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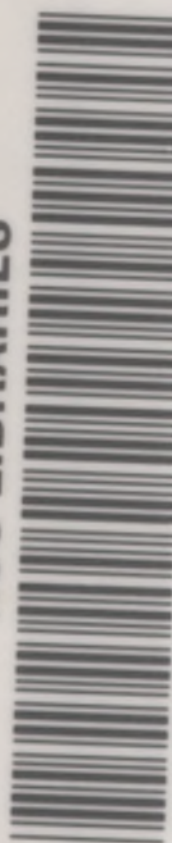
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VIEWS ON FOREIGN ASSISTANCE POLICY

COMMENTS BY INDIVIDUALS AND ORGANIZATIONS CONCERNING UNITED STATES FOREIGN ASSISTANCE POLICY

SUBMITTED TO THE
COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

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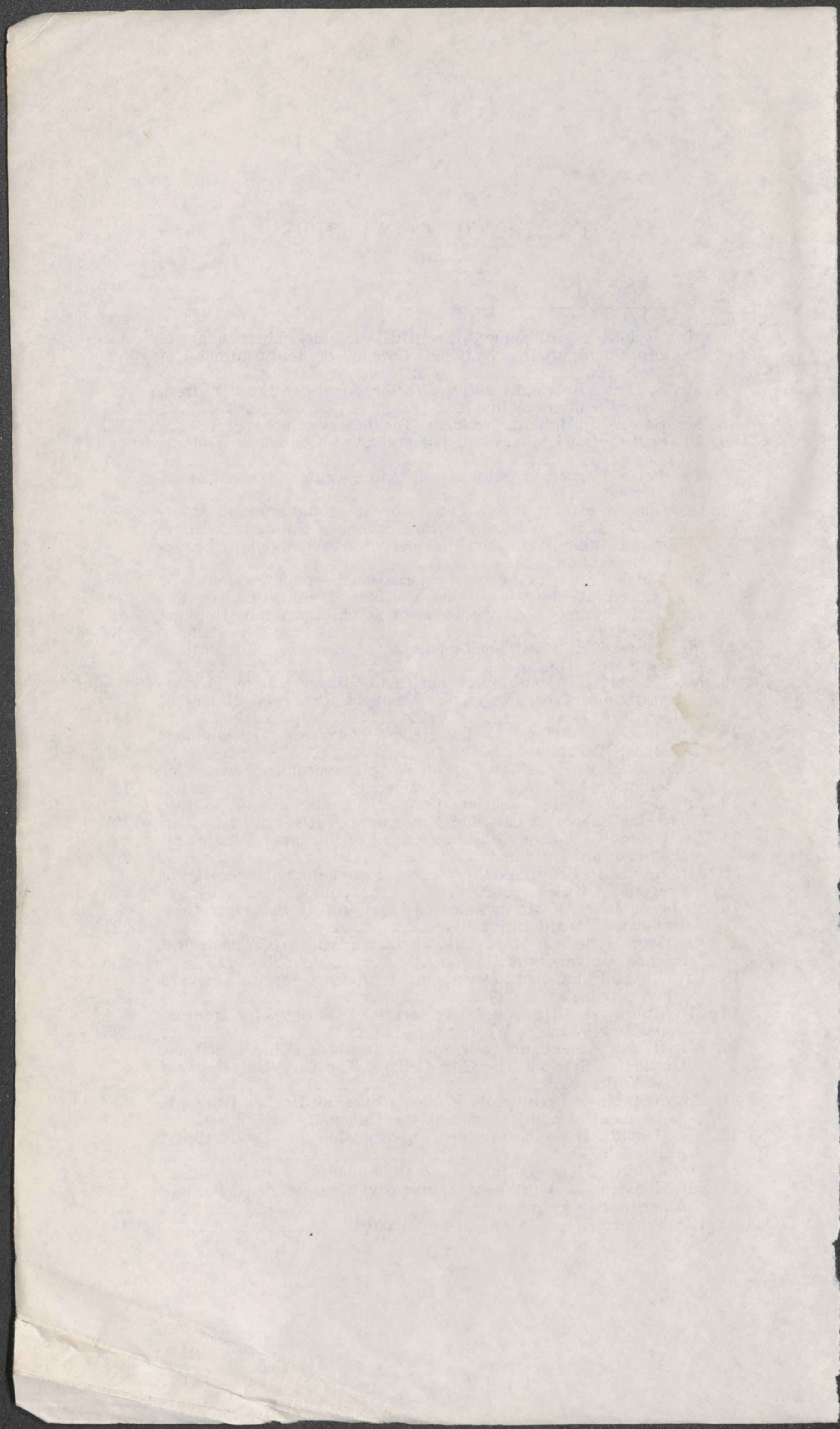
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FOREWORD

For a number of years, many members of the Committee on Foreign Relations have expressed dissatisfaction with U.S. foreign assistance policies. After the Senate's defeat of H.R. 9910, the foreign assistance authorization bill, on October 29, 1971, the committee initiated two new bills which separated authorizations for military assistance from those for economic and humanitarian assistance. Both bills contained the following statement of policy:

This Act is enacted as an interim measure. * * * The Congress intends at the earliest possible date to reevaluate the U.S. foreign assistance program and to develop a new program for the future. Accordingly, this act looks to the phase-out of the current program and to the establishment of a new one which will command the respect and the support of Congress and the American people.

In order to assist it in this process, the committee solicited, by the following letter, the views of a broad spectrum of individuals whose names were suggested by the Congressional Research Service of the Library of Congress.

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS.

DEAR :

Last fall the Senate rejected a foreign aid bill by a vote of 41 to 27. Although the aid program was later revived through the initiative of the Foreign Relations Committee, it is apparent that the existing policy does not enjoy the respect of either Congress or the public.

In reporting stopgap foreign aid legislation, following the defeat of the first aid bill, the Foreign Relations Committee stated its intention to reevaluate the entire aid program—economic and military—and work toward developing new legislation. As an initial step, the committee is soliciting the views of a number of knowledgeable people, such as yourself, who may be willing to contribute, for the committee's consideration, their views on what is wrong with the current policy and what we should do in this field in the years ahead. In order to stimulate better informed public discussion of the issues involved, we intend to compile and publish these comments.

The committee would welcome your comments on the following broad questions:

1. What should be the objective of U.S. foreign assistance, economic and military?
2. What is wrong with the current foreign aid policy?
3. Does the current U.S. aid program serve the best interests of the recipient country?
4. What should the United States do to help other countries on their development or security problems in the years ahead? How should we go about doing it?

We would, of course, welcome any other comments you wish to make on any aspect of this subject. If for any reason you do not wish to have your views made public, please indicate in your reply. Thank you in advance for your cooperation.

Sincerely yours,

J. W. FULBRIGHT, *Chairman.*

The list of those whose views were solicited appears on page 343. Of the 70 who were asked, substantive replies for publication were received from only 24, or 34 percent. The responses received are contained in this publication in alphabetical order.

The committee hopes that these comments will help to stimulate a better informed public dialog on foreign assistance issues and thus assist the Congress in shaping a new program which will merit the public support which is essential, in the long run, for successful implementation of any major foreign policy.

I wish to express the committee's appreciation to all who shared their thoughts with us, and to Mr. Allen S. Nanes of the Congressional Research Service for his assistance in suggesting sources which would be helpful.

J. W. FULBRIGHT, *Chairman.*



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executive director

May 18, 1972

The Honorable J. William Fulbright
United States Senate
Washington, D. C. 20510

Dear Senator Fulbright:

Thank you for your letter of April 11, asking for comments in response to your questions concerning United States' policies of economic and military aid.

My colleagues and I are glad to know of the scope of your inquiry and appreciate being consulted.

My reply is contained in the enclosed statement, which you are free to use in any way that seems desirable.

Sincerely,

Robert S. Bilheimer
Robert S. Bilheimer

RSB:eb
Enclosure

May 18, 1972

Reply to the Inquiry of Senator Fulbright of April 11, 1972
Concerning United States Economic and Military Aid

This comment is based upon the assumption that U.S. economic aid and military aid must be rigidly and totally separated from one another. Each should arise from clearly articulated concepts of national interest, defined in long-range perspective with due regard for the legitimate national interest of others. These concepts, one supporting economic aid, the other supporting military aid, are necessarily different and should be accepted as such.

A. Economic Aid.

Economic aid from the United States to countries of Asia, Africa, Latin America and the Middle East--which we shall refer to as the Third World--should arise from the articulation and acceptance of a long-term concept of national interest. The foundation of this is best stated negatively. It is not in the long-term interest of the United States to participate in economic measures which exacerbate the growing disparity between the rich and poor nations. Nearly every study, including the remarkable "Indicative World Plan" of the Food and Agriculture Organization, projects massive social breakdown, turmoil and human misery amid the vast populations of the Third World, especially Asia and Latin America, if present trends continue and intensify. It is in the long-term interest of the United States to use its economic power in aid, trade and monetary policy to seek to reverse this situation. Essentially this requires the growth of national and regional economic capacity and power, indigenous to the area and not unduly or directly dependent upon the United States or other economies. Assistance to growth of such indigenous economic power in the Third World should be the overriding objective of United States aid, trade and monetary policy. (Question 1)

1. United States economic assistance has been basically wrong (Question 2) because short-term interests have distorted long-term interests. Much motivation for aid in the public and in government has derived from a long-range interest in economic aid and social change. U.S. support of multilateral aid agencies has been one evidence of this. Yet this long-range view has been distorted by short-term U.S. political, military and economic interests, and too largely subservient to them. Economic and military assistance has been presented to the public, voted by the Congress, and administered (although by separate agencies) as a part of U.S. leadership in the defense of the free world against the communist world. Foreign aid has thus been an instrument or weapon in the cold war struggle and subject to the demands of the cold war. The fact that the showcases of success in economic aid are Turkey, South Korea and Taiwan, each on the strategic perimeter, reveals that the U.S. interest in economic aid has derived strongly from its strategic policies, and not in the first instance from longer range interests. The low priority of African nations further illustrates the point. Furthermore, U.S. economic aid has, like other countries, been tied to the U.S. economy for short-range benefits to the U.S. to the detriment of the long-range benefits which would have accrued to the recipient country had it been free to use its U.S. aid in competitive markets. The resulting dependency of the recipient countries upon the U.S. has been further evidence of the influence of short-term interests over longer. Finally, short-term interests have been prominent in the preference given by the U.S. to maintaining stability as contrasted with promoting or even allowing social change. Notable throughout the Third World, this has been particularly acute in Latin America.

2. There is mounting evidence that United States aid has not served the best interests of the recipient countries (Question 3). The burden of debt servicing, the policy of tying to the expensive U.S. economy, the critical disillusionment and difficulties registered in UNCTAD (not wholly the fault of the U.S.), the burden of U.S. supplied military establishments, and the support in many countries of essentially oligarchical governments, strongly suggest that U.S. aid policies have in fact supported oppressive interests and have not contributed or responded to the fundamental requirements of needed social change.
3. To help other countries on their development problems (Question 4), the United States should develop a long-term concept of its national interest, as suggested above, which would enable it to
 - provide generous aid (1%-2% of GNP), trade and monetary policies rigidly designed to increase indigenous economic capacity and power in the Third World countries. The critical points are (a) generosity of aid, (b) unity of aid-trade-monetary policies toward (c) increase of indigenous economic power as contrasted with economic dependency upon the United States.
 - provide the above in long-term commitments to facilitate planning.
 - provide the above in a multilateral context in which the United States strongly resists any tendency by itself or other rich nations to use the multilateral agency or process as an instrument of control of poor nations by rich nations.

The development of such a long-range concept of U.S. national interest in economic aid cannot be done without vigorous leadership from the Administration and Congress, supported by reawakened interest and effort on the part of many private agencies. The latter cannot happen without the former. The extent of private agency support of strong governmental leadership might well be surprising.

B. Military Aid.

Military assistance programs in or related to the Third World must be considered strictly on their own merits, not confused with programs for aid to civilian economies, and in this sense divorced from economic aid designed to promote needed social change. If not, the latter should not be undertaken at all. Further, military assistance programs should be firmly grounded in and controlled by a clear, revised policy of defense and security.

