

**EFFECTS OF FOREIGN AID
ON THE
UNITED STATES ECONOMY**

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**• OFFICE OF STATISTICS AND REPORTS
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SUMMARY

This report has been prepared in response to the various questions which are raised each year concerning the effects of U. S. foreign aid programs on the U. S. economy. The most important of these effects may be summarized as follows:

1. In recent years the U. S. has expended a little over \$4 billion annually on foreign aid. This has amounted to somewhat more than 1 percent of the gross national product, about 6.5 percent of the total U. S. government expenditures, and about 10 percent of expenditures for national security. About 600,000 jobs in the U. S. are attributed to the expenditure of foreign aid funds.
2. The burden of foreign aid on the U. S. taxpayer is an alternative to the much greater cost of providing our military protection entirely from U.S. resources and U. S. bases.
3. Although foreign aid does not have major effects on the U. S. economy as a whole, it has important effects on exports and employment in certain industries and in certain localities in the U. S.
4. Foreign aid does not build up injurious foreign competition for U.S. business. By helping free countries develop their economies, it assists them to become better customers of the U. S. The statistical record shows that the more developed a country the better customer it is for other industrialized countries.
5. Foreign aid has helped insure an accessible source for U. S. imports of the strategic and other raw materials that are essential to the continued rapid growth of U. S. industry.
6. Foreign aid helps underdeveloped countries to provide the prerequisites for establishing private enterprise and investment and achieving self-sustaining economic growth. To this extent, foreign aid plants the seeds for its own replacement by investment of private capital from domestic and overseas sources.

Over-All Effects

Total U. S. foreign aid in the form of new grants and new credits ranged downward from \$6.1 billion in calendar year 1949 to \$4.7 billion in 1955. This represented a range from 2.4 percent to 1.2 percent of the U. S. gross national product and from 14.3 percent to 6.5 percent of Federal Government expenditures (See Table 1). Average annual foreign aid expenditures in these years were about \$5.5 billion.

From these statistics the National Planning Association concluded that foreign aid programs were a minor factor in the U. S. economy as a whole. Although in a sense this is true, we cannot escape the fact that these government expenditures absorb each year a sizeable part of our production which otherwise could go for domestic consumption or investment.

From another standpoint the foreign aid programs impose a substantial burden on U. S. taxpayers. In weighing this burden, however, we must realize that it is an alternative to the much heavier burden that would fall on the United States if we tried to provide ourselves with the same amount of military protection by "going it alone" and falling back entirely on our own resources. Compared with our annual total "national security" expenditures of about \$40 billion, foreign aid programs are actually quite small - currently a little over one-tenth. Yet this assistance to our allies enables them, together with their own resources, to maintain defensive strength in number of army divisions nearly ten times our own and in number of air squadrons nearly equal to our own. In forward bases for the use of the U. S. Air Force and other military forces the saving is immense. Indeed, the amount that would be added to our military budget for larger and more numerous aircraft, vessels, airfields, warning systems, and civil defense in order to secure the same protection from U. S. bases alone would be many times the annual cost of the Mutual Security Program.

Table 1

Total U.S. Foreign Aid Compared with Total U.S.
Government Expenditures and Gross National Product

	Calendar Years						
	1949	1950	1951	1952	1953	1954	1955
	- Billions of Dollars -						
Total Foreign Aid Gross Grants and Credits	\$6.1	\$4.6	\$5.0	\$5.6	\$7.1	\$5.3	\$4.7
Total U.S. Government Expenditures	42.6	42.0	58.0	73.0	76.2	69.6	72.0
Gross National Product	257.3	285.1	328.2	345.2	363.2	360.7	390.9
	- Percent -						
Foreign Aid as Percent of U.S. Expenditures	14.3%	11.0%	8.6%	7.7%	9.3%	7.6%	6.5%
Foreign Aid as Percent of Gross National Product	2.4	1.6	1.5	1.6	2.0	1.5	1.2

Source: U.S. Department of Commerce and National Planning Association

Foreign Aid Expenditures by Area of Source

Expenditures of foreign aid funds enter the U. S. economy in two different ways - one direct and the other indirect. The direct route of these dollars into U. S. exports, production, and employment is when they are spent to procure aid goods (or services) which are produced in the United States. The indirect flow of aid dollars into our economy occurs when they are used for the procurement of goods or services in other countries. These offshore procurement dollars provide our allies with purchasing power which is used to buy non-aid goods and services from the U. S. in ordinary commercial transactions. "Offshore procurement" is part of the governments' policy requiring that aid goods be bought in the cheapest market in order to minimize the cost to the American taxpayer.

