



Grasping Nettles

*The Carlucci commission on the
future of foreign assistance
is rethinking our aid policies and programs*

By JOHN K. WILHELM

This month should see the final meeting of the Commission on Security and Economic Assistance, a panel formed by Secretary of State George P. Schultz at the behest of AID Director M. Peter McPherson and others to develop a new consensus on this country's multifarious aid programs and policies. At first, there were fears that merely opening up the subject could entail real risks for foreign assistance programs. But the fact that we have been able to get an aid bill both authorized and appropriated in only one year out of the last five—and that in the first year of the Reagan administration, when the president got almost anything he wanted—convinced skeptics that something had to be done.

The commission may endorse a proposal by its Task Force on Process that would finally bring together under one roof all of the United States' disparate assistance programs and place responsibility for policy formation in a single administrator. Noting the fragmented nature of our programs and the need for greater consultation with Congress, it recommended the formation of a new agency that would be responsible for overall foreign assistance policy, budgets, and resource allocation. It would absorb AID, the functions of the undersecretary of state for security assistance, and responsibility for those international organizations involved in foreign assistance. It would relate to the State Department as the FBI does to Justice, and its chief would report to

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the secretary of state but retain substantial independence.

This proposal goes far beyond any recent attempt to reform U.S. foreign assistance programs, including the formation of the International Development Cooperation Administration, which embraces only development programs and is a coordinating agency, not an operating one. This proposal reflects the need to deal with all forms of foreign assistance in a unified manner, building programs and determining their level, mix, and concessionality on the basis of both recipient-country needs and U.S. objectives. The director of this agency, tentatively named the Mutual Development and Security Agency, would for the first time provide a single executive branch assistance director who would act as spokesperson and would enter into comprehensive advance consultations with Congress.

Commission Processes

Established last February, the Commission on Security and Economic Assistance has since become known by the name of its chairman as the Carlucci commission. Since from the beginning it was generally agreed that the process of the commission itself would be at least as important as its ultimate report, the involvement of Congress has been viewed as central to success. There are eight congressmen and senators chosen from the relevant committees and subcommittees serving as full members of the commission. In addition, there are 18 congressmen and senators who are *ex officio* members because of their chairmanship or position as ranking minority member of the authorizing, budget, appropriations, agriculture, and House banking committees and subcommittees. To bring in a wide spectrum of non-government help, there are 15 public members.

Chairman Frank Carlucci, president of Sears World Trade, was a career Foreign Service officer who served as ambassador to Portugal and has been deputy secretary of defense and held high offices at the CIA, Office of Management and Budget, and Office of Economic Opportunity. The three co-chairmen add further diversity of background: Lane Kirkland, president of the AFL-CIO; Laurence Silberman, a former ambassador to Yugoslavia now in private law practice in Washington; and Clifton R. Wharton Jr., chancellor of the State University of New York.

Georgetown University's Center for Strategic and International Studies provides both substantive and administrative support for the 45 or so professionals, research assistants, and administrative personnel on the committee staff. Detailees from AID and the Departments of State, Treasury, Agriculture, and Defense have participated in the project along with scholars from CSIS and outside experts. Liaison with the executive branch is maintained through an interagency task force consisting of representatives of AID, State, Treasury, Agriculture, Defense, the National Security Council, OMB, Commerce, and the Peace Corps.

The 42 commissioners brought with them the full spectrum of American political persuasion as well as the interests of various specific constituencies. The task facing them was formidable, for there had not been a comprehensive review of U.S. foreign assistance since the Peterson commission tabled its report early in 1970. In the meantime, there have been substantial changes in the world, the role played by the United States, its assistance programs and their underlying philosophies, and the attitudes and expectations of all concerned, particularly the American people. The constitu-

ency for foreign assistance—always fragile—has changed from a coalition of disparate interests including labor, industry, security, and humanitarian groups into a looser structure with each group more oriented toward its own special issues and less inclined toward coalition or compromise.