Such a revised policy should clearly articulate credible and reasonable defense and security requirements of the U.S., as distinguished from vague or undefined appeals to national interest as the justification of military assistance programs. The crux of the matter is that military assistance programs in the Third World have been justified on grounds of ideology or an assumed U.S. interest in stability. Military assistance given to secure a "free world" which includes Greece, Portugal, Brazil, South Korea, Taiwan and South Vietnam makes a mockery of "freedom," destroying credibility. Military assistance given to ensure stability contains a built-in invitation to the over-extension of military assistance, and it may eventually become a stimulus to revolt. Furthermore, it is posited upon short-range concepts of both stability and our national interest that deny long-range interests in the stability to be won through economic and social change. These justifications of military assistance should give way to a clear, credible

concept of the defense and security of the United States, with military assistance programs arising strictly from this concept.

A far more limited, rational and credible defense policy will encounter many problems in the Third World, of which two should be mentioned:

First, there will likely be conflict between U.S. defense interests and long-term U.S. interests (if the latter are developed) in securing social and economic change. Portugal and Pakistan are illustrations. Policy should be established so that the interests of military security are not allowed to override the long-range interests in social change except for reasons which meet the criteria of being urgent, being demonstrable, and being unavoidable.

Second, there will likely be conflict between requests for military aid and our own view as to what constitutes military aid, what is essential in the Third World, and what our national interest requires. These considerations require strict monitoring of such military assistance programs as are essential in the Third World. We suggest that an additional structure of government may be necessary and advisable, namely, an Authority composed of persons of high competence and unquestioned integrity with power to investigate the direct and indirect selling of armament by the Pentagon and by industry to Third World governments, and to investigate the legitimacy of U.S. response to requests by Third World governments. This Authority would report to the Congress, thus facilitating the actions of the Congress.

The moral basis of the foregoing has been elaborated in two Policy Statements of The National Council of Churches:

"Imperatives of Peace and Responsibilities of Power," 1968;

"Defense and Disarmament: New Requirements for Security," 1968.

Both Policy Statements are attached.

Robert S. Bilheimer
Director of International Affairs
Programs
National Council of the Churches of
Christ

May 18, 1972

imperatives of
PEACE
and responsibilities of
POWER

Adopted by the General Board
of the National Council of the Churches
of Christ in the U.S.A.
February 21, 1968

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SUMMARY OF THE POLICY STATEMENT

The following Statement suggests that international relationships today require new directions of attitude, policy and action. In many situations, the United States will not be able fully to achieve these alone, but will require the collaboration of many nations. Even though the achievement of a just peace requires common action among the nations, leadership is required. United States leadership is urgently needed. For this reason, this Policy Statement addresses itself to the imperatives of peace and the responsibilities of power as these affect the United States.

In the broad development of human history, the twentieth century is unique in the fact that all men are being brought into interdependent relationship with one another. The growth, application and dissemination of knowledge have brought the family of man into a new interdependence. In this situation, we may discern the profound testing and judgment in which God requires men to make choices at deep and indeed ultimate levels of life.

In the conditions of our age, a just peace requires at least **three imperative measures** or processes.

First, in order to avert nuclear holocaust, it is imperative that limits be imposed upon the use of military might, and that the inherent limitations of force in the solution of human and social problems be recognized.

A second imperative of a just peace is nation building and the development of viable national institutions.

A third imperative of a just peace is the necessity to promote human rights and to satisfy individual aspirations for justice and freedom.

As the people of the United States and their government have faced these imperatives and have been caught up in the dilemmas that are attached to them, **five major assumptions** have made themselves manifest.

Although in fact the United States government has developed different types of relationships to different communist nations, an over-simplified view of a world composed of two camps, with a "third world" hovering in a neutral vacuum, remains prevalent and is sometimes fostered by official statements—for example, in regard to the Vietnam war.

Second, the people of the United States and their government have a deep sense of their responsibility for peace keeping throughout the world—of "standing at the gate" wherever peace and freedom are threatened.

Third, during the past two decades, and now in Vietnam, the United States has revealed confidence in military power as the chief means of keeping the peace.

Fourth, to an increasing degree, the United States takes unilateral decisions concerning the use of its power.

Fifth, United States power is too often used in the service of the status quo.

In summary, the depth of the present crisis of United States foreign policy lies in the fact that as a nation the United States has wrongly grasped only one horn of the apparent dilemmas in its efforts to establish the imperatives of peace, failing to seize more creative solutions.

The revelation of God in Jesus Christ enables men to live in faith, hope and love, providing a new way of looking at the scene of international struggles. Justice is a way of expressing love, established in faith and nourished in hope. Although love always includes and goes beyond justice, there are times when justice is the most appropriate, true and powerful expression of love. We must strive for both order and justice, but in our world justice has a prior claim.

Such an approach to international relationships today requires **three new directions** of attitude, policy and action.

The first is the use of all the components of United States strength to increase trust among the nations, especially those now regarded as enemies or rivals. New policies (see Pages 17-19) are required in relation to Vietnam, the People's Republic of China, Cuba, the countries of Eastern Europe and the U.S.S.R.

Second, it should be the objective of United States attitudes and strength to help create a new internationalism to supersede the present fractured international community. It is essential that there be a new dedication of the people and government of the United States to the principles embodied in the Charter of the United Nations to the end that it become a first objective of United States power that the United Nations be established on a new basis of great strength. United States power should be directed to the establishment of collective judgment and common action through the United Nations as the ultimate norms of international behavior in the contemporary world.

Third, it should be the objective of United States attitudes and strength to work for a new concept of nationalism and regionalism that is congruent with internationalism and that operates to distribute power more equitably toward the end of just and equal opportunity among the peoples and nations. The key, in our time, to the most fundamental redistribution of power lies in the economic sphere. The resources and skills of the United States should be directed toward the creation and strengthening of structures, especially in capital formation and trade arrangements, which provide for such distribution of economic power in the world scene.

The imperatives of peace press upon mankind with ultimate, final force. But peace cannot be established without justice. In our time, the claims of justice are the preconditions for the establishment of peace. To secure such a peace, new presuppositions of thought and attitude and new policies of action are required.

imperatives of
PEACE
 and responsibilities of
POWER

INTRODUCTION

In the broad development of human history, the twentieth century is unique in the fact that all men are being brought into interdependent relationship with one another. Amid war, starvation, oppression and revolution, mankind has achieved a unity, principally through technology. The growth, application and dissemination of knowledge have brought the family of man into a new interdependence.

In this situation, we may discern the profound testing and judgment in which God requires men to make choices at deep and indeed ultimate levels of life. The unity brought about by technology may be a sign of progress, but it is not necessarily so. Technology provides the means either for general betterment or for common destruction. The living God has created a world in which men together cannot escape choice between good and evil, life and death, light and darkness. In such a testing, we experience God's judgment.

God's mercy is that He continues to give mankind a choice, that the way of life lies open, and that He is faithful, not abandoning men in their new situation. Mercy is found in relation to the specific judgment. In our time, mankind must find peace or perish. Individual piety and morality are not enough. Choices

for good and not evil, for life and not death, must be made in regard to matters that transcend the merely personal realms of life. In our time, the critical choices are political, using the word in its broadest sense. It is God's mercy that He gives mankind time to discern the political dimension of His will for men and nations. It is God's mercy that He continues to work in the affairs of men. The living God does not abandon men to the blind conflicts of international power.

THE IMPERATIVES OF A JUST PEACE

In the conditions of our age, a just peace requires at least three imperative measures or processes. The fact that each involves its own dilemma suggests both the difficulty and urgency of the continuing task of achieving a just and peaceful international order.

First, in order to avert nuclear holocaust, *it is imperative that limits be imposed upon the use of military might, and that the inherent limitation of force in the solution of human and social problems be recognized.* The very existence of national arsenals, which limit power through mutual deterrence, also generates mutual fears and undermines efforts toward arms reduction and control, which are essential prerequisites to a stable international order.

A second imperative of a just peace *is nation building and the development of viable national institutions.* In our time, nationalism is an inescapable ingredient of the process of nation building, but the fostering of nationalism generates an increasing fragmentation of the international community, with consequent threats to peace.

A third imperative of a just peace is the necessity to promote human rights and to satisfy individual aspirations for justice and freedom. In vast areas of the world, including the U.S.A., such rights and aspirations are severely repressed. At the same time, as we have seen in our own nation, awakening and securing demands for human rights and freedoms inevitably encourage frictional social change, revolution, violence and the breakdown of order. Only as we are willing and able to deal with this dilemma in our own internal affairs can we with confidence and humility strive for human rights.

CURRENT ASSUMPTIONS CONCERNING UNITED STATES POWER

As the people of the United States and their government have faced these imperatives and have been caught up in the dilemmas which are attached to them, certain major assumptions have made themselves manifest. The uses to which our national power has been put have derived from certain perceptions about the world and about the interests and obligations of the United States in the world. *At least five such assumptions may be discerned*, and it is to be noted that all of them are brought to focus in respect of the United States role in Vietnam. Each of these prevalent assumptions must be examined in order better to understand and pursue the respects in which our true national interest is related to the general interest of nations and the requirements of a just peace.

First, from 1945 to the present, the United States has focused upon the assumed duality between the "free" world and the "communist" world. The confrontation generated by this concept, which was shared by communist states themselves, underlay the cold war. *Although in fact the United States Government*

has developed different types of relationships with different communist nations, an over-simplified view of a world composed of two camps, with a "third world" hovering in a neutral vacuum, remains prevalent, and is sometimes fostered by official statements—for example, in regard to the Vietnam war.

Neither the "communist" nor the "free" world is monolithic and responsive to unified strategies. The tensions and conflicts of the real world cut across the ideological, social, economic and political lines. The common task of nations is to strengthen the foundations of justice and peace within a shifting scene of competing, conflicting, cooperating, changing national systems. The use of United States power should be guided, not by general concepts that have lost their validity, but by the imperatives of a just peace in the present age.

Second, the people of the United States and their government have a deep sense of their responsibility for peace keeping throughout the world. The idea of "standing at the gate" wherever peace and freedom are threatened is not an imperialistic idea, although it may be viewed as such by people in other parts of the world who feel its impact. At root, the idea of the United States as peace keeper and defender of freedom springs from a sense of responsibility to achieve a just order.

This perception of United States responsibility has been maintained against a complex background of events. These range from Hitler's aggression, to the fear of nuclear war, to the violence of communist revolutions, and to the creation of new states, whose boundaries frequently do not correspond to their needs and aspirations. Against this complex background, a conception that United States power is endowed with a unique mission to confront and repel aggression throughout the world, and that it is clothed with a special virtue has the counterfeit ring of arrogance. Such a conception, which is inherently self-judging, cannot appropriately serve as a criterion for intervention or non-intervention to achieve the imperatives of a just peace. It serves rather to foster a false moralism, which links power with

self-righteousness, rather than true perceptions of morality, which connect power with the requirements of justice and peace, as conceived not unilaterally but within the world community of nations.

Third, during the past two decades, and now in Vietnam, the United States has revealed confidence in military power as the chief means of keeping the peace. Expenditure of national treasure and sacrifice of human life and energy show that military effort is the form of peace keeping for which the people of the United States are most willing to pay. Undue reliance upon military power—as now is evident in our Vietnam policy—submerges other objectives essential to peace, such as social and economic development, both at home and abroad. In Vietnam, this may well be one reason why the political reforms sought by the United States have been slow of realization. Preoccupation with military power thus distorts the necessary interrelationship of the essential requirements of peace. Moreover, undue reliance upon military methods of keeping order deflects attention from the need to strengthen international processes and institutions essential to a just and durable peace.

Fourth, to an increasing degree, the United States takes unilateral decisions concerning the use of its power. The United Nations was created on the premise that collective action and responsibility are necessary—not merely convenient—to prevent and repel aggression, to reconcile conflicting interests, and to promote the general welfare. While provision for such alliance systems as NATO, the Rio Pact, SEATO and CENTO is made within the United Nations framework, too much reliance upon such systems has caused frustration. Such organizations do not and cannot provide a substitute for a general system of security and peace keeping. Failure to recognize the fact that such organizations are at best mere supplements to a general system, rather than alternatives, has misled the United States, and other nations, increasingly to resort to unilateral actions and decisions in matters affecting the national interest and security. In particular, the Vietnam war—unlike the Korean war, for example—

is being undertaken without multilateral, international sanction, although allies have contributed to the effort in limited ways. Thus, the United States is self-judging in this and other fundamental aspects of its use of power.

Self-judgment is dangerous, in that the one who judges himself is likely to find his own actions good. Self-judgment, by its very nature, tends to be self-serving, hence incompatible with the requirements of a just order. A corrective to these dangers is to be found in the shared judgments and responsibilities of the international community, directed toward the fulfillment of the imperatives of a just peace.