Data on the distribution of aid expenditures between offshore procurement and procurement in the U. S. are available only for the Mutual Security Programs. These figures show that from the beginning of these programs in April 1948 through June 30, 1956, 78 percent of total MSP expenditures were made directly in the United States. Some of the variations in the U. S. percentage among commodities are shown in Chart 1.

Table 2

Mutual Security Program Expenditures by Area of Source

	Total Expended through June 30, 1956	Expended Directly in U. S.	
		Amounts	Percent
		(Millions of Dollars)	
Military Assistance	\$14,228	\$12,265	86%
Non-military (Commodities)	15,513	10,831	70
Total MSP	29,741	23,096	78

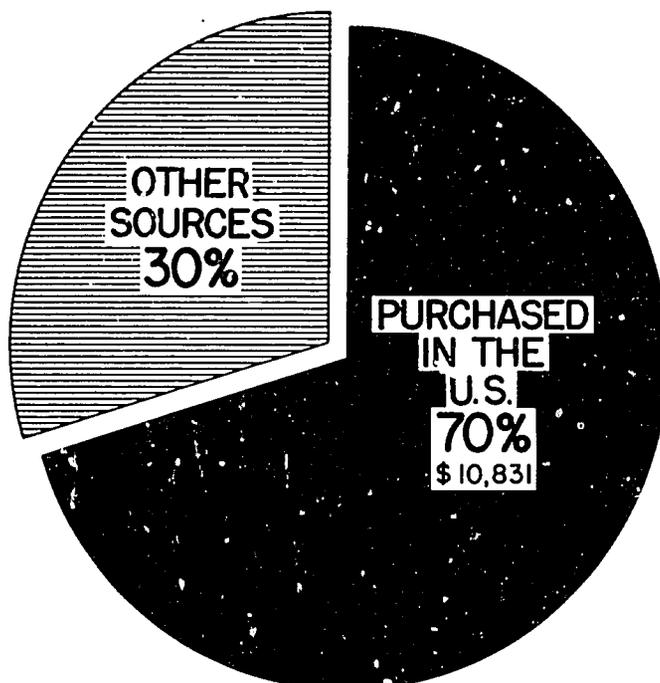
Mutual Security Program and U. S. Shipping

In FY 1956 MSP funds paid about \$50 million to U. S. shipping concerns, or 71 percent of total ocean freight expenditure by ICA for the movement of non-military goods. Since the beginning of the program ICA (and its predecessor agencies) has made payments to U. S. flag vessels of \$884 million--74 percent of the total ocean freight expenditures for non-military aid.

CHART 1 MOST OF THE GOODS COME FROM THE U.S.

(Data in Millions of Dollars)

\$ 15,513 million
Total Commodity Purchases
(Cumulative Total, April 1948 - June 30, 1956)



MAJOR COMMODITIES PURCHASED IN THE U.S.

AGRICULTURAL		INDUSTRIAL			
Purchased in U.S. (\$ Millions)					
Cotton	100%	2,523	Motor Vehicles	94%	324
Tobacco	99%	503	Machinery	93%	1,794
Coarse Grains	96%	562	Transport. Equip.	91%	246
Dairy Prod.	83%	132	Chemicals	86%	375
Fats & Oils	87%	453	Coal	75%	381
Bread Grains	78%	1,702	Iron & Steel	71%	443

Effects on U.S. Exports

Shipments of commodities from the United States, resulting from total expenditures under all of our foreign aid programs, including direct procurement in the U.S. and offshore procurement, have been estimated by the National Planning Association. As shown in Table 3 one-fourth of U.S. exports in calendar year 1955 resulted from foreign aid expenditures. The foreign aid percentage will be about this same percentage of total U.S. exports in 1956 and 1957. In the earlier years of these programs the percentage was even higher - 46 percent in 1949 and 38 percent in 1950.

