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A Short History of the U.S. Aid
Program: The development of
key aid concepts

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I. CHRONOLOGY

The history of foreign assistance is the history of the vigorous and generous American response to the national security and welfare of this nation.

The Lend Lease Act of March 11, 1941 was this country's response to the threat which a possible Axis success in Europe would constitute to the security of this country. The \$2.67 billion of aid which the U.S. provided through the United Nations Relief and Rehabilitation Administration on the basis of the agreement of November 9, 1943 is both an expression of American concern for the hunger, misery and disease which engulfed the population of the various countries formerly occupied by the Axis powers and the concern for a rehabilitation of the war-shattered economies.

The danger of a Communist take-over of Greece and Turkey and Soviet domination by internal subversion of many other European nations could not be considered with equanimity by the United States. Within a few days after the U.S. Government had been notified that the United Kingdom was no longer able to provide assistance to Greece and Turkey (Feb. 24, 1947), President Truman declared before a joint session of Congress on March 12, 1947 that the U.S. national security was involved and that "it must be the foreign policy of the U.S. to support free people who are resisting attempted subjugation by armed ... minorities or by outside pressures". The ensuing Greek/Turkish aid bill merged into

the European Recovery Program. This unique major effort represented this country's response to Europe's failure to recover (expressed in a steady deterioration of her economies) which offered the prospect of further Communist encroachment of the continent of Europe. Secretary of State Marshall's Harvard address of June 5, 1947 culminated in the Economic Cooperation Act of 1948. The economic and political disorganization in China generated the China Aid Act of 1948; both forming part of the Foreign Assistance Act of 1948. The Berlin Blockade of April 1, 1948, preceded just by one day the Congressional approval of the Economic Cooperation Act and the creation of the Economic Cooperation Administration. One year later on April 4, 1949 this country's efforts succeeded in the signing of the North Atlantic Treaty. NATO required an immediate build-up of the NATO forces. To this end, the President sought and received Congressional approval for the Mutual Defense Assistance Act of October 28, 1949. The circle had been completed. Starting with military aid in time of war, over relief, rehabilitation and recovery, the Western World was now compelled to rearm. On June 25, 1950, American security was most seriously threatened by the outbreak of the Korean war. Direct military aid had to be provided to the afflicted area. NATO's military build-up had to be speeded up. Although economic aid under the Marshall Plan was scheduled to be terminated on June 30, 1951, and some countries had sufficiently recovered to forego further assistance earlier (England and Ireland), economic recovery had not proceeded to the same extent in the rest of Europe. The burden of military expenditures on those countries required

both military and economic assistance. To this end Congress passed the Mutual Security Act of 1951.

A totally new type of challenge had arisen in that part of the less developed world which had not been immediately affected by the Cold War. A desire to free the nations from the shackles of a traditional and stagnant economy/and to gain a better life for their citizens had led to repeated demands for American know-how and capital aid. The latter was provided to some extent by the World Bank, the EX-IM Bank and private capital. "A bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of under-developed areas", was President Truman's response to the former in Point IV of his statement on U.S. foreign policy in his second Inaugural Address of January 20, 1949. In short order, Congress passed on June 1, 1950, the Act for International Development authorizing the formation of the Technical Cooperation Administration. The Foreign Operations Administration, erected two years later (August 1, 1953) combined the military and economic program of the Mutual Security Act as well as the Technical Assistance activities of the TCA. This concentration of several foreign aid activities continued in FOA's successor, the International Cooperation Administration, a semi-autonomous unit of the Department of State which guided the fate of the foreign aid effort until the creation of the Agency for International Development. The as-a-whole successful containment of overt Soviet and CHICOM aggression permitted this country to respond more forcefully to the continuous clamour of the less developed countries

for increased capital aid. The result was the formation of the Development Loan Fund in 1957 which the Foreign Assistance Act of 1961 merged in the Agency for International Development.

The special relationship between this country and Latin America had been recognized over the years in a variety of legislative and administrative measures. They were found, however, to be inadequate to meet the demands of this hemisphere for U.S. assistance towards accelerated growth. Communist attempts to capitalize on the social unrest pervading many Latin American countries had to be taken seriously. The installation of a Communist regime 90 miles from the tip of Florida served as a grim warning to those who had not given sufficient attention to ^{the} ability of the Communists to take advantage of widespread discontent with continued economic stagnation, and maldistribution of income and wealth which characterizes many parts of this area. Again, this country's response combined vigor with generosity. PL 86-753 of September 8, 1960 provided for \$500 million for the economic and social development of Latin America and the rehabilitation of the damages which a disastrous earthquake had left in Chile. The Act of Bogota, of September 13, 1960 spelled out the various measures for social improvement and economic development which the majority of the 21 Latin American Republics considered necessary to improve the standard of living and thereby internal peace of Latin America. Specifically, the "Act" dealt with improvement of rural living conditions, of land use, farm credits, and land tenure; of the educational systems and training facilities; of public health; reform of tax laws and administra-