Fifth, United States power is too often employed in the service of the status quo. In part, this derives from the generally accepted principle that United States power should not be used to determine the internal character of a state except when the state is threatened from without. On the other hand, especially in Asia, Africa and Latin America where rapid social change is a desperate need, this principle has put United States power largely on the side of the status quo, rather than behind efforts to create justice and an order based upon justice. The failure of United States policy to foster social change in Vietnam, or to give the South Vietnamese something more than an anti-communist rallying point, is a vivid example, though not the only one, of the uses of United States power to repress social change in the name of order. Clearly, the imperatives of a just peace, rather than the mere stability of the status quo, claim the highest priority. Justice must come first, and if the status quo stands in the way of justice, power should be directed toward accomplishing needed change.

In summary, the depth of the present crisis of United States foreign policy lies in the fact that as a nation the United States has wrongly grasped only one horn of the apparent dilemmas in its efforts to establish the imperatives of peace, failing to seize more creative solutions. Recognizing the effective power of military deterrence in the nuclear age, the United States has placed too much confidence in military might. Recognizing the need to

build and develop nations, the United States has over-simplified its view of other nations, stressed its own role as peace keeper to too great a degree, and contributed to the fragmentation of the international community by resorting to unilateral decision and action. Recognizing the need for human rights, the United States has sought to promote them by upholding the status quo to too great a degree, losing the support of those who demand justice and change in the status quo. The difficulties involved in the use of United States power today result, not from irresponsibility or from espousing wrong goals, but rather from following choices which have generally put the United States wrongly on only one side of the dilemmas inherent in the imperatives for a just peace in our time, thus distorting and in fact obscuring our true national interest.

THE RESPONSIBILITIES OF POWER

The revelation of God in Jesus Christ enables men to live by faith, hope and love, providing a new way of looking at the scene of international struggles. Amid conflict, faith in God enables men to reject any preconceived theory of the inevitable clash of world powers, and to accept the risk of solving international conflicts by peaceful means. Within threats to peace, hope enables men to look for new forms of international life, new leaders, and new attitudes on the part of our enemies. Hope rejects the idea that the scene is frozen for the worse and looks for new and unpredictable events in human history and in the ways men respond to them. Love enables men, confronted by enemies, to put themselves in the position of their enemies, understanding them as persons with different perspectives and legitimate needs and interests of their own. Theories that force is the

only power the enemy can understand or that peace is to be secured merely by the cold calculation of how the self-defined interests of nations may coincide, run counter to Christian perspective.

In particular, faith, hope and love focus upon the supreme need for justice in international relationships today. Justice is a way of expressing love, established in faith and nourished in hope. Although love always includes and goes beyond justice, there are times when justice is the most appropriate, true and powerful expression of love. Justice in the Biblical tradition is a process, a motion. Justice moves toward the outcast and the oppressed to establish a relationship between them and the oppressor which can be acknowledged in the sight of God. Justice in the Biblical tradition is also law, a just order, providing a relationship of equality among those under the law, as well as the framework within which conflicting values and interests are reconciled.

In today's world, an authentic peace, a true common interest among men, can be established only upon the basis of justice. People are outcast from the world's economy and downtrodden; people are subject to other people's power and are oppressed. Justice requires a movement whereby oppressor and oppressed are brought into an equality of opportunity. Moreover, in the international world, there is little or no law, and even among approximate equals in the international scene, justice is scarce. Therefore, in the contemporary world, the deepest tensions are those which call for justice. It is true that order is required. We must strive for both order and justice, but in our world justice has a prior claim. Order without justice, whether it be an order of the "left" or of the "right," is empty and not worth having, or it is tyrannical. In either case, it is a denial and not a fulfillment of love.

Such an approach to international relationships today requires three new directions of attitude, policy and action. It is recognized that the United States will not be able to achieve them alone, but will require the collaboration of many nations. In

every situation envisioned in the Charter of the United Nations, the United States should no longer act alone, but should seek her place as a member of that body. Even though the achievement of a just peace requires common action among the nations, leadership is required. United States leadership is urgently needed at the following fundamental points.

The first is the use of all the components of United States strength to increase trust among the nations, especially those now regarded as enemies or rivals. Fundamental to this policy is the attitude of thinking of all people, including especially our enemies, as individual human persons. They are not "Cong" or "communists" or "guerrillas," but individuals who, whatever their ideology or aspiration, react to life in their particular condition as human beings. Recognition of this elemental fact by the people of the United States and their government is fundamental to increase of trust in the world of nations and of people.

Changes in policy must flow from this attitude. These changes will, as they are developed, affect United States policy toward many nations and peoples of the world. Because of the recent history of the cold war, and because of the nuclear threat, the following new policies are suggested, among others that might be advanced, as major illustrations of the changes which should flow from the new attitude:

- The United States should immediately put new policies into effect in Vietnam. (See Resolution of the General Board, September 15, 1967.)
- The United States, while participating in measures to deter actual threats of aggression by any nation in the area, should avoid provocative military actions directed toward China, and should work toward reducing and minimizing the United States military presence in the area. As a contribution to equilibrium in the area, the United States should give appropriate military and economic assistance to Asian nations seeking such aid, but under conditions which promote and do not thwart necessary social change.

- The United States, recognizing the need to achieve a stability which will reassure the weak neighbors of China, should acknowledge that China has legitimate interests in Asia and accept the fact that China will exert a significant influence in the region.
- The United States, instead of trying to isolate the People's Republic of China, should take positive steps to bring it, if possible, into the international community. While maintaining awareness that many policies of the Government of the People's Republic of China foster self-isolation, the United States should take the initiative, unilaterally if necessary, for developing contacts in travel and cultural exchange; it should open the possibility of trade in non-strategic items; it should espouse an honorable formula for seating the People's Republic of China in the United Nations (while retaining a seat for Taiwan).
- The United States should take far more active and imaginative steps to create conditions for cooperation between the United States and the communist countries of Eastern Europe, the Soviet Union and Cuba. Illustrations of possible steps include:

Political: Acceptance of the existence of the German Democratic Republic, and recognition of the Government of Cuba. In accordance with sound principle, such acceptance or recognition does not imply approval of the policies of the present Governments.

Economic: Removal of discriminatory treatment of imports from communist countries, as has been done for Poland and Yugoslavia; elimination of restrictions on exports of non-military, non-strategic goods; negotiation of intergovernmental trade agreements with all the countries in question; encouragement of trade and investment by American firms with and in Eastern Europe and the U.S.S.R.; and exploration of possibilities of economic collaboration with them in Asia, Africa and Latin America.

- Cultural:** Removal of the reciprocity restrictions on cultural exchanges, so that Soviet visits to the United States will not be limited by Soviet willingness to accept United States visitors; removal of travel restrictions on Soviet visitors.
- Scientific:** Cooperation with the U.S.S.R. in scientific endeavors, especially in space exploration and use.

Second, *it should be the objective of United States attitudes and strength to help create a new internationalism to supersede the present fractured international community.*

Western traditions, rooted in Christian realism, reflect keen awareness of the dangers of unrestrained power. Perceptions of the essential weaknesses of human nature have combined with actual experience of tyranny to shape institutions designed to insulate society from excesses of power. Yet these lessons of insight and of experience have not been applied to relationships among nation states; indeed, they have been eclipsed as the demands of nation building have augmented nationalism. Actions within national societies which long ago were seen as trespasses upon the welfare of the community are tolerated on the part of states as a legitimate, and even virtuous, prerogative of sovereignty. A free hand in the use of power is one such license which sovereign states usually claim.

The new internationalism demanded by the conditions of the present age requires institutions and structures of power which will express a world community and which will serve justice, order and peace among the peoples and nations of the world. United States power should be redirected away from the present assumptions governing its use, to the prime objective of helping to strengthen such institutions and processes. The necessity for nations and peoples to live together justly transcends our immediate desire to maintain ultimate sovereignty.

It is essential that there be a new dedication of the people and government of the United States to the principles embodied in the Charter of the United Nations, to the end that it become a first objective of United States power that the United Nations be established on a new basis of great strength. At present, the United Nations provides, at least in embryo, a corrective to the pretensions to power of the nations, great and small, of the modern world. The United Nations is an international structure in which it is possible to secure collective international judgment upon the actions of the nations, and to secure common responsibility and action to promote justice, order and peace among the peoples of the world. While principles and methods of United Nations organization may need adaptation to meet emerging international requirements, United States power should be directed to the establishment of collective judgment and common action through the United Nations as the ultimate norms of international behavior in the contemporary world. This will require the following:

A) The development among the people of the United States of a national will and purpose that United States power uphold and promote the principles embodied in the Charter of the United Nations. There is today such a widespread disillusionment with the United Nations that the time is precisely at hand for a fundamental and new commitment to its principles. As the United States develops this commitment, every effort should be made by the United States to increase the commitment of other nations, especially the U.S.S.R., to the principles of the United Nations Charter. Initiatives to secure United Nations judgment and responsibility concerning Vietnam are to be welcomed and vigorously supported.

B) Willingness to share sovereignty for the common good, in the awareness that sovereignty is strengthened, not lost, when power is used to secure common objectives. The United States has defeated its true national interest by hoarding sovereignty, as in respect of the reservations upon employment of the International Court of Justice (the World Court) and the failure to ratify conventions on human rights. Professions by the United

States in support of the promotion of human rights and freedoms, and against vicious policies of racial discrimination in Southern Africa and elsewhere, and against religious discrimination behind the Iron Curtain and elsewhere, have not been matched by action to strengthen United Nations policies or to bring justice to the victims of such practices.

C) Membership in the United Nations by all nations.

D) Expanding and strengthening the peace-keeping authority of the United Nations, including the reduction and control of armaments. If the Charter of the United Nations is to be effective and if the United Nations is to fulfill its functions, there must be a reversal of the present arms race. The United States now spends more on its military establishment than for all other purposes of the federal government. We call upon the United States to join with other nations in a major and sustained effort for substantial and rapid progress toward arms control and general disarmament. The resources and manpower thus released could make a substantial contribution to the welfare of humanity.

E) The expansion in money, personnel and authority of United Nations agencies working for development through aid and trade.

Third, it should be the objective of United States attitudes and strength to work for a new concept of nationalism and regionalism that is congruent with internationalism and that operates to distribute power more equitably toward the end of just and equal opportunity among the peoples and nations. Numerous centers of international power are needed that can operate in check and balance upon one another. Superpowers can dominate even a greatly strengthened United Nations. Power must be both checked and distributed more equitably. The key, in our time, to the most fundamental redistribution of power lies in the economic sphere. Weak powers can withstand external political pressure, but it is virtually impossible for them to resist world market conditions and vast accumulations of capital. If a new internationalism is to emerge, a more equitable distribution of

economic power is a necessity. The resources and skills of the United States should be directed toward the creation and strengthening of structures, especially in capital formation and trade arrangements, which provide for such distribution of economic power in the world scene.

The following are put forward as illustrations of needed policy:

- The United States should welcome initiatives from within Asia, Africa and Latin America for increased regional cooperation, and be responsive to the possibilities for increased multilateral responsibilities for the common problems of these areas. While primary initiatives should come from the peoples of the areas, the United States should stand ready to support them and should encourage them to aim at collaboration which cuts across the present ideological lines and which can involve non-communist, neutral and communist nations.
- The United States should greatly increase its financial and other support of the tasks of nation building, economic development and social change in Asia, Africa and Latin America. Recognizing the need for stability, United States policy should place emphasis upon the necessity of social change to secure justice and should be willing to make the necessary investment, fashion the needed trade agreements, and take the necessary risks, to this end.

The imperatives of peace press upon mankind with ultimate, final force. But peace cannot be established without justice. In our time, the claims of justice are the preconditions for the establishment of peace. To secure such a peace, new presuppositions of thought and attitude, and new policies of action are required. For Christians, new, sustained programs of action, planning, education and study are implied, to the end that the churches, and Christians in their capacity as citizens, may make a full and creative contribution to the establishment of a just peace.

A POLICY STATEMENT *of the National Council of the Churches of Christ in the United States of America*

DEFENSE AND DISARMAMENT: NEW REQUIREMENTS FOR SECURITY

Adopted by the General Board
September 12, 1968

Introduction

It is the purpose of this statement to address the issues of national defense and security in Christian perspective in an effort to provide a new concept of, and a new context for, national security. We believe that a new international community is coming into being in the midst of the system of nation-states, which for so long have been preoccupied with their own security. This new system of increasingly global interdependence is one in which security must be seen more and more in its international dimension -- bound up with technology, finance, trade, and cross-cultural encounter -- and less in strictly military terms. The world view that provides the context for present United States defense policies seems to be an inadequate reflection of this reality. An increase in military power is not necessarily an increase in security or any other value.

