid so that its contribution to priority purposes will be maximized. Given the limited utility of the armed forces of developing nations, and the influence of their military establishments, political development should be at least as important a purpose of military aid programs as the capacity to resist aggression. (See Chapter 4.) Military aid's contribution to U.S. influence in some developing countries may be more significant than that of economic aid programs. Moreover, its potential value for importing technical and social skills or for advancing the stability and democratic evolution of the recipient societies should not be ignored. Separating responsibility within the U.S. Government for programming military and economic aid reduces the usefulness of military aid for non-military objectives.

The separation imposes other serious limitations on the effectiveness of aid programming. Military security is a vital ingredient, if not a prerequisite, of viability. On the other hand, excessive expenditures on a military establishment can be wasteful from the point of view of viability. If a large defense budget facilitates aggressive behavior and conflict with neighbors, U.S. interests will scarcely be furthered.

Accordingly, any sizable assistance program to a developing nation should be as concerned with the role, mission, and equipment levels of the recipient's armed forces as with the kind of educational

materials and the justification for the education budget as a whole. The Department of Defense must provide the manpower and skills for evaluating the recipient country's military strategy, for relating its military capabilities to U.S. strategy, and for procuring and delivering to the recipient's armed forces equipment that does not move through normal civilian channels of supply. However, that Department should no more be the final arbiter of U.S. views about the size of a recipient's military establishment or the equipment level of its armed forces than it is for similar decisions about U.S. defense.

Military programs should therefore be subject to the same review and competition for funds as any other government activity. In the recipient country, defense budgets should include the value of foreign military assistance, as do the budgets for other national purposes, whether hospitals or roads. On the donor side, funds should be allocated to the recipient country on the basis of its total need for foreign resources, including military needs. The cost of defense is too large a component in both developing country budgets and the U.S. aid program to be treated as a requirement and a resource apart.

The arbitrary inflexibility of the present arrangement is illustrated by the current U.S. strait jacket in Iran. In the spring of 1964, the Secretary of Defense testified as follows:

> Despite its strategic vulnerability, it seems quite unlikely that the Soviet Union would, in view of our mutual cooperation agreement with Iran, deliberately undertake a major aggression against that country in the near future. The more likely contingency is a covert or ambiguous aggression using dissident elements in Iran or neighboring nations to pave the way for ultimate Communist takeover. In Iran, as elsewhere in the world, the best defense against the spread of Communism is a steady improvement in economic and social conditions, which is the primary aim of our economic assistance efforts. In this connection, the assurance of a continued substantial level of military assistance support has enabled the Shah to concentrate on reforms leading to economic and social progress throughout the country.*

Two years later, new U.S. financial aid had been suspended and U.S. technical assistance was rapidly being phased out. Iran was being primed as another economic aid "success" story. Requests for new military equipment, however, were receiving serious consideration. Mili-

* Subcommittee on Foreign Operations Appropriations, Committee on Appropriations, U.S. House of Representatives (Washington, D.C.: GPO, March 23, 1964), p. 313.

tary assistance remained as a means of maintaining U.S. goodwill and influence within local governing circles, perhaps even as an offset to the decision to terminate economic aid. Yet a military threat seemed even less imminent than two years previously. Both economic and political development had been accelerated, but the populace remained poor and potential sources of disaffection had scarcely been eliminated. The Soviet Union, meanwhile, was providing aid for conspicuous projects in the public sector. (Russian radio broadcasts to Iran compared U.S. arms aid unfavorably with Soviet offers of an oil pipeline and a steel mill.)

The continuation of the military aid program could be rationalized in terms of the Shah's pleasure in modern weaponry. The United States also desired to remain the exclusive supplier of military equipment and to preclude any other foreign influence on Iran's friendly military leaders. Nevertheless, if U.S. priorities in Iran are the acceleration of economic and social progress, economic aid seems preferable to military assistance. The allocation of resources and the character of economic and social policy decisions are the crucial factors in the pace of its progress toward viability. In an autocratic society, misuse of resources and mistaken policy decisions readily occur, if only because of the reluctance of subordinates to express contrary views to superiors. The economic aid program long provided Iranian officials with an argument for better policy decisions—without them, aid would not be forthcoming. Military aid cannot effectively influence Iran's economic and social policies. The maintenance of a dialogue between the U.S. aid mission and the Iranian Government on the use of the latter's total resources should be a priority U.S. objective. Iranian officials are concerned about the loss of foreign support and are eager for the preservation and reinforcement of such a dialogue. The sale of military equipment and the provision of an equivalent amount of economic aid might even have balance-of-payments advantages for the United States. Nevertheless, future U.S. aid is apparently to be confined to the military program while economic aid is to be suspended. The reasons are pertinent to the fact of separate military and economic aid appropriations and to the strategy for obtaining Congressional approval for each of them, not to the fundamental U.S. interests in Iran.

What is needed is a system for allocating aid funds by country rather than by military or economic categories. No one can predict whether the share of the military in local budgets or in foreign assistance would

rise or fall as a result. External events and pressures hold the key to the answer. The conclusion will differ over time and it should vary by country. The object should not be to increase or reduce the role of defense in developing countries, but rather to permit a more rational process for deciding whether the military program is too large or too small relative to other needs. The decision would better be based on which kind of aid serves U.S. interests most effectively in the country in question.

Such a process should provide ample scope for expression by those with pacifist, antimilitarist proclivities as well as those who are perennially preoccupied lest national security be less than absolute. It is such debate that should determine the size of the military programs of developing nations and the extent of U.S. assistance in support of such programs. The programs should not be separately determined and arbitrarily segregated, while the proponents of development and defense sneer at each other's motives. Like it or not, their goals are intertwined.

Financing Budgets, Projects, or Balance-of-Payments Deficits

While planners measure aid requirements in terms of investment gaps and trade gaps, U.S. aid continues to be programmed in terms of budget deficits, project costs, and program loans. Like the trade gaps, program loans are scarcely distinguishable from aid to meet balance-of-payments deficits. A program loan, however, sounds more constructive and reputable than financing a deficit or a gap.

As aid programs have begun to assume the "responsibility for successful societies" character of the Marshall Plan in an increasing number of countries, resort to program loans has increased. The World Bank has also been induced to make such loans, though it must describe them as projects in order to comply with its charter. Whatever the preferred phrase, the recipient receives aid to pay for imported goods, usually a broad range of raw materials, semi-finished products, and machinery. Consumer goods, including luxury products, and some services may also be permitted in a program to finance a balance-of-payments deficit. In any event, the recipient's own foreign-exchange earnings can pay for services and other imports. The Congress has tended to regard balance-of-payments assistance and program loans as something of a necessary evil. Nevertheless, they remain the most sensible and practical way to meet a recognized need for aid.

Most aid-financed imports are distributed in the receiving country

through normal commercial channels; they are sold and paid for in the local currency. The proceeds accrue to the government. Aid thus provides the government with funds that can be used to meet its needs for local currencies. In this way, aid to meet a balance-of-payments deficit also provides financing for a budgetary deficit. The difference between these two forms consists essentially in how the requirement is calculated. If the need is based on the budget deficit, it may exceed or fall short of the amount needed to cover the balance-of-payments deficit. Conversely, meeting the balance-of-payments deficit is unlikely to generate an amount of local currency that precisely meets the budget deficit.

Logically, it is the balance-of-payments deficit that should concern the donor in programming its aid. The management of local currency requirements should properly be the responsibility of the fiscal and monetary authorities of the receiving government. If needs for foreign resources are met, the government should be able to meet its budgetary requirements through tax revenues, internal borrowing, and even creating money. Limited inflation of the money supply should not lead to rising prices if the additional funds can be freely spent to import goods that come into short supply as a result of increased demand.

Nevertheless, aid to developing countries was primarily programmed in the 1950's to meet local currency requirements rather than to satisfy a foreign-exchange shortage. In part, this early emphasis was a heritage of the colonial system. Colonial officials were schooled in a primitive version of fiscal orthodoxy, and were unwilling to let local officials experiment with the sophisticated notion that properly managed budget deficits were permissible and might even be desirable. Colonial administrations operated under strict injunctions about achieving balanced budgets. Metropole treasuries did grant subsidies to the colonies, but budget deficits were permitted only to the extent of such agreed subventions. So long as the colonies were part of the same payments system as the metropole, a deficit in their balance of payments was not a matter for great concern. Indeed, orthodoxy in fiscal matters and preferential trade arrangements tended, in most cases, to produce foreign-exchange surpluses for the metropole.

As former colonies turned to the United States for aid in the postwar period, they instinctively sought financing for their budgetary deficits, the criterion for aid to which they were accustomed. The balance-of-payments deficits on which Marshall Plan aid centered were neither a traditional concern nor were they understood very well in newly inde-

pendent states. Moreover, U.S. aid to less developed countries was itself first concerned with specific government expenditures rather than with stimulating expansion in the total economic and social situation. Usually, it focused on the military budget, though in such cases as the Indochinese successor states and Jordan it undertook to finance most other government costs as well. In such circumstances, U.S. aid was programmed to generate enough local currency through the sale of imported goods to meet the government's needs.

The system soon gave ground for dissatisfaction and became the object of sharp criticism. In a few cases—Thailand, Greece, Vietnam, Lebanon—aid seemed to be converted into enlarged foreign exchange reserves rather than into more imports. Growing concern about the U.S. balance of payments led to tighter programming of economic aid to such countries. The practice of programming more aid than the recipient country actually used to purchase foreign goods and services was hardly defensible on any grounds. Yet in most cases, budgetary aid had no such results; recipients did not increase their foreign-exchange reserves.

Another basic complaint was that financing the budget deficits of independent nations created incentives for poor government. Higher tax rates, more efficient tax collection procedures, and restraint in government expenditures would then lead to a reduction in the amount of aid received. Some governments took advantage of budgetary aid, but they were more conspicuous than numerous. Most governments faced internal political pressures to manage their finances more rationally and more effectively. A government desirous of building durable political support was unlikely to neglect such pressures in order to extract more U.S. aid. Limited capacity rather than malevolence, therefore, accounted for the size and persistence of budget deficits in most cases.

However, the argument that the budgetary aid system penalized superior self-help efforts persisted. In the late 1950's, Greek officials frequently complained that their financial stabilization program of 1954 served to reduce U.S. assistance. They noted that the Turkish Government embarked on a policy of fiscal profligacy at about the same time and thereafter had its aid level increased considerably. Like many an invidious comparison, the argument was based on a half-truth. Per capita, Greece had received ten times as much aid as Turkey during the Marshall Plan period; its per capita aid remained significantly larger than that of Turkey in the years between 1953 and 1959. If the

previous disparity in per capita aid was sharply narrowed, the Greek economy also expanded much more vigorously than did the Turkish. The perverse incentive argument hardly proved itself. As compared with Turkey, Greece benefited from both more aid and higher rates of economic growth after its fiscal house cleaning. Though it wanted more aid than it received, it was not willing to sacrifice the benefits of its sound fiscal policies in order to strengthen its case for a still larger aid program.

Nevertheless, in the late 1950's aid to meet budget deficits fell into disrepute. Nor was there renewed interest in meeting balance-of-payments deficits. Both forms of aid were under attack because they required annual determinations of aid requirements. Negotiations between donor and recipient were said to introduce "political" considerations, rather than to permit aid to flow in accordance with objective needs. Circumventing such discussions also eliminated an important occasion for considering broad economic and political policies jointly with the recipient government. Since the establishment of each year's aid level also created a presumption of continued aid, those who sought an early end to the program preferred the individual project approach to the analysis of prospective balance-of-payments deficits. Policy influence was thus readily sacrificed for smaller aid demands. At this time, project aid was gaining adherents, and the various gimmicks for extracting aid from the Congress overwhelmed all attempts at rational aid programming.

By the beginning of the Kennedy Administration, those who defended extending aid on any basis other than financing individual projects were hard pressed to justify themselves. Yet it was difficult to reconcile the notion of providing aid in support of long-range development plans with the financing of projects and the other gimmickry developed during the immediately preceding years. The concreteness of a project, complete with plaque containing a U.S. shield and clasped-hands insignia, was seductive. A visiting Congressman or citizen could see the tangible result of aid appropriations.

On the other hand, financing imports or government budgets resulted in no visible monuments. Iran had received some $600 million from AID and its predecessor agencies in the postwar period. The economy was flourishing, political stability was much enhanced, and an ambitious social-reform program had been launched. Aid had contributed much to this progress, including the advice and skills of some

2,500 technicians. Yet in 1966 no completed aid project could be shown visitors, and the U.S. role could not be identified.

Tangibility could boomerang, of course, if a project encountered difficulties, as many of them inevitably did. A collapsed roadbed, or a factory unduly delayed in reaching profitable production levels, did obvious damage. Failure always accrued to the aid program; successes were claimed by the local participants.

Moreover, the project approach contained its own perverse incentives. Energies and attention were devoted to preparing large new projects rather than to completing old ones. Furthermore, since project aid shied away from financing local currency costs, local currencies in the hands of both private and public institutions were diverted toward financing new aid projects. Maintenance and operating requirements were sometimes neglected in the effort to find matching local currencies for aid projects. The aid-receiving government tended to set aside those needs that could not be organized in the form of projects with large direct foreign exchange costs. Thus those needs that largely required local currency expenditures—such as housing, education, agricultural credit, and land reform—were neglected.

A bias for providing as much aid as possible in the form of projects still bedevils the effective use of aid funds. Countries that receive substantial assistance in the form of program loans or supporting assistance are not damaged. They also prepare a maximum number of large projects to indulge the known U.S. preference for project loans. In addition, their balance-of-payments deficits are met and counterpart local currency is generated. The U.S. urge for concreteness and visibility is satisfied at moderate cost through a pragmatic arrangement—combining projects with balance-of-payments financing.

The only important damage in such cases is the effect on other donors. Their preference for using aid to develop new markets and to pre-empt large construction contracts transforms the project approach into a matter of high principle. They are quite prepared to let the United States finance current balance-of-payments deficits, at least so long as the aid-receiving country allocates sufficient foreign exchange from its own earnings to pay for service on their investments and credits as well as for the goods they normally export. The U.S. preference for financing projects has thus harassed its endeavors to persuade other donors to accept financial responsibilities commensurate with their interests in individual developing countries. Without rejecting its own expressed

preference for project aid, the United States will continue to have difficulty in persuading other donors to subordinate their very real commercial interests in the project approach.

The project approach does provide the United States with an effective device for rationing its aid to the vast majority of developing nations which have not been deemed eligible for program loans or supporting assistance. Such a country can expect periodic financing for a project or two as long as they are presented in acceptable form. Some years it will get more aid under this system, other years less. To the extent that it requires foreign aid to finance the acceleration of its economic and social progress, the pace will be limited by its capacity to propose suitable projects. It can, of course, become a candidate for balance-of-payments assistance if it can generate a set of policies and programs adequate to satisfy U.S. criteria. The initiative, however, is left to the governments of developing countries, however weak and ineffectual, and however good their policy intentions.

The project approach may build monuments for exhibition to Congressional tourists. It may provide a noncontroversial, though arbitrary, technique for limiting and distributing aid. Nevertheless, its contribution toward promoting viable societies will remain haphazard and sporadic. The United States would do better to revert to an essentially balance-of-payments approach to its aid programs, for it is this approach that provides an opportunity for establishing a dialogue with the government of the recipient country about its general policies and programs.

Technical Assistance versus Financial Aid

The comparative inexpensiveness of technical assistance has always given its advocates a debating advantage. Idealistic partisans are also convinced of its moral as well as its material superiority. Technical assistance does permit a more personal act of giving, a people-to-people approach. It finds expression primarily in domains traditionally associated with social welfare, such as public health and education, farming and public administration. It is a form of assistance that seems peculiarly uncontaminated by crassness and considerations of pecuniary gain. Unlike other forms of aid, it does not lend itself to refined estimates of an economic contribution. Its extension is not dependent on calculations of cost-benefit ratios, as are capital projects. Neither is it sold to individual recipients, as are imported raw materials and

machinery and even surplus food. For these reasons, and because it is relatively inexpensive, technical-assistance appropriations have, over the years, fared well in the Congressional appropriations process. They even escaped the trend toward converting grant aid into repayable loans. Virtually all donors continue to provide technical assistance on a non-reimbursable basis.

For a few years in the 1950's, efforts were made to stretch the scope of the technical-assistance program. Increasing quantities of such demonstration materials as trucks, tractors, and fertilizer began to be programmed as technical assistance. The economizers were soon alerted and the practice was halted. Apart from this brief episode, technical assistance has been narrowly defined, administered, and justified. Technicians have been sent to developing countries and citizens of less developed lands have been sent abroad for training. The goal of technical assistance—the development of human skills—was to be achieved primarily through such temporary exchanges of persons. The equipment, raw materials, even the buildings in which the newly-trained teachers were to instruct, had to be financed by other means. If the recipient country could not supply them, it could seek financial aid, increasingly in a reimbursable form.

Perhaps because of the emotional aura, specific questions have seldom been asked about what this impressively large movement of people is intended to contribute to the less developed world. Few attempts are made to define the precise skills or the specific kinds of training that are needed most or soonest. Even more neglected have been questions about the most effective way to transmit critically deficient skills and knowledge. It is argued that the human inadequacies in less developed lands are so great that any attempt to fix priorities is useless. Any experienced technician is bound to make a tremendous contribution; any foreign training is bound to represent an enormous advance.

U.S. technical assistance has traditionally emphasized four fields of activity—education, health, agriculture, and public administration. Most aid missions conduct programs within these categories. Many also have programs in manpower or labor, civil aeronautics, atomic energy, and police administration. Military training programs, although always financed and managed apart, have also contributed to training civilians in the use of aircraft, transport vehicles, and electronic equipment. Skills needed for industry and public works have usually been handled as part of capital projects, financed either by government aid or by private investment.

Precisely how a handful of American technicians are to go about making the best use of their talents in a less developed country has never been established. For the most part, projects are agreed upon with the recipient government. The host is required to meet at least part of the local currency costs. While assurance is thus provided that the host government attaches some importance to the specified technicians or training, the project itself may be as general as improving agricultural productivity or the agricultural extension service.

An early thesis of American technical assistance discouraged sending technicians to take over an unfilled or inadequately filled operational job. It was argued that their contribution would be multiplied if they trained others to do the job. Teaching native teachers and training local officials thus became the preferred roles for U.S. technicians abroad. An oft-repeated story tells of the bull, furnished under the U.S. technical-assistance program, that refused to perform with a herd of cows, insisting he had been firmly instructed to confine his energies to training local bulls.

The ex-colonial powers had no such reticence and have continued to supply operational personnel. The French, for example, have concentrated on providing large numbers of school teachers. More recently, establishment of the Peace Corps has added operational personnel to the range of U.S. foreign aid instruments. The still newer Executive Service Corps has begun to provide retired business executives for specific short-term assignments.

Experience has shown that more than vocational training is required if progress in the society as a whole is to be accelerated. The general level of education of large numbers of the populace must be raised. Such fundamental skills are essential if a pool of potential candidates is to be available for more specialized instruction. Moreover, the transfer of skills invariably requires additional research to adapt foreign knowledge to local conditions. The development of appropriate strains of agricultural seeds is an obvious example. Research may even be required to develop techniques consistent with local circumstances for maintaining roads and irrigation works or for training teachers.

Perhaps most important of all is the development of institutions to accept, adapt, preserve, and propagate whatever skills are to be transferred. Motivation accounts for much of the success in applying new knowledge, and motivation is largely the product of social environment. The foreign adviser or the teacher-trainer will probably leave before enough time has elapsed to complete the full transfer of his competence.

Often the man trained to replace him may prove inadequate, or may be transferred to another assignment. Even if the training is successfully accomplished, the trainee will lack the professional base and support that provides the foreign expert with both the facility and the incentive to perform well. An organization is likely to prove more permanent and more resilient. A well-organized university can often make a durable contribution, if its proper functions are well defined in the minds of its administrators and faculty alike and if appropriate standards of performance for faculty and students are introduced. Community development programs and savings-and-loans associations can also engender and institutionalize attitudes and techniques for tackling social problems. They are likely to yield by-products reaching well beyond the specific project, and their impact is likely to be durable.

Technical-assistance programs have embraced all these activities—operational and advisory work, training abroad and within the aid-receiving country, research and surveys, as well as the building of new institutions. In 1963, the United States Government had some 6,500 technicians overseas, in addition to some 5,000 Peace Corps volunteers. Moreover, it financed foreign study or training courses for almost 10,700 students and trainees. The countries belonging to the Development Assistance Committee together supplied about 82,000 technicians to developing nations in 1963, including about 20,000 elementary school teachers from France alone. About 8,500 out of the total were advisers, mostly on technical matters. Moreover, some 42,000 scholarships for training abroad were financed by the DAC countries. In addition, the United Nations supplied over 5,000 experts and provided almost 6,000 student and trainee grants in 1963. Other multilateral institutions and the Communist countries added significantly to the numbers of technicians provided and students trained abroad. Both the expenditures and the numbers of people involved have been increasing.

Over and above the problems of what to do and how to do it is this fact of large numbers of persons moving back and forth between developed and developing lands, remaining abroad for periods that vary from a few months to several years. The problems in managing this flow are staggering. They involve locating, recruiting, selecting, transferring, rotating, orienting, funding, reimbursing, and nursing large numbers of individual human beings with personal needs and problems. All of them work in cultural and physical circumstances vastly different from their native habitat.

That the most preoccupying problem of technical assistance administration is essentially one of managing this flow of manpower should not be surprising. Programming such a massive movement of persons so as to meet the most important needs inevitably tends to fall by the wayside. The need for more skills of all sorts in developing lands seems infinite. If an expert is available or a training program is organized, it seems reasonable to proceed rather than await a more urgent or higher priority requirement. It has frequently been said that 90 per cent of AID personnel in Washington are engaged in spending 10 per cent of its appropriated funds. Other donors have similar problems. Nor should the difficulties of the recipients be underestimated. To organize and make use of the technical assistance provided from so many sources is no mean undertaking for governments whose administrative machinery is in the process of development and modernization.

Moreover, it is as difficult to program technical assistance as it is to administer it. The programming of financial aid follows well-trodden paths. The analysis of government expenditures and budget deficits is based on historical data and trends in domestic and international markets. Engineering and economic feasibility studies define the cost and indicate the advisability of a capital project. Economists possess conceptual tools for passing judgment on the allocation of resources; they can at least attempt to improve the statistical data required to use these tools in less developed countries. The political institutions of a developing country are able to produce decisions about how to spend government revenues and how to influence the expenditures of private citizens. Economic development plans are increasingly available to define the amounts and proposed uses for both foreign financial assistance and domestic output. Analytical and statistical difficulties, as well as noneconomic preferences and shortcomings in execution, may prevent money from being allocated wisely or well. However, a framework does exist for deciding how it should be done.

Programming human skills is quite a different matter, largely because men are instrumental in the process. Human values make it difficult to direct needed skills to the right place at the right time, even if they are available. Neither technicians nor trainees can be effectively programmed, even if priority human resource deficiencies can be identified. Basic social values do not inhibit the United States Government from taxing its citizens more and spending the proceeds to meet needs established under its financial-aid programming process. However, such values make it difficult to require U.S. citizens to work

abroad in order to meet programmed needs for human skills—or to require that its educational and training institutions meet the needs of trainees from developing nations. The United States has therefore sought to use an incentive system to attract technicians to developing nations—with indifferent results.

In some fields—like agriculture—it has been relatively successful in recruiting a substantial corps for service abroad in aid missions. The effectiveness of these agricultural experts in adjusting to the radically different cultural and physical environment of Asian and South American agriculture has, however, been severely questioned. Despite a long-continued concentration of U.S. agricultural technicians, the growth in crop yields per acre in such countries as Brazil, the Philippines, Iran, and Turkey has been modest. It is perhaps significant that the Iranian Government has turned to Israel for technical assistance in connection with its land-reform program, despite the fact that it maintains no formal diplomatic relations with Israel. It has preferred to ignore the fact that the initiation of land reform was long a primary policy objective of the U.S. aid mission and that the first experiment in distributing crown properties was undertaken at U.S. insistence. The explanation lies in the ability of Israel to supply agricultural experts of a background and experience that is more relevant to the Iranian problem. The entire U.S. technical assistance program in Iran is to be liquidated by 1967; the termination process is already well advanced. The disappearance of U.S. technicians appears to be largely unmourned, though over the years many of the individuals have made recognized contributions.*

As far as industrial engineers and experts in producing and marketing industrial products in international markets are concerned, the U.S. aid program has had great difficulty in attracting a supply of technicians with even minimal qualifications. Expertise of this sort can find suitable financial incentives from U.S. private investors in less developed countries, but not under the conditions of government employment. Increasingly, U.S. aid-financed projects require the inclusion of arrangements and costs for interim foreign managerial personnel and the training of skilled middle-level and upper-echelon manpower.

* See Jahangir Amuzegar, *Technical Assistance in Theory and Practice: The Case of Iran* (New York: Frederick A. Praeger, 1966). Amuzegar provides a balanced and polite, but nonetheless scathing, critique of the U.S. technical-assistance program in Iran. The indictment is all the more effective for its attempt to identify praiseworthy contributions.