Table 3

Calendar Year	U.S. Shipments Resulting from Aid Expenditures as Percent of Total U.S. Exports
1949	46%
1950	38
1951	28
1952	32
1953	34
1954	31
1955	25

Source: National Planning Association.

Effects on Exports of Industrial Commodities

The aid proportion of U. S. exports varies greatly among different classes of commodities. Thus in 1955, according to the NPA statistics, foreign aid accounted for 21 percent of our exports of construction, mining and conveying equipment, and 70 percent of exports of aircraft engines and parts (Table 4). In the same year the aid export proportion for fertilizer was 37 percent, transport equipment (other than automotive) 59 percent, machine tools 21 percent, and electrical equipment 31 percent.

Table 4

Foreign Aid Shipments and U.S. Exports -
Industrial Commodities, Calendar Year 1955

	Millions of Dollars		Aid as Per- cent of Exports
	Total Exports	Aid Shipments	
Chemicals & Related Products	\$1,017.4	\$180.8	18%
Lumber & Wood Products	147.7	30.5	21
Hides, Skins, Leather & Leather Products	106.7	19.5	18
Paper & Allied Products	291.7	47.5	16
Textile Products	539.1	100.0	19
Crude Oil & Petroleum Products	644.4	123.5	19
Coal and Related Products	494.6	104.9	21
Iron & Steel Mill Materials & Products (including ferro alloys)	1,204.7	213.1	18
Copper & Copper Products (including brass and bronze)	219.6	44.1	20
Zinc & Zinc Products	7.0	0.4	6
Lead & Lead Products	1.5	0.1	7
Alum & Alum Products	16.9	3.6	21
Other Non Ferrous Metals & Products	61.4	9.4	15
Metallic Ores & Concentrates	47.5	6.7	14
Non Metallic Minerals (excluding fertilizer minerals) & Products	284.2	48.4	17
Ordnance	531.3	410.9	77
Construction, Mining, Conveying Equipment	535.0	113.1	21
Metal Working Machinery	113.9	24.9	21
Machine Tools	88.4	18.3	21
Electric Equipment	738.7	232.1	31
Generators & Motors	99.4	22.9	23
Engines & Turbines	161.9	35.6	22
Industrial Machinery N.E.C.	864.9	173.5	20
Tractors	345.3	72.2	21
Agricultural Machinery (except Tractors)	122.6	20.2	16
Motor Vehicles, Engines, Parts	1,394.7	362.3	26
Aircraft Engines & Parts	728.5	512.1	70
Other Transportation Equipment	260.7	153.9	59
Miscellaneous Industrial Products	1,139.9	202.5	18

Source: National Planning Association

Effects on Exports of Agricultural Commodities

For agricultural products the aid proportion has been very large but in recent years these shipments have been primarily from surplus stocks rather than from current production. In the fiscal year ending June 30, 1956 U.S. agricultural exports, including shipments from surplus stocks totaled \$3.5 billion, of which \$1.4 billion or 41% were under the various U.S. aid programs, including the Mutual Security Program, PL 480, and Export-Import Bank loans. Shipments under the MSP were about one-fourth (\$355 million) of total aid exports of \$1,421 million. As shown in Table 5, the foreign aid percentage in this year (FY 1956) represented 71 percent of total exports for bread grains, 72 percent for cotton, 58 percent for coarse grains and 72 percent for dairy products.