The National Council of Churches, in setting forth its views concerning the imperatives of a just peace and the requirements of a responsible use of power, has stated that "to secure such a peace, new presuppositions of thought and attitude, and new policies of action are required."¹ Nowhere is this more valid than in the area of national defense. In the quest for a just peace and a responsible use of United States power, Christians must therefore examine seriously the questions raised by the United States emphasis on military power in the pursuit of security.

I. Theological Perspective

The Christian concern with the uses of United States power is based on the Christian belief that:

- A. God is Lord of creation, and man is to tend and develop this creation for the common good.

- B. God is sovereign over creation, both limiting national sovereignty and giving a degree of legitimacy to the nation-state as a major instrument today for shaping the conditions of human community.
- C. God is active in His creation through His reconciling act in Christ whereby we are called to be agents of reconciliation.

Within this theological framework, Christians are not united in their convictions concerning military power. Especially in our present situation of a severe and threatening arms race, however, we are agreed that these theological convictions place qualifications on the use of military power.

- a) Man's responsibility for the created order is a responsibility to preserve and develop it, not to abuse and destroy it.
- b) God's sovereignty places limits on the moral autonomy of any aspect of the political order.
- c) God's reconciling act in Christ denies the ultimacy of the parochial political community and affirms that the "enemy" is the brother for whom Christ died.

The function of politics, and the legitimate concern for security must, according to Christian faith, be controlled by God's creative, ordering, and reconciling work. The Christian vocational concern in this area is to provide better conditions for an effective work of love -- conditions under which the mission of reconciliation can be carried on in relatively better circumstances.

II. Security and the International Situation

In seeking the conditions for reconciliation, there must be a clear perception of the international situation to which men are to respond. In the search for national security, the United States has accumulated massive military power. There is real evidence, however, that

¹Policy Statement, "Imperatives of Peace and Responsibilities of Power," adopted by the General Board on February 21, 1968.

the security sought by this massive accumulation of power has not been fully achieved.

In theological terms, the adequacy of present defense policies must be questioned in view of the following dangers:

- A. They threaten to destroy the created order for which man is responsible.
- B. The requirements of present policies seem to have become self-validating in actual practice, subordinating other values to military necessity.
- C. The possibility of advanced escalation in an actual nuclear war implies the destruction of the adversary's population and social order, denying thereby the inclusiveness of the human community.

In political terms, the adequacy of present defense policies must be questioned in the light of the following criticisms by many knowledgeable observers:

- a) The national security of the United States has declined as the nuclear arms race has increased.
- b) The distrust and suspicion of the Cold War are often further exacerbated by some of the military postures that are designed to cope with it.
- c) The arms race has resulted in an enormous outlay of money and resources for military purposes that jeopardizes other national programs.
- d) The power and influence that inevitably accompany the control of such a large portion of our national resources mean that defense considerations now influence virtually all other national decisions.
- e) There are dehumanizing elements in the nuclear strategies of the Cold War.
- f) An overly ideological approach to the world's ills on both sides influences the perception of events and causes distorted interpretations of the facts to fit preconceived ideology.

III. A New Context for Security

The demands of the Christian faith, and the most salient features of the international situation to which Christians must respond, lead us to ask for a new approach to national defense and security issues on the part of the citizens and the Government of the United States. Such an approach encompasses at least three requirements:

- A. A first requirement is a new understanding of

security. National security is integrally related not only to direct threats from other nations but in our time even more profoundly to the needs of the underdeveloped world, and must be supplied by international processes and institutions rather than by vast defense establishments.

- B. A second requirement is a new approach to the use of national resources. The building of our own nation and the use of our resources to help others build their nations are the two primary tasks, requiring a major shift in national priorities.
- C. A third requirement is a new emphasis on human rights and values. Defense should never become an end in itself, but should always serve the purpose of providing the stability required to enable man's life on earth to become human. This means, among other things, that defense policy must not be removed from effective political processes. Citizens must have an increased voice in defense policy and demand that resources be used to meet real human needs.

It is necessary, in reappraising the meaning of security, to acknowledge the ultimate futility of the attempt to maintain nuclear superiority. There is no advantage to be gained by it when each side is admittedly capable of inflicting overwhelming damage on the other, even after being attacked first. In addition, the present international situation includes positive political forces that encourage a movement toward a decline in the importance of nuclear weapons, and that provide opportunities to strengthen the bonds of international community. The Christian political vocation must seek to utilize these positive elements as it seeks to restore defense to its proper limits and to subordinate it to the demands of justice and the work of reconciliation among peoples and nations.

IV. Proposals for Action

As next steps toward a national reorientation on defense and security issues, we urge United States efforts and initiatives to seek the following:

- A. In arms control and arms limitation --
 - a mutual halt in the further production and deployment of strategic offensive and defensive missile systems, including the anti-ballistic missile system;
 - widespread support for the non-proliferation treaty;
 - a mutual cessation of production of fissionable material for military purposes;

- a comprehensive test ban treaty, taking into full account available national means of detection and inspection;
- a United Nations declaration forbidding nations to place weapons of mass destruction on the seabed;
- continued study and planning in problems related to conversion from defense to nondefense production;
- the strengthening of international revulsion against the production and use of chemical and bacteriological weapons and the development of effective control and verification measures to reinforce international restraints.

The significance of these first steps, some of which are already United States policy objectives, will be primarily in the extent to which they reflect a new determination to proceed to more far-reaching steps in the control and reduction of armaments.

B. In defense spending and use of resources --

- significant reductions in defense spending and the channeling of the funds into development projects at home and abroad;
- a radical curtailing and strict controlling of the supply of arms to other countries.

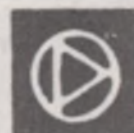
C. In peace-keeping, peacemaking, and disarmament --

- the strengthening of the United Nations as a peace-keeping and peace-making agency, including the training by member nations of special forces to be available for United Nations peace-keeping operations;
- a major and sustained effort, in conjunction with other nations, for substantial and rapid progress toward arms control and general disarmament through international agreement.

Present policies call into question our stewardship of our resources, our national priorities, and our wisdom in the management of power. A serious examination of the assumptions behind these policies could greatly improve the chances of that Great Power accommodation that is so necessary for a just peace and a stable international order. But the necessary changes require first that we stop thinking in obsolete terms. There must be a new context for looking at defense matters, requiring on the part of churchmen and all citizens a change of concepts, disposition, will, and determination. Such a reorientation may bring the United States to use its power in the years ahead to secure the development of nations and peoples, including its own, and to establish the international structures necessary for world order, justice, and peace.

88 FOR 0 AGAINST 2 ABSTENTIONS

AMERICAN FREEDOM from HUNGER FOUNDATION, Inc.



ACTION for DEVELOPMENT

May 17, 1972

The Honorable
William J. Fulbright
Suite 1215
New Senate Office Building
First and Constitution Avenue N.E.
Washington, D. C. 20510

Dear Senator Fulbright:

Thank you for an opportunity to express my views on the matter of our overseas assistance program. Since it is true that "aid has no constituency", we have been working very hard in the past two years to build a large grass roots movement that is serious about studying the complex issues of Development. Our Walk for Development program has served as a catalyst involving in the past month nearly a half million young people on walks, hunger banquets, teach-ins, etc. Many of these have formed groups in hundreds of communities across the nation.

This is one of the few potentials we know of for being supportive of positive, constructive changes in our aid policies. There is great need for a fundamental change of attitudes in the country, and many of our groups are working very hard to bring that about.

Sincerely,

L. David Brown
Executive Director

LDB/jet

Enc.

What should be the objective of U. S. foreign assistance, economic and military?

Our overseas assistance program should be supportive only of those activities within an economically poor nation which are indigenously conceived and implemented and which contribute to the whole and well-rounded cultural development of the peoples of that country.

This means that our assistance must be much more than economic. Far too long we have had to look at development through a purely economic grid, and for that reason much that we do violates the people and their culture and is therefore doomed to failure.

I have neither the competence or the will to deal with the military question, but it is also very clear that unless we divorce aid from military objectives, our relationship with third world nations will continue to deteriorate. The reorganization of the Agency for International Development is a step in the right direction.

Improving cross-cultural communication must be the hinge upon which our development efforts turn. It is more than expertise that is called for, though certainly personnel in our aid program must be weighted more in the direction of those who know the cultural patterns of the people with which we work. We need persons who demonstrate sensitivity and awareness of the diverse ways of other peoples. It may be due to the fact we are a relatively young nation, but we do not manifest great appreciation for the cultural diversity within our own nation, and this myopia seems to be confining to what we see and do with others. Economic laws are constantly subjected to psychological forces, and it can certainly be argued that economic formulas which work in one situation have different outcomes in another setting. Far more important than psychological moods and conditions is the effect of fundamentally differing value systems. Anthropologists never tire of pointing out that a set of values, e.g., based on cooperation as opposed to competition is liable to change radically the application of economic systems.

Evaluative studies by A.I.D. seem almost never to assess the cultural factor while other studies show this to be the major consideration in the failure or success of an aid program.

The economically poor must be allowed to initiate the programs they see necessary for their own survival. It is our experience that the programs we support both domestically and overseas which show the most creative and effective results are designed by the poor themselves. This can be documented in instance after instance. It should not be difficult to admit that people who cope with poverty day in and day out, and living without any other options, know best what they need. It would seem to be a fruitless debate to ask whether technology is transferable from one culture to another without asking first what those affected by poverty see as their needs. When those needs are determined, is the time to ask what kind of technology is applicable. If a peasant cultivator in the sub-continent is involved in the decision-making, the right type of technology will be chosen and it will be better utilized.

The peoples' participation in their own development programs means that we must take a look at micro-development schemes much more closely. Huge, dramatic programs that aim to quickly turn conditions around in a given country, have not enjoyed much success. On the other hand, those development plans which involve people on the village level in a total and multi-faceted approach often show surprising results. It would seem that more of the five-year plans being developed in many countries of the third world are reflecting this fact. Notable, is the "harambee" concept in Kenya. The ill-fated groundnuts scheme in Tanzania is an example of the failure of micro-economic thinking not attuned to the cultural or climatic conditions of another country.

Many consider this point of view romantic and illusory. The facts, however, dispute this contention. Twenty years of development efforts by donor nations and agencies indicate that in those few instances, where indigenous involvement has been heavy, projects tend to produce steadily-improving, long-range benefits. It is now clear that arrogant, insensitive experts severely circumscribed contracts; little indigenous input or decision-making; tied loans; and the many actions of an insulting nature to other peoples and cultures will no longer be permitted in any countries' overseas assistance programs. What we would plead for is a basic change in our posture in which we listen to needs and offer advice when it is requested. Where that has happened, we have had some of our most effective programs implemented. It is the only realistic modus operandi we can employ to improve our relations with third world nations.

What is wrong with the current foreign aid policy?

As already intimated, a basic fault of our policies is related to the over-protectiveness of what we seek to do. In addition to being insulting to the dignity of other peoples, it tends to insure failure for many of our programs. In my own visitation and viewing of A.I.D. projects, I have heard this objection continuously. Intolerable conditions are placed on contracts which divest them of the one component every overseas project must possess, local initiative. Consistently the comment is made that the U. S. government programs are more restrictive than any other western country's assistance. We still have a large number of our loans tied, and while this requirement has lessened some, it has been abolished by many other countries' overseas assistance programs. We also seem to hedge on the amount of our monies going to multi-lateral assistance. The traditional argument for bilateral aid is that it is more efficient---which argument is in need of far greater documentation than is presently offered---but efficiency is hardly a sufficient objective if we create needless resentment among those we seek to help. It is clear that the cross-cultural difficulties outlined above have a better chance of being solved by channeling our funds in increasing amounts to international agencies.

The most serious problem, however, relates to our trade policies. Assistance programs must finally be geared to increasing the amount and quality of trading we do with the third world. The current meeting of UNCTAD III in Santiago could be one of the most important UN gatherings of this decade. Third world nations have done their homework. The refining of previous demands for preferential treatment in tariffs, commodity agreements on price floors, expansion of poor nations share in special drawing rights, and encouraging greater diversity in the exports poor nations can offer, give opportunity for serious negotiation. With so much reliance on primary products which both liberal and conservative economists now pretty much agree leads to descending returns, the comparative advantage position of the third world will be untenable in another four or five years.

Does the current U. S. aid program serve the best interests of the recipient country?