Very little transfer of such skills is undertaken by the technical-assistance program proper.

The United States has perennially experienced difficulties in supplying adequate numbers of the right kind of technicians, as well as in providing suitable facilities for training persons from developing nations. Much thought continues to be devoted to improving this performance. In 1965, the President's Advisory Committee on Private Enterprise put forth a number of suggestions for accelerating the transmission of business skills. The President's 1966 message to Congress on international education and health suggested some eighteen new programs for strengthening U.S. capacity for international education cooperation. However, while the U.S. capacity to provide technical assistance is being expanded, the shortage of individuals and institutions possessing the requisite technical and human skills will continue to frustrate better programming of U.S. technical assistance.

Difficulties in programming and administering technical assistance, as well as its inexpensiveness, deter efforts to use such programs for promoting U.S. tactical objectives. Delaying the replenishment of the pipeline of technicians or trainees is a much less manageable operation than retarding approval for new commodity orders or construction contracts. The individuals will seldom wait if the decision to authorize their departure is held up. Nor is such a delay likely to affect the behavior of the recipient government very much, except perhaps to increase its irritation and its reluctance to respond to U.S. urgings.

Moreover, technical-assistance programs have little immediate impact on the policy flexibility of the recipient country. Seldom will it take, or refrain from taking, decisions that materially affect enduring U.S. interests because of an increase or decrease in the numbers of technical advisers or trainees sent abroad. It is therefore appropriate for the United States to permit such programs to proceed without regard to the policies of the government. Their immediate impact is small. Their significance for the interests of both donor and recipient may be great, but it is remote and unpredictable. Therefore, technical-assistance programs are not appropriate tools for influencing current policy behavior.

U.S. technical-assistance programs grew steadily in every magnitude throughout the 1950's—appropriations, numbers of technicians and trainees, and number of recipient countries. Although the enthusiasm of its partisans did not flag, it nevertheless came under increasing, though subdued, criticism. Many less developed countries, impatient

with the inadequacy or absence of financial aid, turned their annoyance on the ever-present technical assistance program. Many an American ambassador scurried unsuccessfully to identify the important contributions and achievements of ten or fifteen years of technical assistance in the country to which he was accredited. Recipient governments began to query the high salaries and standards of living of U.S. technicians, as well as the special privileges sought for them. U.S. ambassadors began to be concerned about the political liabilities inherent in so large and conspicuous a group of Americans. Moreover, many of the technicians who had been hastily recruited proved less expert or less adaptable than their assignment required. Many were moved from one post to another, in the vain hope that they would find a useful role in countries that were desperately short of knowledge and know-how.

Early in its tenure, the Kennedy Administration therefore sought to give more focus and priority emphasis to the program. To minimize the emotional aura surrounding technical assistance, it substituted the term "development grants" in its initial aid legislation. It sought less funds to permit a thinning of the ranks of entrenched technicians. Aid missions to countries with development plans in operation or in the process of formulation were instructed to gear their technical-assistance programs to the requirements revealed by such plans. Other missions were encouraged to review technical-assistance activities, terminate those whose contribution was dubious or minimal, and seek to concentrate programs on a limited number of larger projects. The number of projects in each country was to be reduced, and the size and scope of those remaining was to be expanded. It was hoped that larger projects with specific goals would show demonstrable results. Even in countries that received little financial aid, a more concentrated technical-assistance effort might accelerate progress in a limited sector of the society. If only one or two technical fields were affected, at least some strong, growing points for change would have been established.

Such well-intentioned reforms might have been effective had it proved possible to define foreign technical assistance requirements within long-range national development plans, or even within plans for limited sectors of the society. However, these plans are rarely sufficiently detailed to specify concrete needs for technical assistance. Indeed, they usually omit the value of foreign technical assistance from their estimates of both the total cost of the plan and the total financial

requirement for foreign assistance. Even where detailed manpower plans have been established, they seldom specify the number of teachers of specific subjects that must be imported, or the number of students and administrators that must be sent abroad to acquire particular skills. They do not identify requirements for research personnel, or for program advisory services on such technical and policy questions as restructuring a government budget or organizing a system of agricultural credit associations.

Thus, India sought $1.1 billion from the aid consortium in 1965. The United States pledged $435 million. Both figures were exclusive of the cost of U.S. technical assistance. An additional $8.5 million was programmed for U.S. technical assistance to India for fiscal year 1966. This sum was intended to finance improvement in technical, engineering, and agricultural-engineering education, and to send members of India's agricultural extension and research services to the United States for advanced training. It was also intended to finance the services of American educators introducing modern methods of teaching mathematics and science to Indian college and secondary-school teachers. For all its elaborateness, the Indian Government's planning does not program the costs of such activities. It implicitly assumes their continuation, together with similar assistance from a wide variety of other national governments, international agencies, and private institutions. The annual cost of all technical assistance received by India exceeds $30 million per year, a 3 per cent addition to its financial aid through the consortium; virtually all of it is arranged on an ad hoc basis by individual ministries.

India's aid pledge could be increased by the value of the foreign technical assistance, permitting the funds to be allocated by the Indian Government in agreement with donors, as is the case for its financial aid. If provided as part of the consortium pledge, the funds would probably be programmed differently. The total spent on technical assistance might well be compressed, if a part of the pledge were not specifically set aside for this purpose. The high salaries and fringe benefits of U.S. technicians would be conspicuous if included in the budget of an Indian Government agency, and the political pressure to minimize their employment would doubtless be intense. Neither the Indian Government nor the administrators of U.S. technical assistance to India are eager for such a budgetary merger of its technical assistance and financial aid programs.

If the aid were nonetheless merged and technical assistance reduced, would it reflect shortsightedness and lack of appreciation of its value, as U.S. aid administrators would contend? Would the damage be more serious than other errors in selecting priority uses for available funds? Or would an aid mission less concerned with selling its technical assistance preferences and capabilities be more influential in affecting India's total resource planning and allocation? Does the very separateness of the technical assistance program, with its demanding managerial and personnel problems, deflect too much attention from the larger and more important problems? These are gnawing questions for which there are no ready answers. Because large numbers of dedicated and articulate people are involved in the fate of the technical assistance program, and because its administrative problems are difficult and different, it clings persistently to a separate existence.

For example, years of concentrated technical help to the Indian agricultural extension service have had little apparent impact on India's agricultural productivity. The quality of the assistance was high; meager results suggest that the effort may have been misdirected. Defenders suggest that the difficulties rest with the intractable nature of the problems of Indian agriculture. They may also stem from the failure to associate with this effort such items as better pricing policies for fertilizer, better provision for fertilizer supplies, and more investment in small-scale irrigation facilities. In neighboring Pakistan, such association appears to have produced significant results. If this diagnosis is correct, the blame lies not with the technical assistance program but with failure to use the leverage of financial aid to influence reforms in Indian agricultural policy. Policy changes in 1966 may, in fact, serve to validate many years of technical assistance to Indian agriculture that appears to have borne little fruit hitherto.

Instead of exaggerating logical problems emanating from separate programming of financial aid and capital assistance, perhaps it would be better to recognize and accept the inherent and unavoidable differences in programming and managing these two kinds of assistance. They merge in the case of capital projects whose proper execution requires the importation of skilled personnel and the training abroad of local people to operate the completed project. Such cases are now treated as financial assistance, with the technical assistance component an essential element of the responsibilities of the general contractor of the capital project.

However, technical assistance has come to mean skilled experts and training not specifically related to a particular enterprise. It may properly be described as contributing to social overhead. Such assistance involves independent manpower management problems that need to be treated apart from the management of financial aid programs. Separate programming is an inevitable counterpart of the different methods required to meet needs. Different skills, experience, and sensibilities are involved in the programming and management of continuous large-scale exchanges of human beings. Perhaps both financial and technical assistance are more effective under independent management. Coordination can minimize such inconsistencies and conflicts as may result; combination in practice seems to result in lesser effectiveness of both programs.

Private Investment, Private Enterprise, and Public Aid

A preference for private investment is deeply ingrained in both the theory and the practice of U.S. foreign aid programs. (See Chapter 8.) This preference is supported by a variety of motives and interests. They combine—and they confuse—convictions about the value of private enterprise with practical interests in U.S. foreign investment.

On the most mundane level, the more needs of developing nations that can be met by private capital, the less will be the reliance on the arduous process of Congressional appropriations and on the creaky machinery of foreign aid administration. Less frequently articulated is the fear that nationalist governments might mistreat or discourage foreign investors if government-to-government aid were adequate to replace private capital. Though U.S. private investment in less developed countries is quite modest, corporations and individuals expect and receive the protection of their government. Even more muted is the realization that U.S. investors abroad prefer to use U.S. suppliers in satisfying needs for imported equipment and materials. Increased American investment should therefore open new export outlets for U.S. products. The economic interests of the United States Government and its citizens seem to converge in recommending promotion of private investment in aid-receiving countries.

However, overriding and reinforcing such egoistic motives is a strong preference for encouraging private rather than public enterprise in developing nations. It is not founded on whim or concession to the political influence of powerful U.S. business interests. It stems from

America's own experience, fortified by observation of events in the developing nations themselves. Not only is government administration in general notably ineffectual in poorer nations, but the production of goods and services under government ownership has proved to be particularly inefficient and unenterprising. It is in public enterprises that minimizing costs becomes secondary to handing out sinecures to friends and political supporters, hiring workers for patronage purposes, and purchasing prestigious equipment. Moreover, the emergence of a class of private entrepreneurs and the expansion of an urban middle class seem to hold the key to social stability and economic progress, as well as to resistance against Communist political influence, to higher rates of investment, and to more productive use of resources.

To give expression to such objectives, U.S. aid programs have used persuasion and incentives. Congress has added the threat of terminating government aid in countries where U.S. investors are expropriated. Aid missions and embassies have sought to induce better treatment of existing foreign investors and the promulgation of laws and policies to attract new ones. In addition, U.S. investors have been offered an ever-growing variety of subsidies and subventions if they would venture into aid-receiving lands. The United States Government, as well as the World Bank and its affiliates, have developed numerous techniques for sharing much of the risks of such investment.*

On the whole, financial assistance has been denied to manufacturing enterprises that were either established or proposed for operation as government businesses. Public enterprise has received aid freely from both the bilateral program and the World Bank, but only for "infrastructure" projects—dams, highways, irrigation projects, railways, and educational facilities. It has come to be accepted that private capital resources in developing countries are insufficient to finance such infrastructure, which is not only costly but indispensable if private enterprise in manufacturing and trade is to prosper. Apart from infrastructure projects, however, aid has not been available to finance public enterprise.

Implicitly, aid programs have thus accepted the inevitability of "mixed economies" in developing countries. In the West, an experimental and pragmatic attitude has evolved concerning the precise nature of the "mix." As aid donors, however, the same states have often

* See M. N. Whitman, *Government Risk-Sharing in Foreign Investment* (Princeton, N.J.: Princeton University Press, 1965).

sought to draw a precise line between public responsibility and private enterprise in aid-receiving countries.

No less than other donors, the United States has regarded its concern about its own foreign investors and about the evolution of private enterprise in poorer lands as one and the same thing. There is little justification for such a view. Conflicts between indigenous entrepreneurs and foreign investors have characterized virtually every society in which economic growth has accelerated over an extended period. Once a native class of entrepreneurs becomes established, it begins to cast a jealous eye on the opportunities pre-empted by earlier foreign investors. U.S. foreign aid theory has ignored this experience.

Four points must be made with regard to encouraging private enterprise in less developed countries. First, raising the rate of domestic savings in poor countries usually requires liberal use of the government's taxing powers. An adequate rate of voluntary private saving is difficult to induce where living standards are low, and where private savings tend, in part, to be placed abroad. Only in exceptional cases can private domestic savings be expected to finance a suitable rate of growth in manufacturing facilities.

Second, if rapid progress is to be made toward viable societies, the tax revenues and private savings of developing lands must be supplemented by a significant flow of tax-originated funds from higher income lands. Barring exceptional circumstances, foreign private investment will not sustain a prolonged net inflow of resources into a less developed country. The larger the flow of private capital—and the more productive and profitable it becomes—the greater will be the need for government aid and the longer the period before such public aid can be suspended. U.S. aid ideology has evaded this reality, largely to avoid offending the foreign investment community.

Whatever the degree of public risk-sharing, private investors will forego the opportunities of a prosperous developed world for the more difficult environment of less developed societies only if they expect to earn rates of return that correspond to the greater risks, uncertainties, and complexities. For a time they may reinvest the bulk of their earnings, but before long they will wish to repatriate a substantial fraction. Repatriable earnings originate from both the initial inflow of capital and the reinvested earnings; a significant volume of new private investment will therefore be required each year to offset such repatriation. To maintain a large net flow of private resources, the rate of

growth in gross private investment must be very high. The compound interest principle yields much if it is based on a high rate of return; without such a high rate of return, private capital will not move to developing countries.

Though U.S. investment in developing countries is not yet very large, the cost of repatriating investment income already more than offsets the net investment of its private citizens. While its private direct investment in all less developed countries increased by some $1.4 billion in the two years 1964 and 1965, repatriated investment income from the same areas totaled about $4.7 billion. U.S. petroleum interests in less developed countries now earn substantially more than the cost of new investments, accounting for three-fourths of the repatriated earnings. As for other U.S. private investment in developing nations, income repatriated to the United States in 1963 and 1964 just about equaled the net flow of new capital.

Petroleum production is almost entirely exported. Its sale finances an increasing volume of general imports and investment in the producing country, as well as repatriable income for the investor. Other investments, however, produce goods primarily for the domestic market, frequently using a relatively high proportion of imported materials and equipment in the production process. They may reduce the need for imports, but such savings need not offset the rising volume of repatriated earnings. Certainly they are substantially more burdensome to a country perpetually short of foreign exchange than a similar investment of public funds provided as a gift or at low rates of interest and with twenty-five to fifty years for repayment of principal.

Third, both foreign aid and domestic tax revenues are used primarily for public rather than private investment. Governments do make loans to private investors. AID provides some direct financing for private projects—about $100 million in 1965, out of its total commitments of $2 billion and loan commitments of about $1 billion. In addition, AID authorized $46.5 million of loans to local credit institutions for relending to private borrowers. For the most part, however, aid funds are used to finance public expenditures, either of a consumption or an investment character.

The reasons have less to do with the prevalence of socialist ideology in developing countries than might be supposed. In large part the explanation is the inadequacy of local tax funds to meet needs that are universally regarded as the proper province of government. That

province must include the so-called nonrevenue-producing expenditures of government, such as education, defense, and highways. In developing countries, it must also include revenue-producing infrastructure. It may also have to extend to investments in manufacturing, particularly those that require large initial sums.

Few less developed countries have a class of native entrepreneurs ready to assume the risks of large investments that do not promise high returns within a few years. Even Turkey, with a long history of independence and even empire, is woefully deficient in this respect. Anti-Communism and antisocialism have been unrelieved in that land for half a century. State industries were started under Ataturk for lack of private entrepreneurs rather than because of any socialist predisposition. Until very recently, trade was largely carried on by minority groups and foreign residents. It is perhaps no more than a decade since Turkish merchants began to invest their capital in productive enterprise other than trading inventories and real estate. A new native entrepreneurial class offers much promise for the future development of the country. For the immediate future, however, its numbers and capacities are limited, despite the availability of financing provided out of both tax and aid funds.

Meanwhile, a long-established bureaucracy with a proud tradition has managed a large number of state enterprises, including public utilities and manufacturing concerns. These enterprises have been neither efficient nor profitable, but they have functioned. In recent years, the Turkish bureaucracy prepared a number of large projects to be undertaken within the state sector, but the United States and the World Bank have been unwilling to finance them. Many government officials have resented what they consider to be a doctrinaire refusal to establish needed industries because of the lack of private entrepreneurs. Recently the Soviet Union offered to finance these projects; serious negotiations were under way in the spring of 1966.

The Turkish situation is far from unique. Many developing countries are unwilling to let the development of industrial facilities wait upon the appearance of private investors. Since the Soviet Union is ready to take advantage of any opportunity to weaken U.S. influence, withholding aid fails to serve the U.S. interest in promoting private enterprise. In some countries, U.S. doctrine has met with an equally dogmatic insistence on reserving certain industries to the public sector. In instances such as Turkey, its private enterprise preferences are confronted

more by an absence of indigenous entrepreneurs than by socialist prejudices.

Finally, due to a country's nationalist biases, public enterprise is frequently preferred if the only practicable alternative is foreign private investment. In some cases, a reserved attitude toward foreign investors may reflect the continued importance of expatriate capital from a former metropole. Or it may be the product of long foreign domination of a prominent sector of the economy, as in Latin America. The manifestation of reserve seems to be universal, in developed as well as in less developed countries. (See Chapter 8.)

All the foregoing difficulties call for the development of native private entrepreneurs, who will save, reinvest, and demand a share of the government's aid and tax revenues for their enterprise. They become more effective partisans of a private enterprise system than a foreign aid mission can possibly be. With such a class, nationalism becomes the ally of private enterprise rather than its antagonist. Even foreign investors will seem less threatening to national independence if their share in the nation's economic life is smaller. Nevertheless, as indigenous enterprise becomes stronger, aid programs will encounter a growing conflict between their interest in seeing private enterprise flourish and their interest in U.S. investors.

Spurring indigenous nongovernmental enterprise has received some belated recognition, but it deserves a still higher priority in U.S. aid programming. Hitherto, it has been done primarily by refusing to finance public investment in certain sectors and by insisting that foreign capital be invited if local entrepreneurs were not available. The private investment promotion policy has been modified to encourage particularly the formation of joint enterprises with local citizens. Development banks to finance local private enterprise have become an increasingly popular aid instrumentality. Where such policies meet with understanding and lead to positive results, they should obviously be continued. Even so, however, they should be supplemented by direct efforts to enlarge, improve, and encourage the private sector of local society.

The use of program loans has helped a few countries to remedy the difficulties experienced by private business firms in importing raw materials, equipment, and spare parts required to modernize their businesses and operate them at rates that are closer to capacity. More

countries should receive similar assistance in breaking the foreign exchange bottlenecks imposed on their private business firms. However, local currency financing is frequently a much more important limitation on private enterprise. More of the local currency counterpart of foreign aid should be made available to local enterprise, whether directly or through intermediate credit institutions.*

The 1965 Report of the U.S. Advisory Committee on Private Enterprise in Foreign Aid maintained the traditional merger of private enterprise and foreign investment in American foreign aid ideology. However, it also explored with imagination and ingenuity the possibilities of encouraging domestic private enterprise in developing nations, apart from foreign private investment. Among its recommendations may be found suggestions for subsidizing the export of managerial and technical skills; for emphasizing educational programs within foreign aid programs, with greater stress on using U.S. nongovernmental entities such as unions, cooperatives, professional societies, and universities; for promoting management schools and vocational institutions; for eliminating disparities in using both AID and Export-Import Bank authority to promote the export of personal services as compared with the export of goods; for the use of AID funds to finance research in less developed countries related to their agricultural, industrial, and administrative needs. Such proposals deserve active support.

The export of skills in private enterprise and the support of nongovernmental institutions for promoting economic and social progress promise more results and fewer difficulties than the export of private U.S. capital to developing nations. The more local entrepreneurs are ready, willing, and able to establish new businesses, the easier it will be for aid programs to finance private rather than public enterprise. The stronger and more numerous nongovernmental institutions become, the greater the possibility of relying on them to meet the requirements of a progressive society. If U.S. interests require maximum scope for private enterprise, aid programs must seek to enhance the capabilities

* See Raymond F. Mikesell, *Public Foreign Capital for Private Enterprise in Developing Nations*, Essays in International Finance, No. 52 (Princeton University, April, 1966). Mikesell makes a persuasive case for a more flexible policy on the part of AID and the World Bank in financing local industrial development banks.

of men and institutions in developing societies to function with some degree of independence of the central government. The public sector of their "mixed economies" can best be limited by creating and strengthening alternative vehicles for social advance.

Loans versus Grants

It is an anomaly of postwar U.S. foreign economic policy that aid to developed nations was largely provided in the form of grants, while aid to poorer countries is offered increasingly in the form of loans. Although this practice can be defended, the suspicion remains that it is the result of rationalization, or perhaps of jood judgment, as well as being grossly unjust.

The developed countries received most of their assistance in the years immediately following World War II. The World War I debts still owed the United States by various European countries had poisoned the political atmosphere of the interwar period and hampered the revival of healthy international economic relations. In 1947, the success of the Marshall Plan seemed problematical. By the mid-1950's, it had become obvious that most European countries could have repaid Marshall Plan assistance at market rates of interest, without serious adverse results on either their internal economies or on international trade and payments. The U.S. balance of payments would certainly have benefited, and U.S. aid to developing nations might have gained domestic support, larger appropriations, and fewer undesirable conditions.

Nevertheless, even had the Marshall Plan been conducted entirely on a loan basis, repayment of principal and interest would hardly have ranked among the primary purposes of U.S. aid to Western Europe. Nor did the lack of repayment—except on a small fraction of the total assistance—diminish the success of the plan. Its principal goals were achieved. Repayment would have been a welcome bonus, but it was the regeneration of the political and economic life of Western Europe that represented the principal recompense for the U.S. contribution.

As the 1950 decade advanced, determination grew not to repeat the Marshall Plan's failure to provide for repayment of principal and interest. In the 1960's, that determination has been vigorously applied to U.S. aid programs. As late as calendar year 1960, only 12 per cent of gross U.S. expenditures on bilateral economic assistance to developing countries was repayable in dollars; the figure had grown to 45 per

cent of new commitments by 1965. The proposed gradual shift of the food sales program from reimbursement in local currency to repayment in dollars promises a still further increase.

These changes were intended to facilitate aid appropriations, not to take advantage of radically enhanced debt-service capacities. The capabilities of developing nations to service foreign indebtedness showed little improvement. Between 1956 and 1963, exports of all developing countries combined increased by $8.7 billion, but imports rose by $11.6 billion. Demand for imports regularly threatened to outstrip growth in their combined foreign exchange earnings and aid receipts.

Nor was there any reason to take a more optimistic view of their prospective capacity to repay. Europe's shift to a dollar surplus position demonstrated the hazards of balance-of-payments forecasting, though it scarcely provided much basis for expecting the developing nations to follow suit. An experienced economic forecaster would scarcely predict with assurance that any particular country would be able to service a large increase in foreign indebtedness two to five decades in the future. Exports should rise, but would the need for imports expand less vigorously? Restraining long-term growth in the demand for imports depends more on the stability of the society and the effectiveness of its political leadership than on economic considerations. Thus it seemed expedient to substitute the more politically acceptable loans for the increasingly repugnant grant programs. The indebtedness of most developing countries was still small when the theoretical premises of the loan program were formulated. Debt-service payments would make little difference in their situation, particularly if limited to a small proportion of their foreign exchange earnings.

Some argued that if the debt-service burden grew too large and repayment proved impractical, arrangements could be made for refinancing or even cancellation. A few felt that the necessity for such arrangements might be desirable in any event, providing inexpensive leverage for advancing the political or trade interests of the creditor. On the other hand, as the case of Europe had demonstrated, a grant could not be converted into a loan at a later date. Even in the poorer lands, an oil strike at some distant date might confer real value on otherwise worthless debts. Not surprisingly, in view of their own

experience, the Europeans and the Japanese were particularly insistent on using loans rather than grants in the assistance programs they had begun to mount.

The cynical arguments for replacing grants with loans were reinforced by some rather elaborate theorizing. The notion that recipients harbor borrowed money more solicitously than gifts achieved the status of revealed truth. Loans were said to teach difficult but necessary lessons about handling money, while grants encouraged habits of dependence and slothfulness. Those loans that were to be used to finance a well-elaborated development plan were assumed to be particularly productive. It was therefore postulated that loans should generate a greater capacity to repay. At least, they should mean a more rapid increase in production. Larger output, in turn, would lead to rising exports and greater repayment capacity.

Moreover, less developed countries themselves were increasingly drawn to accept—and some even to prefer—loans because they seemed to provide assistance with minimal derogations of sovereignty. The loan as a business transaction was contrasted with the grant as a political arrangement. Moreover, donor participation in the management of the local currency counterpart was less appropriate in the case of a repayable loan than it was in the case of grant aid.

The difficulties of repayment created few inhibitions in the borrowing governments. They no longer feared the landing of Marines to collect unpaid bills. If they could not repay, they expected the creditors to arrange a consolidation and extension of their repayment obligations that would permit them to honor debts without compromising such major domestic objectives as defense, political stability, and economic growth. Such expectations have, in fact, been fulfilled in the case of a growing number of debtors who have faced repayment crises in recent years. In 1964 and 1965, Turkey, Brazil, and Chile had to be bailed out in this fashion. Ghana, the U.A.R., and Indonesia faced 1966 desperately overcommitted to financing debt service charges.

The number of such crises is likely to multiply over the next few years. Indeed, they bid fair to become the principal "growth industry" in the foreign aid field. The President of the World Bank, the Managing Director of the International Monetary Fund, and the Chairman of the DAC have all issued repeated warnings, backed by elaborate staff studies and firsthand acquaintance with recent trends and incipient

problem situations. AID itself issued a study of the subject, *Loan Terms, Debt Burden and Development,* in April of 1965.