tion; sound monetary policies and economic integration. As one of his first acts of state, President Kennedy declared this country's willingness to participate with others in the accelerated economic development of Latin America through the Alliance for Progress. The principles governing this new large-scale joint effort were agreed upon in the Charter of Punta del Este, August 5 - 17, 1961. The principles governing American assistance established there, widened to all economic development assistance efforts of this country, were enshrined in the Foreign Assistance Act of 1961.

II. MAJOR TRENDS

By the end of FY 1962 this country had spent \$97.8 billion on post-war relief, Marshall Plan, Point IV, Mutual Security Economic Aid, Development Lending, Military Assistance, and on long-term loans through the EX-IM Bank. In the post-war period, economic aid had amounted to \$66.8 billion; military aid to \$31.0 billion.

<u>Table 1.</u>		
<u>Major Types of Foreign Aid 1946-1962 (\$ Billions)</u>		<u>Cumulative thru 1962.</u>
A.	1) Post-war Relief and Rehabilitation (UNRRA, Civilian Supplies, British and French loans, etc.	16.5
	2) Marshall Plan	13.4
	3) Mutual Security Economic Aid	15.2
	4) Military Assistance	31.0
	5) Point IV and Technical Cooperation	1.7
	6) Export-Import Long-Term Loans	7.7
	7) Development Lending	3.1
	8) Agricultural Surplus (all titles)	8.6
	9) Alliance for Progress	.6
	Total Post-War Aid	<u>97.8</u>
B.	Economic Aid	66.8
	Military Aid	<u>31.0</u>
		97.8

More than 20 years of experience had been gained in refining the purposes, the form, the terms, and conditions of aid. Certain trends can be traced, which in turn affected the concepts embodied in the Foreign Assistance Act of 1961 and the current administration and operation of foreign assistance through A.I.D.

A. Change in Purposes

War time aid including Lend Lease had the advantage of offering a clear-cut purpose. After the repeal of the Neutrality Act, the provision of war materiel to our later Allies represented an easily understandable goal directly related to the national security of this nation. After the U.S. entry into the War, American aid to the Allied powers, offset in part by their aid to the United States, formed part and parcel of the joint war effort for national survival. Once the war was won, the rapid restoration of the war-devastated liberated countries and to some extent also, of the occupied countries, were of concern to this country's political and economic goals. The foodstuffs, textiles, and other consumption goods to feed, clothe and shelter the population, and the masses of displaced persons in the liberated countries were to be administered by an international agency -- UNRRA. In the occupied countries under American Military Government a program of Government and Relief in Occupied Areas (GARIOA) was to provide "such minimum supplies for the civilian populations ... as may be essential to prevent starvation, disease and unrest". The purpose of these large-scale aid actions was quite clearly determined. As soon as attention turned towards the rehabilitation of the economy, a second

dimension was added. To facilitate the reconstruction of some basic productive facilities, producer goods had to be added to the consumer goods which this country provided abroad. UNRRA, post-UNRRA assistance, the Civilian Supply Program of the War Department, operating in Europe and the Far East, never satisfactorily faced up to the complicated problems of a multi-purpose aid program. Greek-Turkish aid for the first time added a large third dimension -- military assistance -- to the list of aid goals and determinants. When the military danger in Greece and Turkey subsided, i.e., in the short period between 1948 and 1950, Marshall Plan aid was able to revert to a single purpose program, the restoration of the economic activities of those 16 European nations which had joined in the Organization for European Economic Coordination (OEEC) to pre-war levels by assisting each recipient country to meet its need for dollar exchange. Specifically, it aimed at "a strong production effort by each of the participating countries, especially in agriculture, fuel and power, transport and the modernization of equipment"; the "creation and maintenance of internal financial stability" and a solution of the deficit with the American continent. The advent of the Mutual Defense Assistance Act and its incorporation in the Mutual Security Program produced again the multiplicity of purposes which led to such complexities as to bewilder the administration, the legislative, the public and the recipient countries. The close inter-relationship between a country's military and economic reconstruction effort, the necessity to assist the latter in order to assure the former, the mutual inter-action

of the military and the civilian sector, defied a clean-cut delineation of the various aid categories. "Defense Support", originally designed to assist a country to carry a greater military burden than its own resources could support at the time, became in many cases because of the substitutability of funds, the source for economic investments used for improved production facilities. "Development Assistance" and "Special Assistance" were used in some instances for the financing of military purposes.