Certainly, the large portion of our aid that is given for reasons of security or improving our military posture can hardly be seen as in the interests of the recipients. Further, as we have contended in this statement, a violation of values and mores of other peoples, hardly causes their endearment toward us. The U. S. public is exasperated by the signs of third world resentment in spite of what they feel is an exorbitant amount of money we have paid for overseas projects. Another large problem is that so much of our money goes to bolstering governments that are repressive and reactionary.

Certainly, that does not serve the best interests of the people, but only of a selfish few. It is clear we have not made a great many friends through our development assistance; primarily we would contend it is due to the way we have violated other cultural norms. It is not a matter of doing good things around the world. In the long range, what is truly helpful to these nations economically, socially and politically, in almost all cases, will accrue to our benefit as well.

What should the United States do to help other countries on their development or security problems in the years ahead? How should we go about doing it?

We must begin by hearing what developing nations consider to be their needs. With several excellent, long-range national plans now formulated, this is becoming increasingly easier to do. More money must be funneled into the humanitarian area of A.I.D.'s work. More of our resources must also be channeled multi-laterally. Coordination between the United Nations Development Programme, IMF, World Bank, regional banks and the numerous agencies connected with the UN seems to be improving. Considering the volatile situation now existing in the third world, UN agencies are not nearly as tempted to give money to solve any short-term political problems.

We would encourage micro-thinking where village-level involvement can become a reality, and less reliance on massive economic schemes.

Given the limited amount of funds that seem to be available, a first priority must be put on making our funds flow to long-range development programs, even above emergency relief.

We must increase the amount allocated for development assistance. Our promise to the UN to strive for a goal equal to 1% of our GNP is slipping to an absurd level. The latest figures from the World Bank show that in our total giving compared to our GNP from official government and private sources, we ranked sixteenth among western donors. This is unacceptable. What is desperately needed evidently is a serious effort to inform the American people that we have not only a moral responsibility to do more, but it is in our long-range best interests to do so. This situation is massively deteriorating. Considering the complexity of development problems and the length of time it takes to undertake the development process, time is running out. Biafra, Bangladesh and Vietnam are merely symptoms of the collapse of world order that is scheduled to occur unless poverty and injustice are soon attacked in a massive way. It is not a matter of decency that we shall respond; it is a matter of desire to further our obvious self-interest.

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June 6, 1972

The Honorable J. William Fulbright
Chairman, Committee on Foreign Relations
United States Senate
Washington, D. C. 20510

Dear Senator Fulbright:

Thank you for your letter of April 5, 1972 requesting our comments on U. S. foreign aid policy. My colleagues and I respectfully submit the following reflections in response to your four questions.

1. The objective of U. S. economic foreign assistance should be the promotion of the general welfare of low income peoples in less developed countries (LDCs).

This objective requires an aid policy and process which is:

- responsive to the initiatives, priorities and terms of assistance suggested by LDCs,
- designed to relieve the continued dependency of LDCs on foreign aid assistance,
- geared to achieving broad based human development, toward promoting ongoing just social change and world peace,

The objective of U. S. military assistance should be the same as stated above, namely the promotion of the general welfare of the peoples in LDCs. Since Technoserve is concerned exclusively with socio-economic assistance, critical remarks on the military aspects of foreign aid are beyond our competence.

However, it seems reasonable to us that military assistance programs be:

- separated from economic assistance programs.
- evaluated carefully with regard to the primary development priorities of LDCs.
- administered, if possible, through neutral multilateral channels.

2. One must be cautious when commenting on what is "wrong" with current foreign aid policy. Much of the aid experience of the U. S., particularly in LDCs, had little precedent. But it is increasingly possible and appropriate to empirically evaluate aid policy, given U. S. experience in this arena over the past two decades.

From our limited perspective the following observations are offered for your consideration.

Foreign aid policy (and priorities) should:

- be formulated with greater regard for objectively established human development goals on a multinational basis, rather than on creating U. S. bilateral spheres of influence for their own sake,
- be continually reviewed and modified to insure maximum effectiveness toward achieving the long term development goals of LDCs, rather than the short term political goals of partisan administrations.
- be evaluated more in terms of the direct social and economic impact of aid assistance on low income peoples, rather than relying primarily on macro economic indications as a measure of development progress.
- be clearly explained to the American people on a bipartisan basis, emphasizing the positive interdependence of the human community and the threat to world stability and order of the increasing material and psychological polarization between the "haves" and the "have nots".
- separate military and economic aid policy to avoid/confusion of emphasis and goals in establishing foreign aid priorities and programs.

3. It would be simplistic to claim that our current U. S. aid program is not of any benefit to recipient countries. To the extent that our aid programs meet humanitarian objectives, we are being helpful.

From the viewpoint of the recipient countries, however, it is not enough that the United States be concerned for the well-being of the world. We must demonstrate this concern through efficient, effective programming, sensitively geared to achieving LDC goals based on their priorities, with due regard for our advice. Aid assistance which does not stimulate and support self-sustaining local initiative is not in the best interests of the LDCs, nor is economic growth without a measurable distribution of accrued benefits to the broad base of low income people in LDCs.

Further, recipient countries should not be induced to compromise their national objectives to achieve ours. To do otherwise would be running the risk of destroying the mutual respect so essential to the development process.

4. To improve the U. S. aid program in the years ahead, we offer the following suggestions:

A. Insist that, to the extent possible, the initiatives for development programs come from the developing countries themselves. This implies that our friends overseas know more about their priorities and how to accomplish them than we do. Having set their own priorities, the LDCs are much more likely to accept our advice to the mutual benefit of all concerned.

B. We should continually monitor the short term and long term effects of operating programs and compare them with previously established objectives. There must be sufficient flexibility built into our aid program so that constant refinement and modification can occur as the program unfolds. Considerable attention should be given to the accumulation of knowledge about the impact of economic growth on the low income people engaged in the social change process.

C. Small non-governmental agencies which have a demonstrated competency and sensitivity in working with people in LDCs might be increasingly utilized in foreign aid programs. Such agencies generally operate with minimum administrative expense, and often have established significant rapport and trust with low income peoples at the grass roots level. By carefully selecting appropriate non-governmental agencies, and providing grants for the operation of their programs, it may be possible to increase the effectiveness of our overseas aid program.

Recent decisions taken by Dr. John A. Hannah have already begun to move our aid program in this direction. The newly created Bureau of Population and Humanitarian Assistance under an Assistant Administrator is an approach to aid which we feel is not only appropriate but essential to maximizing the impact and effectiveness of U. S. economic aid.

D. To the extent possible, our aid should be provided with few, if any, strings attached. We can rightfully insist on proper performance and accountability standards, and where these criteria are not met, it would be appropriate not to continue an aid program. However, tied aid requiring the purchase of U. S. goods and services is often self-defeating and counterproductive to the development process.

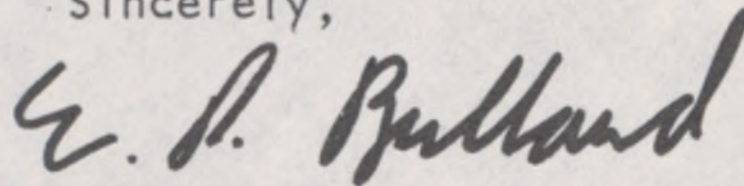
E. Our future aid programs should not be charged with the urgency of finding some grand solution for the ills of the world. While useful in establishing areas of priority, concerns such as nutrition, population control, and employment generation cannot in and of themselves define massive programs which will quickly benefit low income countries. Historically, it seems that micro level programs designed to overcome specific problems in specific areas of the world are those which accomplish the most. Our foreign aid assistance activities might utilize this same approach more concertedly.

F. To avoid foreign aid duplication of effort and bilateral competition among developed and developing nations, and in order to most effectively utilize the scarce resources available, infra-structure development in the public sector of LDCs should be channeled through multinational agencies, where possible.

It is our understanding that you may wish to have our views made public as a part of your efforts to formulate a more constructive and humane foreign aid policy. We are happy to have you utilize our comments to support this endeavor, but we would appreciate being kept informed of the constituencies contacted in this regard.

We would like to express our appreciation for the opportunity to comment on these most important issues affecting U. S. foreign aid policy. If you require further elaboration on the above comments, please do not hesitate to contact me or my colleagues.

Sincerely,



Edward P. Bullard
President

EPB:MLG
Enclosures

A FRESH START IN AMERICAN AID FOR DEVELOPMENT

by Paul G. Clark, Chairman, Department of Economics, Williams College

U.S. programs of development assistance for Asia, Africa, and Latin America have been in crisis for at least four years. Yet despite study after study, cosmetic job after cosmetic job, neither of the last two Presidents has made a serious attempt to resolve the crisis. The Senate's flat rejection of the basic aid legislation (temporarily) last fall is simply the most recent dramatic demonstration that something must be done. What is needed is a complete fresh start.

I shall organize my suggestions around the four questions put by the Foreign Relations Committee.^{1/}

IA. What should be the objectives of U.S. development assistance programs?

There is no unique objective for U.S. programs to lend or grant economic resources to foreign nations. A crucial distinction must be drawn between the objectives to be sought in assisting a wide variety of low-income countries to accelerate their economic and social development, and the objectives to be sought in helping relatively few allies to strengthen their military forces. Let me focus first on the rationale for American aid for development.

Even here there are multiple objectives. U.S. programs to assist economic and social progress in Asia, Africa, and Latin America simultaneously affect several American interests. Different groups of Americans inevitably have different assessments of the importance to them of these interests. In a democracy, any government program must rest on some degree of consensus among people seeking different objectives.

Nonetheless, I suggest it is clarifying to think in terms of four main American interests: a humanitarian interest in helping poor people improve their lives, a world-affairs interest in strengthening international order, a diplomatic interest in building respect for U.S. purposes, and an economic interest in expanding world trade.

Helping Poor People. The most deep-seated and widely accepted interest of the

1. For fuller and further discussion, see my book, American Aid for Development, published for the Council on Foreign Relations by Praeger Publishers, New York, 1972.

American people in assisting development is simply a desire to help poor people abroad improve the material basis for the quality of their lives.

There are certainly objective grounds for this humanitarian concern. Estimates of income per person indicate that in most Asian and African countries a person must support himself for a year with a value of goods and services which an average American disposes of in one or two weeks, or which an American at the poverty line disposes of in six or seven weeks. Such comparisons are crude, essentially because a person in a low-income economy necessarily adjusts to his poverty by consuming cheaper (and usually lower quality) goods and services than are available in a high-income economy. But low income per person carries with it many other disadvantages which are critical from a humane standpoint: a risk perhaps ten times higher that a new born baby will die within a year, a diet seriously deficient in more costly protein and other nutrients essential for vitality and health, housing in which people are crowded and more exposed to weather and pests, a chance perhaps one-twentieth as great that a child can obtain an education going beyond elementary literacy.

A rational approach to helping to improve living standards abroad must recognize that assisting the national economies to develop more rapidly is much more effective than assisting people directly. External assistance is fairly typically on the order of 2 to 3 percent of a recipient country's national product, so that if used directly to raise living standards it could at best make a small once-for-all contribution, roughly equal to one year's recent growth in income per person. On the other hand, external assistance is often on the order of 15 to 20 percent of investment, and this marginal supplement can greatly facilitate the recipient government's own efforts to mobilize domestic resources and direct its policies toward development. When the resulting increment in the annual growth of income per person is cumulated over a decade or two, this process yields a much larger improvement in living standards, and a more lasting one.

Strengthening International Order. The United States as a nation, furthermore, has a major interest in providing development assistance to help strengthen international order. This interest stems partly from the many positive benefits for the American people of living in a world which is more, rather than less, orderly. If nations become more civil in their dealings with one another, more active in international trade, more receptive to foreign newsmen and tourists, more interested in cooperating within international organizations, and more open intellectually to exchanging ideas, then Americans as active participants in world affairs share in the mutual benefits. This interest also stems partly from the obvious urgency of reducing wherever possible the risk of war. This concern is especially relevant for the United States, as one of the two principal nuclear powers most endangered if wars escalate.

How can U.S. development assistance programs help in strengthening international order?

First, development assistance can strengthen the position of governments which are already comparatively open and cooperative in international affairs. Some notable contrasting examples during the 1960s were the Sukarno and Suharto governments in Indonesia, and the Nkrumah and Busia (new Acheampong) governments in Ghana. For reasons of their own, the successor governments in each case have been more development-oriented in their national policies and more interested in orderly participation in world affairs, and both have been helped to follow these inclinations by increased availability of development assistance.