Despite all the warnings, neither borrowers nor lenders have shown much evidence of more cautious behavior. The lenders are aware of the need for more capital in developing countries. Indeed, they must continue to lend at an ever faster pace if the borrowers are to make any pretense of meeting interest and amortization installments on old loans. The borrowers need assistance. With limited access to grant funds, they prefer to allow the lenders to finance their repayments whenever the burden becomes excessive.

The fault clearly lies with both parties to the transaction. Few borrowers accept loans in bad faith. They exhibit every intention of repaying if they can; they exert themselves to make repayments on time insofar as they can do so without undermining the progress of their countries. However, they assign no higher priority to debt service than do their creditors.

Lending governments want the obligations to be honored, but the receipt of interest and amortization is less important than their interest in peace, security, or even export markets. They are no more prepared to adopt drastic measures to collect than the borrowers are to repay. Nor should either the lending or borrowing governments be criticized for such attitudes. Both are reflecting valid priority interests. Both recognize the circumstances and implicit assumptions that underlay the original loan transaction—better to borrow or lend and hope for the best, than do without.

The initial U.S. shift to lending recognized that the loan terms would have to be "soft." Softness had been achieved as early as 1954 when the United States accepted local currencies for surplus food sales. These local currencies were largely to be lent or given back to the "purchasing" country. Between 1958 and 1962, the U.S. Development Loan Fund offered loans against repayment in local currencies, a procedure similar to local currency sales in that it raised few balance-of-payments problems. The resulting accumulations of local currencies held by the United States Government proved so large as to threaten a U.S. monopoly of the national money supply in some countries. A potential threat to the political sovereignty and economic stability of the aided country seemed in the making. The prospect of multiplying and continuously exacerbating this situation led to the progressive abandonment of the local cur-

rency device. Local currency loans were substantially brought to a halt in 1962; local currency food sales are to be terminated in 1970 under the Food for Freedom legislation offered in 1966. In their stead, loans are being offered that require repayment in convertible currency. However, the terms of repayment to the U.S. Government have been eased substantially. Ten-year grace periods and low interest rates have prevented AID loans from creating any debt-service problems thus far.

Had other lenders been willing to follow suit, the debt-crisis problem might still be a decade or more in the future. However, for the most part they have insisted on much harder terms on government credits. They have also vastly expanded their guarantees of private export credits, which call for repayment terms that are twice as hard as those on their loans financed out of tax funds. The ten-year grace period on large AID credits permitted borrowers to incur and meet obligations to other creditors in the meantime. A ten-year exporter credit would be completely repaid before anything more than nominal interest payments were due on a large AID loan containing a ten-year grace period. Such soft loans made possible repayment on old loans as well as new ones on "hard" terms. Exporters found it easier to obtain financing for their sales to major AID recipients, even if they offered longer than usual deferred payment plans. Soft lenders thus found themselves facilitating the exports of other countries and financing debt-service payments to other creditors. Much of the value of their soft repayment terms would be lost in the process; some has already been lost.

Progress in softening the terms offered by other lenders has been distressingly slow. Meanwhile the U.S. Congress has progressively hardened the terms on which soft AID credits are available. It has thus found a subtle technical device for critical attacks on the aid program itself and on the foreign policy it seeks to implement. Raising interest rates a few percentage points provides a less immediate threat than reducing appropriations, but such actions in 1963 and 1964 reduced the ultimate value of AID loans to developing countries by a fourth.

Had other lenders offered terms as soft as those given by the United States, the Congress would have found it more difficult to raise interest rates. On the other hand, it is difficult to contravene the view that the U.S. Government should have its full share of such debt service as developing countries can afford each year. Without comparable terms of repayment, equitable sharing of actual debt-service payments cannot

take place. Inequitable sharing of debt-service payments added further to older U.S. grievances about inequitable sharing of the burdens of free world security and the cost of foreign aid programs.

However, progressive hardening of lending terms can only advance the date when the entire structure of excessive debt owed by poor countries must either be rebuilt or reinforced. The periodic patching that has worked thus far can hardly endure in the face of progressively heavier payment obligations.

Cries for an international conference on such indebtedness are recurring. While they have been premature to date, the facts suggest that broad-scale action can hardly be long delayed. The outstanding debt of developing nations rose two and one-half times in eight years after 1955, while debt service multiplied three and one-half times. Payments on debt service rose from 3.7 per cent of total export earnings to 9.1 per cent. A decade ago, the World Bank was most reluctant to lend any further amounts to a country whose existing debt-service burden exceeded 10 per cent of its earnings. The AID estimates that the average ratio for all developing countries combined will exceed 13.5 per cent in 1975 if further lending takes place at present average terms. If U.S. terms rise to the average rates now charged by other lenders, the burden of debt service will approximate 24 per cent in 1975.

Wide variations already exist among the debt burdens of individual developing countries. The countries that have received most government loans to date are all at 15 per cent or more. Those that previously received grants of aid and made little use of credit—for instance, Tunisia, Pakistan, and Nigeria—are in a somewhat stronger position than countries such as India, Brazil, and Chile. At their present rate of borrowing, however, debt-service problems will not long be postponed. Compounding the damage is the discouragement of new private capital flows as debt service becomes an increasingly acute problem. The prospects for repatriating future earnings on private investments will hardly become brighter as debt-service crises multiply. With such horizons, repatriation rather than reinvestment of earnings is apt to be stimulated.

The logical answer to these difficulties is the cancellation or reduction of old debts and a return to grant aid for countries pursuing reasonable policies but experiencing balance-of-payments difficulties. Public grant aid, combined with a reduction in the annual cost of servicing old debts, would make such countries more attractive to private capital. It

would hasten the day when it might be appropriate for them to turn to those public lenders whose function it is to lend to foreign countries at market rates of return, such as the Export-Import Bank and the World Bank proper. Grants would obviate the abortive struggle among some developed countries for markets through the essentially uncontrolled use of export credit guaranties. They would also weaken the rationale for preferring project aid to aid that is related to balance-of-payments and budgetary deficits.

Furthermore, it would reduce the need for the futile debt conferences that threaten to clutter international relations. The futility of the conferences stems from the inability of the debtor to pay and the unwillingness of the creditors to take stern measures to require repayment. The business of the conferences is largely a matter of dividing up among the creditors the costs of refinancing uncollectible debts. The new terms they set for the debtor are bound to be unrealistic because the creditors are reluctant to admit the full extent of their past errors. New credits are offered so that the debtor will agree to accept interim responsibility for debts he cannot handle otherwise. Even if the new aid is offered in the form of repayable loans on fairly soft terms, the ground will probably have been laid for another conference. Brazil, Turkey, and Argentina have already been the subject of more than one such affair.

However, the return to grant aid finds few advocates, even among those who have become alarmed by the debt-service problem. The shift to lending was heralded by elaborate fanfare and self-righteous statements about the moral superiority of loans. To reverse a fairly recent change in public policy is an extremely difficult political exercise, the more so when a basically unpopular program is at issue. An attempt at such reversal could be dangerous to the program itself. In the spirit of gimmickry that threatens to become a tradition for the foreign aid program, it is assumed that the realistic course is to find a way to live with aid in the form of loans.

If this chosen course gave promise of being successful, there would be less cause for complaint. However, the Congressional adversaries of foreign aid have already seized on the hardening of repayment terms as a promising way to achieve their ends. If they continue to meet with success, they will accelerate the advent of debt crises and multiply their number. Growing public debt burdens and smaller aid appropriations can scarcely have any other result. Gross aid flows have been constant since 1961. As a result of rising subtractions for debt service,

they meet an ever smaller proportion of the requirement for foreign capital. As the net aid flows become an ever smaller fraction of the gross, the aid-receiving countries will be increasingly tempted to throw in the sponge. Defaults on debt-service requirements and restrictions on the repatriation of earnings by private investors will recommend themselves increasingly as the way out of such difficulties. The policy influence of the foreign aid program will be restricted by the fact that so little of its apparent value is available for new expenditures within the recipient country. Such success as aid programs have achieved to date will begin to erode. Yet it is difficult to ask the Congress continually to appropriate larger aid funds in order to permit the service on rising debts to the U.S. Government; it is indefensible to seek such appropriations to finance the servicing of debts to others who are capable, if reluctant, aid donors.

A more optimistic view is that the hardening of U.S. aid terms may yet have salutary results. One step backward, two steps forward, is as characteristic of aid programs as of other human endeavors. More frequent and more serious debt crises may force attention to the problems arising out of attempts to meet the needs of poor nations through loans. Soft loans delay the problems and muster unlikely hopes that time will resolve them; hard loans may require a more immediate confrontation with a policy compounded out of poorly founded theorizing and expediency.

Were the outcome of these crises a writing off of old indebtedness and an expansion of grant aid programs, it would certainly represent two very constructive forward steps. Such an eventuality, however, seems unduly optimistic. Perhaps less utopian would be agreement among all donors (1) to maintain strict limitations on the expansion of export credit guaranties, and (2) to establish comparable degrees of softness on the loans each of them offers to particular developing countries. If realism recommends the delay of indebtedness problems, it also requires that the costs of delay be borne by all creditors in proportion to their contributions. Comparable, if not identical, terms of repayment on all new loans is the way to achieve such cost-sharing. At least, each lender would then cease to manipulate his way toward a larger share of such debt-service capacity as developing countries still retain. Even if the initial terms established for all lenders proved excessively severe, the path to a more realistic common policy would have been cleared.

Those resisting the legislative hardening of U.S. loan terms might therefore do well to yield in return for an agreement that U.S. terms could be made as soft as those that other creditors are willing to accept. The basis would thus be laid for offering to return to a genuine soft loan policy as rapidly as other donors would agree. They would find such an offer a powerful incentive, not the least reason being that they would be spared an early rash of debt conferences and refinancing of old debts. Moreover, aid recipients would, for the first time, receive the refusal of other donors to extend soft credits as poorly as has the United States.

It is nevertheless difficult to conclude without questioning whether the mythology and fantasy surrounding aid in the form of loans must be served by thus reviving the soft-loan policy. The application of Puritan morality to justify the superiority of loans over grants is essentially fallacious. Whether the government receives hard or soft loans or grants, the interest rates charged to private borrowers within developing countries are invariably hard, as they should be. The issue concerns the payments to be made out of the borrowing country's foreign-exchange availabilities, not the use of loan terms to assure a proper allocation of capital within the country. Aid is no more likely to be misused if given outright to the recipient government than if the latter agrees to begin repayments ten years hence, stretching out over another forty years. A greedy or irresponsible government finds little restriction in such obligations; nor do conscientious public servants find much leverage in them for controlling their self-serving or short-sighted compatriots. The government of Haiti made no better use of loans than of grant aid. Improved economic policies in Turkey and Pakistan had little to do with the U.S. decision to substitute loans for grants in its aid program.

It is a matter of simple arithmetic that loans will delay the progress of aid recipients by at least the cost of meeting interest and amortization payments. It is grants that will expedite progress toward viability and it is such progress that is the purpose of aid. If the U.S. Government is seeking a sound investment for tax revenues, with reasonable assurance of repayment of principal and interest, it is ill-advised to turn to its present aid clientele. If it seeks the conversion of poor and unstable societies into progressive ones at the earliest possible date, it will do better with grants. Particularly in the case of countries that are devoted to domestic social and economic advance and to international policies that are compatible with U.S. objectives, grant aid will

serve U.S. interests better than loans. At the minimum, it will finance a larger contribution per available dollar of appropriations.

The fantasy that something will turn up to permit repayment without jeopardizing the progress of developing nations is derived directly from Dickens' Micawber. The notion that governments use loans more carefully and more efficiently than they use grants deserves to be discarded in the same bin that holds the old saw about the poor using their bathtubs to store coal.

14

The Burden-Sharing Grievance

For the last half-dozen years, the United States has labored under a profound sense of grievance about bearing a disproportionate share of the burden of aiding less developed countries. The inequity felt by influential elements of the political, intellectual, and business community has become a constraint both on the conduct of its own foreign aid program and on its relations with industrialized countries. Though the grievance may be an emotional phenomenon, it has a rational basis. It must be treated as a fact of life by policy-makers at home and abroad. That emotions provide a very poor medium for nurturing successful foreign policies is beside the point. The policy-maker must respect their existence, whether by following their thrust or by seeking to divert their manifestation. If important national goals seem threatened, he must appeal for rational re-examination by both grievers and aggrieved.

Critics of U.S. foreign aid programs have argued for their reduction on the ground that other industrialized nations refuse to do their share. Either they assume that the laggards would then become alarmed by the possible consequences of a smaller U.S. program and rush to fill the breach, or they are indifferent to the consequences of a reduction in total Western aid.

On the other hand, the proponents of U.S. foreign aid have leaped to the defense with data that purport to demonstrate that the U.S. share of the burden is not at all excessive. They contend that the grievance has no basis in fact. If those who complain would only examine the data critically and analytically, it is said, they would realize that other countries on the whole are making as great an effort to help the Third World as is the United States.

Neither of the preceding views has much merit. A probe into the

reality beneath the maze of statistical data reveals that the U.S. aid program is disproportionately large in relation to those of all other industrialized countries, except possibly France. If anything, the disproportion has increased in the 1960's. Nor is there any reason for expecting it to decline.

The remedies, however, do not lie in reducing the U.S. program. To do so would only jeopardize U.S. interests as well as those of the miscreant "others." Moreover, a smaller U.S. program is as likely to depress further the aid levels of other donors as it is to reduce the U.S. share. The proponents of larger and better aid programs within other industrialized countries—and they are numerous and vocal—are likely to find the ground cut out from under them by a declining U.S. program. Their own "anti-aid" school will argue effectively that the U.S. retreat is due less to its burden-sharing grievance than to a realization that foreign aid cannot succeed in fulfilling the promises of its advocates. If the rich and powerful United States cannot make a success of the program, they will contend, the efforts of smaller countries must certainly be in vain. Maintaining current U.S. aid levels while recalcitrant other donors increase theirs is a more promising avenue both to protecting U.S. interests in developing areas and to inducing better burden-sharing.

A rational review of the problem should begin by reiterating an ancient truism of international relations—the foreign policy of sovereign states is fundamentally guided by their own national interests as they see them. Moral imperatives may motivate isolated acts of substantial generosity or symbolic steps by a government to soothe the conscience of its own citizenry and to appeal for world recognition of its own moral stature. However, the sustained contribution of significant sums—an essential ingredient of successful foreign aid—is unlikely unless it is demanded by national interests that are clearly and widely understood and supported.

The aid efforts of other donors will not increase simply because the United States considers itself unfairly put upon. The United States can expect little response to its expressions of grievance and pleadings for more upright behavior. It must keep in mind, as do those to whom its grievance is directed, that the "burden" relates to a program that absorbs less than 5 per cent of the expenditures of the Federal Government and less than 1 per cent of the United States GNP. It is difficult to excite other developed countries about an imposition that weighs

so lightly on American affluence, however inequitable the U.S. share may be.

The U.S. interest in eliciting larger contributions from other developed countries is more basic than the redress of such a grievance. It is related to a need to forge a fuller partnership with its more affluent friends in approaching the Third World. Balance-of-payments difficulties provide a pressing motive for seeking larger contributions from others. Moreover, the quest for larger sums from other donors would have to be accompanied by an offer of enlarged responsibility in policy-making, an offer from which the United States has much to gain. Its aid is likely to be more effective in advancing the Third World toward viability if used in concert with important participation by other developed countries. Their knowledge and experience, including the provision of able and willing personnel, is sorely required. (See Chapters 6 and 16.)

If an expanded role for other developed countries would thus help the United States in dealing more effectively with the Third World, it would also reinforce the bonds among the developed countries themselves. The present ruptures stem in large part from the absence of common problems that are both pressing and tractable. Matters that primarily affect relations within the Atlantic Community no longer meet the test of urgency. Neither does the maintenance of a military capability for withstanding Soviet threats. Relations with the Soviet Union and Communist China are of vital importance, but prospects for substantial agreement are still not promising. On the other hand, the developing nations provide the developed states with an arena for constructive endeavor through concerted effort. That arena has seldom been so used. The views and behavior of the West toward the developing nations have been marked by disagreement and conflict; efforts to harmonize policies and operations before issues crystallize have been notably absent and are increasingly urgent. Smaller developed nations have tended to withdraw, recognizing that their isolated efforts will have little effect on the course of events. A joint formulation of common policies toward problems in the Third World is thus likely to lead to greater cohesion among the developed countries.

The other developed countries do have substantial interests in the Third World. (See Chapters 1 and 8.) Their economic interests are more important to them than is the U.S. economic stake in the less developed world. Particular developed countries may attach consider-

able importance to individual developing nations. However, many of their interests are served about as effectively by U.S. aid programs as by their own. Insofar as they share in the political, national security, and economic benefits emanating from the U.S. program, they are relieved of incentive to increase their own contributions.

By building a convincing case upon the demonstrable concerns of other donors, the prospects for enlarged contributions can be significantly enhanced. A credible proposal to reduce the benefits donor nations now derive from U.S. aid to developing lands is one way. Better performance can also be induced by offering additional benefits to those who are willing to bear a reasonable share of the cost. This combination of additional benefits for forthcoming donors and effective penalties for reluctant ones is most apt to improve burden-sharing.

Such penalties and incentives can be devised, and, indeed, have been considered from time to time. They are both political and economic in character. They have been rejected hitherto because they involve compromise with other U.S. objectives and interests; rightly or wrongly, these costs have not been deemed worth the potential benefits. But if this judgment stands, then the United States had better abandon its sense of grievance and forego the likelihood of improving aid burden-sharing. If better burden-sharing is not worth the cost, the alternatives are to forget it or to reduce the costs. U.S. interests are likely to be better served by a realistic assessment of the costs and benefits of alternative courses of action than by continuing to dote on its grievance.

The benefits of more equitable burden-sharing would be considerably more than the removal of an annoying grievance. The foreign policy advantages justify its elevation to a much higher priority on the U.S. agenda in relations with developed nations. The topics that have dominated that agenda in recent years have been divisive, either because agreement was not pressing or significant progress was not practicable. The Third World offers the developed states an opportunity for fruitful and important achievements if they face their responsibilities and concert their efforts. In such a concert, equitable sharing of costs would fall into place as a secondary and a less stubborn issue.

Background for the Burden-Sharing Issue

The aid burden-sharing issue was first dramatized after the 1960 U.S. elections when the outgoing Secretary of the Treasury and the Under Secretary of State visited Europe to seek help with U.S. balance-

of-payments difficulties. However, U.S. resentment had been building up for some time. The United States had to bear almost alone the burden of defending South Korea against attack. Much of the expense of European rearmament fell on its shoulders, including the cost of stationing troops overseas. It progressively assumed the cost of responsibilities for developing areas that had traditionally been borne by Western European powers. Reluctance marked U.S. acceptance of international responsibilities at every step. It bowed before the exigencies of the times, repeatedly decrying their cost. Enthusiasm for the mantle of world power never became widespread.

Reluctance became tinged with resentment as the economies of its developed partners recovered without an accompanying readiness to finance more of the cost of common problems. They proved reticent about increasing either their defense or their foreign aid budgets, though both their trade and foreign investments as well as their national security had benefited considerably from U.S. expenditures for such purposes. As concern grew about U.S. balance-of-payment difficulties, its sense of grievance became acute.

In view of this background, one might assume that the United States would have eagerly grasped the first opportunity to transfer more responsibility for developing areas to the traditional shoulders. However, by the mid-1950's, American officials were dubious that such a step would ever be practicable. The first tentative and halting European approaches were therefore rebuffed, lest they somehow burden the United States still further.

In 1955, the Secretariat of the OEEC studied the magnitude and character of the aid programs of its European members and North American associates, presenting the results to a ministerial-level meeting the following February. The Secretariat obviously hoped for encouragement to continue, envisaging more policy coordination and more of a collective aid effort by the richer free-world countries. The European member governments were prepared to acquiesce, but the United States was curiously unhappy. It feared pressure for an increase in U.S. aid as well as the possible loss of political benefits from too close association with former colonial powers.

Even stronger objections were raised to a rather ambiguous policy proposal by the French Foreign Minister, offered at a NATO ministerial meeting in the spring of 1956. The French seemed, at the time, to envisage some sort of expanded role for the United Nations, based

on a NATO initiative. The proposal proved difficult to formulate in practical terms, but the problem did evoke considerable European interest. It was readily agreed that a collective aid effort should not be conducted under the auspices of the Western military alliance. However, a workable alternative to the Pineau proposal was never advanced; the initiative was buried and the opportunity for even a modest beginning was lost.

Three years elapsed before the United States offered an alternative as a part of its proposal to transform the moribund OEEC into an organization in which the United States and Canada would have full membership. The Development Assistance Committee (DAC) of the new organization was to coordinate a collective aid effort. By that time, the balance-of-payments and burden-sharing problems had overcome resistance to associating with colonial powers.

In the meantime—between 1956 and 1959—the OEEC had become the principal forum for arranging three major collective assistance efforts with full European financial participation. The needs were those of European countries that found themselves in serious balance-of-payments difficulties. France and Turkey had been members of the OEEC from the beginning; Spain had been virtually ostracized from European society after World War II and sought re-entry in 1958 through membership in the OEEC.

After a year and a half of pressure for adequate stabilization policies, the Managing Board of the European Payments Union, a subsidiary body of the OEEC, was satisfied with the French program; it was joined in this judgment by the International Monetary Fund. An aid package of $655 million was provided to support a series of French reforms. The bilateral U.S. contribution was limited to 40 per cent, provided in such restricted forms as debt refinancing and credits to purchase cotton. Six European governments lent $150 million to the EPU to finance a credit to France, with Germany providing two-thirds. It was also agreed that the IMF credit would primarily be in European currencies.

A similar arrangement in 1958 produced some $223 million for Turkey, with the United States again contributing about 40 per cent. In addition, all the governments concerned agreed to consolidate Turkey's commercial debts. Since the bulk of the indebtedness was held by European creditors, the relative size of the U.S. contribution was further reduced by the debt agreement.

In 1959, Spain presented a stabilization program to the OEEC in connection with its application for membership and simultaneously sought financial assistance. The U.S. Government, a group of U.S. banks, the OEEC, and the IMF jointly pledged $375 million. The U.S. Government contributed only 35 per cent, the OEEC members 26 per cent.

Political and trade interests, combined with an appreciation of American unwillingness to provide all the financing, thus led European countries to contribute substantial sums to three major assistance efforts. Once their own economic position seemed reasonably secure, they proved willing to share in the cost of aid programs that promised economic and political benefits to themselves as well as to the United States. To be sure, most European credits took the form of repayable loans with relatively short maturities. Nevertheless, these packages inaugurated truly collective aid efforts.

The early meetings of the DAC were much less auspicious. The resolution of specific aid problems was set aside. The first efforts took the form of informal data collection, organizing a better exchange of information about each other's programs, and restating resolutions importuning all members to do better.

A new administration took office at the beginning of 1961 with much enthusiasm for burden-sharing. Hastily concocting some mathematical calculations, it pressed the other DAC members to assume firm and specific commitments to increase their foreign aid programs. At this point, the DAC had considered neither the desirable size of a collective aid effort nor the appropriate criteria for allocating aid to recipients. Criteria had yet to be considered for dividing equitably the cost of whatever assistance requirements were recognized. The very definition of aid was in dispute. The proposed formula would have arbitrarily resolved all such questions on the basis of "not unreasonable" assumptions.

Scarcely having recognized that their aid programs might be disproportionately low, the other DAC members were hardly prepared to accept binding commitments to increase them. Few had even organized formal aid-giving agencies within their governments. On the whole, they were meeting demands from countries other than ex-colonies, if at all, with extemporized authorization and procedures.

Conceivably, a high-level political approach by the new administration might have succeeded. But political and economic issues of sub-

stantial importance to other industrialized countries would have had to be resolved in return for an obligation to meet larger foreign aid costs. The new administration was at that time feeling its way on international policy issues; it saw more clearly what it expected of others than what it was prepared to undertake itself. Only the United States had a "felt need" for better burden-sharing; it had little conception of the concessions it was prepared to make to the similar needs of its partners. All that emerged was an agreement that the collective aid effort should be increased; improved burden-sharing was left for subsequent consideration.

Yet the DAC has shown a persistent reluctance to bring up the matter again. It has resisted another confrontation, perhaps fearing that the institution itself might be toppled by irreconcilable differences. It has continued to collect information and to provide a forum for coordinating aid policies through explanation and discussion. (See Chapter 16.) In 1966, it sought unsuccessfully to find a more equitable way of comparing the contributions of its various members. It has, however, neither passed judgment on the equity of individual member contributions nor established aid-giving targets appropriate to the capabilities of individual members. Except for Canada, there is little evidence that it has much affected national decisions about the size of aid appropriations. On the other hand, DAC inaction may have undermined the persuasiveness of U.S. administration appeals to the Congress for aid appropriations.

One other burden-sharing forum deserves attention—the consortia, organized by the World Bank for both India and Pakistan, and, later, by the OECD for Turkey and Greece.