Table 5

U.S. Aid Shipments and Total Exports of Agricultural Commodities (FY 1956)

	Millions of Dollars			% of U.S. Exports	
	ICA	Total Govt. Programs	Total U.S. Exports	ICA	Total Govt. Programs
<u>Total Agricultural Commodities</u>	<u>\$355</u>	<u>\$1,421</u>	<u>\$3,493</u>	<u>10.2 %</u>	<u>40.7%</u>
Bread Grains (Wheat & Rye)	113	423	599	18.9	70.6
Cotton & Linters	117	276	382	30.6	72.3
Fats, Oils & Oilseeds	37	142	621	6.0	22.9
Coarse Grains	32	232	399	8.0	58.1
Dairy Products	17	204	283	6.0	72.1
Other Agricultural Commodities	39	144	1,209	3.2	11.9

Source: U.S. Department of Agriculture

Foreign Aid and Employment

It has been estimated that in 1955 about 600,000 people were employed directly or indirectly in production resulting from foreign aid expenditures. This does not mean that in the absence of foreign aid there would be 600,000 fewer jobs. Without foreign aid there would be some compensating employment - either from the resulting increase of other Government programs, or from lower taxes and greater output of goods for private consumption or investment. In some years such as 1949 and 1954 when economic activity was slowing down, the foreign aid programs probably helped support the labor market.

The effects of foreign aid on U.S. employment have been larger in industry than in agriculture because agricultural aid goods, to a large extent have been drawn from surplus stocks. In the industrial fields foreign aid employment has been scattered over many sections of the country, but concentrated in the midwest, the northwest and in California.

Table 6

Estimated Employment Attributable to Foreign Aid
Programs, Calendar Year 1955 by Industry

Industry	No. of Employees	Industry	No. of Employees
Wheat, Flour	3,600	Zinc & Zinc Products	2,000
Rice, Mfg.	500	Lead & Lead Products	1,000
Other Grain Preparations, Mfg.	300	Alum & Alum Products	4,600
Fats and Oils	1,000	Other Non-Ferros Metal & Products	1,300
Feeds and Fodder, Mfg.	500	Metallic Ores & Concent.	4,700
Dairy Products, Mfg.	100	Non-Metallic Minerals	7,900
Eggs, Mfg.	400	Ordinance	13,100
Fruits and Nuts, Mfg.	1,000	Construction, Mining Conveying Equipment	23,400
Vegetables & Preparations, Mfg.	1,100	Metal Working Machinery	4,700
Fish & Products, Mfg.	200	Machine Tools	2,600
Meats, Mfg.	700	Electric Equipment	31,100
Sugar & Related Products, Mfg.	400	Generators & Motors	2,700
Misc. Agricultural Products, Mfg.	800	Engines & Turbines	3,200
Fertilizer	1,400	Indust. Machinery N.E.C.	26,800
Tobacco Products, Mfg.	500	Tractors	6,200
Chemicals & Related Products, Mfg.	16,100	Agricultural Machinery (except Tractors)	2,400
Lumber & Wood Products	10,800	Motor Vehicles & Parts	17,800
Hides, Skins, Leather & Leather Products	2,300	Aircraft Engines & Parts	72,900
Paper & Allied Products	9,100	Other Transport. Equip.	3,900
Textile Products	13,300	Misc. Indust. Products	34,700
Crude Oil & Petroleum Prod.	5,600	Agricultural Products, Total, Unmfg.	100,700
Coal & Related Products	11,500	Electric Light & Power	100
Iron & Steel Mill Products (Incl. Ferro Alloys)	66,400	Transportation	34,000
Copper & Copper Products (Incl. Brass & Bronze)	7,700	Trade	12,900
		Services	13,200
		Unallocated	15,000
		Total	598,200

Source: National Planning Association

The estimated distribution of 600,000 jobs resulting from foreign aid in 1955 is shown in Table 6. A total of 100,000 jobs were in agriculture, 34,000 were in transportation, 13,000 were in trade, 13,000 in services, and the remainder were in industry.

In the industrial fields the largest numbers of jobs were in aircraft (73,000), iron and steel products (66,000), and electrical equipment (31,000). Other important industries were construction, mining and conveying equipment (23,000) and motor vehicles (18,000).

The geographic concentration of foreign aid-induced employment is also of some interest. Table 7 shows the estimated breakdown State by State, insofar as such identification was possible. About 40 percent of the total of 600,000 jobs could not be allocated to specific States. The amounts shown therefore represent the minimum number of jobs in each State resulting from expenditure of foreign aid funds. These estimates were prepared by the National Planning Association. The States with the largest number of jobs were Ohio (40,000), New York (38,000), California (35,000), Illinois (31,000), and Michigan (30,000). There were only seven States in which no employment was specifically attributed to foreign aid programs, but some of the 265,000 jobs that could not be allocated to particular States may have been in these seven States.