Second, aid in support of more rapid economic development can contribute to easing at least some of the frustrations of poverty and improving opportunities for non-violent evolutionary change. To be sure, many revolutions and coups have occurred in the 1960s and others must be expected in the 1970s. The tensions of modernization are too strong and the capabilities of governments too weak to head off all revolutionary disorder. But accelerated development can be a significant factor in reducing the proportion of potentially revolutionary situations in which violent breakdowns actually occur. During the 1960s, Korea, Iran, Turkey, and Ethiopia were cases in which com-

paratively rapid economic progress almost surely helped to moderate revolutionary pressures.

Third, by making it easier for governments to emphasize development as a central focus for national political attention, aid can do something to moderate the risk that longstanding unresolved grievances between low-income countries (e.g. Kenya and Somalia) will lead to overt military actions.

Fourth, development assistance involves continuing collaboration among low-income and high-income countries. Bilateral aid relationships call for recipients and donors to be reasonably open and cooperative in their dealings with each other, and multilateral aid relationships call for participants to work together within international organizations for common purposes. In inter-American affairs during the 1960s, for example, bilateral U.S. development assistance to individual Latin American countries, expanding loan programs of the Inter-American Development Bank, and multilateral discussion of aid issues in the Inter-American Committee for the Alliance for Progress (CIAP) brought countries together. These collaborative experiences very likely strengthened trends in trade policy toward freer trade groupings and more liberal import regimes, and the capability of the Organization of American States to cool military crises such as that between El Salvador and Honduras.

Building Respect for U.S. Purposes. A further interest of the United States in providing development assistance is to build respect and sympathy for American purposes in international relations.

It is important to adopt a rational approach to expressing this diplomatic interest, however. Some ways of trying to use aid for diplomatic purposes are not appropriate or feasible. Governments sensitive about their independence will not alter the general direction of their foreign relations with democratic and communist countries to obtain more or less U.S. development assistance. Similarly, they are unlikely to undertake or to refrain from symbolic acts characterizing their foreign policies--such as voting for one wording or another in highly publicized United Nations resolutions--because of pressure from American officials. Any efforts by the United States to use aid to seek such short-term tokens of sympathy demean not only its humanitarian and world-affairs motives, but its long-term diplomatic interest as well.

Among all the areas in which the United States deals with the governments of low-income countries, development assistance is one of the most suitable for building respect, because in this area the concerns of recipient governments and of the United States are substantially overlapping. Recipient governments are vitally interested in accelerating development, which is also a concern of the United States, and very much need external capital and technical skills to supplement their own resources, which the United States is able to supply. The interests of the parties are not nearly so congruent in the areas of trade negotiations (where conflicting protectionist forces tend to be strong on both sides), or of private investment (where the concepts of exploitation and of joint returns so often clash). In particular, development assistance seems distinctly more attractive in this respect than military assistance, since the military objectives of allies and of the United States frequently diverge markedly.

Development assistance can best build respect and sympathy for U.S. purposes by being demonstrably helpful in supporting economic and social progress. Effective aid for development is a persuasive indication that the United States has a broader view of its national interests than just seeking anti-communist allies or winning the Vietnam war. Effective aid for development also indicates that Americans can generally carry through what they agree to do. Respect built up over time through effective aid relationships in turn leads naturally to a more sympathetic hearing for other U.S. concerns.

Expanding the World Economy. A fourth interest of the American people in aiding development abroad is to share as producers and consumers in the resulting expansion of the world economy. More rapid economic progress in low-income countries means that they become better markets for U.S. exports, and Americans can gain higher incomes by specializing in supplying such exports. At the same time, more rapid economic progress means that low-income countries become better suppliers of U.S. imports, and Americans can thereby gain higher living standards through the availability of more diversified products at lower costs.

The significance of accelerated development for U.S. trade with low-income countries is suggested by the following simple comparison. Between 1960 and 1969 total U.S. trade (exports plus imports) with all the low-income countries combined expanded by 58 per cent, from \$13.1 billion to \$20.7 billion. During the same period, U.S. trade with the ten most rapidly developing countries in a list of 60 expanded by 263 per cent.

To sum up, the United States should recognize that it has multiple objectives in providing economic assistance for the development efforts of low-income countries in Asia, Africa, and Latin America. Fortunately, effective aid to accelerate economic and social development contributes simultaneously to a humanitarian interest in helping poor people, a world-affairs interest in strengthening international order, a diplomatic interest in building respect for U.S. purposes, and an economic interest in expanding world trade. These interests must be pursued rationally, and none is decisive by itself. But together I believe they fully justify a revitalized U.S. commitment to aid for development.

IB. What should be the objectives of U.S. security assistance programs?

Let me turn not to the rationale for U.S. security assistance programs. (Security assistance here includes all loans and grants for military equipment and services, plus economic assistance designed mainly to support military forces of allies.) I shall be brief, because I am both less confident in this field and more skeptical.

In the first place, the dominant security interest of the United States in practically all of Asia, Africa, and Latin America is a broad interest in reducing the risk of war, rather than a direct military interest in building up allies. A military interest would presumably depend on two conditions -- that the United States might itself be engaged directly in combat in an area, rather than by escalation of a war between or within low-income countries; and that a low-income ally might have sufficient military power to be a substantial factor in the outcome. There appear to be only four

low-income countries that may conceivably meet these conditions: Korea, Taiwan, Iran, and Turkey. To be sure, a few other countries, such as the Philippines and Ethiopia, now provide facilities for American use with some direct military value, but it proved feasible to manage when similar facilities were abandoned during the 1960s in Pakistan, Libya, and Morocco. Apart from these four (possible) exceptions, the rational U.S. objective in Asia, Africa, and Latin America is not to bolster the military forces of allies, but to keep forces of potential antagonists among the low-income countries limited and balanced.

Furthermore, an important objective is to minimize the drain of domestic resources in low-income countries from peaceful development efforts into military establishments. In general this implies holding down, rather than encouraging, military credit sales and military assistance grants. A particular issue arises about the terms on which U.S. security assistance is available. It would be sensible to make a rapid transition from grants to credits, so that finance ministers of allied governments would have to weigh carefully the costs of borrowing for military equipment, just as they now consider the costs of borrowing for development projects. It is true that hardening the terms of security assistance in this way could also affect development assistance in two of the four exceptional cases noted above. In Taiwan and Iran the United States first phased out economic aid, and only later shifted gradually from military grants to credits. Korea and Turkey are already well along the same course, but their economies can not stand both an abrupt phasing out of development assistance and an abrupt shift to military credit sales. Even here, the preferred adjustment would probably still be to shift promptly from military grants to credits, and then to plan to continue development assistance further through the years ahead.

II. What is wrong with current U.S. aid policies?

I suggest that three strategic errors are embedded in current American aid policies. First, development assistance and security assistance are still mixed together in legislation and public thinking, and this confusion is a key barrier to a

rational fresh start in aid for development. Second, as a consequence of the unresolved crisis in aid policies, the United States is now conspicuously failing to do its share in providing development assistance, and thus risking disruption of the entire world aid system. Third, the United States is still stumbling along from year to year with appropriation arrangements that are not politically and financially suitable for providing long run economic and social development. There are other more specific problems, but these three are fundamental.

Confusion of Development Assistance with Security Assistance. Mixing aid for development in a wide range of low-income countries and aid for a few allies' military forces is an anachronistic carry-over from past cold-war thinking. As already discussed, American interests in helping low-income countries in Asia, Africa, and Latin America are much broader than security. Of the four principal interests, security considerations enter into only one--that of strengthening international order. Even here the main objective is to strengthen orderly peacetime relations among nations, by facilitating more rapid development.

Political trends both in recipient countries and in the United States argue strongly against this anachronistic mixture. Political leaders abroad must demonstrate their autonomy in relation to external powers like the United States, and military assistance is increasingly a source of tension because it implies dependence so vividly. Political leaders will become ever more sensitive to indications that donors administer development assistance programs to complement military objectives.

Here in the United States, as a consequence of the trauma of Vietnam, reducing the risk of direct military involvement abroad is obviously a powerful political drive. A real retrenchment in the military capabilities of U.S. forces abroad is likely, and security assistance to bolster foreign military forces looks more and more dubious. It is particularly important to avoid the essentially fallacious association of development assistance with U.S. military involvement. In both Korea and Vietnam, military involvement occurred before substantial development assistance; while there have been four serious armed conflicts among countries receiving U.S. economic assistance

that did not lead to U.S. military involvement -- the 1965 India-Pakistan war over Kashmir, the Arab-Israeli war, the civil war in Nigeria with Biafra, and the 1971 India-Pakistan war over Bangladesh. This confusion of development assistance with security assistance must be corrected.

Recent Failure of the U.S. to do Its Share. In the early 1960s the United States bore the main responsibility in the world aid system. Not only did it devote a larger fraction of national product to development assistance than any other donors except France and Portugal, but it played an active leadership role in many aspects of aid policy. It also urged other donors to assume a larger share of responsibility, and over the 1960s they have in fact responded. But as a result of the U.S. aid crisis of the last four years, the United States has actually reduced its flow of development assistance by roughly half a billion dollars.

Thus today, among the 16 members of the Development Assistance Committee, the United States is providing less official assistance in relation to its national product than Britain, France, Germany, Japan, Canada, Australia, Netherlands, Belgium, Sweden, Denmark, Norway, or Portugal -- and exceeds only Italy, Austria, and Switzerland.

Moreover, the other donors are generally undertaking to expand their development assistance further as they move into the 1970s, while the United States is conspicuously cutting back. Unless this striking divergence is promptly corrected, it is hard to believe that the other donors can actually maintain their plans through the decade. The evolving world aid system seems bound to erode and fall apart.

Lack of Suitable Appropriation Arrangements. I suggest that an important source of the U.S. aid crisis is that the political procedures by which the President and the Congress annually appropriate funds for development assistance are particularly unsuitable for sound long run decisions in this field.

Development assistance is a relatively technical field of foreign policy in which issues are settled largely by negotiation between the Executive branch and the

Congress, rather than by electoral appeals to the voting public. The legislative process has traditionally required the Congress to authorize every year the very existence of the aid program, considering the basic law and an appropriations ceiling in two committees and both houses, and then to vote detailed appropriations, considering that in two other committees and both houses. Congressmen are naturally inclined to cut appropriations where no well-organized groups of voters are active claimants, and can use negative aid votes to symbolize opposition to the President on other issues. The President can mobilize public support only occasionally on major foreign policy decisions, not every year on appropriations disputes. Thus it is not surprising that all recent Presidents have urged more ambitious development assistance efforts, and all Congresses have cut appropriations well below their recommendations.

A solution to the U.S. aid crisis, I believe, must involve breaking out of this annual Executive-Congressional impasse. Somehow development assistance programs must draw on funding sources supplementary to annual appropriations, and decisions about appropriations must be made in a multiyear perspective. Somehow the President must exercise more effective leadership, in working with the Congress, for development assistance as a major thrust of American foreign policy.

III. Do current U.S. development assistance programs serve the best interests of recipient countries?

Fundamentally the answer seems to me to be clearly yes. A vital national objective of most low-income countries (though not of course the only one) is to accelerate the pace of economic and social development. Indeed, many low-income countries have an unprecedented opportunity for doing so during this decade. External capital and technical resources make it more practicable for them to achieve these accelerated rates of progress. Indeed, to take full advantage of the opportunity of the 1970s will require a large expansion in the total flow of development assistance from high-income countries. There are certainly frictions in the aid relationship, some avoidable and some not, but fundamentally the recipients urgently need whatever development assistance they can get.

The Opportunity for Accelerated Development. The 1970s offer a remarkable opportunity for accelerating the pace of economic progress in many low-income countries. If this opportunity can be fully seized, for the first time the low-income countries as a group may just begin to raise income per person more rapidly than the high-income countries. A substantial number of countries (besides those that did so during the 1960s) may achieve demonstrably high rates of progress, and among them are several large countries that play important roles in international affairs.

There are three main grounds for foreseeing this opportunity: a discernible development momentum on which further acceleration can build, the agricultural breakthrough, and more effective development policies.

First, during the 1960s the low-income countries as a group already moved ahead faster than in the past, while a number of growth leaders demonstrated that truly high rates of progress can be reached. I have examined in my book annual rates of increase of income per person during various time periods representative of the 1960s for sixty individual low-income countries. The majority expanded more rapidly than in the past, but with wide differences among them. Ten had annual rates of progress of 4% or higher (which implies doubling in 17 years or less) eight 3-4%, thirteen 2-3%; fourteen 1-2%, and fifteen less than 1%. Yet there was great diversity among the countries with similar rates of progress. They differed in their geographical region, in absolute level of income per person, in population size, in political structures, in their natural resource endowments, in the nature of their participation in world trade, and in many other respects.