Differing Priorities

A poll ordered by the Chicago Council on Foreign Relations last November revealed the crux of the problem facing U.S. assistance efforts. The poll very usefully divides the population into an elite and the public at large. The elite consists of those who have a continuing personal or professional relationship with foreign affairs and the Third World. Unsurprisingly, they support foreign assistance. Not so with the public at large. When asked what they considered to be the two or three most important issues in foreign affairs, the public put *reducing* foreign aid ahead of avoiding nuclear warfare, maintaining the world economy, and all other issues except achieving peace in the Mideast. Members of Congress were not surprised.

There does not, however, appear to be great passion behind these feelings by the public. On the contrary, it is widely agreed that nobody has either been elected to Congress or turned out of office for voting for or against foreign assistance. Congressional votes are therefore somewhat optional—they are the result of the members' judgments and convictions as well as a sign of willingness to take a certain amount of non-lethal heat in the event that he or she votes for aid.

Thus, since the commission has found that foreign assistance is necessary for the proper conduct of U.S. foreign affairs, its task now is to articulate the goals and objectives of U.S. assistance and to recommend programs designed to achieve those objectives in

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a manner that will allow an expanded bipartisan coalition to develop. In attempting to do so, the commission departs considerably from the approaches usually taken in assessing foreign aid. These normally focus very heavily, if not exclusively, on the impact upon the recipient country. While not ignoring that dimension, the Carlucci commission has expanded its horizon to view the *mutuality* of benefit and the need for greater attention to program impact at home. Underscoring that emphasis, the commission report speaks not of aid—with its possible connotation of benefits flowing in only one direction—but of mutual assistance and mutual cooperation. This concept implies obligations for the recipient as well as benefits for the donor.

The world in which this commission's recommendations must be implemented is considerably different from that facing the Peterson commission in 1970 or its predecessors. U.S. foreign assistance resources in real terms have declined from a yearly average in the period 1968–72 of \$16.5 billion to \$13.5 billion in 1983. (Constant 1982 dollars are used throughout this article.) The decline occurred in both the economic account (which includes the Economic Support Fund) and the military account (which includes grants and non-concessional loans). In the same period, economic assistance dropped from \$8.6 billion in 1968–72 to \$8.2 in 1983. Military assistance slipped from \$7.9 billion in 1968–72 to \$5.3 billion in 1983.

Declining Assistance

The United States also declined in its relative share of worldwide Official Development Assistance (that is, concessional assistance as defined by the Organization for Economic Cooperation and Development). In 1971 it accounted for 36.8 percent of ODA

but in 1982 just 22.2 percent. Although this should be seen as a success of U.S. foreign policy in that others now carry a greater share of the development burden, a necessary byproduct has been an accompanying reduction in relative U.S. influence. It is doubtful, however, that expectations have been similarly scaled down.

The United States has diluted its influence even further by shifting a significant portion of its ODA to multilateral banks and agencies. In 1956, some 4 percent of U.S. economic assistance was multilateral. In 1970, it had grown to 15.9 percent. In response to the Peterson commission recommendations, the multilateral share of U.S. ODA rose to 33 percent in 1978–82. At the same time, bilateral development assistance and the PL 480 food assistance program were reduced. The conclusion that this trend has gone about as far as is desirable is not a negative judgment on the multilateral aid institutions but a recognition that the bilateral accounts need more attention.

The quality and direction of U.S. assistance has also changed substantially. But conclusions about these shifts are heavily influenced by the definitions used. Two are particularly important. The Economic Support Fund is shown in the U.S. budget as "security assistance" to distinguish it from the "development assistance" account. The funds in the latter are subject to significant restrictions as to where and how they can be used, the intent being to focus them on long-term development. ESF funds are not so restricted and can take any form from cash grants to highly detailed projects. There is a lively and inconclusive debate over whether or not ESF is "developmental." In the commission papers, ESF has been treated as it is by the Development Assistance Council, which counts it as economic.