Economic Aid Does Not Build Up Injurious Foreign Competition for U.S. Business

It is sometimes claimed that aid to other countries for economic reconstruction, improvement, or development results in greater foreign production which injures American industry through competition in markets abroad and at home. This argument overlooks two important aspects of the process of economic development. One of these is that in the early stages of its development a country needs basic facilities such as roads, railroads, bridges, power plants, schools, hospitals, and a corps of civil service and business administrators and technicians. Helping countries through this stage of development does not involve production which is competitive with U.S. industry. In fact, as shown above, during such a period the U.S. supplies goods and services commensurate with our foreign aid expenditures.

The other aspect of development that is overlooked is that in the later stages, when the basic facilities and industrial plants are producing commodities, most of the output will be needed for many years to raise the standard of living of the underdeveloped country. Also required during this period will be raw and semi-finished and finished manufactured materials and products from developed countries. In other words, developing countries import an increasing volume of goods from developed countries, and even developed countries import more - particularly manufactured goods--as they continue to grow industrially. The United States as the world's leading industrial nation therefore gains from the industrial growth of other countries.

Table 7

Estimated Employment in Each State Attributable to Foreign Aid
Programs in Calendar Year 1955

State	Number of Employees	State	Number of Employees
Alabama	2,872	North Carolina	3,959
Arizona	517	North Dakota	--
Arkansas	324	Ohio	39,767
California	34,882	Oklahoma	1,674
Colorado	235	Oregon	972
Connecticut	9,971	Pennsylvania	34,010
Delaware	--	Rhode Island	2,235
Florida	813	South Carolina	324
Georgia	1,919	South Dakota	--
Idaho	188	Tennessee	1,919
Illinois	30,694	Texas	12,082
Indiana	15,265	Utah	329
Iowa	2,051	Vermont	--
Kansas	4,599	Virginia	3,065
Kentucky	1,664	Washington	4,123
Louisiana	1,045	West Virginia	3,737
Maine	388	Wisconsin	9,111
Maryland	4,244	Wyoming	--
Massachusetts	10,726		
Michigan	30,302	Total allocated by state	333,350
Minnesota	2,320	Total not alloca- ble by state	<u>264,850</u>
Mississippi	3,045		
Missouri	1,764	GRAND TOTAL	<u><u>598,200</u></u>
Montana	376		
Nebraska	35		
Nevada	--		
New Hampshire	248		
New Jersey	17,307		
New Mexico	--		
New York	38,249		

Source: National Planning Association

Comparison of Industrial Growth and Imports

The relationship between industrial growth and imports is well illustrated by the case of Canada (see Table 8.) Between 1900 and 1956 Canadian manufacturing production increased twelvefold and imports increased sevenfold. Growth of imports from the U.S. during this period kept pace with the growth in Canada's total. In the case of manufactured goods an increasing percentage of the total came from the U.S.

As shown in Table 9, similar trends are reflected in European countries. Between the period 1881-85 and 1929 manufacturing production in the United Kingdom increased 60 percent while imports of manufactured goods increased 155 percent. During the same period when German manufacturing production was increased fourfold, imports of manufactured goods doubled. In the post World War II period, between 1950 and 1956, these trends were accelerated.

Brazil illustrates the same tendency for underdeveloped countries, with both industrial production and imports more than doubling in the 17 years between 1938 and 1955.

Industrialization of a country even increases its per capita intake of the products of other countries - a fact which is dramatically illustrated in U.S. export statistics. As shown in Chart 2, U.S. exports per inhabitant of importing countries are much greater for developed countries than for underdeveloped countries. In 1956, for example, U.S. exports to the Netherlands were \$52 per capita compared with less than \$2 per capita for Pakistan and \$18 per capita to the United Kingdom compared with 69 cents for India.