In mid-1961, the Bank endorsed India's Third Five-Year Plan and pledged additional funds of its own. It invited India's other creditors to join by substantially increasing their new aid commitments. The United States promptly offered a two-year pledge of $1 billion in addition to its food aid and technical assistance, a contribution several times greater than its previous level of aid to India. The pledge was conditioned on precise matching by the total of all other bilateral contributions.

For the other industrialized countries, the U.S. offer carried both political and economic incentives. On the political side, it satisfied donors who had been critical of previous U.S. reluctance to mount a large aid program for India because of its neutralist foreign policy.

On the economic side, the increased pledge promised to meet all of India's needs for U.S. goods and services, so that its considerable foreign-exchange earnings from exports would be available for expenditure in other markets.

The matching condition was met in the first year, principally through pledges from the United Kingdom and Germany. However, the quality of many of these matching contributions was reminiscent of the earlier U.S. reluctant participation in the stabilization package for France. Consolidation of old debts and new commercial credits of as brief as ten-years' duration were accepted as matching U.S. forty-year loans, with ten-year grace periods and .75 per cent interest rates. Moreover, haggling about projects has seriously delayed the arrival of resources in India under such pledges. (See Chapter 9.)

Once its political decision was made, the United States felt obliged to continue its aid while the others sought to disengage to some extent. The U.K. and German contributions fell steadily after 1961, though both countries have improved their repayment terms on new loans. Despite an increase in the World Bank contribution and the accession to the consortium of additional contributing countries, the U.S. share tended to increase somewhat in subsequent pledging sessions. In 1964, other bilateral pledges totaled about 80 per cent of the U.S. figure.

The political situation virtually made mandatory an assistance effort on behalf of Pakistan equivalent to that for India. The other donors, however, were more reluctant participants. Even in the initial session, the United States failed to reduce its share of Pakistan aid to the 50 per cent level attained in the first pledging session on India.

The Turkish consortium, formed under OECD auspices, began even less auspiciously. The World Bank refrained from contributing at first, and bilateral pledges were insufficient. The Turkish consortium therefore fell significantly short of raising enough money in its early years to meet agreed requirements. When the Bank finally made a substantial pledge in 1965, the U.S. share dropped to 41 per cent of the total financing and 50 per cent of the bilateral contributions.

The disenchantment of the Congress with the status of burden-sharing appears most clearly from a reading of the annual reports of the Senate Foreign Relations Committee on foreign aid legislation. In 1962, the Committee reported: "Future historians are likely to date the new era of foreign aid from the formation of the OECD which began its existence on October 1, 1961. A central purpose of the OECD is the

expansion and coordination of the development assistance programs of its members." A year later, it said that "although the optimism of 1961 has been proven excessive, the committee continues to hope and expect that our free world partners will join with us in an adequate cooperative program of assistance to the underdeveloped nations of Asia, Africa, and Latin America."

By 1963, the Committee's report was more pointed and apprehensive: "There is long-standing concern that the other capital-exporting and economically advanced countries of the free world are not shouldering a fair share of the aid burden. . . . Moreover, any increase in the activities of the DAC is itself encouraging. The progress of this organization has been understandably and unavoidably slow." Subsequent reports have been silent about the DAC and about burden-sharing. The Committee has changed from a constructive advocate of better U.S. aid programs to a critical antagonist.

Measuring Equitable Burden-Sharing

Because the equity of the U.S. share of free world aid is a domestic as well as an international issue, the parading of statistics tends to be tendentious. A large element of judgment must enter into the preparation of comparable data concerning both the size and the burdensomeness of each country's aid program. Since disinterested judgment is an exceedingly rare commodity, the organization of the statistics itself becomes a subject for partisan controversy.

The responsibility for collecting and presenting such data now rests with the DAC, where, it must be remembered, the United States is but one member among a baker's dozen. As the U.S. Government has come to despair of an increase in the programs of other donors, it has found more reason to put the best possible face on their efforts. Unless it bestirs other donors, harping on the inadequacy of their programs only feeds the critics of American aid. Several U.S. economists have also joined the attempt to decry the validity of the burden-sharing grievance.

The various economic analyses are reviewed in the pamphlet prepared by Professor Goran Ohlin of the OECD Development Center.* He concludes that two-thirds or less of all development assistance

* *Foreign Aid Policies Reconsidered,* chaps. ii, iv. Ohlin's study summarizes very well a number of other contributions. It is referred to frequently in the text for convenience in criticizing a school of thinking.

emanates from the United States and finds that such a share approximates its appropriate assessment. The major inequity is between the share of France and most other donors, including the United States. However, it is not difficult to draw from the same data the conclusion that the U.S. share is at least 70 per cent of the DAC total. Nor is the equity of even a two-thirds share indisputable.

Beginning with the aid figures reported to the DAC for 1963, Ohlin calculates the U.S. share at 64.6 per cent of the net flow of resources and 62.4 per cent of the "real cost" of aid commitments. Two adjustments would suffice to raise the latter figure to approximately 70 per cent. The first would simply require the use of average figures for the years 1962 through 1964; for technical reasons, U.S. commitments in 1963 were unusually low. The second adjustment would value shipments made under Public Law 480 at world market prices. Ohlin follows several other authors in arbitrarily and drastically reducing the value of surplus food shipments, since their original purpose was to support domestic prices. It is argued that such aid placed a very small burden on the economy, since the surpluses would not have been marketed in any event. Whatever merit this argument had a decade ago when the surplus stockpile was large and growing, it reads curiously in a 1966 publication. The U.S. food stockpile had, by 1966, been reduced to normal proportions; surplus food disposal legislation was under revision in order to authorize continued food-aid shipments despite the absence of a surplus. American housewives, protesting rising food prices in 1966, would scarcely agree that the food disposal program had been less costly in "real" terms than the delivery of steel products.

Moreover, Ohlin's "real cost" estimates make no adjustment for some debatable items included in the costs reported by other donors, though he questions their validity in the course of discussing donor country programs. Thus reparations paid by Germany, Italy, and Japan are certainly valuable to the recipients, but their treatment as a new aid contribution is debatable. Their "cost" to the donor might better be considered as repayment of an old loan, forcibly extracted from the lender at that. Aid to current colonies accounts for 15 per cent of the U.K. and French programs and all of the Portuguese. At least half of Belgian "aid" consists of service on the Congolese public debt, contracted for and guarantied by the Belgian Government while the Congo was still a colony. Such expenditures are a charge on donor government budgets, but are they truly comparable to the foreign aid of other

donors? Finally, it is noteworthy that U.S. aid costs could be increased by almost $1 billion and its share by several more percentage points if military assistance were included.

Nevertheless, using Ohlin's 1963 "real cost" figures, U.S. aid per capita equaled $14; all the suggested adjustments would raise it to about $25. His figure for France equals slightly more than $15 per capita. For all other DAC countries combined, it would average $3, varying from a low of $1 for Japan and Italy to $4 for Germany and $5 for the United Kingdom. Were the last group to double its per capita average to $6, an additional $1 billion a year would be available to developing nations.

Defenders of the equity of present burden-sharing must justify the extreme differences that persist. It is common to do this by referring to disparities in national income and consequent variations in ability to afford foreign aid programs. Ohlin cites a study calculating U.S. money income in 1960 at 61 per cent of the DAC total and "real income" at 55 per cent. The second figure reflects adjustments for differences in price levels. Applying progressive tax rates, a foreign aid share of two-thirds for the United States seems reasonably equitable.

Such figures purport to say that income per capita in Japan is one-fourth that of the United States, in Italy one-third, and in France, Germany, and the United Kingdom three-fifths. Though the calculations are the result of elaborate statistical analysis, they are hardly convincing measures of differences in real income. No such broad gap can be observed between the living standards of Western Europe and the United States. Though U.S. per capita income is undoubtedly higher than that of other DAC members, the spread appears to be significantly less than the cited calculations suggest.

The precise difference is a matter of taste and judgment, not of accurate statistics. Every student of national accounts is taught that the national income figures of different societies cannot validly be compared. Adjusting for the different purchasing power of money within each country solves only one problem among many. Subsistence and semi-subsistence agriculture is inevitably under-reported. Differences in how people spend their income further detracts from the significance of national income comparisons. The cost of a prepared TV-dinner enters the U.S. national income accounts, but the cooking services of a French housewife do not. Which society is the richer?

The income criterion does suggest that U.S. per capita aid should,

in all fairness, be substantially larger than that of its fellow DAC members. The existing disparities, however, seem excessive. Income differences can scarcely justify a U.S. per capita contribution that is three to eight times as large as that of every donor other than France.

Moreover, ability to afford aid programs is not a sufficient basis for judging the equity with which their cost is shared. The political and economic benefits accruing to different countries vary considerably. Many of them stem from aid contributed by all donors, rather than from the benefiting country's own contribution. Thus the distribution of trade and investment benefits among donors has borne little relation to the size of each developed country's program. (See Chapters 8 and 9.) France's very costly aid program is not reflected in a burdensome balance-of-payments relationship with the franc zone because so much investment and personal income is transferred back to France. The program is a heavy drain on the French taxpayer, but not on the economy of France as a whole. In 1962, U.S. bilateral aid was equal to 65 per cent of its exports to all less developed countries; the comparable average for all other DAC members was 18 per cent. The United States has gained, to date, very little economic benefit from its aid to developing nations; such benefits accruing to most other donors have been considerable.

In summary, a comparison of donor foreign aid programs suggests that the United States is bearing more than two-thirds and perhaps as much as three-fourths of the total cost. In relation to national income, even the smaller fraction seems on the high side. In relation to economic benefits, it is seriously disproportionate. The U.S. burden-sharing grievance does have a reasonable basis in fact.

What Is the Solution?

If the United States desires to increase the share of other donors in aid programs to developing nations, it must seek to influence those factors that stimulate other donors to offer more aid. In the past, other donors have increased their programs when they expected significant benefits from doing so. They have also been motivated to contribute when they were concerned about possible damage to their own interests. This suggests that one must look to the ways of enlarging these benefits or reducing those that now accrue from U.S. programs.

Political Incentives

The political benefits that might accrue to other donors from increasing their aid programs fall into two categories: benefits to be gained from the United States, and benefits to be gained from the developing nations.

Interdependence among the more affluent free world countries is one of the most striking phenomena of the post–World War II era. Discussion and debate among the countries of the Atlantic Community—and with Japan and Australia—is uninterrupted on virtually all the political, social, and economic issues of our day—including, of course, the full range of defense and foreign policies. In the security and foreign policy area, it is internal issues and the mutual interest in resisting dangers from the Communist world that have preoccupied alliance members. Thus, priority attention in recent years has been focused on such problems as British entry into the Common Market, the independent French nuclear force, the multilateral nuclear force, reorganization of NATO, credits to the Soviet Union, tariff reductions, trade with the Communist world, international monetary reform, and the recognition of Red China. The list is notable for the absence of agreements, suggesting that the priorities were ill-considered.

A major element in these discussions is the search of each government for recognition of, and support for, its own particular views and special interests in the problem at hand. As the most powerful and affluent single member of the group, the concurrence and support of the United States is a matter of significance. But for the United States, it is also a matter of constant concern to maintain the support of this group of countries in order to exercise the responsibilities thrust upon it by its very pre-eminence. In this perpetual interplay, the establishment of a credible scale of priorities becomes one of the most difficult tasks. The problem of picking and choosing among interests of varying intensity at different times is particularly complicated.

A convincing attribution of high priority to the aid burden-sharing grievance has been especially hard to achieve. To be sure, annual Presidential aid messages to the Congress have made improved burden-sharing a key element in the U.S. aid program. Skeptical foreign governments tend to find reassurance in these messages for the view that the burden-sharing issue is of importance largely in order to obtain further aid appropriations. The assumption of responsibility by AID

for urging larger aid programs on other donors served to confirm this attitude. An important European statesman has repeatedly replied to colleagues in his own government who wished to increase its aid program that the burden-sharing issue was never mentioned to him during his visits to Washington. Understandably, the priorities assigned by the President, the Secretary of State, and the Secretary of the Treasury to the limited time they have with high-level visitors from abroad are interpreted as a reliable guide to the urgency the United States attaches to particular issues.

Whether the principal officers of the United States do, in fact, reflect their priorities in the issues they choose to discuss during the meetings, or whether visitors choose to underestimate the attention given to the adequacy of their aid program, is perhaps beside the point. Other donor governments will find it difficult to enlist support at home for more foreign aid merely on the ground that such action is necessary to propitiate the United States. Moreover, a "Grand Alliance" that is threatened by money matters will have lost much of its grandeur in the process; the leader of such an alliance is unlikely to maintain either its credibility or its primacy if it seems to be overly preoccupied with them. But, of course, when a follower needs support in protecting or advancing its own vital interests, the leader will have considerable capacity to influence its decisions, even on money matters. Thus, if Germany has doubts about how long the United States will continue to station troops there, or about U.S. support for German reunification, it will hesitate to rebuff the United States on a matter that appears to be of great importance to the United States. The same is true of the British interest in U.S. support for the Commonwealth and the sterling area, and for the United Kingdom's increasing participation in the Common Market arrangement on the Continent. The list could be multiplied. The major point is that interdependence is a fact, and its effective operation requires a constant process of concession and accommodation to the priority interests of the partners.

The political benefits to be gained from relations with the developing countries are quite another matter. The larger countries of the industrial free world are all restive with the secondary position to which they have been relegated in the past two decades. While they accept their absence from the super-power category as a fact, they feel that experience and capacity fit them for a more effective and influential role in world affairs than size and military power alone would suggest. They

are concerned that U.S. policies they consider to be mistaken may jeopardize their own peace, security, and prosperity. The Jeanneny Report on the French aid program speaks of the historic French need to shed its light outside its own borders ("*rayonnement*"), which "must be the work of men prepared to expatriate themselves and of a culture that aspires to universality."* It is not only General de Gaulle and some of his fellow citizens who feel that the present organization of the international community fails to give sufficient scope to his country, and that its own fate and future may be threatened by the failure to find more effective expression for its views and capacities. Others are at least sufficiently concerned to be reluctant to finance situations that are not of their making. One statesman observed pointedly that he who wishes to call the tune must be prepared to pay the piper.

Differences between the United States and other industrialized free world countries about policy toward developing countries have been endemic in the post-World War II period, and crises emanating from these differences have been recurrent. The Suez crisis of 1956 stands out as a dramatic challenge to the very integrity of the Western Alliance itself, but it was hardly an isolated instance. Differences were based in large part on the American tradition of anticolonialism. The United States was impatient with the speed with which the colonial system was dismantled and with the efforts of the metropoles to salvage political and economic advantages from its liquidation. With a minimum of special interests to preserve, the United States tended to focus on the political advantages to the Communist bloc from exploiting the colonial issue. The colonial powers frequently felt that the support of premature and ill-prepared independence by the United States was more likely to open possibilities of Communist takeover. Who was right and who to blame is less relevant to the burden-sharing problem than the fact of the differences—from India, Greece, and the Near East with Great Britain, to Indonesia with the Dutch, and the Congo with Belgium. Differences with France date back to the wartime situation in Syria, Lebanon, and St. Pierre, and continued with the Indochinese area and North Africa in the mid-1950's—and to this date.

The instances of coordination among members of NATO through reconciliation and compromise were infrequent and unsatisfactory. The United States tended to pursue its own policies in the developing

* *La Politique de coopération avec les pays en voie de développement*, I, 43–44.

nations, to discuss differences with its allies, and to try to persuade or cajole them into accepting its views and supporting its actions. Because of its power, these views tended to prevail, and its allies found acquiescence the only practicable policy. The history of the past twenty years has thus failed to lay a solid foundation for a coordinated policy, in which other developed countries feel that they are playing their proper role in affecting the outcome. Perhaps not surprisingly, they have been reluctant to bear a full share of the cost of carrying out the policy and assuring its success. They have all too frequently felt that they were being asked to finance a share of the cost of American rather than Western foreign policy and that their role in formulating that policy had been minimal.

Much the same has been true of the various efforts that have been mounted during the 1960's to formulate coordinated foreign assistance programs. It has frequently appeared to the other potential donors that the recipient country first established its need for foreign assistance, as well as the economic and social policies it should follow to assure that foreign aid would be used effectively, in consultation with the United States alone. Where needs and policies were first established in agreement with an international institution, such as the World Bank, the problem was only slightly eased. Since the World Bank is located in Washington, it is in constant communication with the U.S. Government and its management is heavily weighted with U.S. citizens.

The first of these arrangements—the India consortium—established precedents and illustrated difficulties that have handicapped such endeavors ever since. The United States offer to match, dollar for dollar, all other bilateral pledges put the other donors in a position where they would only gain political opprobrium if they failed to pledge enough funds to call up the full U.S. offer. On the other hand, if they raised the matching money, much of the credit would accrue to the United States for having maneuvered them into raising their financial sights. A few more consortia were organized at about the same time, but the other donors have been most reluctant to become involved in further operations of this sort. In fact, no new ones have been organized for four years.

Much the same atmosphere has enveloped the attempt to enlist other donor contributions to Latin America. The Alliance for Progress was organized by the United States with a minimum of consultation with other potential donors. The Punta del Este reference to $20 billion

included some unspecified amount from governments other than the United States. It was later reported that the figure was $300 million per year over the ten-year period. The other donors, who had not been previously consulted about any such figure, have no sense of obligation to it. Again in 1962, a U.S. aid package for Chile announced the figure that Chile might expect to receive from nations other than the United States, to the surprise and consternation of their governments.

Under these circumstances, it is not surprising that other donors have come to prefer to learn as much as they can about U.S. aid intentions and then to make their own separate arrangements for extending aid to individual developing countries. The United States, on the other hand, has had to administer a large and complicated program, involving negotiations about the use both of its aid and of the receiving country's own resources, covering almost fourscore underdeveloped countries with weak and ineffective administrative structures. Moreover, the U.S. program has been under constant attack from domestic critics, so that its administrators have had to keep a much warier eye on their own rear flank at home than on the sensibilities of other potential contributors. Other contributors were usually less well represented in the developing country and therefore less informed about conditions there; the potential contribution of each was also relatively small. To become involved in protracted discussions and negotiations with a number of other donors would complicate the already harried life of the U.S. officials concerned with the country in question. They preferred to have contributions based on their own negotiations and on their own decision to proceed with a relatively large aid program. Other donor aid, together with its attendant problems, could be directed to other less developed countries, where it would become "somebody else's" problem. Only in the case of minor U.S. aid recipients have the U.S. officials directly concerned shown an aggressive interest in increasing aid from other donors.

A reduction in the U.S. share of the cost of foreign aid would probably entail reduced influence over such questions as to whom aid is directed, in what amounts, and under which conditions. If the United States were prepared to pay this price, it would have to undertake considerably more advance consultations on its policy toward developing nations. If NATO machinery were used for this purpose, some arrangement would be desirable for involving Japan and Australia in the consultations, particularly on Asian problems. There would, of course,

be no certainty that better burden-sharing would result from such acceptance of serious restrictions on America's freedom of action. Such a policy would be founded on the observation that many of the other industrialized countries are impatient with their present roles and are financially capable of paying the costs of greater responsibility. They will be more willing to increase their contribution if they have more direct responsibility for the policy decisions from which the need for aid derived.

Indeed, U.S. leadership in the Western Alliance might be buttressed by its willingness to consult with, and defer to, the views of its partners. NATO needs a constructive new task conveying some sense of urgency and immediacy to its continued operations. Coordinating strategies for the Third World is the most promising outlet for the energies of NATO members; it is in these overseas lands that threats to the security of the Atlantic countries now seem most likely to arise. A forum for broad discussion and agreement on political and military strategy in the underdeveloped countries represents a need to which other developed countries can be expected to respond.

However, complete agreement on all foreign policy matters concerning the less developed countries is hardly a precondition for improving either the coordination of donor aid decisions or the burden-sharing load. Indeed, there is much to be said for separating the specific aid decisions from the more general foreign policy issues. The use of a separate forum in which aid officials can meet and seek agreement on how much aid to provide may be preferable to a single forum in which both foreign policy and aid policy toward a country such as the Congo must be resolved simultaneously. It is improvement in the procedures and environment of free world policy-making toward the Third World that is important, rather than the simultaneous resolution of differences about both foreign policy and aid-giving.

Within such a milieu, the DAC might become the forum for agreements on aid strategy that was envisaged for it by its founders. The United States would have to be willing to join with other aid donors in laying out its aid intentions for the period (say a year) ahead, including the amounts it was prepared to offer individual developing countries and the policies it would expect the recipients to pursue in return. To be meaningful, such a process would require a willingness to alter views, plans, and strategies in the interest of attaining a consensus among the potential contributors. Within such a context other govern-

ments would be more willing to increase their contributions. They might also be led to participate in consortia for many more individual developing countries and thus to increase the efficiency and effectiveness of the aid-giving process for all donors.

Economic Incentives

Given the inadequate political framework within which aid decision-making has taken place to date among the free world developed nations, it should not be surprising that the "other donors" provide aid to developing countries with a sharp eye on the direct economic benefits they can derive.

This does not mean that they lack articulate leaders who urge the ethical case for aid to developing nations. Nor does it mean that they are insensitive to special political interests, whether in former dependent areas or in newly independent countries whose support they seek, or whose opposition they would forestall, on special political issues of high moment to them. It does mean that they tend to provide aid in a form that may be as economically beneficial to them as possible. Thus, although German contributions to many former French African countries reflect the desire for a rapprochement with France, Germany prefers to offer technical assistance to such countries in the form of training institutions for semi-skilled workers, using German tools and equipment and German techniques and specifications. Future employers will have a considerable incentive to supply them with German tools and machinery. In a speech on June 8, 1966, the German Minister for Economic Cooperation outlined a fresh approach to German development aid policy.* The first three points were "a consolidation of German foreign trade with developing countries, greater harmony between development policy and Germany's overseas economic interests, more effective dovetailing of state and private aid." Similar views are held by other donor governments.

It thus seems logical to suggest that the U.S. purpose in improved burden-sharing would be served by holding out larger economic benefits in return for increased aid, or by threatening economic loss if more aid is denied. Aid-tying by the United States, while originally motivated by a desire to minimize balance-of-payments effects, undoubtedly brought exporter pressure to bear on governments whose nationals

* *The Bulletin* (Bonn), June 28, 1966.

had previously been in the habit of bidding successfully for U.S. aid-financed orders or contracts.

Similar techniques might be used to bring further internal pressures on these governments to expand their aid. One such inducement has been in use for some time, though so far without much effect. Other donors have complained on occasion about losing traditional business because the receiving government wished to finance the contract or order with U.S. tied-aid funds, even though it might involve higher prices. The United States has responded by offering to withhold its financing if the other donor would agree to substitute aid of its own on reasonable terms of repayment.

Such an approach could become effective if a systematized procedure were established. The United States might insist on competitive bidding arrangements open to nationals of all donor governments. If the low bidder was not a U.S. firm, it would be offered the business on condition that its government agree to provide aid-financing. Only if such aid were refused would U.S. aid be forthcoming, tied, of course, to U.S. procurement.

An alternative procedure might be effective in the case of countries that are able to finance most or all of their procurement from the United States with aid funds, while spending significant amounts of their own foreign exchange earnings in other developed countries. The United States might condition further aid on the allocation of a portion of the recipient's free foreign exchange for purchases in the United States, or it might refuse to finance a specified list of commodities that the recipient would almost certainly purchase in the United States with such earnings were they not financed with aid funds. The developing country would then be forced to curtail its purchases from suppliers and contractors in other developed countries unless their governments offered additional aid. Were it not forthcoming, U.S. aid previously used to finance normal imports from the United States would become available to finance additional procurement from U.S. suppliers, replacing orders previously placed in other donor countries. In the latter eventuality, the developing nation would probably find its import costs increased and the value of its aid reduced by higher prices.

Such schemes have been rejected on the assumption that this latter outcome was the most probable one: other donors would refuse to increase their aid under such pressures, they would be highly resentful of such U.S. pressure tactics, and they might reply with other com-

pensating measures that would discriminate against U.S. exports, perhaps in their own markets. At the minimum, there would be much indignation and protest, as there was when the United States first introduced its tied-aid policies. The developing countries would also resent being involved by the United States in its quarrels with other donors, to say nothing of being penalized in the process. Manifestly, it would be preferable to reach agreement with other donors concerning an increase in their aid programs, rather than introduce such measures.

Multilateral Aid

So much has been said about the better burden-sharing the United States has supposedly achieved through aid programs administered through multilateral institutions that some comment on this subject is required. The remarks that follow do not address the general question of whether or not it is preferable to channel aid through multilateral institutions. They are concerned with whether the United States can expect to reduce its share of the cost of foreign aid by offering to increase its contributions to multilateral aid institutions. Neither the record to date nor an analysis of the aid-giving motives of other donors provides much hope that it will.

The usual argument is that the United States contributes between 30 and 43 per cent of the budget of various multilateral institutions, while it provides about 65 per cent or more of all government aid supplied by members of the DAC. Hence, if the United States were to provide more aid through multilateral channels, its share would fall even if it agreed to finance a somewhat larger percentage of the budgets of these institutions than it now does.