To some extent military and economic aid goals contradicted each other; economic considerations had to give way to military requirements. Political short-term needs assumed priority over long-term economic recovery measures. The resulting compromises left all parties dissatisfied who had not fully succeeded in gaining approval for their concerns. The Act for International Development of 1950 introduced still another aid objective. It opened with a Congressional finding "that the peoples of the U.S. and other nations have a common interest in the freedom and in the economic and social progress of all peoples". This seemed to many an endless task, requiring an amorphous arsenal of weapons. When, therefore, the Mutual Security Act of 1951 and 1954 combined all the various assistance programs, except for capital lending through EX-IM Bank and later on after 1957, through the Development Loan Fund, the related, but still competing, multiple purposes of our foreign assistance effort interacted occasionally to produce somewhat bewildering effects.

The Foreign Assistance Act of 1961 achieved a clarification of purposes. Part 1, "Act for International Development of 1961", states as the policy of the United States "to strengthen friendly foreign countries by encouraging the development of their free economic institutions and productive capabilities ... ". Part 2 -- "The International Peace and Security Act of 1961" seeks to promote peace and security of the U.S. by the support of "the common defense against internal and external aggression including the furnishing of military assistance upon request to friendly countries and international organizations".

The main purpose of the "Act for International Development for 1961" derives from the awareness that the economic and social development of the developing countries is essential for the long-term security of the United States. The purpose is clearly stated as the promotion of the economic development of friendly nations. Under the influence of the "Act of Bogota", "social development" is recognized as one additional dimension of the development process and hence as one additional aid purpose in Section 102, para. 6, 201 (b), 211 (a) and Section 251 (b). These aid objectives are to be achieved through development loans, and development grants (technical assistance). In those cases which cannot meet the development criteria but are deemed essential for the promotion of economic and political stability, "supporting assistance" and the Presidential "Contingency Fund" can be resorted to.

B. The Military Assistance Program also underwent significant changes in the experience of the Department of Defense and the various

foreign aid agencies administering it. The Republic of the Philippines Military Assistance Act of 1946 had introduced the principle of military aid (training, equipment) in conjunction with the 99-year lease of 23 bases from a friendly nation. The Greek-Turkish Aid program, the China Aid Act, ^{the experience gained in} the intermittant crises in Iran and Taiwan and the Mutual Defense Assistance Act of 1949 (later embodied in the Mutual Security Act of 1951) had paved the way for the delivery of military end-items to the armed forces of the Republic of Korea and the means of strengthening our military alliances, NATO, SEATO and CENTO.

Europe was to be equipped to increase its own production of military items, and was to receive direct transfer of military equipment; ^{and} expert help in its production, maintenance and training. From "arms, ammunition and other end-items of warfare" the program moved towards the direction of joint facilities as airfields, naval bases, air warning systems, petroleum pipelines, communication net works and other items of "infrastructure". After the Korean Armistice, the events in Indochina, Taiwan and others highlighted again the need for direct military assistance. At the same time it became clear that the nations of the West required U.S. assistance to be prepared for any future military adventures of the Soviet Bloc. Special programs such as the offshore procurement, the facilities assistance program, the mutual weapons development program, were designed to equip the Allied powers with the necessary military production capabilities, maintenance installations and the many new weapons systems which had significantly changed human and capital defense requirements. With

the economic recovery of Europe largely accomplished, U.S. assistance to this area could be limited to technical advice, and coordination and maintenance of the NATO complex. As a consequence the total amounts devoted to military assistance decreased substantially over the years and the distribution of U.S. military aid shifted from primary emphasis on Europe to the Far and Near East. Military assistance from all sources from 1946 to 1962 amounts to \$31,059.5 million. As can be seen from the tables following this chapter, the annual net deliveries reached a height of \$4,272.5 billion in 1953; slowly descended to \$2,160.5 billion in 1959 and have since been reduced to a \$1.5 billion level in recent years. In 1952 Europe received 69%, and the Near East and South Asia 11%, the Far East 13.7%, / non-regional purposes 6.3%, Africa and Latin America received negligible amounts not even totalling 1% of military aid. As late as 1960 Europe received still 38% of the total military assistance allocation. In that year, the Far East received the same percentage, 38%; NESAs, 16%; LA, 3%; Africa 1%; the remaining 4% represented by non-regional expenditures. In FY 1963 the picture has been substantially changed. Europe's percentage had dropped from 69% in 1952, and 38% in 1960, to 18%. The Far East percentage increased to 48% and NESAs received 24%. The percentage participation of LA and AF, largely restricted to the securing and maintaining of military bases, remained at approximately the same level as in 1960. New programs were designed to emphasize