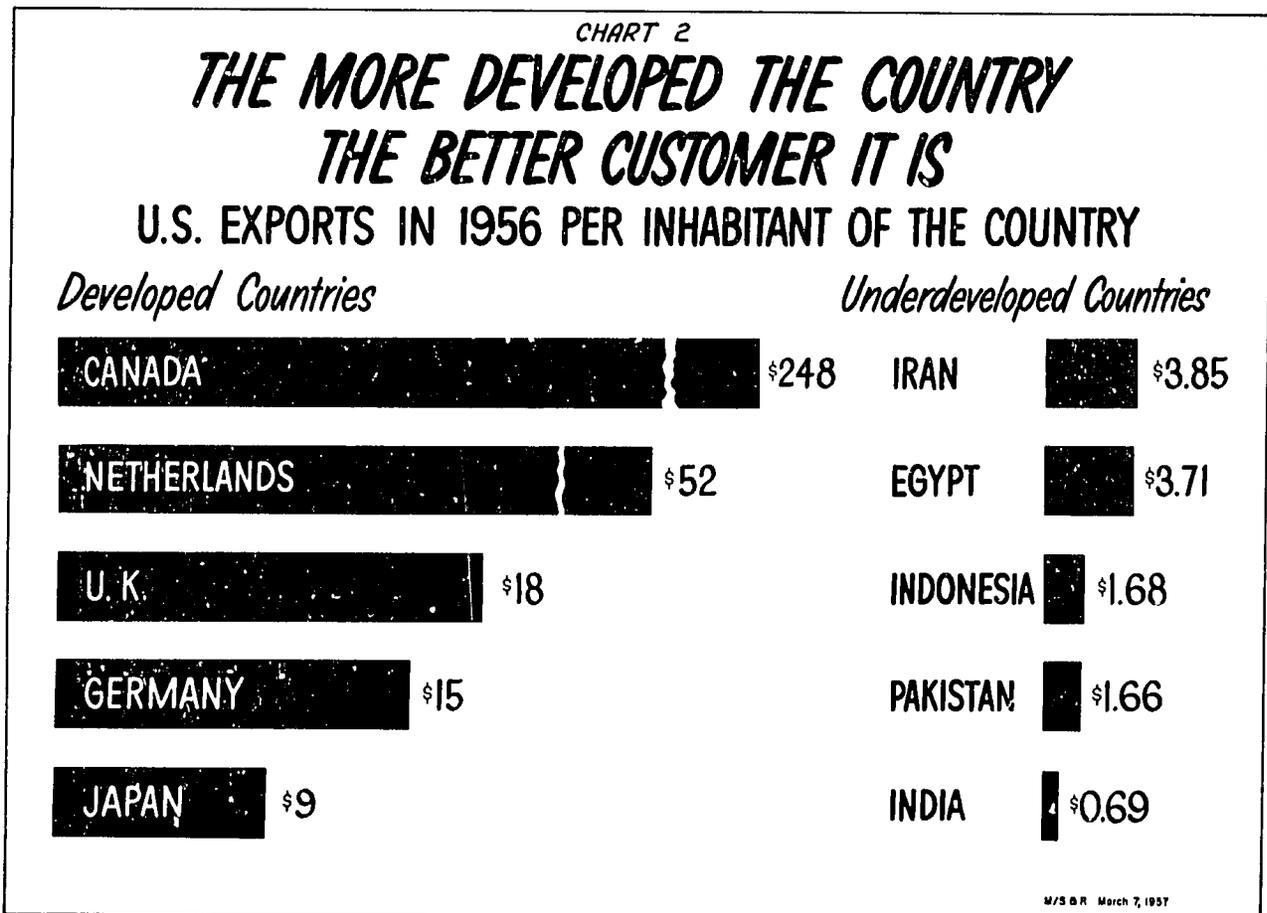


Table 8

Canada, Imports and Production

Period	Quantity Indexes		Imports from U.S.		
	Mfg. Production (1900=100)	Total Imports	Million of Dollars		Percent
			Total	Fully or Chiefly Mfg's	Fully or Chiefly Mfg'd
1900	100	100	\$102	\$57	56%
1910	220	172	218	125	57
1926-30 Av.	398	389	746	472	63
1936-39 Av.	447	251	424	271	64
1950	1,000	425	2,131	1,529	72
1954	1,102	542	2,961	2,463	83
1955	1,184	618	3,452		
1956 (est.)	1,255	723	4,200		