The point is that what comparatively successful countries have already shown to be feasible, despite wide differences in initial conditions, additional countries building on their existing momentum ought to be able to repeat. The process of accelerating development during the 1970s can consist of additional countries "following the leaders" and rising their own rates of progress a step or two along the scale.

The second ground for anticipating a major development opportunity in the 1970s is the unprecedented agricultural breakthrough based on the new high-yielding varieties of wheat and rice. This breakthrough is still in its early stages, and will spread and cumulate during the present decade. In Asia in 1969, it is estimated that only about 16% of the total wheat acreage and 7% of the total rice acreage were planted with the new seeds. Moreover, there are many indications that the advances in scientific plantbreeding which created the present high-yielding varieties can be carried further.

The third basis for the opportunity to accelerate development is the spread of more effective development policies. A number of important lessons have been learned over the 1960s. Basic strategies no longer focus so overwhelmingly on industrialization. More and more countries are giving top priority to stimulating their previously lagging agricultural sectors. In trade policy the emphasis is no longer so singlemindedly on import substitution. More and more countries are adjusting exchange rates to help correct balance-of-payments problems, restraining domestic price inflation, encouraging nontraditional exports, and liberalizing import regimes. Development planning is no longer seen primarily as a centralized procedure for setting targets and directives, but as a broader process in which effective implementation through markets is usually the key. Population policy is no longer thought of as improper or hopeless.

Along with this opportunity, however, the low-income countries face several increasingly severe internal problems. One is unemployment. Many countries already have overt unemployment in the range of 7 to 15 per cent of their labor forces, plus extensive underemployment and continuing heavy migration of people to the cities. Yet the age structures of existing populations assure that their labor forces will grow during the 1970s in the range from about a fifth faster to twice as fast as they have in the past. The agricultural breakthrough itself will generate some difficult "second-generation" problems even as grain production rises. While the new high-yielding

varieties benefit small farmers as well as large ones in well-watered areas, they are likely to widen the income disadvantages of farmers in drier areas, particularly as grain prices fall. While multiple-cropping tends to increase labor requirements, landless laborers are likely to benefit conspicuously less than landowners, and excessive mechanization could over time seriously jeopardize their position. Social and political unrest are already endemic, and seem bound to spread. These difficult problems need to be addressed directly, but they also increase the urgency of achieving the more rapid rates of economic progress now within reach.

Thus it is certainly wrong to approach U.S. aid policies with a discouraged impression that little is being accomplished and little can be done in the low-income countries. The opportunity of the 1970s means that the pay-off from development assistance can be unusually high. On the other hand, if this opportunity is permitted to slip away, frustration within low-income countries and erosion of international cooperation will almost inevitably spread.

Rising Total Aid Needs. In order for the low-income countries to seize fully this opportunity for accelerated development, the evidence seems compelling that the total flow of development assistance from the high-income countries will have to expand substantially.

Aid needs should be thought of, not as a fixed quantity, but as a schedule of productive uses of external resources, ranging from very high to very low productivity. The opportunity of the 1970s means that this schedule is shifting; new uses of high productivity are emerging, and known uses are becoming more productive. Moreover, aid needs should be thought of as supplements to domestic resources for development. A recipient country must finance the bulk of gross investment from domestic saving and the bulk of imports from export earnings. As it attempts to push up its rate of economic progress, however, more rapid growth calls for a higher share of investment in national product. There is typically an initial tendency for investment to rise more rapidly than domestic saving, before rising incomes pull up saving. Similarly,

more rapid growth tends to raise imports (particularly of capital goods needed for higher investment), more rapidly than export earnings, before allocation of resources to export expansion and import substitution pays off. The opportunity of the 1970s means that many countries will need additional aid, during an extended transition period, to supplement increases in their own domestic saving and export earnings.

To be sure, the effectiveness of a country's development policies obviously influences its aid needs. Indeed, in terms of the pure economics of resource allocation, a low-income country could conceivably force a large enough share of incomes into saving, and allocate sufficient investment to export expansion and import substitution even at low returns, to carry through development even without aid. But in low-income countries just as elsewhere, the political and social strains of such spartan and single-minded policies make it unrealistic to expect that development policies alone can do the job. Availability of external assistance, however, can provide critical support for government leaders considering whether to adopt desirable but initially unpopular policy measures.

A number of quantitative estimates of the aid needs of low-income countries have been made in the past -- by the staff of the World Bank, by various U.N. agencies, by the staff of A.I.D., by the Pearson Commission on International Development. They consistently indicate that low-income countries could use productively more development assistance than they have been getting, and that if they are to develop more rapidly they will face rising aid needs.

I have also made some empirical estimates of total aid needs during the 1970s which I believe are relevant as a framework for considering future U.S. aid policies. The estimates are keyed to helping five groups of countries, which appear to have significantly different development prospects, realize degrees of development acceleration that they seem realistically capable of achieving. The overall acceleration works out to be approximately in line with the aggregate development targets suggested by the Pearson Commission. The analysis deliberately

includes several cautious features so as to avoid exaggerating aid needs and to be, if anything, on the low side.

The aggregate results of my projections are that total needs for official assistance, for all recipients from all donors, are likely to rise from the recent \$7.1 billion to at least \$10.0 billion by 1975, and at least \$14.4 billion by 1980.

My analysis also indicates sharply different time patterns of aid needs for the five groups of recipients. Official aid needs of the Group I countries, which were already developing rapidly in the 1960s, are projected to fall to less than half their present level by 1975, and virtually to zero by 1980. If these countries are able simply to continue their development patterns of the past, they can complete the process of becoming fully self-sustaining.

By contrast, aid needs of the Group II countries, which seem capable of rapid acceleration and are within reach of truly high rates of progress, are projected to rise about 65% by 1975, and though the annual rise slows down after that, to increase to about 140% by 1980. The Group III countries, which are also considered capable of accelerating rapidly but start from slower past rates of progress, face even sharper rises in aid needs -- to approximately double by 1975, and more than triple by 1980. These two groups of countries are the potential success stories of this decade, and include such large countries as Turkey and Iran, Pakistan, India and Indonesia, Mexico, Brazil and Colombia, and Ethiopia and Nigeria.

The Group IV countries, which seem capable of moderate acceleration, correspondingly have a more moderate rise in their projected aid needs. The rise is about 45% by 1975, and about 110 per cent by 1980. Finally, the Group V countries, which seem unlikely to be able to do better than in the 1960s, are projected to have declining aid needs -- to less than half the present level by 1975 and to about a fifth by 1980. Thus aid needs of different recipients depend very much on whether they are able to achieve significant acceleration in development.

IV. What should the United States do to revise its development assistance programs?

My purpose here is to suggest some basic principles for a fresh start in American aid for development. What is needed is more than amendments; it is essential really to resolve the crisis that has palsied U.S. development assistance programs for at least four years. These principles are aimed at correcting the three strategic errors now embedded in U.S. aid programs.

Both a National Program and Support for International Agencies. The first principle is that the United States should provide development assistance both through a major national aid program and through contributions and support for international agencies. A mixed system is very much preferable to either channel by itself.

An expanding national aid program is essential to provide a rising total aid flow over the decade ahead. The various international agencies -- the World Bank, the International Development Association, the different regional banks in Latin America, Asia, and Africa, and the many United Nations agencies -- are each subject to their own constraints. A policy of increasing contributions to international agencies as rapidly as is realistically practicable -- which I favor -- would by my calculations still enable them to provide only about a quarter of an adequate total flow from all donors to all recipients by 1980.

Moreover, a major national aid program is desirable in its own right. While American interests in supporting development are served to a considerable degree regardless of the channels through which aid flows, it is natural to feel some pride when the United States as a nation joins in helping poor people abroad, strengthening international order, and expanding the world economy. The long-term U.S. diplomatic interest, furthermore, is clearly best served through an effective national program, working with the governments of low-income countries in this area of overlapping concerns. Perhaps most important, a U.S. national program can be a source of innovation, trying new and perhaps distinctive approaches to assisting development. Over the last decade

A.I.D. has been a principal source of such initiatives as program loans, concern for general development policies, emphasis on agricultural expansion, support of trade and exchange liberalization, and encouragement of family planning. During the 1970s similar initiatives will be needed in helping recipients to address such pressing problems as urban unemployment and uneven benefits from agricultural progress.

At the same time, the international agencies have certain special strengths. Perhaps the most important is that expanding their role in the world aid system is a direct way to strengthen international order. Particularly in the case of the World Bank family, they have some advantage in providing disinterested administration of aid activities, and their independent status helps both recipients and donors have greater political autonomy in aid relationships. A major potential strength is the possibility of tapping future issues of I.M.F. special drawing rights as new sources of funds.

Thus it seems to me clearly sensible for the United States both to push ahead with a revitalized national aid program and to give strong support to the international agencies in handling enlarged resources and exercising greater leadership in a diversified world aid system.

Complete Separation of Development Assistance from Security Assistance. A second key principle for this decade is that the United States should clearly separate development assistance and security assistance. The two programs should be justified separately to the public, legislated separately in the Congress, and administered by separate agencies.

A fresh start in development assistance should be insulated from security matters to clarify the much broader nature of American interests in helping the low-income countries to develop more rapidly. Separately administered programs are also desirable because political currents in the low-income countries are moving steadily against involvement with the great powers in security matters, and political trends within the U.S. demand retrenchment of security activities abroad and greater emphasis

on cooperation for peaceful progress. Finally, separation would facilitate more effective administration of aid activities, focused more sharply on development criteria.

While my main stress here is on development assistance, let me make just one suggestion about organization for security assistance. In my opinion the preferred arrangement would be to assign responsibility to a special unit in the State department for policy guidance, justification to the Congress, and administrative procedures for all forms of security assistance -- military credit sales, military assistance, surplus military equipment, supporting assistance, and police assistance. Actual implementation of military equipment and training projects could still be obtained from Defense, but the focus of responsibility should be in State. The point is that security assistance to allies typically raises more significant issues of foreign relations than issues of trade-offs with U.S. armed forces. Civilian diplomats should carry the responsibility. Similarly, the foreign affairs committees of the Congress are the proper ones to consider authorization (preferably in a single bill) of all forms of security assistance.

It is true that separating development assistance completely from security assistance may lose some Congressional votes, particularly in the House. But the present approach is clearly a failure. A new pattern of Congressional support for aid to development must be built -- presumably with a somewhat different group of supporters from those voting for security assistance.

A Corporation Capable of Expanding Aid Flows. The third and most important principle is a completely new development assistance organization to replace the Agency for International Development, with a form and powers designed specifically to resolve the aid crisis. This means designing the new organization to break decisively out of the past Executive-Congressional impasse, to provide financing arrangements that are realistically capable of expanding U.S. development assistance on the scale needed, and to assure continuity through the decade.

A government corporation would be an attractive legal form to establish the necessary continuity. It seems to me essential that such a Corporation have a four-year legislative authorization, covering the four fiscal years that begin within the term of a President. This is the minimum continuity to enable the President periodically to mobilize political support for aid to development, and then to use aid as a peaceful instrument of foreign policy. The Congress has actually adopted some two-year authorizations in the past. But a full four years keyed to the President's term seems to me essential to break out of the pattern of an annual Executive-Congressional confrontation. Re-examination of the basic nature of the program should thus normally be concentrated in the first year of each President's term, when he must set the directions and obtain support for his major foreign policies. More specific issues and proposed amendments to the continuing authorization would of course arise for Congressional consideration in the intervening years.

The Corporation should have four ways of mobilizing funds, to give it greater scope than A.I.D. has had for expanding aid flows.

First, and quantitatively much the largest, it has to have budgetary appropriations. There is no practicable alternative way, at the level of resources needed, to obtain sufficient funds for concessional lending or grants. This means annual budget requests to the Congress; a single multiyear appropriation could not realistically be expected to obtain the level of resources needed. To have a reasonable chance of enabling the United States to contribute its full share to the world aid system, it is crucial that the authorizing legislation specify a schedule of future annual appropriations on a rising scale. The annual Congressional appropriations votes must be set in the context of a previously approved multiyear aid program, as in many domestic programs.

Second, the Corporation should be allotted by law the principal and interest reflows from all previous government-to-government loans since World War II. A.I.D. now receives about half of these, the remainder going direct to the Treasury (part of which are in local currencies). They will rise in the 1970s as grace periods expire on outstanding loans, however, and amount to about \$300 million by fiscal year 1975. Allotment

of all reflows to the Corporation is important to emphasize continuity, to supplement annual appropriations modestly and to help provide a basis for borrowing by the Corporation.