This reasoning seems to be at least arithmetically impregnable, but unfortunately it is not so. The argument holds only if the other contributors provide their agreed share to the multilateral institutions by increasing the total level of their aid. Thus if the total level of U.S. aid and that of all other donors is fixed, burden-sharing among them will be completely unaffected no matter how much is channeled through international institutions and no matter what proportions are agreed to among them for their respective contributions. If all countries subtract their multilateral subscriptions from their bilateral programs, their share of the total cost of aiding developing nations will remain unchanged. Since U.S. subscriptions to these organizations tend to be

treated as additions to the funds appropriated for bilateral programs, while some other donors simply turn over part of the funds appropriated for bilateral purposes, it might be argued that the U.S. share of total aid is increased through such subscriptions.

It may also be noted that the 30–43 per cent range is misleading, since the multilateral institutions receive contributions from countries other than DAC members. Thus the Soviet Union makes contributions to United Nations programs that are counted as part of total U.N. aid financing, though the funds are programmed and for all practical purposes spent by Soviet authorities. Also, contributions are received from developing nations, which obtain aid out of the pooled funds in amounts considerably in excess of their subscription. On a net aid basis, the U.S. share of contributions by all DAC members to the multilateral institutions of which it is a member is significantly higher than the 30–43 per cent range. For all U.N. aid programs in 1962 and 1963, it amounted to 63 per cent, about the same as its share of all aid supplied by the same countries.

Much has been made of the smaller share assumed by the United States in financing the International Development Association. In 1963, the United States succeeded in agreeing to contribute only 44 per cent of the total provided by DAC members, after a nine-month effort to induce other countries to increase their share still further. But it must be noted that the most potent appeal of IDA contributions to other donors was the higher proportion of IDA business received by their own industries relative to their share of the subscriptions. The share of U.S. suppliers in IDA contracts was well below its percentage contribution.

With the bulk of IDA funds directed to India, Pakistan, and Turkey —all of which are able to finance virtually all their needs for United States goods and services out of bilateral aid—the IDA becomes a method for obtaining U.S. financing for goods sold by other donors. Insofar as it alleviates the impact of the U.S. tied-aid policy, it probably weakens internal pressures on other donors to increase their programs.

Even with this trade advantage, a number of the other principal contributors served notice during the 1963 negotiations and thereafter that they preferred to provide aid bilaterally. They announced their unwillingness to increase the absolute amounts of future contributions beyond the annual limits reluctantly accepted at that time. There is thus little reason for assuming that contributions by DAC members to

the IDA, or any other international institution, can be increased substantially without the United States itself providing a larger share of the total. It might even have to provide most of the increase. Even were the present shares retained, it is likely that other donors would offer funds that might otherwise have been used in their bilateral programs. The case for U.S. advocacy of more aid through international institutions must rest on grounds other than the prospect for reducing its share of aid costs.

The foregoing suggests the following specific policy measures that should facilitate redress of the U.S. burden-sharing grievance. (Some of these have been discussed more fully in earlier chapters.) It must be reiterated that the interest of the United States in greater participation in aid-giving by other donors is much more profound than the elimination of a justifiable complaint.

1. Advance multilateral coordination with other free world donors concerning foreign policy objectives and strategy toward developing nations, possibly under NATO auspices.

2. Advance consultation concerning both the total foreign assistance needs of the developing nations and the allocation of each donor's program among the recipient countries. Out of such coordination should emerge agreement on a fair contribution by each donor, covering all forms of government aid and taking account of both the economic benefits received and the living standards of each donor.

3. A much increased priority for burden-sharing at the top level of the U.S. Government in its relations with other donor governments.

4. A cessation to further increases in the over-all size of the U.S. program until the programs of other donors have risen. An increase on the order of $1 billion a year from DAC governments other than France is fully warranted as long as the United States maintains its own economic program at the recent rate of $5 billion per year.

5. After agreement with other donors, reallocation of U.S. aid among countries with a view to reducing existing disparities in the percentage of imports financed by its aid programs.

6. Abstention from aiding any one recipient in an amount exceeding, say, two-thirds of its imports from the United States, again preferably after agreement with other donors to make up the difference.

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The Future of Multilateral Aid

The multiplicity of institutions engaged in aiding less developed countries becomes a public issue at regular intervals. At least half a dozen U.S. government agencies administer the foreign aid program; each reports independently to the President. More than a score of other governments are also donors of aid, including Communist and other developed countries and less developed ones such as Mexico, Taiwan, Israel, and Kuwait. Like the United States, many of them use more than one government agency to operate their programs. The United States contributes funds for aiding developing nations to about fifteen different international funds, banks, and programs. Two separate institutions of the European Economic Community and the African Development Bank operate multilateral aid programs without U.S. financing. An Asian Development Bank is being organized. All the United Nations specialized agencies, as well as innumerable private organizations and foundations, conduct their own aid programs.

The problem of the multiplicity of aid-giving institutions tends to be regarded either benignly or resignedly. Some regard it as no more than a manifestation of the pluralism and complexity of modern international society. Aid is proffered out of a wide variety of motives, by both governments and private groups. Each of the programs has its own ardent supporters; their very number increases both the sums of money and the skills needed for success in a monumental task. Furthermore, less developed countries vary in their attitude toward the outside world; they have many reasons for seeking assistance. The existence of a large number of contributors makes it possible for each government, and for many of the diverse forces within each country, to seek out a source of assistance appropriate to its own wants, attitudes, and circumstances.

This benign view of the proliferation of aid-givers is seldom shared by those who witness the consequences in an individual less developed country. Duplication of effort and senseless competition in meeting an obvious need are less prevalent than might be imagined, though they do occur. The more serious waste takes the character of what the French call a *manque à gagner*, a failure to derive as much benefit as might have been realized from the money and manpower provided by so many different sources of assistance. The programs of different donors are dispersed and unrelated. Instead of reinforcing each other, they compete for the few skilled people in need of further training. They diffuse their energies in and among a host of minor endeavors. They become rivals for the attention of the policy-makers and administrators of the receiving country.

The variety of donor purposes would be better served by a more conscious effort at reconciling differences and avoiding contradictory and self-defeating efforts. Considerably greater benefits would result if aid from different donors were programmed so as to be mutually reinforcing. Substantial improvement would flow from even a simple exchange of information by donors before they commit additional funds.

Given the multiplicity of needs and desires, as well as its own administrative limitations, no developing nation can effectively manage assistance offered by as many as thirty-five different donors. After all, a substantial cause of underdevelopment is the shortage of managerial and organizational skills. To pretend that the coordination of donor aid can rest with the recipient country is to credit it with the administrative capabilities of a sophisticated and modernized society.

Those who deplore the persistence of so many different contributors find the task of reducing their number an unmanageable one. Foreign aid is but another field in which the instinct for survival of separate institutions and programs struggles successfully against efforts to consolidate and rationalize. The best efforts of those who prefer streamlined organizations seldom seem to win more than partial and temporary victory.

If any degree of order and efficiency is ever to emerge from this morass, it will not come from jurisdictional power squabbles among donor institutions, each belittling the capacities of competitors. Nor will it come from an attitude of live and let live, each going its own way and endeavoring to avoid conflict with the others. Nor can much more than euphoria emanate from coordinating mechanisms that are

confined to proliferating contacts and exchanges of information among donors.

Solutions that contemplate administration of all aid by one or two international agencies seem utopian. In recent years, DAC governments as a group have channeled considerably less than 10 per cent of their aid through multilateral institutions. Increasing the percentage to 15 to 20 per cent would require heroic efforts over a period of years. If successful, the number of donors would probably remain essentially unchanged and the need for effective coordination would be unaffected.

A more realistic solution—and a more practical outlet for constructive energies—would be the delineation of a distinctive role for each multilateral program, relative to other multilateral programs as well as to bilateral ones. A second step would be the establishment of international machinery for allocating responsibilities among the various donors, for reaching decisions, and for reconciling conflicts. Anarchism in aid-giving can be mitigated considerably without endangering the persistence of pluralism.

Better harmonization of Communist and non-Communist aid programs offers intriguing possibilities for reducing tensions in the Third World. If it were possible to extend the scope of the stalemate that now exists on the European continent, the advantages to Western donors and developing countries alike would be significant. However, the Communist world is unlikely to accept such a standoff until it is persuaded that neither threats, aid, nor subversion will enlarge the geographic sway of its social and political system. Although no solid evidence exists that the Soviet or the Chinese Communists so view their prospects in Latin America, Asia, or Africa today, their recent failures and setbacks suggest that they may eventually come around to such a point of view. The Soviets continue, however, to be unwilling to participate meaningfully in United Nations aid programs. As late as 1965, they declined an invitation to participate in the Asian Development Bank, although they abstained with considerably better grace than on earlier occasions when invited to join in a multilateral aid endeavor. Opportunities for coordinating East-West aid should continue to be explored and exploited. However, for the present, realism points to confining discussion of more effective institutional arrangements for aiding less developed countries to the programs financed by non-Communist countries.

The remainder of this chapter and the following one seek to identify possibilities for a better division of labor among non-Communist aid-givers. Since the issues that excite public attention are understandably focused on the proper allocation of funds, power, and responsibility among the existing institutions, the discussion will follow this focus.

Multilateral versus Bilateral Aid

Public discussion of multilateral versus bilateral aid has come almost full circle since the end of World War II. International administration was first accepted uncritically, then widely opposed after limited experience, and more recently has again found growing support.

In the thinking of the early postwar period, flows of government capital were to be managed through international institutions in which all members of the United Nations would be invited to participate. In order to assure their participation the poorer countries were permitted to meet membership obligations through nominal financial contributions, at least insofar as the World Bank and the IMF were concerned. Countries with reconstruction and recovery problems were permitted to defer payment of the bulk of their assessment. However, the voice of each government in management was weighted more or less by its assessed subscription—and the voice of the United States predominated.

The temporary postwar relief agency, UNRRA, was organized with less concern about voting arrangements. However, largely because of the reluctance of Western European nations to press their case for UNRRA help, Communist countries received most of the aid it distributed. Its allocation of funds had repercussions in the United States that long poisoned the atmosphere in which international aid was considered. After two years, the Congress refused further contributions to UNRRA. Congressional and public opinion seemed to identify international agencies with poor management of funds, and particularly with the use of U.S. money in ways that were inconsistent with U.S. interests. Indeed, to this very day the conventional wisdom of legislative strategists holds that the U.S. Congress cannot be depended upon to vote large sums of foreign aid year after year, unless the funds are administered by an agency of the U.S. Government, directly responsible to the Congress for its continued life and for the renewal of its funds.

The successful record of the World Bank as a risk-sharing conduit

for U.S. private capital to foreign countries contributed much to changing American opinion about international agencies. Moreover, two decades of international responsibility have strengthened that element of U.S. public opinion that tends to identify aid through international organizations with true internationalism.

Conservatives much prefer those agencies in which the United States enjoys the power of weighted voting. Thus, in 1963 the Clay committee urged greater use of the IDA—the World Bank's soft loan affiliate—as a channel for U.S. aid funds. The same committee, however, wanted the United States to withhold contributions from other United Nations programs unless its share of their cost was significantly reduced. It distinguished between the World Bank family and the other United Nations agencies, since the former was free of "the complications arising from membership of the Soviet bloc."

On the other hand, these very U.N. programs have become a rallying point for liberal Congressmen and the lobbyists of internationalist-minded organizations. U.S. contributions to the aid programs of the United Nations family are financed by setting aside a small percentage of total foreign aid appropriations. They have generally emerged unscathed from Congressional cuts in aid appropriations. Their partisans regard this happy history as evidence of the popularity of contributions through the United Nations. Others believe that the articulateness of advocates has a certain nuisance value in protecting requests for relatively small sums. If proposed contributions to the United Nations accounted for a significant fraction of the aid bill, they would have fared very poorly, according to the latter assessment of the legislative history of aid.

In recent years, the Senate has regularly authorized—and implicitly endorsed—the transfer of a percentage of AID funds to the IDA, while the House has insisted on deleting such authority. Legislation to replenish IDA funds in 1964 was vetoed by the House Banking and Currency Committee on its first vote. A major rescue campaign had to be conducted by the highest levels of the executive branch to persuade the committee to reverse its action.

On the whole, the administration of aid through international institutions has reacquired, over the years, considerable respectability and support in the United States, although the opposition is still far from silenced. Nevertheless, both the number of international aid-giving institutions and the amount of aid extended under their auspices have

grown. The aggregate sums remain relatively small, however, compared with the bilateral programs. Net expenditures of all such institutions on aid to developing nations is estimated at $780 million in 1964, about 15 per cent of the programs managed bilaterally by the fourteen members of the Development Assistance Committee.* Even this amount required a substantial drawing down of funds raised in earlier years. Subscriptions paid to international agencies by DAC member governments in 1964 financed less than half of their disbursements.

Nevertheless, the case for multilateral aid has been stated with increasing force and authority in recent years. Prominent Americans have come to occupy key positions in international aid-giving agencies or to assume responsibility for U.S. participation in their activities. Invariably, they have become converted to the superiority of such institutions over national aid programs. Others, depressed by the inadequacies of the bilateral aid programs, have concluded that international institutions should be given the opportunity to show whether they can do the job more efficiently. Advocates of the international aid agencies have been particularly successful in England, Canada, and Scandinavia; they have found less support elsewhere in the developed world.

The less developed countries themselves on the whole prefer aid from international sources. To some extent, such support is based on the fact of their membership in the international agencies. The governing boards and executive staffs include officials of developing nations. Participation and responsibility, however limited, confer a stake in an expanded role for these institutions. Moreover, recipients feel that a multilateral institution will be less able to use an aid program to influence either foreign policy behavior or basic internal political and social policies. An international agency offers less of a threat to their sovereignty. To accept help from a world power implies some political and moral obligation and limits the government's freedom to exercise the prerogatives of independent nationhood. These are the views, at least, of countries that feel they have not received their fair share under bilateral programs. The greater the concentration of bilateral aid, the more numerous will be the advocates of international administration in the Third World.

On the other hand, those developing nations that receive preferential treatment under bilateral aid programs see little advantage in opposing

* See *Development Assistance Efforts and Polices, 1965 Review*, p. 36.

internationalization of aid. They have no reason to antagonize less favored recipients, nor are they threatened by any immediate prospect of a wholesale transfer of bilateral aid to an international administration that might treat them less generously. Indeed, some previously favored U.S. clients have felt aggrieved by the trend of its recent allotments and have themselves become somewhat disenchanted with the bilateral program.

At first blush, the reasons that commend international administration to aid-receiving governments should be expected to create resistance in donor capitals. To some extent, they do. However, it is also argued in donor countries that the interests of the aid-giver may be better served by divorcing foreign aid programs from international politics. In 1960, in a widely applauded series of lectures, the president of the World Bank delineated a modern branch of diplomacy—economic development diplomacy—in which aid is used to induce the adoption of better economic development programs and policies.* He asserted that an international institution could do this more effectively than a bilateral donor. By narrowing the scope of interests that the aid donor seeks to further in return for its aid, maximum bargaining leverage can be maintained in behalf of the narrow objectives. In turn, a higher rate of economic growth will result, thus promoting the noneconomic objectives of the donor more effectively and more durably than the tactical use of aid for purposes unrelated to economic development. The argument is a manifestation of the economic development doctrine discussed in Chapter 5. International administration of aid is indeed a logical corollary to that doctrine.

More emotional arguments are also brought to bear. World peace depends on the efficacy of the United Nations, two-thirds of whose members are developing nations in need of aid. The more dependent they are on the institutions of the United Nations, the greater will be its influence in allaying and settling peaceably the crises and international conflicts that inevitably arise. If the United Nations is to cope with problems that are important to its members, it must play a major role in aid-giving. It cannot become a major instrumentality of world order if it fails to contribute to the elimination of major causes of disorder. International administration of aid is thus equated with support of the United Nations as the principal hope for a peaceful world.

* Eugene Black, *The Diplomacy of Economic Development* (Cambridge, Mass.: Harvard University Press, 1961).

Others would divorce aid from U.N. administration in order to minimize attrition in the effectiveness of its peace-keeping functions. They would encourage the use of the United Nations for debate and mutual education among nations, but not for operations other than peace-keeping proper. Development diplomacy involves its own set of tensions between the recipient seeking aid without conditions and the donor demanding reforms and better policies in return for assistance. The value of the United Nations for peace-keeping depends on the fullness of the support of its members and on their faith in the fairness, if not in the disinterestedness, of its decisions. The more the United Nations becomes the focal point for resolving conflicts between developed and less developed nations about the amount of aid to be provided by the former and about the conditions to be demanded of the latter, the less useful will it be in resolving security conflicts, whether between minor powers or between powerful and weaker nations. If the United Nations had been the sole source of aid to India and Pakistan, would they have been more or less responsive to its constructive intervention in their 1965 conflict?

At this level of generality, the validity of arguments pro and con becomes more a matter of faith and taste than of unassailable logic. The record of the multilateral programs provides a better basis for objective evaluation of achievements and potentialities. Although limited in size, international programs have a long enough history to suggest that they do have unique values as well as inherent limitations. These values and limitations are different from those of bilateral programs in a number of critical respects. It is these differences that suggest a continuing role for international as well as bilateral aid programs. They further suggest a functional division of labor that both capitalizes on the successful experience of each and recognizes the inescapable handicaps under which each operates.

Our point of view remains that of the donor societies. If their interests are not served, their contributions will be neither as large nor as sustained as they might otherwise be. If the developing nations do not wish bilateral aid, they can refuse it. A recipient preference for multilateral institutions is likely to elicit an adequate donor response only if the latter believes its own purposes will be better served, or at least as well served.

From the donor point of view, the advantages of the multilateral organizations depend on their relative efficiency and effectiveness as

aid-giving media. The critical questions fall into three categories: (1) the administration of funds, (2) the allocation of funds, and (3) inducing behavior consistent with the full range of donor interests. These questions must be asked separately about the programs operated by the United Nations, which are essentially technical assistance operations, and those conducted by the World Bank and its affiliates, which are essentially capital financing.

Technical Assistance under United Nations Auspices?

It is in the technical assistance field that the problems arising out of a multiplicity of donors are most acute. Partly because it is relatively inexpensive, many more donors provide such aid. For this reason, the United States is much less predominant in the field of technical assistance than it is in the field of financial assistance. It cannot therefore attempt to fill the glaring gaps left by other contributors. Moreover, the combination of a very large number of donors and administrative difficulties makes it impossible to program such aid in accordance with priority needs. Arranging for a meaningful coordination of assistance that lends itself so poorly to programming under the best of circumstances is a major enterprise, one that has rarely been arranged effectively. It has already been noted that technical assistance is a weak tool for influencing the major policy decisions of a recipient government.

The foregoing characteristics of technical assistance suggest that effectiveness should be much improved under centralized international management. They further suggest that donors should have relatively less interest in perpetuating their bilateral programs. It therefore seems curious that few voices are raised on behalf of transferring bilateral technical assistance to international administration.

A large part of the explanation lies in the judgment of many donors —as well as of many recipients—that the United Nations has been lax in administering its substantial technical assistance funds. Nevertheless, the range of its activities as well as its funds have grown over the years in response to clamors for more aid under U.N. auspices. Though adamant about financial aid, the principal donor countries have sought repeatedly to meet such pressures by increasing somewhat their financial support for U.N. technical assistance activities. They have also increased their bilateral assistance in this form.

Initially, the various U.N. specialized agencies incorporated small

technical assistance programs in their regular budgets. Later, an Expanded Program of Technical Assistance was established. Authority over the collection of contributions was centralized at U.N. headquarters, but programming and operations remained essentially decentralized. Funds were allocated in fixed percentages to each specialized agency for essentially independent programs. For the most part, such programs entailed the provision both of short-term experts and advisers on specific problems and of overseas training.

Subsequently, the United Nations Special Fund was created to finance more costly projects, including preinvestment surveys. The Special Fund allocates funds to specific projects, but for the most part it also uses the specialized organizations as its operating agents. Humanitarian interests have brought increasing sums each year from governments and private contributors to the U.N. Children's Fund. This fund again assigns much of its income to the various specialized agencies, not always for programs benefiting children more than any other segment of the population.* New technical assistance programs in peaceful uses of atomic energy and in industrial production were established in order to expand the scope of U.N. aid activities. A World Food Program was initiated, patterned on a modest scale after the U.S. Food for Peace program. Pressures for an expanded U.N. role have thus produced more funds and new programs, largely of an inexpensive technical-assistance character. The number of separate programs has only reinforced widespread and persistent reservations about the efficacy of each.

The specialized agencies suffer from the requirement that they recruit a proportionate number of their personnel from each member country. Short-term experts can be hired without regard to nationality, but the arrangements are particularly unattractive for American citizens. Hence, European citizens predominate in these positions, with former colonial officials heavily represented. The bilateral programs are generally believed to have attracted better technicians than the U.N. agencies could recruit from the same countries. There are, of course, many exceptionally competent individuals drawn to the U.N. programs. However, technicians conditioned to practical considerations seem to prefer to work through their national aid agencies, if a choice is available to them. Comparisons of the quality of personnel are inevitably

* See Blanche Bernstein, "UNICEF—The United Nations Children's Fund," *Department of State Bulletin*, February 21, 1966.

invidious and may be self-serving, yet they do raise doubts about the merit of U.N. claims for more responsibility.

Much less disputable is the fact that U.N. programming of technical assistance suffers from the independence of its specialized agencies. Each presses less developed countries to accept its own project proposals and the personnel it has available, lest its funds be diverted to another country. Even the programming of the Special Fund's resources is distorted by the ability of a specialized agency to "sell" a project to a recipient on the basis of such an argument. The less developed country itself has little opportunity to arrange more U.N. help in agriculture and less in health, for example, lest WHO respond by initiating new activities in another country. Nor does the system for managing funds permit establishing a centralized United Nations set of priorities for each country.

Though the United States is by far the principal donor to these programs, it has not been in a position to seek improvements. The programs have drawn support from a small, if highly articulate, segment of the American electorate simply because they do represent the United Nations. Moreover, each specialized agency receives backing from its own profession and from that branch of the U.S. Government with corresponding functional interests—labor, health, agriculture, education.

Within the U.S. Government, general responsibility for these programs rests with the Bureau of International Organization Affairs of the State Department, rather than with the aid agency. While AID includes the necessary funds in its request for foreign aid authorizations and appropriations, it cannot evaluate the programs and relate contributions to the results of such assessment. Nor can the Congress. The U.S. contribution to each program is a predetermined percentage of the proposed total. U.S. representatives at international meetings may seek, and have sought, to reduce the percentage, but they are caught in a dilemma if other countries refuse to increase their share. To refuse to contribute or arbitrarily to announce a reduction would jeopardize the entire program, if only because the U.S. percentage is so large. The result would embarrass U.S. representatives to the United Nations on other matters of primary concern to them and minor concern to developing nations. It would place the United States in a position of apparent hostility to the United Nations itself.

As its contribution to such U.N. programs increased sharply (from

$62 million in 1958 to twice that sum in 1964), and as its bilateral aid became increasingly concerned with country programming, the United States mounted a campaign to improve the U.N. technical assistance operation. U.N. Special Fund representatives in developing nations—originally little more than liaison officers—were provided with larger staffs and instructed to attempt to coordinate the programs of the various U.N. agencies. They were also asked to seek better coordination between the United Nations and the bilateral programs. U.S. aid missions were instructed at the same time to cooperate with this attempt to enlarge the responsibilities of the Special Fund representatives. An effort was also made to facilitate the assignment of U.S. Government employees to the U.N. programs. A major U.S. initiative to consolidate the Expanded Program of Technical Assistance and the Special Fund finally produced an agreement at the end of 1965 to merge both their headquarters organizations and the supervisory councils in which U.N. member governments and the specialized agencies are represented.

The process of rationalizing U.N. operations in the technical assistance field has thus been initiated, but major obstacles have to be overcome. Centralized programming of all U.N. funds on a country basis has yet to be established. The "special characteristics" of the EPTA and Special Fund are retained under the 1965 consolidation agreement, at least insofar as the allocation of money to finance specific activities is concerned. If the U.N. Special Fund representative is in a stronger position to solicit cooperation from the representatives of specialized agencies on matters of programming and priorities, he is not yet in a position of authority over them. Recruiting is still very much under the control of the specialized agencies; their permanent personnel remain the primary reservoir for staffing technical-assistance programs. The experience of bilateral programs has shown that it is preferable to contract major responsibility for projects to private institutions with a strong professional base for recruiting and managing technical personnel. Such contracting remains a last resort for U.N. programs, in the face of resistance by the specialized agencies.

Proposals to internationalize the administration of technical assistance founder on the U.N.'s reputation for inefficiency in programming funds, in managing programs, and in recruiting competent talent. Such a harsh judgment is, of course, disputed by those most closely concerned with the U.N. technical assistance operations. They argue

that it cannot be supported by any objective tests; evidence of inadequate and incompetent technical assistance can be found in both the bilateral and the multilateral programs.