Source: Canada, Bureau of Dominion Statistics

Table 9

European Countries, Imports and Production - Indexes of Quantity

	United Kingdom		Germany	
	Manufacturing Production	Imports of Manu- factured Goods	Manufacturing Production	Imports of Manu- factured Goods
	<u>1881-85=100</u>			
1881-85	100	100	100	100
1896-1900	125	145	217	120
1926-1929	160	255	429	211
	<u>1950=100</u>			
Prewar	75	121	105	55
1950	100	100	100	100
1951	104	127	120	97
1952	100	123	127	139
1953	106	120	141	172
1954	115	130	158	237
1955	122	163	183	339
1956	122 (11 mos.)	162 (9 mos.)	197 (11 Mos)	371 (10 mos.)

Table 10

Brazil, Imports and Production - Indexes of Quantity 1953=100

Year	Industrial Production	Imports
1938	38	48
1951	88	105
1952	94	96
1953	100	100
1954	107	126
1955	112	123

Foreign Aid and U.S. Imports

There is no denying that to some extent the industrialization of other countries will result in greater overseas purchases by U.S. consumers. This has gone hand in hand with the growth of the U.S. economy, but it has not hindered that growth. It means that by importing we exercise our free choice as consumers to buy a variety of products in the cheapest and most specialized markets. In doing this, we make it possible for consumers in other countries to buy the many kinds of American products which they prefer.

Aside from these considerations, aid to free countries has insured a source for U.S. imports of the strategic materials and other raw materials that are essential to the continued rapid growth of U.S. industry. Chart 3 shows the sources of such imports by region and the importance of each area in the total U.S. imports of each commodity. The lower panel of the chart indicates the import percentage of total U.S. annual supply for each of the commodities. Thus in the case of natural rubber our entire supply is imported and 93 percent comes from a few Free-World countries of the Far East. Chrome, which is used as an alloy in steel, is nearly all obtained from Africa and the Far East. Our entire supply of tin is obtained from outside the U.S., chiefly from countries in the Far East. Three quarters of the U.S. needs for bauxite (aluminum ore) must be met from non-U.S. origin, all of the imports being from Latin America.