the close correlation between the maintenance of internal peace and security and the success of an externally assisted economic development effort. To this end, the program in the less developed areas was devoted to the strengthening of the internal security forces, to counter-insurgency training and to the use of military forces in economic development projects through an expanded civic affairs program. With this new emphasis, the number of recipient countries affected by the military assistance program sharply increased from 14 in 1950 to 69 in 1963. The Foreign Assistance Act of 1961 limits the authorized level of military assistance to \$1,700 billion for each fiscal year (Sec. 504(a)), a considerable reduction from the rate of military assistance expenditures in the middle fifties indicating thereby (a) the fulfillment of conventional weapon goals in some countries; (b) a greater contribution by other nations; (c) a relatively low level of open hostility; and (d) a greater emphasis on programs of economic development to counter Communist imperialism.

C. Economic Assistance Issues.

1. U.S. concern with the threat which the disruption of economic activities caused by war could represent for the national security and economic welfare of this country started very early in World War II. The 1944 Bretton Woods Conference attempted to provide through the IMF and the IBRD, two international mechanisms, the facilities to deal with Europe's capital needs and foreign exchange requirements. These two institutions could not cope with the immense problems. Due to the weakness of the other economies of the Western World, at that time, the U.S. emerged as the only realistic source of foreign assistance. Not discouraged, the U.S. continued to play a major role in the economic assistance activities of the United Nations. The U.S. was instrumental in founding UNICEF (1946), UNRWA (Palestine Refugees) and UNEPTA (Expanded Technical Assistance Program) both in 1949, UNKRA in 1950 and the UN Special Fund in 1957. EPTA and Special Fund received significant U.S. support, \$153 and 45 million respectively. Both organizations have made a substantial contribution to the economic development of the less developed countries. In addition to shouldering the major financial burden of these two UN instrumentalities the U.S. foreign aid program carried the major burden of Western economic assistance through bi-lateral agreements.

With the arrival of EPTA, the UN Special Fund, EEC, as well as the stepped up aid efforts of other Western Nations, the problem of coordination, or at least that of avoiding duplication of efforts arose. An increased IBRD, IFC and IDA role, and the entry of the Development Assistance Committee of OECD on the scene, both

leading to aid consortia accentuated further this need. After many years of uneasy experimentation the Foreign Assistance Act of 1961 a) reaffirmed Congressional belief in these instruments of mutual assistance (Sec. 102 to 8), b) expressed the hope that all other countries able to contribute join in a common undertaking to meet the goals of the Act (Sec. 102 to 9) and charged the executive with the obligation to take the availability of other free world sources of funds on reasonable terms into account in making development loans (Sec. 201(b)). In addition the 1961 law permitted use of U.S. funds in the Indus Basin development case "by or under the supervision" of the IBRD (Sec. 303), favored multilateral assistance to newly-independent countries (Sec. 619) and authorized loans of U.S. funds to IDA (Sec. 205).

2. The Marshall Plan, the most important of the earlier bilateral economic assistance efforts of this country, established a number of principles which significantly influenced all later economic assistance efforts:

The European Cooperation Act expected to reach its goal, the restoration of production and trade to pre-war levels within a 4-year period. ERP assistance was designed to overcome the one major bottleneck which the 16 European nations were unable to overcome either alone or in concert, i.e. to meet the shortage of dollar funds. The cost of the program could therefore be estimated in advance; the time period determined by law and the means of reaching the desired goal of restoring the pre-war level of economic activities clearly determined.

Similarly, some of the military assistance objectives, i.e. the goal of establishing and equipping NATO forces to a generally

agreed and pre-determined goal strength was equally measurable in time, magnitude, and method. This has to be contrasted with the task confronting the nation under the Act for International Development of 1950 which declared it to be the "policy of the U.S. to aid the efforts of peoples of economically underdeveloped areas, to develop their resources and to improve their working and living conditions by encouraging the exchange of technical knowledge and skills and the flow of investment capital" to the less developed countries (Sec 403). Here was no time limit, no estimate of the necessary cost and a somewhat arbitrary restriction on the means to be used for the avowed purpose of associating the U.S. with the accelerated growth of the less developed areas. The TCA was established to provide primarily one of the means of furthering the economic development of the developing countries: technical assistance with capital aid restricted to demonstration projects. As far as the provision of substantial capital was concerned it was left to private sources of investment and the lending activities of the EX-IM Bank and the IBRD. A modest program of investment guarantees was supposed to encourage private investment abroad. As U.S. concern with the threat of Communist infiltration and economic offensive directed towards the less developed world increased, so increased experience and knowledge of the development process. It soon became clear that although no time or other external input limits could be firmly established ex-ante as to when and after what aid efforts the less developed countries would achieve an agreed development aim, it was possible to measure the time and the magnitude of external assistance needed to reach the turning point when self sustaining