Equally lively and inconclusive is the debate over whether non-concessional foreign military sales credits (i.e., at the same interest rates charged by the Export-Import Bank's cost of money to the Treasury) are in fact "aid." Some argue that it is not logical to count FMSCR as aid and not do so for the Ex-Im Bank or the Commodity Credit Corporation. Others argue that military credits are *sui generis* and therefore must be counted as aid.

The differences in conclusions flowing from various definitions are not trivial. If we count ESF as security and include FMSCR in military aid, we find that economic aid has fallen from 44 percent of total assistance in 1968-72 to 40 percent in 1983, with military aid rising from 56 percent to 60 percent in the same time span. But if ESF is counted as economic assistance, as DAC does, and we include under military assistance only the concessional aid, then an entirely different picture emerges. Economic assistance rises from 53 percent of the total in 1968-70 to 84 percent in 1983, while military aid shrinks from 47 percent to 16 percent of the total. Obviously, the definitions chosen substantially affect the judgment as to whether or not U.S. assistance is being militarized.

How the data for Egypt and Israel and the base-rights countries—Turkey, Greece, Spain, Portugal, and the Philippines [see related article]—are handled is equally important. U.S. domestic support for a Mideast peace is widespread and deeply rooted. Those commitments have a rationale separate from that for either foreign economic or military assistance. There are those who therefore argue for removing these payments from consideration if a true picture of our assistance activities is to emerge. (It should be mentioned, however, that there is no sentiment for moving either item out of the foreign assistance accounts).

Those who charge that aid has become "militarized" point to the growth in ESF and foreign military sales credits. ESF has more than doubled in real terms, from \$1.2 billion in 1970 to \$2.7 billion in the 1984 budget request. Yet, when we remove Egypt and Israel and the base-rights countries, we find that the residual for the rest of the world dropped from \$1.2 billion in 1970 to \$826 million in 1976 and a low of \$330 million in 1981. The residual is still not fully restored to 1970 levels in the 1984 request of \$1.1 billion. A similar but less pronounced phenomenon occurs in the foreign military sales credits. Clearly, U.S. bilateral concessional assistance has decreased substantially in both real and relative terms, particularly when the special cases which are not a subject of debate are removed.

Increasing Demands

This has occurred in a Third World context that is ever more complex and demanding. On the positive side of the ledger, there have been some genuine economic successes, particularly in Asia and Latin America. Moreover, as noted above, other countries now share a larger part of the burden. Offsetting this is the global debt problem, which will remain pervasive for at least the next few years. Many of the poorest countries, particularly in Africa, have not participated in economic growth and in fact have suffered a persistent decline in per-capita output for more than a decade. Further complicating the problem has been the continued expansion of the activities of the Soviet Union and its surrogates in the Third World. Finally, there has been a rise in regional conflicts whose origins are outside the East/West context but which eventually have political and strategic implications for both sides. Even the successes bring problems. The newly industrialized countries

compete successfully in many of our markets, causing some in labor and industry to fear that our assistance simply creates competition that eventually displaces U.S. businesses and labor. Although the commission has not dealt with the trade issues, they are persistent and growing and in need of careful attention. The Third World accounted for 40 percent of our 1981 exports, more than the European Economic Community. Our dependence on it for raw materials and minerals continues to deepen. Eighty percent of all new manufacturing jobs in the late 1970s were linked to exports. Yet our instruments for dealing with the problems of the Third World have shrunk and become less flexible.

On the issue of evaluating our foreign assistance programs and policies, partisan juices flow freely and there are demands for evidence of successes and failures from all sides. Efforts to be responsible quickly come to grief. In foreign assistance, success or failure is very much like beauty—it is in the eye of the beholder. While some would argue, for instance, that Korea is an unambiguous success, others respond that it is a failure because it continues to have human rights problems.