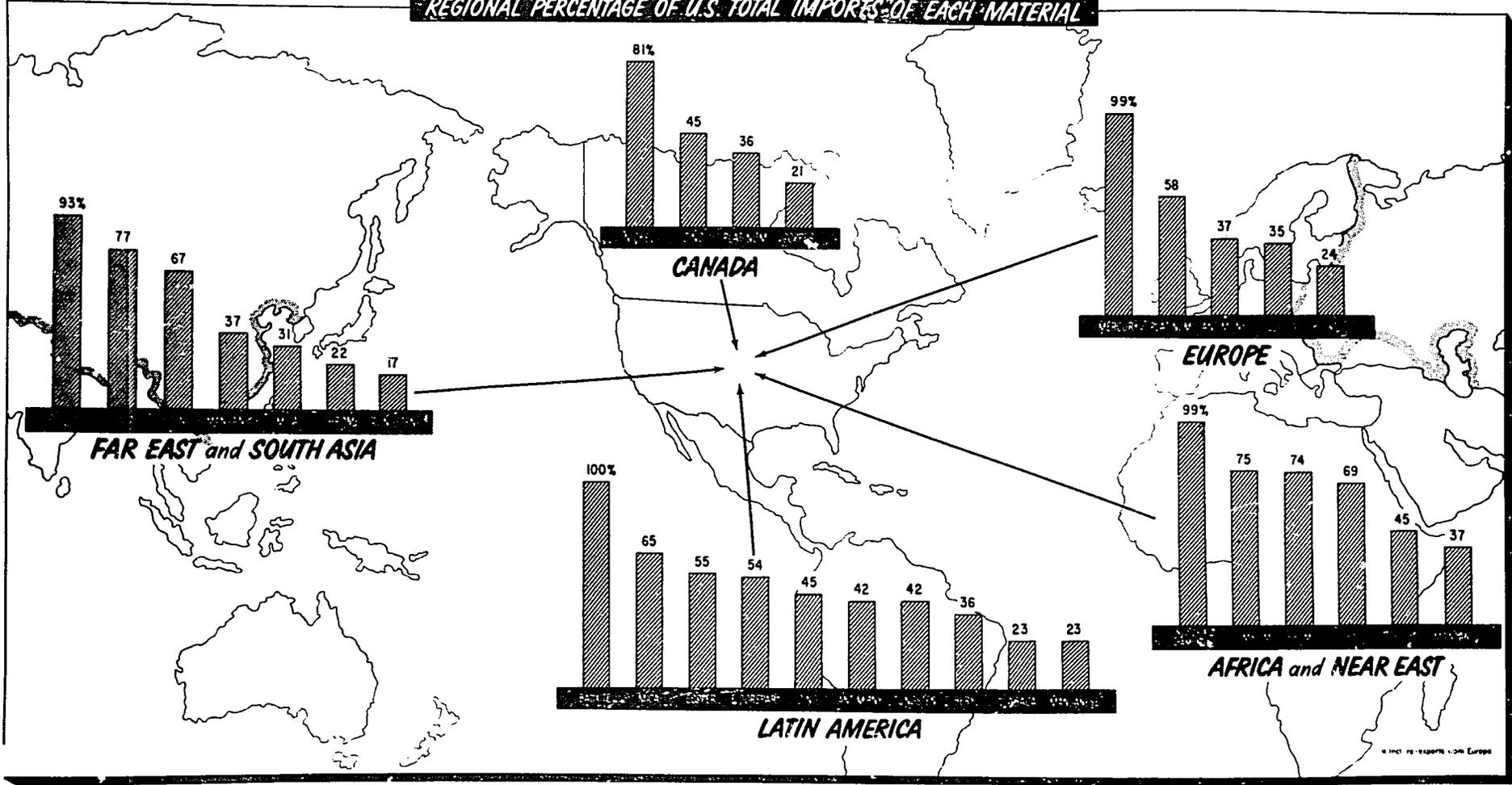
Foreign Aid, Private Enterprise, and Private Investment

Foreign aid helps to provide many of the prerequisites for the birth and growth of private enterprise and investment in the newly independent underdeveloped countries. These requirements are economic and political stability, essential public works, transportation, power and related facilities, and technical knowledge. Without this predevelopment capital, it is extremely difficult for the economy of an underdeveloped country to achieve self-sustaining growth. But when such growth is achieved the country will be in a position to attract private foreign capital and to provide private domestic investment which can take over the longer run development job.

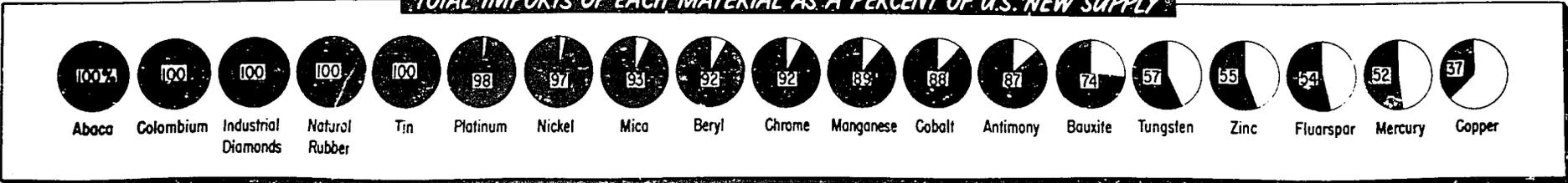
As a means of hastening the reaching of this goal, the Mutual Security Program has included an investment guarantee program by which the U. S. government, for a fee, insures U. S. private investors against loss from inconvertibility of foreign currency receipts and loss through expropriation or confiscation.

U.S. STRATEGIC MATERIAL IMPORTS

REGIONAL PERCENTAGE OF U.S. TOTAL IMPORTS OF EACH MATERIAL



TOTAL IMPORTS OF EACH MATERIAL AS A PERCENT OF U.S. NEW SUPPLY



9/ New supply equals production plus imports.
NOTE: Based on preliminary quantity data for 1955.