growth was likely to commence. A major injection of economic assistance in the decade of the sixties could be expected to substantially reduce tension and satisfy the peak demand for external assistance in most of the less developed countries and permit some of the most important countries from the U.S. security viewpoint to enter the Rostowian take-off stage. Once, both time and magnitude of the external assistance effort could be determined a basis for a rational allotment of funds over time through the Foreign Assistance Act of 1961 was created.

The various shifts in emphasis of major economic aid objectives which characterized the U.S. foreign aid program was clearly expressed in the change of magnitudes of aid allocated to the various regions. Based upon economic assistance figures portrayed in the statistical tables following this chapter the following change of regional percentage participation in economic assistance emerges:

Table 2

Regional Percentage Distribution of Total U.S. Bilateral Economic Aid				
	1949	1950	1960	1962
Europe	77.3	74.8	9.3	5
FE	15.2	13.5	21.3	14
NESA	4.2	5.6	46.3	41
LA	.85	3.8	11.2	25
AF	.05	---	6.2	9
Non-Regional	2.4	2.3	5.7	6

These ratios reveal clearly the Marshall Aid assisted recovery of Europe, which obviated massive U.S. aid after 1955, the growing U.S.

concern with the economic development of the less developed areas, and therein the relatively steep increase of the Alliance for Progress and the African programs. The India and Pakistan assistance explain the high relative NESAs percentage share.

In absolute terms economic aid underwent, as indicated in the charts following this historical account, sharp variations. The trend is, however, definitely downward. This becomes especially marked if expressed in fractions of U.S. GNP. The 3.8 billion Marshall Plan level represented 1.25% of GNP. From 1956 to date the entire foreign assistance effort (economic and military combined) hovered around the 1/2% of GNP mark, while a number of European nations, including France and UK maintained a consistent 1% level, favored by the UN.

3. The Marshall Plan found a politically acceptable and effective means of solving the allocation problem of external assistance among the 16 European nations by encouraging them to establish individual plans of national actions to be submitted to the collective scrutiny of all other European aid recipients joined in the OEEC. In this way the Marshall Plan saved the U.S. from the embarrassment of having to react negatively to ill-conceived or overly-ambitious aid demands from any given nation; it forced the nation to replace shopping lists by integrated economic plans and to engage vigorously -- again under the control of their peers -- in all those necessary national and intra-European measures and economic policies which were needed to restore Western Europe's economies at the earliest possible time to its pre-war level. The military assistance program also benefitted from economic planning, self-help, and self-imposed control by other

aid recipients and adjusted them to its own needs within the NATO mechanism. The Act for International Development for 1950 limited U.S. technical assistance to those countries which provide conditions under which such technical assistance and capacity "can effectively and constructively contribute to raising standards of living, create new sources of wealth, increasing productivity and expanding purchasing power". U.S. assistance was to be governed by the judgment that it "was reasonably designed to contribute to the challenge of integrated development of the country or area concerned"; that "any works or facilities which may be projected are actually needed in view of similar facilities existing in the area and are otherwise economically sound" and that capital was not available elsewhere on "reasonable terms and in sufficient amounts to finance such projects". (Sec. 403(b)). However, the Act left the question of allocation to the judgment of TCA and provided only very general and somewhat inadequate guidelines.

It was therefore understandable that in spite of some attempts to introduce "country programming", technical assistance projects were carried out that did not fit any conceivable priority schemes and that neither aid donor nor recipient felt compelled to rank aid demands in any rational order. This failure did not permit the U.S. government to influence the course of economic development in the countries aided.

When the Development Loan Fund was established to provide needed capital for economic development, in realization of the fact that neither private capital, nor EX-IM or the World Bank could be relied upon to meet this need adequately, it was also confronted with the

question of allocation of loan funds among various claims. Faced with a large number of loan applications it could escape the hard priority choices by honoring only the "most urgent", and/or best prepared loan applications on a "target of opportunity" basis, a procedure which involved some inaccurate judgment of intra-country priorities, but no guide for inter-country ranking of needs.

