

**THE
FOREIGN AID
PROGRAM
TODAY**

**Answers to
Four Basic
Questions**

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The Foreign Aid Program Today

SINCE I joined the Agency for International Development last December, I have had the opportunity to see the United States foreign aid program in action in countries as widely different, and as distant from each other, as Korea and Ecuador, Vietnam and Venezuela, Pakistan and Chile. I have also traveled and spoken in many parts of the United States. The questions I have been asked in San Francisco, New York, Little Rock and other cities, as well as those asked by Congressional committees, seem to reflect the main concerns held by American taxpayers about our economic and military assistance to other countries.

If I understand them correctly, the American people are asking four principal questions about our foreign aid programs:

Has our economic and military assistance been getting us anywhere; is it worth the cost?

Is foreign aid a major cause of the United States' balance-of-payments deficit?

Should not the other well-to-do countries carry more of the burden of helping the underdeveloped countries?

Can we not operate our foreign aid programs more efficiently?

The following answers to these questions have grown from my own observations in Washington and in underdeveloped countries around the world.

Is foreign aid achieving worthwhile results?

ALTHOUGH the merits of the Marshall Plan were vigorously disputed at the time it was undertaken, there is no disagreement today that our economic assistance to Europe and our parallel help to postwar Japan were highly successful. Our economic aid to those countries ended years ago. The Western European countries and Japan today are thriving economies, themselves contributing between \$2 and \$3 billion each year in foreign aid to the underdeveloped countries of Asia, Africa and Latin America. Nor is there serious dispute over the value of our military aid to Europe and Japan, which has continued longer. This has helped to build defense forces of great significance to us, forces which would not exist but for our help.

But aid to Western Europe and Japan is essentially past. Our present military assistance to these countries is simply the winding up of commitments made some years ago.

Over the last 10 years our foreign aid has been increasingly concentrated in the underdeveloped countries of Asia, Africa and Latin America. What can we show for results?

There are many spectacular gains in human terms. United States aid—skills, equipment, chemicals—has been largely responsible for great advances in the worldwide war on malaria. For

example, in 1953 India suffered one million deaths from a total of 75 million malaria cases, but in 1962 reported fewer than 2,000 cases of malaria all told. In 1950, there were 1.2 million cases of malaria on the island of Taiwan; in 1961, only 61. There were 12,000 deaths in 1950—none in 1961.

FOREIGN aid is attacking illiteracy. In Nigeria, American university teams financed through A.I.D. funds in the last three years have trained 150 instructors who, in turn, have passed on their training to 5,000 teachers. In Latin America, 18,000 classrooms have been built or are under construction with U.S. help. Four million textbooks are being distributed.

Foreign aid is feeding hungry people. The U.S. Food for Peace program, administered jointly by the Department of Agriculture, A.I.D. and the President's Food for Peace director, Mr. Richard Reuter, is now benefiting more than 90 million people around the world. Under one aspect of this program, surplus food that would otherwise lie in storage at a cost to U.S. taxpayers is being used for part-payment of wages for reforestation and for school, hospital and housing construction in many countries. Under another, the United States in the next school year will be providing ingredients for a hot lunch for approximately one third of the school children of Latin America—for most of them their only hot meal each day.

Foreign aid is helping people build decent places in which to live. In Chile, several thousand people have built their own houses with materials financed by the United States. In Peru, a little more than a year ago, a desert area 11 miles north of Lima was an arid waste. Today, 1,500 families are living there in a satellite city, complete with schools, shopping center and water and sewage facilities, financed by a U.S. loan under the Alliance for Progress.

ILLUSTRATIONS of this type could be cited in great numbers, but it would be a mistake to think that, by themselves, they measure the success or failure of the foreign aid program.

For the United States is aiming at something more than an improvement in the material welfare of the less developed nations—important as that is. We want to see them stand on their own feet, independent of our help or anyone else's. We believe that the fundamental security of the United States rests on the successful establishment of independent, self-supporting countries around the world, countries that are prepared to join in defending their own freedom against Communist—or any other—aggression. It is this concept of United States security interests that has guided our foreign policy consistently since the end of World War II.

THE TEST of the foreign aid program, therefore, is not merely in numbers of children fed, schools built and business firms established. It is whether the countries we are helping are enlarging their resources of skill and capital, and relying increasingly on their own resources and less on our gifts and "soft" loans to achieve economic development and, where necessary, military strength.

Assessing results against this standard, two kinds of evidence can be cited.

One is statistical. The A.I.D. recently analyzed the economic growth of the 41 countries that have received substantial amounts of economic assistance from the United States since 1945. (This includes Europe and Japan. "Substantial" aid was defined as \$300 million or more for a country, or at least \$30 per capita for some of the smaller countries.) It was found that 33 of the 41 countries had rates of economic growth of at least 1.5 per cent per capita for at least five years. These gains are encouraging but we should not overlook the fact that our standard, arbitrarily chosen, is a modest one and that several countries did not reach it.