It is, of course, the donors who must be persuaded. They are more likely to be convinced by significant reforms than by arguable charges that the pot is calling the kettle black. The disparate mechanisms employed within the U.N. family of autonomous agencies for programming technical-assistance funds and for executing programs give little cause for confidence. So long as obvious organizational deficiencies continue in the U.N. arrangements, the large bureaucracies created to administer bilateral technical assistance are unlikely to yield their programs and prerogatives to international administration. Though donor governments may see few policy advantages in retaining bilateral control of much of their technical assistance, they are restrained from change. Concern about overstraining the capacities of an already ineffectual aid structure must be overcome before much progress in internationalizing technical assistance can be expected.

The consolidation of all U.N. programs would seriously undercut the case for retaining so much technical aid under bilateral control. Progress toward amalgamating U.N. technical assistance is handicapped for lack of much incentive for the specialized agencies to relax their resistance. An offer to transfer bilateral programs to U.N. administration would provide an almost irresistible inducement to accelerate and consolidate the reforms that have been initiated in so gingerly a fashion. The transfer should be conditioned on a prior consolidation of all U.N. programs under a single management for receiving and programming funds. Moreover, all field personnel of the various programs should become part of a single U.N. mission, with a director responsible to the centralized management. The specialized agencies should, of course, be called upon to carry out programs, but the centralized management should be free to contract with private institutions. Hiring for the technical-assistance programs should be relieved of all requirements for national representation. On the whole, personnel should be recruited from the developed countries. Though exceptional cases exist and should be recognized, developing countries as a group gain little from the hiring of skilled technicians from one less developed country to work in another under U.N. auspices.

Though organizational deficiencies and operational inefficiencies provide the principal arguments for opposing a major transfer of respon-

sibility for technical assistance to United Nations auspices, other concerns will limit the speed and extent of any transfer. Technical assistance programs promote goodwill among the citizens of developed and developing lands. For this reason, many donor countries insist on retaining a bilateral technical assistance program. The French are particularly concerned about the maintenance and extension of their language and culture and insist on the importance of technical assistance in the French language. A few richer countries that still offer little else in the way of aid are reluctant to be without any bilateral aid program. Colonial powers continue to concentrate financial aid on their remaining colonies or ex-colonies, diverting requests from most other less developed countries by offering technical assistance.

These are largely passing considerations, however. For example, concentration on former colonies is recognized as an unwise policy, and the metropoles are seeking to diversify their programs. (See Chapter 12.) Other donor interests in maintaining bilateral technical assistance can be overcome by appropriate arrangements. Assurance would have to be given to individual donor governments that their nationals will find a suitable place on the rosters of teachers and technical experts of the U.N. program. They may require some guarantee that the number of trainees sent to their country will not be reduced without their consent after the programs are transferred. Personnel with earlier commitments to nationally administered technical assistance programs would have to be absorbed by the U.N. program as funds are transferred. These are all manageable problems, however.

Otherwise, donors have little reason for maintaining the bilateral character of most of their technical assistance. Such programs are difficult to relate to either long-range or tactical interests of a particular donor government. They are not costly enough to have significant balance-of-payments implications for donors, nor do they lend themselves to promoting the exports of an individual donor. In general, they are not well suited to negotiations with recipients about their economic, political, or social policies or priorities. Nor can they be used to influence large allocations of funds within national budgets or the allotment of foreign exchange. Indeed, the United States normally maintains its technical assistance programs without interruption, even in cases where it suspends financial aid because of displeasure about either internal policies or international behavior.

Nor is the allocation of technical assistance among developing na-

tions a matter in which the interests or priorities of donors are likely to diverge as a general rule. No a priori reason exists for expecting the allocation of technical assistance resources among countries to serve donor purposes better or worse under international administration. It seems likely that the allocation would not vary much from the existing pattern.

Nevertheless, a complete transfer is difficult to envisage in the foreseeable future. The United States, for example, would undoubtedly have to retain its bilateral technical assistance program in Vietnam so long as that land remains embattled. Its military training and public safety programs also do not seem appropriate for internationalization. The French program poses a special problem because of the large numbers of teachers and operational personnel currently engaged in former French colonies. Internationalization of more than a fraction of its programs would seriously distort the character of the U.N. technical assistance operation.

Nevertheless, with a suitable U.N. administrative structure, it should be possible to transfer most of the technical assistance effort to international administration. The advantages of centralized donor programming and administration of all the public health experts in Brazil, and all the teachers and educational advisers in Nigeria, to take two random examples, should be significant. The latter's Ministry of Education could look to a single donor in arranging for all its technical assistance needs. Moreover, it would become easier for the budget and planning authorities in the government to set priorities in fixing their requirements for technical assistance. They could concentrate foreign technicians and trainees where they are likely to be most productive in meeting needs. The donors would benefit since their combined contributions would most likely prove much more effective in advancing the quality and quantity of education and training in the aided country. Their experts and their domestic facilities for training the citizens of developing nations would be used as extensively as at present, but the results should be more advantageous and rewarding to them as well as to the developing lands.

Capital Assistance under World Bank Auspices?

There are considerably fewer potential donors of capital assistance than there are of technical assistance. Inefficiency is more avoidable because needs are more easily identified with large and separable units —a capital project or the importation of specified commodities. With

less overwhelming and absorbing managerial problems, policy decisions can also be coordinated more readily. Nevertheless, the case for centralizing capital assistance under international administration has received more attention and has stirred more passions than has that for technical assistance. It is, perhaps, the larger sums of money involved that turn capital assistance into the primary battleground of the advocates of international administration of aid.

However, it is also true that an acceptable international institution is available to take over bilateral capital assistance programs. The World Bank is free of the organizational deficiencies that deter, for the moment, serious consideration of internationalizing technical assistance. It has a better image in the United States and has properly been subject to less criticism. It has no Communist members, except for Yugoslavia. It operates on the basis of weighted voting, out of a Washington headquarters, with a U.S. citizen at its head, so that opportunities for U.S. Government influence are ever present.

The Bank's reputation as a sound administrator of aid is based to a considerable extent on the strength of its balance sheet. The capital subscriptions of member governments exceed $21 billion, of which $2.1 billion has been paid in to the Bank. Funded debt outstanding is less than $3 billion. Its net earnings have risen steadily to a current annual level approximating $150 million; it has built up out of earnings a reserve fund of $1 billion. The acceptability of its bonds on the U.S. capital market is virtually as great as that of the U.S. Government itself. Moreover, the projects it has financed have generally turned out to be productive economic enterprises; there have been remarkably few deficiencies.

In the 1960's the Bank has significantly expanded the volume, scope, and flexibility of its operations in developing nations and strengthened its support in aid recipient circles. The Bank has been lending them almost $700 million a year, twice the volume of such operations in the preceding five years, and five times the rate of such lending prior to 1955. By the end of 1965, the net amount of its loan commitments to developing nations out of capital, retained earnings, and private market borrowings totaled almost $6.3 billion. The number of such borrowers had risen to sixty-two countries and dependent territories. Moreover, it had obligated $1.2 billion of its "soft" IDA funds to thirty developing lands, eight of which were never considered sufficiently credit-worthy to receive loans from the Bank.

The expanded operations of the Bank required the relaxation of many

of its earlier rigid rules. It ventured into financing some local currency costs, stretched its definition of a project loan to permit the equivalent of an AID "program" loan, and began to experiment with loans for education and agriculture. Whereas it had once been wary of lending to countries if service on public debt exceeded 10 per cent of export earnings, it now spoke of 15 or 20 per cent as a tolerable debt-service burden. It even lent Bank money to Turkey in 1966, though the latter's payments for interest, dividends, and debt amortization in 1965 exceeded 40 per cent of its foreign exchange earnings. The Bank has also substantially expanded its technical assistance activities. Increasingly, its president appears as the voice of the developing nations, supporting their demands for a larger volume of aid from developed lands on softer terms of repayment.

Its soft loan affiliate, the IDA, uses the Bank staff to administer programs that correspond closely to those conducted by bilateral agencies. Unlike the Bank, the IDA provides funds to developing nations on repayment terms that preclude resort to the private capital market—a ten-year grace period followed by an additional forty years for amortizing the principal and a .75 per cent service charge in lieu of interest. If the IDA is to continue to operate along its established lines, it must be refinanced at regular intervals out of tax funds contributed by donor governments or conceivably out of an interest subsidy on its borrowings.

In 1962, the IDA sought additional tax funds to permit soft lending at a rate of $.5 billion a year for five years; it eventually received half that amount for three years. In 1966, it was faced by the need for further replenishment. Friends of the IDA, as well as some of its management, envisage it as the eventual administrator of much of the development loan funds appropriated by Western governments. With each replenishment, efforts are made to take another significant stride in that direction.

The case for assigning more bilateral aid funds to the IDA has been stated forcefully both within and without the World Bank. The most striking argument concerns its asserted proficiency as an allocator of aid to those countries that will put money to the best possible use. It is asserted that the Bank is better able to induce the adoption of general policies appropriate to economic development. Its international character makes developing governments less resistant to its advice; its banking character makes it impervious to political pressures for proj-

ects or programs that have no sound economic justification. Moreover, it can refuse funds to an applying government if it is dissatisfied with its policies, without the refusal's jeopardizing relations between that government and any donor or group of donors. It is suggested that the Bank can apply pressure on recipients to change policies as vigorously as the United States, and perhaps more effectively. Moreover, it can do so without provoking "Yankee, Go Home" demonstrations.

While such arguments are persuasive and have achieved considerable currency, remarkably little evidence exists to document their validity. The only instance of the expulsion of a Western aid mission for pressing unwelcome advice is that of the World Bank adviser who was resident in Turkey in the early 1950's. Those developing countries that are generally considered to have made the most economic progress in the 1960's—Greece, Israel, Taiwan, Korea—were not major World Bank clients nor were their policies significantly affected by an attempt to satisfy World Bank lending criteria. It has lent heavily to Mexico, primarily in the 1960's, after a high rate of economic growth had already been firmly established. Of its major Latin American clients in the 1950's—Brazil, Chile, Peru, and Colombia—only Peru had registered an impressive record of economic growth prior to 1965. The Bank refused to lend further to Iran and Brazil in the early 1960's because of policy disagreements; AID continued to provide bilateral aid. The cases of Iran and Brazil are cited as evidence of the Bank's ability to resist political pressures and demand reforms. Yet the Bank lent substantial sums to both countries in 1958 and 1959, when they were launching the unfortunate policies that led them into difficulties and induced the Bank to withhold further loans for a period of several years. Subsequent reforms owe more to the influence of the United States, which continued to provide some bilateral aid while seeking better policies, than to the Bank, which refused to lend more money until reforms were introduced.

Perhaps the least propitious case of World Bank effectiveness in eliciting better economic policies and performances is that of India. By the end of 1965, the Bank had committed $1 billion to India in hard loans and a further $600 million in soft IDA loans. Its advance blessing of the Third Five-Year Plan, and of each year's economic performance at the time of the annual consortia meetings, triggered bilateral aid pledges that multiplied its own contributions several times. Yet up to 1966, India's economic performance was singularly and remarkably

undistinguished in comparison with other recipients of large sums of aid over an extended number of years.

It would be incorrect to conclude that the Bank has not been an influence for better economic decision-making and for higher economic growth rates. Its staff is competent, experienced, and dedicated. That the record of accomplishments is an indifferent one is partly a result of the inherent difficulties of the task. If its influence on economic policy decisions has been less impressive than that of the bilateral U.S. aid program, this is due to its inherent limitations as an institution.

In September, 1965, the Bank published a penetrating and constructive essay written by a retiring senior officer, Mr. Escott Reid. A former Canadian diplomat, Mr. Reid served the Bank for three years as Director of Operations for South Asia and the Middle East, responsible for more of the Bank's lending business than any other regional director. An enthusiast for an expanded role for the Bank, Mr. Reid nevertheless identified many of the limitations in the Bank's past record. He would surely deny that these limitations are inherent in the institution; he proposes remedies for those he specifies. However, the nagging question remains of whether the Bank can readily accept them. The president of the Bank, in a friendly foreword to the essay, observes, "I do not agree with all his conclusions."

Particularly revealing is this tactfully phrased statement of Reid's, especially if one remembers the encomium written by the previous president of the Bank about its effectiveness in economic development diplomacy: "What is even more difficult for Bank and borrower is a dialogue on the general economic, financial and development policies of the borrowing country. Such a dialogue has often been desirable in the past and has taken place. It is, in my opinion, usually going to be essential in the future that the Bank conduct this kind of dialogue with low-income countries which need a large flow of resources from abroad over a long period."*

The sixty-odd page essay lacks a single example of such a dialogue concerning general economic and financial policies. In the past, significant results have rarely emanated from those that have taken place between the Bank and its clients, except on matters closely related to the specific loan project under consideration. One also wonders whether the phrase "development policies" is a euphemism for the social, politi-

* *The Future of the World Bank* (Washington, D.C.: The International Bank for Reconstruction and Development, September, 1965), p. 10.

cal, and security problems that are outside the Bank's nominal jurisdiction and yet are frequently the most critical limitations on progress toward a viable society. If so, can the Bank effectively extend its concerns to cover these domains?

None of the institutional limitations is difficult to identify. In the first place, the Bank is not the apolitical institution that some admirers believe it to be.* It must bear political considerations in mind in deciding on a loan request. Its decisions on a large loan do affect the distribution of power among and within nations, and it has always and inevitably been quite conscious of the political impact of its determinations. While its political interests may differ from those of bilateral donors, they are not confined solely to the most productive use of funds in behalf of economic growth. Nor do they necessarily produce better economic results than purely bilateral decisions.

The Bank's own hard loans show a heavy bias in favor of those developing countries whose foreign exchange situation is inherently strong and whose capacity to repay interest and principal is accordingly promising. One-fifth of its hard loans to sixty-two developing nations by the end of 1965 had gone to seven countries in a strong foreign exchange position. In 1964, interest and repayment of principal on World Bank loans cost "poor" and "very poor" Bank clients $63 million more than disbursements to them on such loans.† Moreover, much of its IDA funds have gone to countries that were having difficulties in meeting substantial interest and amortization payments on older World Bank loans. IDA disbursed $140 million to such poorer Bank clients in 1964, more than offsetting their net payments on hard Bank loans.

Its own jurisdictional concerns vis-à-vis other international agencies and bilateral lenders also play a role in its decisions. While it feared DAC and OECD encroachment, it turned a deaf ear to Turkish requests endorsed by an OECD consortium. Bank loans to Mexico and Venezuela increased remarkably after the Inter-American Development Bank came into being, which suggested to some a desire to capture from a new competitor the best available projects in the two Latin American countries whose debt-service prospects are much the strongest.

Bank decisions must be responsive to the interests and views of mem-

* See David A. Baldwin, "The International Bank in Political Perspective," *World Politics*, October, 1965.

† Reid, *op. cit.*, pp. 34 ff.

ber governments as well as of bondholders—its donor members as well as its less developed members. It must regularly obtain permission from developed members for access to their capital markets in order to float new loans; it must also seek from their governments appropriations to replenish the IDA. Not surprisingly, a high proportion of all Bank loans to developing countries have gone to colonial territories; the metropoles solicited them and guarantied repayment. Very little development diplomacy could be exercised in the course of making such loans.

All needier members of the Bank seek and expect some help. Their insistence and persistence results in hard or soft loans to all and sundry. The only less developed members that have never received any sort of loan from the Bank or IDA are Vietnam, Laos, Indonesia, Greece, Nepal, the Dominican Republic, and a number of African countries whose membership is relatively recent.

The stuff of international politics can be observed in many of its loan applications. The Bank's reluctance to finance the Aswan Dam comes to mind, as does its subsequent affirmative decision to finance the nationalized U.A.R. Suez Canal Authority. Loans to the Indus project and to Ghana's Volta River project were replete with political considerations. In 1965, the Malaysian Finance Minister publicly thanked the Bank management for a large loan that permitted his country to continue with a development program that should and would have been financed out of its own resources had it not been for the confrontation with Indonesia. Under the circumstances, the defense budget had to be increased. Financing was found by diverting funds previously programmed for development projects; the resulting shortage of development funds was to be met in part out of the Bank's loan.

None of the preceding discussion suggests that the Bank's decisions were reprehensible. It does demonstrate that they were political. The Bank must consider its own fate as an institution and the clientele to which it is beholden, whether as borrower, recipient, or influential stockholder. Such considerations dilute the ability of the Bank to insist on better policies, just as different political considerations limit the bargaining power of the bilateral donors.

Two further limitations on the Bank's effectiveness do not hamper major bilateral donors, certainly not the United States. The Bank is represented in only a few developing country capitals. Where it does have resident personnel, their role is much more restricted than that

of a U.S. aid mission. For the most part, its field representatives are engaged in preliminary appraisal of loan projects and in the administration of prior loans. The lack of resident officers means that the Bank is rarely in a position to influence the early stages of policy formulation. Remoteness hampers knowledge and evaluation of the alternatives available to the recipient governments; the reasons for policy choices are seldom accurately ascertainable behind a Washington desk or on a brief visit. Thus the Bank is normally limited to refusing to finance flagrantly bad policies. It is largely confined to urging financial stabilization policies, a domain in which the IMF is more competent and more experienced.

In 1964, the Bank tried new ground by sending eighteen experts to India, most of whom remained for six months. For the first time, the Bank was able to formulate and require a series of major policy reforms before lending its endorsement to the new five-year plan. Even in this instance, it has been suggested that the Bank was largely running interference for the U.S. aid mission. India's economic performance made it difficult for the United States to increase aid as the plan required; some evidence was needed of India's willingness to try different policies from those that had yielded such indifferent results in the past. The Bank seemed satisfied after the devaluation of the rupee in June, 1966. The United States appeared ready to increase its annual aid commitment level. Other donors remained reluctant.

A long interval was required before the Bank and India could reach agreement, early in 1966, on the selection of a resident Bank adviser in New Delhi. Reid recommended that the Bank have a resident mission or embassy in India, composed of six to ten officers with considerable and varied experience in the Bank's headquarters. The United States can and does establish such missions. It refuses to operate aid programs unless the recipient government agrees to their establishment and accepts their right to inquire into all relevant policy matters. The Bank has not been able to insist on such conditions. It must permit the recipient to participate in the selection of its resident adviser; it must accept limitations on the scope of his activities that would be intolerable to a substantial bilateral donor.

Perhaps even more crucial is the fact that the Bank is effectively debarred from interfering directly in the noneconomic policy decisions of its clients. If noneconomic factors are indeed a crucial limitation on economic growth (as was previously argued in Parts II and III),

the closing off of such issues seriously hampers the Bank's ability even to promote economic development. It also bars the Bank from consideration of expensive matters that should be of critical importance to a donor. Thus, the Bank could scarcely have evaluated Malaysia's defense budget, though its loan indirectly financed that budget. Nor could its 1966 conditions for India evaluate the latter's increasingly expensive military establishment, its nuclear program, its treatment of the disadvantaged castes, or its readiness to promote regional cooperation.

If the United States were to turn all—or a large part—of its capital assistance funds over to the Bank, it would therefore drastically limit its own influence over noneconomic matters of considerable importance to itself and to the claimant countries. The United States suspended aid deliveries to India and Pakistan after the outbreak of fighting in 1965. The Bank felt precluded from similar action, fearing that its reputation as a banking rather than a political institution would be jeopardized. The incident should give pause to those who would transfer all or most of U.S. aid to the World Bank. The South Asian fighting might have accelerated into a full-scale war had both sides felt assured of continued foreign aid.

Economic development requires an unusually elastic definition of banking criteria; the viability of a society requires more than economic growth alone. Such matters as the size of the defense and the education budget may be as important as the wisdom of budgetary allocations among competing investment projects. The impact of tax policy on the distribution of income between classes and regions of the country, or even internal decisions about the treatment of disadvantaged groups, may be critical to the donor's long-range interests.

The institutional limitations of the Bank thus provide compelling arguments for restricting its role as an administrator of U.S. tax-originated aid funds. Nothing in the past record suggests that these limitations can be overcome. Until they are, the United States will need to maintain a large bilateral capital assistance program.

Nevertheless, the Bank does offer important assets which have not received much attention in the oversimplified and sterile debate about whether the Bank is a better vehicle for aid than AID. It has an experienced and highly competent staff (though Reid notes its limited size and the excessive proportion of U.S. and other Anglo-Saxon officials). Its balance sheet and its reputation give it a respected entree

and status on private capital markets in most developed countries. It has a successful record as a risk-sharing institution for channeling private capital to less developed countries. It has been a most effective administrator of project aid. These assets and capabilities have not been exploited as intensively as they might.

A strong case exists for yielding the World Bank a monopoly on intergovernmental project loans to countries that can afford to repay within twenty-five years, with interest adequate to permit continued Bank borrowing on private capital markets. Countries that cannot reasonably be expected to service more debts should not be eligible for Bank loans; those that can should not receive bilateral aid. When offered by bilateral government agencies, such loans invariably represent a method for promoting the exports of the financing country. They finance projects that could reasonably have been financed by the Bank. The only justification for the bilateral loans is that they protect local businessmen from having to bid against international competition, as they would have to do in order to gain Bank-financed contracts.

Countries with sufficient unencumbered debt-service capacity to handle hard loans are not likely to be susceptible to substantial donor influence over policy decisions. The United States has, in fact, withdrawn from this bilateral "aid" field, except for its Export-Import Bank. The latter's project loans to nationals or governments of developing countries is relatively small, perhaps $350 million per year. Most of these go to countries with good debt-service capacity, so that they do not need tax-originated aid funds. Unlike the World Bank, Export-Import Bank loans finance exports of U.S. goods only and do not require a guaranty of repayment from the government of the borrower. Its borrowers are primarily in countries that are reasonably promising export promotion targets. Other developed countries use both their export credit guaranty systems and their intergovernmental loans for the same purpose.

The concentration of World Bank market-originated funds on such countries would protect them from the pressures of bilateral export-promotion lending and should strengthen both their international competitive position and their economic growth. Over time, no competitive donor country should suffer much economic damage, if all denied themselves the use of hard bilateral loans for export promotion to less developed countries. When all major exporting countries offer such loans, they become self-defeating; the additional trade they finance is largely illusory. If one major exporting country offers such facilities, the others

must follow suit or risk the loss of orders. If all offer such facilities, buyers should not be attracted to a less competitive seller by the offer of credit.

The majority of less developed countries are not, however, suitable borrowers on such terms, either because their present debt-service costs already weigh so heavily on their foreign-exchange earnings or because they give little evidence of a strong upward trend in such earnings. They need very soft repayment terms; as has been argued earlier, most should receive their aid in the form of outright grants.

Because of the limitations on the Bank's influence over recipient policies, major donors rightly refuse to surrender to the Bank their control over the allocation of soft loan and grant aid funds. That leverage rests essentially on the power to allocate additional aid. It depends very little, if at all, on the management of aid for individual projects. It is here that the Bank's experience and record is pre-eminent and should be called upon much more. In selecting projects, concluding contracts, and supervising performance, the Bank's capabilities are clearly superior to those of any bilateral agency. Donors could notify the Bank of the amount of project aid each was prepared to offer individual developing nations and permit the Bank to manage the funds thereafter. With such an arrangement, project aid would undoubtedly be better administered, the recipients would benefit more, and the Bank's staff and institutional skills would be better utilized. (See Chapter 14 for a discussion of the potential use of such a device in connection with better burden-sharing.)

The benefits of Bank administration of project aid would be further enhanced if donors other than the United States could be persuaded to adopt U.S. permissive techniques with respect to programming of funds by the recipient. (See Chapter 9 for a discussion of the balance-of-payments implications of this device.) In that event, each donor might indicate to the Bank the amount of money it was prepared to offer Colombia, for example, by way of project financing. The pledges might be based on a list of projects certified by the Bank staff to be both ready for financing and in conformity with Colombia's development program for the year. Presumably each donor's pledge would be related to the volume of project contracts it expected to be placed with its own nationals. The Bank would arrange for international competitive bidding on the projects. Donors whose nationals won out in such bidding would assign funds out of their project aid pledge to the Bank, which in turn would let the contract. If the nationals of a particular

donor gained more contracts than its project pledge, it would have the option of raising its ceiling, perhaps borrowing against the funds to be offered the recipient in the succeeding year. In the event of a refusal to provide more money, the contract could be awarded to the next highest bidder.

Alternatively, the IDA might be used primarily to finance projects awarded to a low bidder whose government's project pledge to the recipient country had been exhausted. Such an arrangement would establish a clearcut function for the IDA. It would provide a benchmark for the size of the total IDA operation. It would suggest the contribution that might reasonably be asked of each donor.

Today, IDA has no such distinguishable function or benchmark. Its limited funds provide but a small fraction of total free world assistance to even its largest clients. Thus, it supplements both the Bank's hard money and the bilateral programs in amounts that are necessarily determined by arbitrary and irrelevant criteria. Its allocations are not related to the total allocations of free world assistance in any meaningful way. However small, IDA funds are valued by the recipients because of their generous repayment terms. They are valued by the Bank as a way of meeting the pressures of its more impecunious members or of helping its larger borrowers when important payments become due without much surcease in the country's balance-of-payments pressures.