The problem obviously lies in how one measures success or failure. While it is possible to get agreement on the overall goals and objectives of U.S. foreign assistance, the relative value assigned to each in any particular instance is very subjective. Equally subjective is the judgment of the effectiveness of one type of assistance versus another. While limited agreement can be achieved on rather narrowly defined technical measures of success, the broader and ultimately more important questions are subjective and therefore subject to dispute. It is possible to identify whether a target group of people experiences an increase in its wel-

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fare associated with an AID development project. But did it promote overall economic growth or contribute to political evolution or greater security? How does one measure the value of a war that did not happen because a country had a credible defense capability which benefited from U.S. military assistance? Even if that could be measured, what is the portion to be ascribed to U.S. assistance, which, after all, is only a small part of a country's total defense effort? There is no rigorous and objective way to measure and allocate the full impact of foreign assistance, particularly if long-term consequences are included—which indeed they must be. In the end, each must render judgments and grind his or her own axe.

Project Evaluation

The commission did not perform its own evaluations of projects or programs, a task which would be far beyond its resources and which in any event would not resolve the philosophical disputes which underlie debates on foreign assistance. It did not, however, throw up its hands in total despair on the issue of evaluation. It emphasized that each of the foreign assistance programs affected more than one of the four major categories of U.S. objectives: political, economic, security, and human well-being. It broadened the discussion of each program beyond primary objectives to include secondary effects. Sound economic development contributes to domestic stability and the ability to provide security, for instance. Military assistance can provide a secure context wherein investment, trade, and democratic institutions can prosper. Neither economic growth nor military security has long-term promise if human well-being is not an integral element of the growth process. The panel recognized that a humanitarian project such as a PL 480 Title II program to feed refugee children in a country like Mozambique or Ethiopia has very important political implications that must be included in any valid evaluation.

Because we currently have no systematic means of assessing the full im-

part of our programs and their relationships to one another in a given country, the commission concluded that such a capability should be developed. Current evaluation techniques are too narrowly defined and lack an overreaching system to integrate the activities and assess them as a whole. A related recommendation is that the recipient country serve as the context for determining the mix of U.S. economic, food, and military aid programs as well as for the determination of our policies toward multilateral development projects. Terms of concessionality should also be decided on a case-by-case basis, particularly with military credits. The commission has been consistent in underscoring the interdependence and interrelationship of both programs and objectives. In doing so, it has resisted the tendency to simplify and thereby give weight to single-issue interests at the expense of the whole.

Because the commission has yet to finish its work, one can only speculate about its ultimate product—a hazardous act in view of the size and diversity of the group. But, by looking at the work of the commission's five task force reports some conclusions and consensuses can be seen. In doing so, however, one should keep in mind that surely there will be some members who will disagree with parts of these preliminary conclusions.

The task forces generally agree that foreign assistance, in all its interrelated components, is a necessary and integral part of the foreign policy of the United States. The task forces have endorsed development assistance and reaffirmed the mandate to address basic human needs, as well as the distinction between DA and ESF in terms of both time and justification. But they urge greater flexibility of administration, including a departure from "projectizing" DA activities where appropriate. They emphasize overall economic growth and efficiency while trying to ensure the broadest practical participation in that growth. The Task Force on Development Assistance concludes that "if greater flexibility is not achieved, there is serious risk that administrations will turn increasingly to ESF to provide economic assistance to

the detriment of long-term development objectives."

The task forces support increased participant training (as well as military training) as being particularly cost effective. They endorse a modest "middle income country" program with emphasis on scientific, technological, and management exchanges. They note the special plight of Africa. They urge increased utilization of PL 480 and greater emphasis on its developmental uses. The task forces strongly emphasize the need for a recipient-country policy environment that is conducive to the success of a growth-oriented development policy. They cite favorably the development banks, particularly the World Bank, for their efforts for policy reform and urge them to increase these efforts. Finally, the panels emphasize development of the indigenous private sector while noting the poor record in this regard of both private and official efforts.