A second type of evidence is the progress toward economic independence that has been achieved. Since economic aid was ended some years ago for the 14 Western European nations and Japan, it has also been terminated for two more countries—Spain and Lebanon. Technical assistance (though not capital assistance) has been ended in Greece and Israel. In several countries, progress has been so satisfactory that we are making definite plans to terminate economic aid in the next two to five years. These include Greece, Israel, free China (Taiwan), Mexico, Venezuela and the Philippines.

With luck, several other countries could join this group.

It should be noted that after economic aid on "soft" terms has been ended, these countries will be able to borrow from the Export-Import Bank, which charges an interest rate high enough to cover all costs—currently about $5\frac{3}{4}$ per cent. We will no doubt also wish to continue for some time longer military assistance to some of these countries—such as Greece and free China—which will be sustaining military forces larger than they could support by themselves.

SOME OF these countries are already beginning to provide technical assistance to other countries, thus following the same transitional route from recipient to donor countries previously followed by the European countries and Japan. In recognition of the increased economic strength of these transitional countries, we have already "hardened" our loan terms to some of them. The most recent loans to Greece and to free China, for example, were at $3\frac{1}{2}$ per cent interest and 20-year maturities, rather than the $\frac{3}{4}$ per cent, 40-year terms, which are used for countries with less immediately favorable economic prospects.

A number of other countries are making solid economic progress although they are not yet near the end of their need for outside aid. India and

Pakistan are examples, as are Nigeria and Turkey. In these countries the annual growth in output is substantial—higher than the rates of population growth—and the competence of the society to mobilize and manage resources, through public and private institutions, is growing steadily. These countries are on the right road, and in dollar terms, the bulk of our economic aid today is going to them.

BUT WE also seek to advance the U.S. interest in situations where circumstances are not so favorable. Some countries are plainly not doing all they could do for themselves. We have no wish to leave them with only the Communist bloc to turn to for support. But we have no intention of providing assistance that would let them avoid solving their own problems. Increasingly, we are working with such cases on a contingent basis, standing ready to help them when they undertake—and stick to—the hard measures necessary to help themselves.

Then there are countries in which military security is of first priority at present—Korea, Vietnam and Laos are examples. Here the first objective is to achieve some degree of internal security and stability and on that base to build toward economic independence. These situations can be painful, risky, and costly, as witness Vietnam today. But it would be fatal to our objectives to give up the struggle. The great successes we have had since 1945—Western Europe, Greece and Turkey, Japan, Korea, free China—were achieved precisely because we did not give up when the going got tough.

Therefore, I believe it a fair assessment that U.S. foreign aid has achieved a great deal that is of fundamental importance to our national interests: Many countries have “graduated” from the need for aid; a number more can be expected to join them soon. Others are making strong and steady progress. At the same time, we should recognize that there are countries, most conspicu-

ously in Southeast Asia and in Latin America, where the Communist threat is grave and immediate and where we are not making nearly as much progress as we should like.

Is foreign aid a major cause of the balance-of-payments deficit?

THIS question can be answered categorically: Under present policies, the U.S. programs of economic and military assistance are not major contributors to the deficit.

Ten years ago, under different policies, foreign-aid dollars were spent abroad in large part. Beginning in 1959, however, under the Eisenhower Administration, those earlier policies began to be radically changed. Today's policies result in the commitment of more than 90 percent of all assistance to U.S.-produced goods and services. In these circumstances a cut of \$1 billion in appropriations for foreign assistance would slice something under \$100 million from the deficit in the balance of payments but something over \$900 million from U.S. export of goods and services.

Even if surplus agricultural commodities, military equipment, and Export-Import Bank loans were omitted from these calculations, leaving only the "soft" loans and grants commonly called economic aid, the proportions would change only slightly—from 90 per cent of U.S.-produced goods and services to 80 per cent. The main point would remain valid: An appropriation cut intended to reduce the balance-of-payments deficit would in fact mainly reduce U.S. exports.

It is sometimes argued that foreign aid, whether or not it is tied to U.S. procurement, has an adverse effect on the balance of payments because it makes goods and services available to other countries that might otherwise be bought with their own funds. The evidence shows, however, that United States assistance helps countries add to their regular imports, rather than substitute

for them. Commercial imports from the United States have grown, and the U.S. share of the local market has improved in countries assisted by our economic aid programs. (The only exceptions are in some countries in Latin America where the normal foreign-exchange earnings have dropped sharply for reasons having nothing to do with our aid program.)

The long-run benefits to us from successful aid programs can be very great. U.S. exports to Europe, for example, doubled between 1950 and 1962; our exports to Japan tripled between 1953 and 1962. Cutting foreign aid in a largely futile effort to trim our payments deficit would seem to be plainly unwise, even in the narrowest of commercial terms.

Should other nations share more of the load?

ON INSPECTION this question turns out to be rather complicated to analyze, although in summary my response is: Yes, other advanced nations should do more to help the less developed countries.

Contrary to popular opinion, the burden of foreign aid to the United States has declined over the past 15 years. As a share of the gross national product, direct economic and military assistance has dropped from 2 per cent at the start of the Marshall Plan to about seven-tenths of one per cent. As a share of the Federal Budget, foreign aid declined from 11.5 per cent in 1948 to 4.1 per cent in 1963.