Finally, the Bank might make better use of its strong balance sheet and access to the private capital markets to meet such a need for soft-loan money. It has begun to allocate $75 million a year to the IDA, about half its recent net earnings. Such funds are added by the IDA to its receipts of tax funds from its more affluent members and are lent to client countries on its usual soft terms. If the Bank borrowed money for relending to IDA on the private capital market and allocated the same $75 million per year to meet interest charges on such borrowings, it could service about $1.5 billion worth of loans at current rates. The $75 million would then go much further in financing countries that cannot handle more loans on Bank terms.

Such a use of part of the Bank's earnings is the basis of the Horowitz Plan, offered by the Governor of the Bank of Israel to the UNCTAD Meetings in 1964.* A variant had been proposed and considered cursorily within the U.S. Government a year previously. The United Na-

* See *The Horowitz Proposal, Selected Documents* (Jerusalem, November, 1965).

tions convened an expert group to review the Horowitz Plan in 1966. The basic concept deserves serious consideration.

The fundamental argument against its adoption in any form is that the Bank cannot be assured of $75 million a year in earnings over the next fifty years. The probabilities for this, however, seem unusually high. The Bank's earnings seem unlikely to drop below the $150 million a year level in the foreseeable future. If the Bank can find good borrowers for previous income retained to date and for its paid-in capital subscriptions, net earnings of at least this magnitude are assured. Moreover, if its more affluent members ceased their competition for borrowers who can afford Bank terms, both the security and the stability of its future earnings would be even more certain. Should bilateral aid revert more to a grant basis, as suggested in Chapter 13, the likelihood that payments on IDA soft loans will be met on schedule should be considerably enhanced. Those who remain concerned despite such unusually high probabilities should be further reminded that all Bank borrowings are effectively guarantied by the unpaid subscriptions of the government in which its loans are placed. So long as soft loans have a place in aid to developing countries, such an opportunity for arranging multilateral financing through the private capital market should not be neglected.

The foregoing discussion proposed a functional division of labor between the bilateral agencies and the Bank's hard and soft loan programs. The Bank's hard loans would be confined to countries able to carry a heavier debt burden; donor countries would agree to withdraw from bilateral lending to such borrowers for long-term purposes. Bilateral donors would continue to control the allocation of their soft loan and grant funds; they would assign the project component of such aid to the Bank for administration. IDA funds would be used primarily to finance projects awarded under competitive bidding procedures to countries whose aid is insufficient to cover the cost of projects awarded to its nationals. A further $1.5 billion of IDA loans for this purpose could be financed by allocating $75 million a year out of future Bank earnings to meeting interest charges on its borrowings for relending to IDA.

Such arrangements would necessitate much more intensive coordination of aid decision-making among donors than has yet been achieved. It would undoubtedly involve significant use of the staff of the World

Bank to advise donors concerning such matters as the economic policies of aid recipients, requirements for both project and non-project aid, and the capacity of borrowing countries to accept increased debt burdens. The system would at least have a compelling logical consistency. It should facilitate a more effective aid effort. It might even divert into constructive channels the energies currently devoted to sterile argument about the merits of multilateral versus bilateral capital aid programs.

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Managing Bilateral Aid

It was suggested in the previous chapter that donor interests might be served through progressive internationalization of technical assistance. In the case of financial assistance, an expanded, though still a limited, task was defined for the World Bank. Donors want and need bilateral control of capital assistance primarily to relate aid for individual countries to their own interests. To do this, they must retain decision-making authority over both the size and the allocation of their contributions, including the circumstances under which additional aid is made available to, or withheld from, individual developing countries.

Nevertheless, because of the strength of internationalist sentiment, and the usefulness of international agencies, the explanations offered to the public for persisting with bilateral aid are pragmatic rather than principled. Promises are given to make more use of international institutions, but they are vague as to amount and timing. In practice, the principal donors continue to maintain bilateral control over an overwhelming proportion of their aid. Only 5 to 10 per cent of the aid expenditures of the major donor countries take the form of contributions to international institutions, about half of it for technical assistance.

Western donors, no less than Communist countries, have been joined in persiflage about their willingness to give financial aid through international institutions. It is suggested that legislatures and electorates may be reluctant to finance a large percentage of the costs of an international agency, or to finance international programs as generously as bilateral ones. The international agencies themselves voice some reluctance to become overly dependent on any one donor government. The hesitancy to turn much capital aid over to international adminis-

tration is in fact based on perfectly sound and respectable grounds that are nevertheless consistent with a modest but significant role for the World Bank. All large donors and most small ones are persuaded that national interests require continued bilateralism in allocating financial assistance. None is prepared to relinquish that control for the present; none foresees its relinquishment in the near future. It would be better if they said so forthrightly, defined the proper role of the international institutions, and turned their attention to buttressing their bilateral programs.

If the motives for the persistence of bilateralism in capital assistance are both sound and controlling, more consideration should be given to improving the management of such programs. Two major areas deserve particular attention: better coordination among the donor governments, and concentration of authority over the diverse and dispersed programs conducted by the United States.

Coordinating Bilateral Programs

In the official lexicon of national and international administration, few words are so overworked and abused as "coordination." Its connotations are wholly virtuous. Rarely, however, does it delineate meaningfully the decisions and actions that are required. In the international aid field, it denotes little more than recognition of a need to meet and talk. Decisions that relate the disparate and divergent interests and activities of the numerous donors have yet to become a significant feature of the "coordination" process.

If aid programs are to be maintained separately, their interrelationship will not be perfect; nor is this necessary. As in the case of aid itself, coordination should be guided by priorities. What most urgently needs reconciliation can be narrowed down to practical proportions. Meaningful intergovernmental agreement on this score has yet to be achieved; a proper definition and focus for coordinating bilateral aid programs has yet to be established. Institutional machinery has been created and many meetings held, but there has been precious little agreement. Neither the desirable uses of the machinery nor the desired outcome of the meetings has been fixed.

Coordination Through the Development Assistance Committee

The first major effort was mounted in the DAC, a creature due, primarily, to U.S. initiative and prodding. U.S. enthusiasm for such "coordination" was in large part the result of its search for better burden-

sharing, i.e., larger proportionate aid contributions from Western Europe, Canada, and Japan. The others were prepared to participate in coordination, though without accepting explicit responsibility for increasing their own shares.

The DAC soon became a forum in which the United States sought to manipulate meetings and discussions in the direction of burden-sharing, while the other members preferred to interpret coordination as the exchange of information. They were prepared to be "the conscientious rich"* so long as the pressures for improved performance were applied to all, without identifying the specific additional effort asked of any one of them. After a few years of frustrated endeavor, the United States resigned itself to accepting the DAC as an institution for the mutual education of donor governments. Accordingly, interest in its activities and attention to its role have declined markedly.

Mutual education is not to be disdained. At the outset, few Americans were aware of the existence of aid programs other than their own, let alone the magnitude, character, or motivation of the efforts of other governments. Correspondingly, few Europeans understood the potentialities, techniques, and rapidly accumulating experience of U.S. aid programs that vastly exceeded the narrow scope and focus of their own. Lacking much information about the purposes and programs of other donors, early U.S. burden-sharing pressures were inevitably misdirected and misunderstood. Americans first exaggerated considerably the dimensions of their burden-sharing grievance; even relatively informed Americans were incredulous when told that the United States was not the sole donor of aid. Subsequently, some reacted to the information they acquired and the frustration of their early hopes by choosing to sweep the burden-sharing issue under the rug. The other donors, on the other hand, became excessively defensive about burden-sharing pressures and consequently have resisted efforts at coordination beyond the exchange of data and ideas.

Mutual education not only served to reduce disagreements and resentments among the donor governments; it also paved the way for

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* Seymour J. Rubin, *The Conscience of the Rich Nations* (New York: Harper & Row, for the Council on Foreign Relations, 1966). Rubin provides a detailed and informative account of the actual operations of the DAC as well as provocative insights into its limitations and still underdeveloped potential. Written independently of the present section, its conclusions are much the same.

each to take advantage of the experience and activities of the others. Each was thus enabled to conceive and direct its own aid programs more effectively in relation to its own interests. Inefficiency compounded out of inexperience, ignorance, and misinformation has been minimized. Conflicts and competition among donors that were not related to divergent or contradictory interests have undoubtedly been reduced.

What remains to be coordinated is the broader area where interests are not identical but could be reconciled or compromised to mutual advantage. In the first instance, however, such coordination requires agreement both on the desirability of identifying significant divergence and on the usefulness of a direct effort to minimize and harmonize them. It implies acceptance of the overriding desirability of agreement on essentials. This precondition must be met through intergovernmental agreement at the highest level; such agreement has so far not been attempted.

Second, a forum is needed where conflicts are frankly aired in the expectation that the subsequent actions can be agreed upon. If negotiated compromises can lead to more rewarding programs than independent action in pursuit of conflicting goals, a consistent and persistent effort must be organized. The existing situation suggests an implicit agreement to disagree—an exchange of information to seek individual advantage instead of to reach compromises.

The DAC has never sought agreement on the magnitude of the foreign aid program appropriate to each donor; it has failed to agree even on criteria for assessing that magnitude. Its chairman has identified various possible criteria in his annual reports and has recognized that "appropriateness" in this sense must be a matter of judgment, not the end product of a statistical computation. However, no collective judgment has been attempted. Each donor has been left to examine its own interests and its own conscience, subject only to the pinpricks of mildly embarrassing questions and comments by the chairman and the other donors.

The one issue forthrightly dealt with by the DAC concerns the terms for repayment of intergovernmental loans to developing nations. It was agreed in 1963 that such terms should be related on a case-by-case basis to the circumstances of each less developed country or group of countries. It was further agreed that the terms offered by various donors to a particular country should be "harmonized." Having agreed to the resolution, most donor governments were slow to act in conformity

with its intent. They were equally reluctant to discuss further either the facts of compliance or the procedures that might be employed to police the agreement.

In the face of a continuing gross disparity between the terms charged by the United States and those of all other lenders, an irritated U.S. Congress forced AID to increase its interest rates. Greater harmonization was thus produced, by the undesirable expedient of hardening the terms of the soft lender rather than softening the terms of the others.

A 1965 DAC resolution sought to improve the situation by easing the goal. A soft loan was defined as a 3 per cent interest rate with a twenty-five-year repayment period and a seven-year grace period, in every respect substantially harder than the average terms on AID loans. Members were to provide 80 per cent of total aid in the form of grants or soft loans within a three-year period. Well over 90 per cent of U.S. aid already met this test. Thus, on the question of repayment terms, a coordinated policy was agreed upon, though the content was unfortunate. Seven other donors were already in substantial compliance. In the succeeding year, only the Netherlands, Canada, and the United Kingdom took important steps toward softening their terms. Comparable terms by all DAC members, on a basis that is truly appropriate to the circumstances of each developing nation, remain a remote aspiration.

The DAC has also been used for airing conflicts about a number of policy issues of general, if not overwhelming, concern to all donors. Among the issues that have been discussed are tied aid, financing local currency costs, providing non-project aid, technical assistance problems, and relations with developing nations in the UNCTAD and other United Nations forums. Such discussions have not produced meaningful agreement or significant changes in previous policies.

The most critical matters have only been touched upon. The size of each donor's program continues to be a hallowed sanctuary, and this has inhibited attention to other matters of prime importance. The first of these concerns the allocation of aid among less developed nations by individual donors; the second, the conditions and character of the programs to be provided by all donors to any particular less developed country. On these matters the individual donors and the international institutions act independently, with minimum knowledge of the intentions of the others. The first matter has scarcely been aired,

beyond exchanging some statistics. The second has been approached gingerly through meetings of consortia and consultative groups organized under DAC, World Bank, or bilateral auspices.

Coordinating the Allocation of Donor Aid

As has been repeatedly observed, the allocation of aid is at the heart of the process of relating a donor's interests to his aid program. To coordinate the programs of a number of donors while bypassing their allocation of funds is to confine coordination to matters of secondary importance.

The lack of coordination of donor allocation decisions is no less regrettable for the ready availability of explanations. The interests of donors do diverge, but rarely so much that they are irreconcilable. Yet aid officials prefer to avoid confrontations. Subordinates in any government are unlikely to compromise national interests as they see them unless assured that superiors perceive an overriding national interest in achieving some reconciliation. Compromise remains an unattractive prospect for those accustomed to making independent decisions on so important a matter as dividing relatively large sums among a large number of claimants. Yet individual donor purposes may be offset by the independent action of others; important goals may be unattainable without the cooperation of others in reallocating their own funds. Nevertheless, the substantial promise of greater effectiveness through compromise with other donors has not seemed worth the certain constraint on independent action.

The distribution of funds between Africa and Latin America illustrates the potential advantages and difficulties of coordinating the distribution of donor funds. Both the British and the French have publicly expressed a preference for extending more aid to Latin America and less to Africa. They have suggested—sometimes quite explicitly in private—that they would be prepared to effect such a reallocation if the United States would undertake a compensatory reallocation of its own funds. The United States has never encouraged such a discussion. To those administering the Alliance for Progress, the prospect of reducing bilateral aid to their own clients has blotted out any other compensations. Those responsible for administering French and British aid to Africa are no less reluctant. An agreement would probably better serve the priority interests of all three countries concerned. It is, nevertheless,

unlikely to occur before a basic policy agreement has been reached at the highest levels of all three governments to instruct subordinates to work out the arrangements.

Some aid allocation issues go to the heart of basic disagreements among donors. One can imagine the controversies that might have arisen concerning the appropriate proportion of each member's aid to be allocated to Algeria in 1960, to Indonesia in 1961, or to South Vietnam in 1965. Such visions of heightened conflict among the donors can easily be conjured up as an argument against common allocation of donor aid, or even against a less conclusive confrontation concerning the intentions of each donor. Actually, the governments concerned have sufficient experience with common problems and disagreements to minimize the danger that increased acrimony and tension would in fact result. Their officials have developed well-ingrained habits of conciliation and compromise. If they are instructed to seek a reasonable agreement, they are likely to find a basis that will respect each other's interests.

Dissent and disagreement would occur. It is conceivable that a country would choose such a forum as the occasion for dramatizing its defiance of the views of the others. However, donor countries already possess many facilities for expressing disagreement and even parading it publicly, if such be their desire, as witness Dutch disagreement with U.S. policy toward Indonesia and French disassociation from U.S. behavior in South Vietnam. The overwhelming likelihood is that respect for the interests of others would dominate the discussions, if the DAC forum were used to coordinate the allocation of bilateral aid. Moreover, the experience of hammering out disagreements concerning priorities in the less developed world is itself likely to reduce some of the current tensions and smouldering resentment among donors.

It is the initial decision to use the DAC for coordinating the allocation of donor aid that would be most difficult and critical. It would represent a significant agreement to attempt to coordinate critical policies and programs toward developing nations in a meaningful way. It would reflect a decision to convert the DAC into a significant forum, an agreement that meaningful coordination of bilateral aid programs is essential to the common interests of the donors. That such a decision would present the DAC with major problems in reconciling or harmonizing important differences of view is only to say that it would have to face difficult issues and justify itself by an ability to deal with

The history of intergovernmental institutions shows that they thrive when they deal with problems that are important to their members. They wither only when major issues are set aside for another day when divisive forces may be less strident. Disuse of the institution provokes disrespect for its utility; the longer it avoids significant issues the less likely is it to be used when the next problem arises.

Coordinating Aid to Individual Recipients

As for the coordination of financial assistance to each developing country, some arrangements exist but they are rudimentary in the extreme. The various donor embassies in less developed countries keep in touch with one another. Meetings have been held from time to time among officials in donor capitals concerning the needs of individual developing nations. The number of countries whose problems are considered at such meetings is often cited as evidence of progress toward better coordination. As early as 1963, AID could claim that 85 per cent of its money was subject to international "coordination," in the sense that meetings of some sort were held with one or more other donors. The coordination of donor programs for individual developing countries is thus in the process of being institutionalized.

This having been said, the subject can be abandoned only if one does not inquire closely into what happens at such meetings. They permit each national donor government to assure constituents that its program is indeed "coordinated" with those of other contributors. They increase mutual understanding among donors concerning one another's interests; the programs they execute are doubtlessly constrained to some extent by this knowledge. Nevertheless, such programs remain highly disparate, as do many of the policies.

The resolution of conflicting interests inescapably takes place as programs are carried out. This is, however, the solution of the battlefield, not the conference table. The result may not be premeditated and certainly is not concerted in advance. The interests of one donor may be furthered at the expense of the others, or the interests of all may suffer needlessly. The system offers special rewards to the most truculent and most consciously self-serving donors. The meetings make little attempt to hammer out compromises and reach agreements. A troublesome issue or two may be joined, and an occasional concession to another's views may take place. On the whole, however, they serve to legitimize divergent bilateral programs; they are under no mandate to

find common ground and to compromise national views.

Presumably, such meetings should aim at the efficiencies of a single consolidated program while leaving scope for expression and pursuit of special interests by individual donors. In that event, their agenda on individual countries should cover the following points: (1) some definition of common donor objectives in providing aid to the recipient; (2) the sums to be furnished by each donor and the goods and services to be provided; (3) the terms for repayment on any loans to be offered by all participating donors; (4) equitable refinancing of older indebtedness, if it has become so burdensome as to represent a significant charge against new aid allocations; (5) priorities for policy changes to be sought in the recipient country before allocating additional aid; (6) procedures for withholding aid in the event that such changes do not occur.

The country coordination meetings previously referred to have occasionally discussed some of these points, but without much success. The best of the devices—the consortium—has been limited to four countries. The consortia have all succeeded in raising sums that proved reasonably adequate to the needs of the benefiting countries. Their very success, however, has made them unpopular. Some donors found it distasteful to have the discrepancy between their benefits and their willingness to contribute clearly indicated. They have preferred not to repeat the experience.

Even the established consortia have continued to raise the required sums largely because the United States was prepared to increase its own share. (See Chapter 13.) Moreover, despite the DAC decisions, repayment terms offered by the various donors within each consortium are far from harmonious, the U.S. terms remaining at least twice as soft as those of other donors. No agreement has been sought to fix repayment terms appropriate to the circumstances of any consortium client, let alone to require all contributing members to approximate such terms. The minimum standard for an acceptable pledge to World Bank–sponsored consortia is a ten-year credit and a 6 per cent rate of interest —a higher interest rate and a much shorter duration than that offered by the Bank itself on its own loans out of funds raised on private capital markets. The funds of the Bank's affiliate—the IDA—as well as those of the United States are pledged to very much softer terms.

Consortia members do indicate the extent to which pledges are reserved for projects or for the financing of miscellaneous imports, but

each donor makes its own independent allocation between project and import financing. Since all prefer project financing, the United States and the World Bank are left to provide virtually all the money needed to finance current imports. Moreover, bilateral donors other than the United States refuse to permit their pledges to be used for "normal" purchases of their products, with occasional exceptions. The three consortia countries to which the United States pledges AID funds pay for virtually all their U.S. purchases out of such funds. World Bank and IDA funds, as well as their own foreign-exchange earnings, are used to finance purchases in other pledging nations, over and above the amounts financed by the latter's pledges.

Each consortium has two meetings a year, lasting several days. All meetings to date have taken place in Washington or Paris. The benefiting countries have resisted suggestions for meeting in their capitals. The business of the meetings has been heavily focused on the amounts, kinds, and terms of aid to be provided by each donor. The policies, programs, and needs of the recipient are presented and reviewed at the outset. The Bank or the OECD Secretariat—depending on the sponsorship of the consortium—makes the presentation, notes its reservations about the recipient's plans, and reports on discussions with the recipient about modification of its policies. The less developed country is represented at these meetings and defends itself against criticism, but its representation consists of diplomats and technicians. No opportunity is provided at the consortium meetings for urging changes directly upon the policy-making officials of the recipient country. The client prefers to avoid such occasions for obvious reasons; the acquiescence of the donors is less understandable.

Nor do the donors devote much of the meeting to discussing their views about the deficiencies of the recipient's program or about how they will coordinate efforts to persuade the recipient to effect desired changes. The tactical use of such aid—even within the limitations of "economic development diplomacy"—is left to the bureaucracy of the Bank or of the OECD, neither of them permanently represented for this purpose in the receiving country. Donors conduct their own diplomacy as they negotiate the uses of the money they have pledged. When the United States decided to request postponement of the Pakistan consortium meeting in 1965, it did not check in advance with the other donors, nor did it succeed in persuading them to hold up their own aid programs to Pakistan in the absence of a consortium meeting.

In brief, the consortia meetings are primarily fund-raising and burden-sharing exercises for less than a handful of countries. They address the other priority ingredients of a coordinated aid program sporadically and, for the most part, ineffectually.

The consultative group meetings under World Bank auspices do not even fulfill the function of agreeing on the contributions of individual donors. They have primarily provided occasions for the Bank to identify projects that are suitable for financing. Most donor governments other than the United States consider such projects primarily as candidates for guarantied export credits. The Bank has organized groups for six countries—Nigeria, Colombia, Tunisia, the Sudan, Thailand, and Malaysia—and is rapidly expanding the number. It does make periodic reports to each consultative group on the country's development possibilities, problems, and performance. It comments on the country's estimate of its aid requirements and on the appropriate types and terms of aid. It also notes the sectors and projects that deserve priority and helps identify, document, and screen such projects. Significant Bank and IDA funds have been invested in consultative group countries and substantial U.S. Government aid has also been forthcoming. However, other donors have been assured that they would not be asked to make specific pledges of aid. The donors as a group are not expected to meet the foreign exchange gap or the investment gap implicit in the country's development program. Buttressed by the commitment of Bank and U.S. funds, the other donors have tended to advise their nationals first to examine the recommended projects and then to seek export credit financing in the event that they are both interested and entrusted with them.

The financing of the Niger dam was a noteworthy exception. An Italian contractor won the primary contract after a number of other countries had agreed to provide financing related roughly to their likely share of the business. However, the United States refused to contribute unless all credits were of at least twenty-five years duration. The Italian Government was forced to arrange for more liberal terms than its normal export credit guaranty system would offer in order to retain the contract. The example, however, has been highly exceptional in the operations of consultative groups.

The DAC has organized ad hoc consultative groups on Vietnam, Liberia, Ceylon, and Sierra Leone. The Ceylon group raised $50 million in each of two successive years. The functions of the other groups them successfully.

have been at least as limited as those of the Bank's consultative groups. Meetings have also been held within the last half decade to refinance debts of countries such as Brazil and Argentina or to give tentative consideration to the advisability of an expanded aid program for a few selected countries. Well-organized bilateral meetings have been held concerning aid programs for a few more countries where specific issues existed between two donors or where one donor sought to induce another to increase its contribution to the specific situation. Britain and the United States, the United States and Belgium, and Germany and France have held such sessions.

The existing consortia at least offer the beginnings of an appropriate institutional arrangement for coordinating bilateral aid to individual countries. They provide a forum in which donor officials from capitals can meet to agree on matters that tend to be reserved for final determination by such officials—the amounts and types of aid that will be provided, the programming restrictions on such pledges, and the terms of repayment. If their impact on such matters has been inadequate in the past, it can be reinforced.

It is on the recipient policy side that the inadequacy of the consortia has been most striking. Such coordination requires machinery for drawing upon donor representatives in the capital of the developing country. It is there that operations must be concerted and assistance diplomacy must be practiced. In the recipient capital donors can effectively coordinate efforts to influence the priorities, policies, and behavior of the aid-receiving government across the entire panorama of social, political, international, and economic policies. It is such policies that affect the interests of the major donors and that motivate and warrant their continued aid-giving. Understandably, if perhaps shortsightedly, recipients have discouraged such arrangements, and donors have been too little concerned, or too preoccupied with their individual interests, to oppose that resistance.

The absence of a better-structured and institutionalized system for coordinating bilateral aid has poorly served the interests of donors and recipients alike. Officials on both sides have been spared the burden of seeking to compromise divergences in interest and judgment. Both have had more freedom and flexibility to go their own way—and make their own errors. The explanation does not lie in the existence of irreconcilable conflicts. As in the case of burden-sharing, it stems from inadequate top-level attention. U.S. leadership has been notably absent

in this domain. In dealing with other developed countries it has been concerned with intractable or peripheral problems. (See Chapter 14.) Both the effectiveness of aid and the growth of meaningful international cooperation and interdependence have been the victims.

The Dispersion of U.S. Foreign Aid Administration

Inadequate international coordination can be explained by conflicting national interests. Ineffective coordination of the various U.S. programs has no such explanation. They are conducted by entities of a single sovereignty, though each reflects different emphases or aspects of the national interest. If the U.S. Government cannot reconcile and structure its own varying interests in foreign aid, it can hardly offer convincing leadership or command respect for its desire to coordinate the programs of the various donor nations. Yet it remains true that on many occasions the U.S. program resembles a team of unharnessed horses.

The Progressive Dispersion of Responsibilities

The evolution of the various U.S. aid programs helps to explain the present arrangements; the experience points to the remedies.

The Export-Import Bank is a vestige of the prewar period. It has been drawn upon regularly for two purposes in developing nations: (1) to finance U.S. exports in cases where contracts or orders might otherwise have been lost to foreign competitors; and (2) to provide assistance to foreign governments in some instances where the regular aid programs lacked sufficient finances to meet urgent needs. The Bank has an independent status, but policy guidance has traditionally rested with the Secretary of the Treasury.