The ESF Task Force was particularly concerned with maintaining the flexibility of the account while encouraging greater developmental use and support of U.S. exports, provided those objectives are secondary and are not mandated by specific goals or requirements. Because earmarking reduces flexibility, it endorses the present policy of limiting earmarking to only a few countries. A recommendation for a program of mixed credits (blending of low-interest aid funds with Ex-Im or commercial bank credits) has varied support, in part because it would increase the flow of development resources to the Third World, in part because it would provide a defense for U.S. exporters against the mixed-credit programs of other countries. There is also some opposition based on the belief that it is inconsistent with the U.S. policy of free trade. There is widespread agreement that such a program should be separately funded and not draw on DA or ESF funds.

The Task Force on Process notes the fragmented nature of our assistance and calls for the formation of the new agency to house the multifarious programs. The model for the Mutual Development and Security Agency goes back to the 1950s, before AID was formed, when comprehensive respon-

sibility for foreign assistance was lodged in the Mutual Security Agency. Having a single administrator for all forms of aid would again allow comprehensive advance consultations with Congress.

The issue of Third World debt influenced the deliberations throughout. There was discussion of debt forgiveness, but support for this action appears weak because of the need for new appropriations, and, with a couple of exceptions, forgiveness of U.S. official debt would not have a great effect on the overall debt of beneficiaries. And, if new money is appropriated, there is widespread preference in the government that it be for new programs.

Military Aid

There appears to be considerable support for increasing concessionality for military credits, which, for the most part, are now at interest rates at "cost of money to the Treasury." This recognizes the severity of the debt problem in certain countries and the incongruity of charging high interest on needed military equipment and services while giving grant or concessional economic assistance to relieve balance-of-payment problems. The degree of concessionality is to be determined on the basis of the individual country's needs rather than global considerations. In this regard, the commission notes that when military credits were put on a non-concessional "cost of money" basis, some had believed the resultant high interest rates would curb less-developed countries' appetites for arms. That does not appear to have happened. There also is support for altering the practice of charging less-developed countries "full cost" on military equipment and training, including overhead and development costs. Japan, NATO, and the ANZUS allies are charged only the incremental costs incurred by their purchases. The commission proposes to put poor countries on the same footing as the wealthy.

Finally, the task forces address the issue of the American public's inclusion in debating policies concerning foreign assistance. They recommend the establishment of a nationwide citizens' network. This would meet the

need to find a mechanism whereby communities could remain informed on the issues, programs, and problems associated with U.S. mutual-assistance programs. How this would be funded remains a matter of considerable debate. Further, they have urged the president to invite the bipartisan leadership of both houses to join him in a public statement endorsing their conclusion that foreign assistance is an integral part of the conduct of the foreign policy of the United States. This is in the belief that lawmakers will find it helpful when voting for foreign assistance. In the words of one, "I voted for a reduction in food stamps, a reduction in school lunches, and in favor of foreign aid. That is hard to explain. I could use some cover."

The commission has grasped several nettles. There is general—though not unanimous—agreement that the resources currently devoted to foreign assistance are inadequate to meet the needs which flow from our goals and objectives. There is agreement that new programs will require new money, i.e., concessional military credits, forgiven debt, or mixed credits. How this will be squared with the administration's strong desire to avoid recommendations on budget increases in general remains to be determined.

Throughout these six months of deliberations there has been a keen awareness that a more broadly based constituency for mutual cooperation programs is essential and that a demonstration and strengthening of their relevance to U.S. interests is a necessary part of the process. In that regard, the active participation of several of the commission's well-known politically conservative members, along with traditional supporters of foreign aid, has underscored the bipartisan nature of the commission and augers well for ultimate acceptance of its recommendations. The commission can be credited with seeking the opinions of all interested parties and with developing a consensus from its broadly based membership. How the commission's recommendations will fare is nonetheless a subject of some debate, but it is generally agreed that, from here on in, successful implementation will depend heavily upon presidential support.