In recent years, Western Europe and Japan have doubled the amount of their economic aid, from \$1.2 billion in 1956 to \$2.4 billion in 1962. In 1962, of total governmental economic aid from all the advanced countries, the U.S. provided about 60 per cent, and the other countries about 40 per cent. This was approximately the same proportion as the ratio of the U.S. national prod-

uct to the national product of all the other countries. (There are, indeed, three or four countries which are putting a larger share of their national product into foreign aid than we are.)

IN SOME 40 countries, including most of those in Africa, U.S. participation is quite limited. The bulk of the outside help for many of these nations comes from some other country—France or the United Kingdom, in most instances. In a number of such countries, the U.S. aid program may consist of only a single technical assistance project, the value of which is to demonstrate the United States' concern and show that the country is not wholly dependent for assistance on its former colonial ties.

Recognizing all this, however, there are important respects in which we believe other countries can and should do more. We feel, for example, that there are several countries which, in view of their economic strength, balance-of-payments positions, and trade and security interests, ought to increase their aid programs substantially.

A second point—our major concern at present—relates to the terms on which other advanced countries provide that part of their aid which is in the form of loans. In 1962, the average terms of all U.S. economic aid loans were 2.6 per cent interest and 30 years' maturity. The average of all other countries was about 5 per cent interest and 19 years' maturity. Last April, the Development Assistance Committee (representing the Western European countries, Japan, Canada, and the United States) agreed that the terms on which aid is made available should be adapted to the balance-of-payments prospects of the recipient country, and that at present this required the harder lenders to soften their terms.

There had been some considerable softening by some countries prior to this agreement, and there has been some additional change since. The

United Kingdom, for example, has cut the effective rate of interest on aid loans nearly in half.

Nevertheless, the U.S. Government believes that there is a considerable distance still to go before there will be what we would consider an equitable sharing of foreign-aid costs among the advanced countries.

Can we operate our aid programs more efficiently?

THE EFFORT we are making to persuade the other developed nations to assume more responsibility is a part of our continuing endeavor to make economic assistance increasingly effective, to speed the day when we can retire from the foreign aid business.

One way in which this is being done is through a policy of careful selectivity. We are stressing aid to those countries where the U.S. interest is most urgent, which are in a position to make the best use of our help, and where other donors cannot supply all the aid needed. As a result, of the \$2.2 billion committed to 82 countries by A.I.D. in fiscal 1963, four-fifths went to only 20 countries. (Military assistance is even more concentrated.)

Another way in which we seek to obtain maximum results is through stressing self-help measures. As we know from our experience under the Marshall Plan, the most important ingredient for achieving economic progress is what a country does for itself. If it asks its people to make major sacrifices, undertakes necessary reforms, and follows sound budget and fiscal policies, then—and only then—can outside help have large and lasting effects.

The corollary is a readiness on our part to hold back some of the funds made available for foreign aid if potential recipients do not do all we think they should to help themselves. The result of

such a policy was evident in the fiscal year just ended. Largely because some of the recipient countries did not meet our criteria for self-help and reform, we left uncommitted on June 30, 1963, over \$100 million of available loan funds (and requested that much less in new funds for the next fiscal year).

Another change in recent years has been to place increasing emphasis on loans, as against grants. In the Marshall Plan days, more than 90 per cent of our aid was in the form of grants; as late as 1957 loans were only 18 per cent of the total. The percentage recently has been rising rapidly. In the fiscal year 1964, more than 60 per cent of all economic aid funds will be in the form of loans.

IN ADDITION, A.I.D. is working to improve conditions that will encourage private enterprise in the less developed countries—not only private businesses, but cooperatives, trade unions, savings and loan associations, and the many other forms in which private energies can be organized to serve common needs. We do not seek to impose our particular forms of social organization on others, but we believe that a society which calls on the initiative and skills of its citizens through many different types of private organizations will be more likely to achieve rapid economic and social progress.

In this connection, we have a varied program to assist U.S. private business investment abroad, which typically provides not only capital but badly needed managerial and technical know-how in countries where the investment is made.

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LET ME close with one important qualification. It would be a mistake to think that our aid efforts will automatically make friends for us. In Harlan Cleveland's famous phrase, we are seeking "not popularity or gratitude, but respect and results."

The object of foreign aid is to help create a community of free and independent nations. If we are sincere about independence, we plainly should not expect the countries we are aiding to become satellites. We want them to be strong, not servile.

FOR THE great majority of the people in the world, regardless of what some transitory leaders may say or do, the United States is the standard bearer of world peace, prosperity, humanitarianism and freedom in the competition with Communism. They look to us for help against aggression and the poverty of centuries. Our response must be more than words of concern. There must be deeds to back them up.

I would not wish to overstate the importance of our assistance to the underdeveloped nations. Foreign aid is a limited instrument. It is only one of the means for carrying out the foreign policy of the United States, along with military activities, information programs, diplomatic negotiation, participation in the United Nations and the Organization of American States. Recognizing these limitations, however, I believe that of all the implements employed by the United States in its international relations, none offers a better hope for making a positive contribution to peace and building a better world for ourselves and our children.