The Bretton Woods arrangements were negotiated primarily by the Treasury Department. Ever since, U.S. relations with all international organizations that lend money have been controlled by that Department. Thus, the lines of the International Bank and the International Monetary Fund, as well as the Inter-American Bank and the new Asian Development Bank, run in and out of the U.S. Government through the Treasury. The National Advisory Committee on International Monetary and Financial Problems (NAC), chaired by the Secretary of the Treasury, provides other agencies with an opportunity to contribute to formulating U.S. views.

At the end of World War II, the State Department vastly expanded its economic staff as the postwar relations of the United States with

foreign governments increasingly acquired an economic focus. Economic reconstruction was the primary concern of former allies and enemies alike. The heavy focus on economic problems transformed U.S. international economic policy into a major foreign policy instrument. It provided much of the daily content of official intercourse with foreign governments.

It was this burgeoning economic staff that initiated the Marshall Plan, but the Congress insisted that the plan be administered separately by an agency reporting directly to the President. Accordingly, many of the new personnel and much of the new expertise in the State Department was absorbed by the aid agency. The new agency was popular neither with the State Department, which sought to control its policies, nor with the Treasury Department, which had hoped to dominate U.S. foreign economic relations through international financial agencies. Throughout the Marshall Plan period, the Treasury remained quiescent though querulous. The international agencies and the Export-Import Bank marked time in the presence of the financial resources and political strength of the Marshall Plan organization. However, the State Department did succeed in having the Point Four Program established under its aegis.

The attack on Korea made plain that neither U.S. foreign aid programs, nor the organization that had been created to operate them, would wither away. Since the new tasks in poorer countries were undertaken with reluctance rather than enthusiasm, the aid organization lacked both the political appeal and the bureaucratic strength it had commanded during the brief Marshall Plan years. The State and Treasury departments were soon joined by other agencies claiming to play an international role through their administration of U.S. resource contributions to other lands. A brief resurgence of strength at the outset of the Eisenhower Administration saw the aid agency add control of Point Four to what was left of its European program and its expanding assistance to Asian countries threatened by Communist expansion.

In 1955, however, the agency lost its cabinet status and was ordered to report to the Secretary of State. By this time, aid to Europe consisted primarily of military supplies administered by the Department of Defense. By the end of the 1950's, the aid agency was essentially confined to a world-wide technical assistance program and economic aid programs in about a dozen countries. After 1954, the Department of Agriculture operated an agricultural surplus disposal program that by

1960 had become almost as costly as the entire operation of ICA, as the aid agency was then called. The Development Loan Fund, established in 1959, was made independent of both the aid agency and the Export-Import Bank. The late 1950's was the high period of U.S. foreign aid gimmickry. Since its essence was to conceal the size of the total foreign aid bill, decentralization of administration became an indispensable concomitant.

The Process of Reintegration

The State Department constantly sought to assert a coordinating role over all these activities; in the last two years of the Eisenhower Administration it achieved increasing success. Responsibility within the Department was centralized in the Under Secretary for Economic Affairs. He had direct control over the Director of ICA, the Development Loan Fund, and the U.S. contributions to the United Nations and its specialized agencies. He was the Alternate U.S. Governor of the expanding international financial agencies and controlled State Department liaison with the Export-Import Bank. He had statutory responsibility both for identifying countries eligible for assistance from the Defense Department and for determining the value of such military assistance. He also controlled State Department participation in an interagency committee to supervise the surplus agricultural disposal program.

These responsibilities, combined with control over U.S. international representation on all economic matters and with some authority over the political bureaus of the State Department, placed him in a good position to manage the deployment of U.S. economic power in its relations with foreign governments. Nevertheless, his relationship to the different instruments of that power varied considerably; he controlled some and coordinated others. Those he controlled were considerably more attuned to U.S. international objectives than those he coordinated.

Moreover, he held the reins of rather unmanageable horses. Many key officials in the executive branch had serious misgivings about the wisdom of the entire foreign aid program. Relations with unsympathetic colleagues made heavy demands and removed him from the operations of even the programs he controlled. The operating agencies lost their influence over policy, and morale and the capacity to recruit and retain talent suffered. The Development Loan Fund was a more attractive employer because it was new and small. ICA was a reeling organization, buffeted by critics in Congress and the executive branch, pruned

of creative and imaginative officials, unattractive to civil servants because of its status as a temporary agency, and unable to attract first-rate leadership because of its subordinate position in the government hierarchy.

The Kennedy Administration took office committed both to an expanded foreign aid program and to centralized administration and operation on the basis of "country programming." However, much of the authority carefully collected under the previous administration in the Office of the Under Secretary for Economic Affairs was promptly dispersed. When the inevitable task force was formed to reorganize and reinvigorate the foreign aid program, the chairmanship was vested in the Director of ICA, not in the Under Secretary. The task force proclaimed that its recommendations would centralize foreign aid administration. However, its own second-echelon status in the ranks of the new administration guarantied that it would fail to retain as much power in the hands of the new AID Administrator as the preceding under secretary had amassed.

ICA and the Development Loan Fund were combined into a single administrative organization whose director received statutory authority to report to the President as well as to the Secretary of State. Though he held the rank of an Under Secretary of State, his relation to the other two under secretaries and the more numerous assistant secretaries was ambiguous. He initially acquired neither the alternate governorship of the international financial agencies nor much authority over the State Department bureaus. The Export-Import Bank remained independent, with primary ties to the Treasury. The agricultural surplus program acquired a Food for Peace coordinator in the White House, and the new Peace Corps became an independent unit, nominally within the State Department. The AID Administrator did receive the same statutory authority over the Defense Department's military aid program that had been exercised previously by the Under Secretary for Economic Affairs. However, the philosophical preoccupation of the new team with economic development inhibited any important exercise of that authority. That nothing atrophies faster than unexercised authority was soon demonstrated.

If the events of 1961 failed to give the new AID Administrator as much formal authority as the Under Secretary of State in the preceding Administration, they equipped him with a set of refurbished ideas that fostered a new élan in a previously moribund organization. AID was

able to attract new blood at first, even though its authority fell far short of centralized administration of all U.S. foreign aid.

Moreover, new people and a new élan succeeded in invigorating the programs as a whole. AID officials acquired more influence than the official lines of command authorized. If AID could not undertake "country programming" of more than a portion of U.S. aid, it could "exercise leadership" in coordinating the activities of those who had nominal control over other U.S. resources available to developing nations. Indeed, it was encouraged to do so by voices in the White House which were otherwise restrained from insisting on the transfer of more authority to the new agency.

Whether U.S. foreign aid has been more coordinated under AID than in the immediately preceding period is debatable. The essential point is that it has not been centralized under either arrangement. The inadequacies of coordination made their presence felt under both regimes.

Thus, in 1964 only 40 per cent of new U.S. aid commitments to developing nations were made with funds directly controlled by the Administrator of AID. The Department of Agriculture managed another 30 per cent and the Department of Defense about 15 per cent. The remaining 15 per cent of the program was divided between the Export-Import Bank, the Peace Corps, the Treasury-controlled contribution to international financial agencies, and the State Department's contributions to international organizations.

Meanwhile, a series of mistakes in the use of foreign aid in the 1960's produced a new crisis of confidence in the program. Some were attributable to the economic development syndrome. Some were due to American inexperience, inadequate knowledge, and insufficient sensitivity to the realities of the less developed world. However, some were undoubtedly attributable to the dispersion of authority and responsibility for U.S. foreign aid.

The problems created by such dispersion manifest themselves in a variety of ways. Any independently operating agency is difficult to restrain. Inevitably, if it finds an attractive opportunity it initiates programming and then seeks the endorsement of others. Mistakes in allocating and conditioning foreign aid can be the result of enthusiasm for specialized responsibilities. Agencies that are handicapped by minimal experience with foreign lands or by a limited view of U.S. interests are particularly prone to errors and oversights.

For example, World Bank advocacy of the Indus basin project and the Volta dam in Ghana led to a commitment of funds before the issues and interests were adequately reviewed by the U.S. Government. Premature decisions were pushed through in both cases. Similarly, argicultural surpluses were committed in large amounts to Indonesia, the U.A.R., Algeria, and Yugoslavia, perhaps unwisely and certainly without adequate relation to the policy behavior of the recipients. Subsequent Congressional protests were focused on AID as the foreign aid agency, though it could only be charged with failure to exercise its prerogative to protest the making of these decisions. Yet Congressional support for the aid program as a whole suffered.

The narrow authority and subordinate status of AID deprive it of sufficient influence over a variety of important U.S. executive branch decisions that have been major determinants of Congressional behavior and public attitudes toward foreign aid. The decision in 1962 to give legislative priority to the Trade Extension Act produced a piece of legislation that subsequently proved to have little opposition and thus little need for preferential treatment—to say nothing of its limited utility. As a result, the Foreign Assistance Act took a buffeting in the 1962 session of Congress for lack of executive branch effort to obtain for it a better defined mandate and broader authority.

Thereafter, AID faced mounting difficulties. With each new session of the Congress, its defensiveness increased. It proclaimed that it would eliminate more and more countries from its list of clients, either declaring them successful or withdrawing from those where previous efforts had been modest. Congress only wondered the more why aid continued to be given to so many countries. AID preached the virtues of concentration and self-help, but offered little convincing evidence of greater progress toward either of these nebulous goals. It first boasted of success in substituting loans for grants, and then complained about the growing burden of indebtedness. It devised new ways of subsidizing the U.S. private investment community but found the beneficiaries at home and abroad to be unresponsive. It proclaimed its increasing emphasis on economic development while its clients boosted their defense budgets and military establishments, engaged in open hostilities, and restrained their enthusiasm for international peace-keeping operations.

Its inability to recruit and retain personnel increased. It sought renewed authority to fire employees without regard to Civil Service

rules but found that those rules had considerable and justifiable Congressional support. It refused to seek permanent status for itself because it was a temporary agency dedicated to getting countries off its client rolls at the earliest possible date. Not until 1966 was authority requested to include its personnel in a career system. As a result, it continues to have a substantially higher rate of personnel turnover than the rest of the U.S. government—about 25 per cent per year. Such a situation warrants marvel that any positive achievements have resulted. Its principal officers tarry for a year or two and then depart for posts in government or private life that are more satisfying, if not more remunerative. Nevertheless, a small core of dedicated and unusually competent civil servants have remained despite the irritations and insecurity. A large core of long-time employees also remain because promotion has been easy in the circumstance of rapid turnover, while transfer to other employment without loss of status and income is difficult. Whatever attractions the 1961 renovation offered to potential recruits has long since vanished. Some who have remained have contributed increasingly as their experience has grown. Too many have departed, seldom to be replaced by equally qualified personnel.

The magic of the 1961 revitalization of foreign aid wore off in large part because centralized administration and country programming were proclaimed but not effected. They continue to be sorely lacking. It is not necessary that one centralized agency man and operate all U.S. programs involving the transfer of resources to developing lands. The departments of Agriculture, Defense, and Health, Education, and Welfare, and indeed virtually every other department of the U.S. Government must provide manpower and technical expertise. State and local governments, as well as private voluntary, educational, and business organizations are also needed for similar contributions. Indeed the commitment of skills and people should become more pervasive throughout American society, not more restricted to the permanent employees of a centralized aid organization.

The need for centralization concerns authority and responsibility for the following: structuring the priority of U.S. aid objectives, allocating funds, dealing with the authorities of developing nations and with the aid-giving authorities of other bilateral donors and international organizations, and, finally, marshaling the myriad private and governmental resources of the United States to carry out the job.

Though the AID Administrator is not a cabinet officer, he is a key

U.S. figure in the eyes of the prime ministers and principal cabinet officers of more than half the nations of the world. Alone among Western powers, the United States tries to function with a single cabinet officer responsible primarily for international relations. The impossibility of such an arrangement brings a host of other U.S. cabinet officers whose responsibility is primarily for internal affairs into major activity in foreign relations, i.e., the secretaries of Defense, Agriculture, Treasury. Responsibility for the international aspects of far too many problems must thus be relegated to State Department subordinates whose role, of necessity, is confined to an advisory one. Protocol is a persistent institution in international relations, particularly among new nations that are highly sensitive to the prerogatives of sovereignty.

Even in the matter of coordinating aid with other donors—and particularly in persuading them to improve and increase their programs—the United States is handicapped by the lack of a cabinet officer with authority to speak and negotiate. The handicap balloons when a sub-cabinet officer, representing but a fraction of his nation's aid program, must deal with governments whose decision-makers have cabinet status.

The handicap of sub-cabinet status reappears in recruiting immediate subordinates. They are asked to take on one of the most difficult and unpopular tasks in the U.S. Government, without the prestige accruing to those who report directly to a cabinet officer. All the foregoing difficulties reinforce each other in diminishing the effectiveness of the aid program.

A fashionable argument holds that all agencies working primarily on foreign matters should report to the Secretary of State. It falsely transposes to the Washington scene the obvious requirement that all U.S. Government officials who are stationed in a foreign country serve under the authority of the U.S. ambassador. The ambassador, however, is the official surrogate of the President of the United States and is directly responsible to him. It is essential that the United States have a single official spokesman in each foreign country and that the authority of the President be vested in him alone.

To pretend that the Secretary of State can be the alter ego of the President on all matters relating to foreign countries is neither necessary, wise, nor realistic. He has not actually held such authority for at least two decades, despite much lip service to this concept. The President himself must be the final arbiter of major foreign policy issues,

and many problems require that he be served by more than one adviser. The Department of State is often ill-equipped to pass judgment on the most pertinent considerations.

Insofar as foreign aid is concerned, the Secretary of State and his department should provide the President's principal advice concerning U.S. objectives and priorities in relations with developing countries. Decisions on this score should provide the aid chief and his organization with their basic directives and marching orders. However, they should in turn be the President's principal arm in deciding how to use aid in behalf of the stated purposes. The State Department has no demonstrated skill in the uses and limitations of the foreign aid program, and it cannot reasonably be expected to acquire it. Such skill comes from managing the program. Understandably, its officers prefer to meet the desires of foreign governments for U.S. aid or to seek to alleviate other problems by offering more aid. It is the aid officials who have experience in applying U.S. resources and capabilities in developing nations. They should be expected to know how and when aid can be effectively employed. On the other hand, they should also consider themselves bound by the stated national objectives. The notion that aid has nothing to do with U.S. foreign policy should be as alien in the future as it is currently prevalent in the thinking and verbiage of many aid officials. The attempt to keep a stripped-down aid organization administratively subordinate to the Department of State has been conducive neither to the best use of the skills of the State Department nor to the exercise of proper responsibility by the aid agency. It has detracted considerably from the effectiveness of U.S. aid programs as a whole.

We conclude with a set of syllogisms. If U.S. aid is to achieve support at home, it must be effective abroad. If it is to be effective abroad, it must have a single authoritative spokesman in addition to the President himself. The credibility of such a spokesman can scarcely be more extensive than his authority.

U.S. aid thus needs centralized administration, headed by a cabinet officer and supported by a career organization that enjoys both security and status. To create an adequate career organization requires a long-term commitment of persons and funds. Such commitment in turn presupposes a mandate that is broad enough to reflect the full range of U.S. interests in developing societies. The task abroad is immensely difficult and must be approached with confidence tempered by humility,

but, above all, with a significant claim on the nation's talent. Talent, in turn, will respond in fuller measure only if the task is conceived in broad and challenging terms and if the authority of those charged with it is commensurate with their responsibility.

The prerequisites for effectiveness abroad are also the preconditions for support at home. The time for gimmickry and self-deprecation is past. U.S. foreign aid has reached a commitment level of $6 billion per year and some fifteen thousand citizens working in less developed lands—both financed out of U.S. public funds. Both commitments need to grow, the latter perhaps more than the former. This growth cannot take place unless the public is aroused by the full scope of the effort and by the consequential prospect for positive achievement. A centralized organization, responsible as well as accountable for the entire task, might arouse that enthusiasm and stimulate the requisite sense of commitment.

The American people need a bridge to the developing nations; U.S. aid programs are building one. The bridge is not yet broad enough to handle all the traffic nor does it have all its planks in place. Will an adequate structure ever result unless the American public and the rest of the world are first told that a durable bridge is being built and that a supervisory contractor has been retained?

Epilogue

A DECADE HENCE

The preceding recommendations have deliberately been made a bit more ambitious than the American body politic seems ready to accept at this time. A study of as vexed and vexing a national policy problem as foreign aid should only be blamed for doing otherwise. In an imperfect world, a gap must be expected between the attainable and the attained. Yet if goals are not set out, progress is apt to be all the more retarded. Whether the proposals for reforming U.S. aid programs are realistic can only be determined pragmatically, in the crucible of public and international debate and endeavor.

The significance of the recommendations as a whole can perhaps best be seen by envisaging the foreign aid program a decade hence, if the various views contained herein were to be adopted. Such an epilogue is no more than a convenient framework for summarizing very briefly the author's principal conclusions. It makes no pretense at prophecy.

A decade hence, the United States foreign aid program would be more expensive than today, but it would also be accepted by Americans as a continuing and worthwhile function of government. The American penchant for results and achievements would have been turned to a fuller acceptance of responsibility for seeking them in less developed lands. A sense of national commitment would have been elicited. Were the annual cost as much as $10 billion per year, it would still weigh lightly on American affluence, whether measured in terms of the national income or the government budget. Annual U.S. exports to developing nations might then be $7 billion larger than in 1965, an increase of about 50 per cent. The United States would be delivering to its aid clients a surplus of goods and services over

and above its imports from them, in an amount close to the value of its foreign aid. Foreign aid would be costly only in terms of its drain on the current output of the American economy; its impact on the U.S. balance of payments and gold supply would have been neutralized.

Much more striking than the increase in the U.S. Government's aid budget would be a multiplication in the number of Americans resident and working in developing nations. Increasing numbers of them would be direct-hire or contract employees of a new United Nations organization, which would have acquired full control over all U.N. technical-assistance funds and would be represented by a unified mission in each developing country. Many would be emissaries of private voluntary organizations or employees of private business firms. Most of these Americans abroad would be engaged in forming, advising, or staffing durable organizations and institutions, whether professional associations or business firms, educational enterprises or institutes for applied research, local and national governments or political parties. Many of their rough edges would have been worn off by training and experience and they would have a consequent increase in sensitivity to the traditions and the difficulties of the developing nations in which they work.

The needy countries, too, would have become more comfortable with foreign advisers and employees and more solicitous about realizing their potential contributions. The direct hire of such personnel by both governments and business firms in developing countries would have become more prevalent. Greater availability and freer use of foreign personnel would have increased considerably the ability of developing nations to perceive the various courses of action open to them, to establish a more rational process of decision-making, and to carry out the decisions they take. With an improved institutional base, the developing nations would have acquired a much enhanced capacity for managing their societies.

Most developing nations would have joined regional economic associations: there might be as many as ten in effective operation. Their functions and operations would vary considerably, but all would seek to increase the free flow of trade and capital among members, encouraging greater specialization of production and making possible larger productive enterprises than the market of any one of them could sustain. Such associations would further provide a forum for

mutual review and criticism of national programs and policies, organizing debate and conciliation with donors, as well as with each other. They would be much involved in evaluating additional self-help measures that might reasonably be expected of each member.

Growth in the number and effectiveness of organizations, institutions, and enterprises in the Third World would have been matched and facilitated by comparable improvement in American arrangements for giving aid. A single department of the U.S. Government, headed by a member of the cabinet, would be responsible for all U.S. foreign assistance. That department would maintain its own career service, comparable to but distinct from that of the State Department. It would be pruned of technicians by a progressive transfer of responsibility for technical assistance to the United Nations, and of capital project administrators by the transfer of responsibility for projects to the World Bank.

Each year's Congressional hearings would be focused on the needs of individual countries or groups of a small number of countries. The legislative branch would, by its action on aid legislation, have assumed a share of the responsibility for allocating U.S. aid among recipient countries, rather than voting a series of ambiguous aid appropriations divided among numerous functional categories. A nucleus of Congressmen on each of the relevant committees would have considerably increased both understanding of the problems of individual developing nations and sophistication about the uses and limitations of foreign aid. Both public opinion and the attitudes of the Congress as a whole toward foreign aid would have become more benign.

For each recipient, the aid agency would have established a true country program. It would determine the appropriate proportions in which the various forms of aid would be mixed, whether imports of food or machinery, financing projects, or contract services, or military matériel. It would also determine whether grants or loans were appropriate as well as the terms on which any loans would be repaid. Its allocation of funds would have become more purposive, related to an evaluation of U.S. priority interests, to the behavior of each recipient across a broad range of internal and external policies, and to its capacity to put resources to appropriate and effective use. Countries would have been selected for priority treatment; such countries would have become the object of an aggressive effort to improve their ability to employ resources constructively.

Aid missions would be found in all recipient countries, but they would be much less heavily burdened by the operational management of a technical assistance program than at present. Their efforts would center on the needs, bottlenecks, policies, and organizations of the country in which they functioned. They would undertake their own research into alternative methods of coping with difficulties and would be in constant communication with the decision-makers of the host country. The need for imposing conditions in return for each new aid allocation should have diminished with increased communication and understanding on the part of both the recipient and the aid missions.

Major U.S. aid-giving decisions would be concerted with, and limited by, extensive coordination with other donors. With more impact on the process of aid-giving and with more effect on the less developed world, the sense of responsibility of other donors, and their contributions as well, should have expanded more than that of the United States. So too, should the numbers of their citizens engaged in developing lands.

Formal aid consortia would have been organized for most of the developing nations. Each U.S. aid mission would be working in close concert with representatives of other donor nations, as well as with the U.N. technical-assistance mission. Increasingly, recipients would have agreed to let their policy-makers review government programs and policies formally with such consortia. Reviews would cover the entire range of relevant concerns, not only those now defined as "economic."

Coordination with other donors would also have produced a greater dispersion of bilateral aid programs, at least those of the larger donors. Europe would provide a higher proportion of Latin America's needs than at present, while the U.S. role in Africa would have expanded considerably. The contribution of each donor to each country would bear a closer relation than at present to its share in the recipient's expenditures for imports of goods and services, including service on its investments. Nowhere would the United States be financing anywhere near 100 per cent of its total exports to the aided country.

The use of short-term export credits as a competitive device would have been substantially restrained in countries heavily in need of aid. Donor governments would have agreed not to finance large projects prior to an international competitive bidding procedure. They would no longer be extending bilateral government loans to those developing

countries able to service indebtedness at the going rates charged by the World Bank. The number of such countries, fully dependent for external capital on the private capital market and the World Bank proper, should be increasing somewhat. Nevertheless, most developing countries would still be judged by the Bank and the donor governments to be eligible only for aid; they would receive it in the form of grants or concessional loans on terms that would be uniform for all lending governments. The IDA would also have some funds available for such countries, obtained by borrowing on the private capital market and serviced by using the net income of the Bank to meet interest charges. When necessary, such funds would be supplemented by direct contributions out of bilateral aid budgets.

Better institutional arrangements would thus exist both for giving and using aid in the needy nations, and for the management of their societies. Better decision-making processes would have been established by both donors and recipients. Total aid resources would have been increased as a direct result of improved prospects for using them effectively.

What then can be said about the probable state of the developing nations themselves, of their prospects for viability and their relations with the aid-giving West? In the case of most developing nations, noteworthy improvement would probably have been registered. The combination of personal commitment, adequate resources, and proper organization has generally proved successful in the West's own experience, though not in every situation nor at every point in time. Applying the same combination to the problems of the developing world should yield comparable results. With rare exceptions, the developing countries will nevertheless still be poor a decade hence, whatever their own efforts and those of their would-be benefactors. Even if the income gap between rich and poor nations contracts over this period, it will remain enormous.

Nevertheless, more of the ingredients of viable societies will have been put into place, at a faster pace than has prevailed hitherto. Higher rates of progress should have been effected; whether they will have proved high enough is beyond anyone's ken. Political institutions will be better organized and more active; governments will, on the whole, be more responsive and responsible. Elections will be more commonplace and officials will be more representative of their people. Per capita income will be higher; the pace of social reform will have

accelerated. Nongovernmental organizations, both business and voluntary, will be playing an increasing role. The social values operative in developing societies, will appear more congenial to American observers, though diversity will continue and divergence from American norms will persist. The sources of internal instability as well as important causes of international tension will thus have been abated. In brief, though still weak and impoverished, most less developed countries will be more effective societies than they are today.

Whether the world will appear more stable, whether international conflict will actually diminish, whether relations with the United States will be friendlier, is, nevertheless, unpredictable. One can only assert with assurance that the prospects for a better life for the citizens of developing states will have improved—and in a broader sense than that of higher incomes alone. There will, however, continue to be those who would intensify dissatisfaction and turn it to their own ends; from time to time they will be successful in one or another country.

Even with a better and larger aid program, the probability of occasional failure and loss will remain great. Even with an appropriate aid effort, the United States cannot escape the risk of facing, a decade hence, a dissatisfied and frustrated international community—hostile, unstable, and ready for conflict. It is for greater protection against this risk that the people of the United States need their foreign aid program; it is because the risks are great that better use must be made of that program in the future. The picture a decade hence is not of heaven; it is only of a somewhat better earth.

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