The Foreign Assistance Act of 1961 drew the lessons from the shortcomings which beset both Technical Assistance and Development Loan Fund operations. It turned to the principle of integrated national planning (Sec. 102, para. 6 and 202 (b)) as a means of mobilizing the national resources of the developing country. It introduced the principle of self-help requiring the assisted country to take all necessary steps for creating the necessary conditions for autonomous growth as a pre-condition of external aid (Sec. 102, para. 6, and 201 (b)), and it encouraged regional organizations, as for instance, the Organization of American States to exercise an assisting, a controlling, and -- possibly in the future -- an allocating function.

4. Marshall Plan Aid, in spite of providing \$13.4 billion to the affected countries, never contributed more than a fraction of the total capital investment made by the community of European countries. The major task of reconstruction, as that of all accelerated economic growth, was left to the country's own ability and willingness to move ahead. The strategic importance of the American contribution, was however such as to provide the U.S. with substantial influence over the course of the joint economic reconstruction program. Liberalization of intra-European trade, Stabilization of European currencies,

Establishment of the Steel and Coal Community, and of the Common Market and other aspects of European integration were joint American and European economic objectives which could not have been achieved without the persuasive force of Marshall Plan aid. The allocation of ERP funds could be made dependent upon the performance of a country. The mere threat of reduced aid would suffice to prevent actions which endangered the allied posture in a way which was likely to affect adversely the U.S. national security. Neither TCA nor DLF assistance, both project oriented, and of relatively moderate size and strategic importance were often in a position of affecting the basic attitudes of the less developed countries. The Foreign Assistance Act of 1961 re-equipped the U.S. government with the possibility of contributing to the achievement of mutually agreed foreign policy objectives through carefully devised aid strategy. To maximize the effectiveness of economic assistance AID found it desirable to concentrate foreign aid in those countries which of themselves are of strategic importance to U.S. national security and prove their ability and disciplined desire to develop. This made it necessary to choose among the growing number of aid claimants. As can be seen from Table 3 their number more than doubled from 42 in 1950 to 95 in 1962.

Table 3

Number of aid recipient countries		
	1950	1962
Europe	12	10
Far East	6	12
NESA	6	16
LA	17	24
AFE	<u>1</u>	<u>33</u>
	42	95

Fourteen countries out of more than 95 aid recipients will receive two-thirds of all development funds in FY 1964. Furthermore, concentration applies to the contents of any specific country program. The total U.S. foreign aid effort and the efforts of international agencies upon which the U.S. has some influence focusses increasingly on a few (strategic) key sectors in the economic development process, instead of being scattered on a great number of aid projects in the interest of "balanced development".

5. Furthermore whenever a country proves capable of fully utilizing external assistance, aid does not have to be linked only to specific and as a rule unrelated projects but can be offered in support of a mutually agreed economic development course of action. Such aid emphasizes the basic congruence of U.S. security goals with the development concern of the less developed countries, removes points of friction, creates good-will for the U. S., and ultimately lessens the time period and magnitude of U.S. aid. This very procedure reduced Marshall Aid estimated to amount to \$19 billion by one third. Mutual involvement

in a common enterprise, i.e. the economic development of a country important to U.S. interests requires basing U.S. assistance on a careful analysis of the national economy of the country to be aided, and a joint determination of the optimal course of economic development. Since development is only possible over longer time spans - most plans are made for a 5 or 10 year period - some assurance as to the availability of external aid over the planning period, i.e. beyond the usual fiscal year is needed. The Foreign Assistance Act of 1961 provided in Sec. 202 (b) A.I.D. with the authority to commit development loans funds subject to Congressional appropriations five years ahead. It recognized the necessity for long-range continuity for foreign aid (Sec. 102, para. 6) and the need for long-range development assistance as the primary instrument of economic growth (Sec. 102, para. 7). Chapter 2 Title I (Development Loan Fund) of the Act for International Development of 1961 recognizes also specifically, the need to realize "long-range objectives", and to establish orderly and effectively executed "long-term plans and programs of development assistance". The Legislative History of the FAA 1961 bears witness as to a clear Congressional understanding of the fact that the economic development of the friendly countries the U.S. deems desirable to assist will remain a U.S. concern for the full decade. This was a much needed departure from the unrealistic expectations expressed in Sec. 530 of the Mutual Security Act of 1953, which - wrongly - expected that economic and military aid could be terminated within a 24- and 36-months period respectively without harmful effect on the U.S. national security position, a misjudgment which the Mutual Security Act of 1954 corrected.

6. One of the great innovations of Marshall Plan aid was the utilization of private channels to provide European and other parts of the world with the commodities which were desperately needed and which only the U.S. could supply at the time. Under the influence of the lessons learned in World War I where aid had been extended to our Allies in the form of interest-bearing loans which resulted in such severe transfer problems that following the Hoover Moratorium of 1931, \$11 billion worth of credits had to be cancelled, the U.S. Government refrained from the use of the loan device in the Lend Lease Program, in UNRRA and also in general in the Marshall Plan. Most of the Marshall Plan aid took the form of grants so as not to "burden the commerce". The same remained true for military and economic aid extended under the Mutual Security Acts of 1951 and 1954. Since many of the dollar loans extended by the DLF were repayable in local currency they could be considered to be on the borderline between a soft loan and a grant as far as the ultimate effect on lending and receiving countries were concerned. The actual experience with Marshall Plan aid showed, however, that the ability of the European countries to repay some of the funds made available to them under ERP had been underestimated. It was, therefore, possible for the Foreign Assistance Act of 1961 to restore the principle of repayment in dollars for loans to be extended to the less developed countries. To soften the impact, however, the terms and conditions of the loan (up to 40 years, 10 year grace period, 3/4% interest, etc.) were established on such a generous scale that the likelihood of serious transfer problems to arise in the future seems adequately safeguarded.

7. External assistance, be it through bilateral or multi-lateral channels, is always limited by the donor country's resources and the specific economic conditions prevailing at the time of enactment. In 1948, when the Economic Cooperation Administration was under debate, this country was still suffering from physical shortages. Certain raw materials were in short supply as for instance oil, others were in over-supply such as certain agricultural products. As a consequence, ECA was under an obligation to furnish Europe with off-shore petroleum imports and to promote on the other hand the European use of American wheat flour. In 1961, the U.S. was no longer concerned with a domestic oil shortage, was still plagued by a surplus of agricultural and other commodities, but had incurred a new problem -- a constant deficit in the Balance of Payments which led to the loss of gold reserves. To meet this situation A.I.D's procurement policy had to shift from worldwide to preponderant U.S. procurement. New ways of utilizing agricultural and other surpluses in the furthering of economic development of the less developed countries had been found, as for instance their use in public works programs. The Agricultural Trade and Development Assistance Act of 1954 had been adjusted to make these surpluses more effective tools in pursuing the ends of the foreign assistance program. The possibility of using local currency funds resulting from the sale of PL 480 commodities, for economic development loans added another instrument to the foreign aid effort. The Peace Corps - in addition to its other specific objectives - now also contributes, in some cases in cooperation with AID programs, to the economic development. The Peace Corps offers only one aspect of another

trend which pervades the development of the foreign aid program, i.e. the growing awareness of the human factor, as an agent in the development process. Shortages of human resources are being recognized as of equal importance to that of capital as strategic bottlenecks which require special external aid measures.

The ability of the Western industrial nations in Europe and Asia (Japan) to accept an increasing part of the collective responsibility for the economic development of the less developed countries had improved. As indicated above, the Foreign Assistance Act of 1961 takes full advantage of the possibility of a joint U.S. effort with those of like-minded nations and those of the UN agencies (IBRD, IMF) through such devices as consortia and coordinated action through DAC/OECD. Coordination of the various aid instrumentalities and of the various tools at the disposition of the U.S. has, hence required an increasing importance in AID administration.

8. Throughout the history of the foreign aid programs, individual countries or regions received specific attention either through separate laws, through specific provisions in the various acts, or through the setting up of specific funds by the executive. It perhaps suffices to refer to the China Aid Act of 1948, the China Area Act of 1950, the Famine Relief Act of 1953, the Pakistan Wheat Act of 1953, the Assistance to Greece and Turkey, the attention paid to the Philippines, to India, and to such administrative devices as the Asian Development Fund, the Richards Mission to the Middle East, the special assistance to the countries south of the Sahara, to emphasize this point. A particular case in point, represent the

constant demands for regional funds and development banks. Nowhere has the pressure for preferred treatment been as marked as in the case of Latin America.

Common origin, and culture, economic and intellectual interaction have always directed the attention of the U.S. towards Europe; long historical association and Soviet and Communist China policy necessitate concern for the Orient, but stronger than both proved geographic propinquity, recent history and economic interdependence, which link the nations south of the Rio Grande to this country. For more than 50 years, churches and religious agencies have been sending missionaries to Latin America; U.S. industrial firms have transferred technology on a large scale to that area; universities and private foundations have facilitated the development of higher education in Latin America and provided opportunities for study over here and individual scientists and engineers served as private foreign advisors. Organized governmental efforts to assist the economic development of the area are of relatively recent origin. They can be dated back to the Interdepartmental Committee on Science and Cultural Cooperation established by President Roosevelt in 1939. PL 63 of May 3, 1939 authorized the government to detail "for temporary service not exceeding one year" any government employee to give advice and assistance on request to the government of any American nation. With the outbreak of the war, Latin America achieved renewed importance as a source of strategic materials for the military buildup. It became apparent that Latin American production depended upon the existence of a minimum of decent and healthy living conditions for the workers. In 1940 Nelson Rockefeller

was appointed as the first Coordinator of Inter-American Affairs. An attack on three major weaknesses of Latin American production and labor force performance seemed immediately in order: improvement of agricultural production, improved public health and sanitation to control contagious diseases and better elementary education. Out of the two Delaware Corporations, the Inter-American Education Foundation and the Institute of Inter-American Public Health and Agriculture which Rockefeller established in 1942 developed the Institute of Inter-American Affairs which until the creation of TCA, into which it was merged, spear-headed technical assistance programs in these three fields in Latin America. In the later years of TCA operations, and continuing into the operations of FOA and ICA, other technical assistance services such as Industrial Productivity, Public Administration and Labor were added.

As stated earlier, the Act for International Development of 1950, and the Mutual Security Acts of 1951 and 1954 limited the provision of capital funds to demonstration purposes. This applied of course also to Latin America. Consequently capital supply to this region was also left to private initiative, the EX-IM Bank, the World Bank and the DLF. Since the volume of private and public capital entering Latin America, impressive as it was, did not meet the requirements and the expectations of Latin America, Inter-American conference after conference passed resolutions requesting a greater U.S. Government aid effort to meet the need for more funds at easier terms and conditions. These requests were finally honored by the creation of the Inter-American Development Bank, PL 86-147, August 7, 1959.

A natural disaster -- the Chilean earthquake -- and a general recognition of the need to alleviate the plight of the low income receiving groups in Latin America, combined in the authorization of \$500 million for the development of "cooperative programs ... to foster economic progress and improvements in the welfare and level of living of all the peoples in the American Republics ..." in the Latin American Assistance Act of September 8, 1960. \$100 million were reserved for the rehabilitation of the devastated areas in Chile, \$394 million were turned over by the U.S. Government as a social progress trust fund to the Inter-American Development Bank on June 19, 1961. The remaining \$6 million were earmarked for a revitalized OAS.

The ensuing events, the Act of Bogota, the creation of the Alliance for Progress, and the Charter of Punta del Este have been described above. The new aid concepts arrived there, the emphasis on long term planned development, predominantly carried out by the countries themselves, conditioning of massive aid upon the countries' willingness and ability to mobilize their own resources and their responsiveness to the vital economic and political and social concerns of their people through effective self-help measures, set the tone for the Act of International Development of 1961 and the total aid program which benefitted from the greater insight in the respective responsibilities of aid donors and aid recipients developed by the Alliance. It also accepted the Alliance's discovery of a new base for a more rational allocation, timing and determination of U.S. assistance.

9. Finally, the entry of the Soviet bloc in the foreign aid arena has caused the U.S. aid program to review its attitudes

towards such questions as competition and collaboration with Chino-Soviet aided projects. In principle both have been rejected. At the same time world reaction towards Soviet aid offers and far from perfect performance have not been ignored in mapping out AID strategy.

10. Fifteen years have elapsed since this country embarked on her first major foreign aid program. Each year the need for continuation and the capacity of this nation to render assistance have been reviewed and reaffirmed. As old problems neared solutions and new ones arose, so changed the U.S. response. Aid objectives, goals, form and conditions were adjusted to meet justified criticism and changed circumstances. Starting without the benefit of any historical precedent, aid administration had to learn by experience how to bring about orderly economic and social change in other countries. To enable it to tap the resources of the scientific community more successfully, the Foreign Assistance Act of 1961 authorized sponsorship of development research.

In each of the 15 years the question of the effectiveness of foreign aid was raised. As usual, such judgments can only be made in retrospect. In that light, Marshall Aid must be deemed eminently successful. The assessment of the value of AID's current activities must be left to the future. This country's cold-war opponents, the Soviet Bloc and Communist China have obviously already reached a positive conclusion, they have paid the most flattering compliment by copying the U.S. program on a large and increasing scale.

For the first 172 years of this country's existence the need for foreign economic assistance as a governmental "peace-time" function did

not arise. The need arose only after 1945 when this nation found herself thrust into the leadership position of the free world and her security threatened by Soviet Imperialism. As long as she continues to carry the responsibility of leading the defense of Western civilization against Communist aggression, the U.S. will have to continue to strengthen the economies, promote the economic development and support the ability of friendly nations to meet armed aggression from outside or within.

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