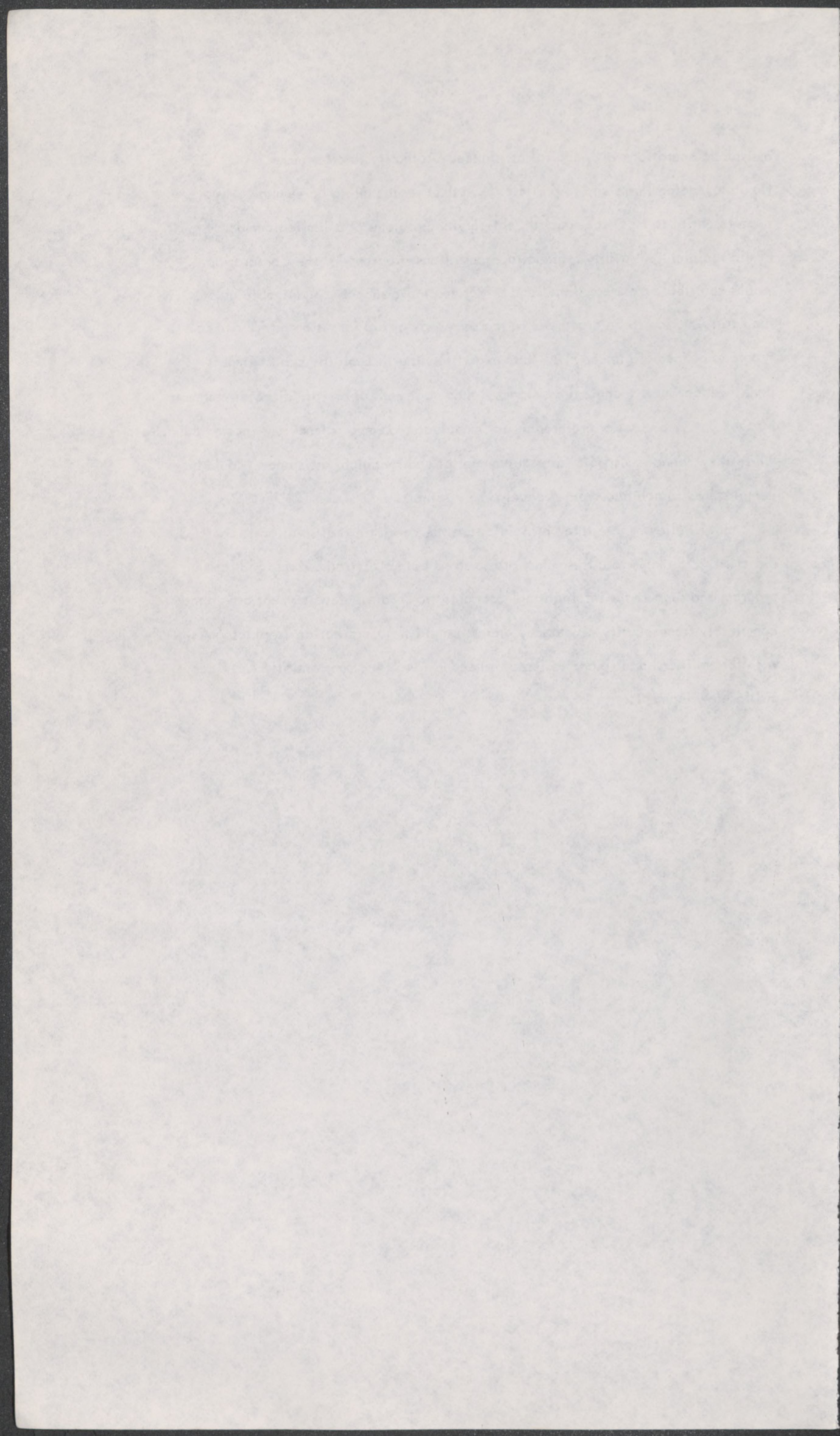
Third, the Corporation should have authority to borrow in the U.S. capital market. To make this practicable, its obligations would have to carry a Treasury guarantee, as the securities of several other federal corporations do. Since the Corporation would be lending to low-income countries at markedly concessional terms, while borrowing at market terms, it would have to have assured future receipts to cover the differential. Reflows from past loans have the convenient characteristic that they also extend into the future. But in this way the reflows could support a cumulative total of lending over the years, amounting to ten to twenty times their annual value, depending on the differential between the terms at which the Corporation borrows and at which it lends. Borrowing from the market would also introduce highly desirable timing flexibility around the rigidity of fiscal year appropriations.

Fourth, the Corporation should have authority to guarantee foreign government securities being placed directly in the U.S. capital market. A suitable fee should be charged to cover the risk. This authority would not substitute in any significant degree for the other ways of mobilizing funds, since such securities would be at commercial terms, well above the concessional terms needed for the Corporation's own lending. Initially only a few countries are likely to be able to make such direct placements -- countries which have become nearly self-sustaining, like Israel, Taiwan, and Mexico. But the guarantees would lower somewhat the interest rate at which securities could be placed, and help to establish a country's credit in the eyes of the market. The guarantee authority would in effect give the Corporation a small commercial-terms window for certain countries, supplemental to appropriated funds.

Besides these three basic principles there are other more specific changes in U.S. development assistance programs that seem to me highly desirable. Special organizational arrangements to stimulate research and innovation in technical assistance could be a significant improvement, while continuing to integrate most technical

assistance operations with capital assistance. Authority to offer more flexible lending terms and to participate in debt rescheduling agreements seem essential to meet the special debt-service problems of a limited number of aid recipients. A fully regional appropriations structure for the Corporation would contribute to more rational and effective public support, and enable aid for Latin America to be organized in the same way as aid for Asia and for Africa. Programs of food aid under P.L. 480, export lending through the Export-Import Bank, Peace Corps technical assistance, encouragement of private direct investment by O.P.I.C., and tariff preferences for manufactured imports from low-income countries, while they cannot substitute for regular capital and technical assistance, could be administered to achieve greater development effects.

But I believe these three principles are the core of a real solution to the U.S. aid crisis. The keys to a fresh start are to stress both a revitalized national aid program and support for international agencies, to separate development assistance completely from security assistance, and to establish a Corporation (replacing A.I.D.) with the political and financial features needed to expand substantially American aid for development.



UNITED STATES FOREIGN ASSISTANCE

POLICIES: A COMMENT*

Peter Dorner**

While I appreciate very much the opportunity of making my views known to this Committee, I wish also to issue a general disclaimer. I do not present myself as a critic with all the answers. Nor should this statement be viewed as an attack on the many individuals who have worked at the difficult task of international assistance--most of them receiving little praise while taking part in a process that has come under increasing criticism. The generally critical tone of the present statement results from an attempt to highlight the problems, and not from any effort to completely evaluate and provide a balanced view of all international assistance. In these matters, there are no "right" answers for all nations for all times. To a considerable degree, foreign assistance policies must retain open, flexible, and experimental qualities.

*Statement prepared at the request of Senator J. W. Fulbright, Chairman, United States Senate Committee on Foreign Relations.

**Professor of Agricultural Economics and the Land Tenure Center, University of Wisconsin, Madison. Without attributing any responsibility to them, I am happy to acknowledge the helpful comments received on an earlier draft from Carl Bögholt, Don Kanel, Daniel Bromley, Carl Gotsch and William Thiesenhusen. I am indebted also to John Bielefeldt for his editorial assistance.

One's view of international assistance programs is influenced by his conception of the development task and how it should be confronted. Given my own background of training and experience, I must deal primarily with the agricultural sector and its development--with full awareness, however, of the many sectoral interdependencies involved in economic and social change.

Many countries have more illiterate adults today than they did twenty years ago, and the income gap between rich and poor has often widened (both within the less industrialized countries and between those countries and the more industrialized ones). There has been insufficient expansion of economic opportunities and too little enhancement of the human capacities needed to exploit them. Development has been rationalized, and international assistance has been justified, on the grounds that it would improve the general conditions of life for the masses and not just for the few. Despite considerable economic growth, the poor and the underprivileged have reaped few benefits.

What went wrong? I do not subscribe to the view that the persisting and deepening unemployment--distributional crisis can be attributed to some malicious plan of the industrial world to keep the predominantly agrarian nations dependent and in poverty. As may be expected in a vast international assistance effort, there has been the normal amount of fumbling and uncoordinated effort, even some cases of outright malfeasance and corruption. Basically, however, the failings seem attributable to other factors: a misconception of

the development task; a confusion in identifying economic growth with development; and the economic and political power within both the less developed nations and the United States, of those who feel that present foreign assistance policies are working to their advantage.

In criticizing foreign assistance efforts, we should be fully aware that the problems of employment creation and income redistribution also represent basic developmental issues within our own borders. We have not been entirely successful in resolving these issues at home despite the fact that we have more direct control over our internal programs than we can or should have in the development programs in other countries. Our internal task should also be much simpler since the excluded poor represent only about 15-20 percent of our population and we have the wealth to resolve this issue if we can find the will and the organizational means of doing so. In many of the less developed countries, by contrast, 70-80 percent of the people live on the fringes of the growing points of the economy. Furthermore, their total population and labor force is growing very rapidly. These countries are therefore on a different historical track than were the present more developed countries at a comparable stage of industrialization--when populations were smaller, growing less rapidly, and when all production processes were more labor using than they are today.

Most would agree that the reduction of poverty and unemployment are requisites of development, but there is an abiding faith in a trickle down theory of distribution--that one can help the poor by aiding the rich. As a consequence, it is too often assumed that job

creation and a more egalitarian income distribution are automatic concomitants of economic growth. In assuming a close positive correlation between output expansion and employment, economic planners have emphasized increases in the rate of capital accumulation, including capital transfers from the industrial nations to the less developed ones. Expanded capital imports are accompanied by technical assistance in order to increase the effective capital absorptive capacity of the less developed countries.

Without question the less industrialized countries must incorporate new techniques of production if they are to raise their levels of output and their factor productivity. But technology is not all of one cloth; it must retain an organic, functional relation to the existing factor proportions and endowments of a nation. The factor proportions (especially the proportion of labor to capital) in the industrial nations, where most of the new technical innovations occur, differ greatly from those in the less developed countries to which this technology is exported.

This international technological dualism is directly and causally related to an internal dualism of the less developed countries, which often have two sub-sectors of agriculture: (1) a large farm, more commercialized sub-sector, and (2) a small farm, less commercialized one. The latter usually holds the overwhelming majority of the rural population, although it has much less than a proportionate share of the farm land. Farm operators in the small farm sector are often tenants and sharecroppers with insecure rights to the land they operate. Generally, only the larger farms can gain

access to and utilize effectively the agricultural machine technology from the industrial countries, and even divisible inputs such as improved seeds and fertilizers (the Green Revolution technology) may not be neutral to scale if the benefits of public credit and service agencies are directed mainly to the larger farmers. Much advanced technology, when imported into a less industrialized country with widely different circumstances of factor proportions (that is, redundant labor and scarce capital), fails to generate spread effects and linkages. Only a modern enclave prospers from using this technology, leaving most of the population in poverty, with income differentials between those in the modern and those in the traditional sectors widening in much the same way that these differentials are growing between the rich, industrial and the less developed countries. Capital and technology transfer do increase the prospects of profits in farming for those able to take advantage of such transfers. But without land reforms and related institutional changes, the concentration of economic opportunities leads to displacement of small farmers from their insecure position as tenants, as landlords seek to exploit the new opportunities on their lands.

A focus on production (with the aid of imported capital and technology) without explicit attention to income distribution and the creation of more employment opportunities may yield increased output of certain commodities and growing labor productivity for a part of the labor force. Yet such policies tend to widen income disparities and throw the burden of adjustment on the disadvantaged, who join the ranks of the landless, continue to crowd into existing small farm

areas, move out to rapidly shrinking frontiers, or join the under-employed in the cities. The capital intensive (labor saving) nature of imported technology does not permit the expansion of the industrial sector at a rate sufficiently rapid to absorb these growing numbers.

Until the mid-1960s, it was often assumed that agriculture would continue to serve as a vast reservoir automatically holding redundant labor until industry needed it. But the rapid population growth rates of the past several decades are now resulting in equally high rates of growth in the labor force. Since the opportunity structure in agriculture in a pre-land-reform system has often been defective, this growth in numbers has led to massive rural-urban migrations. In many of the less developed countries, the agricultural sector could provide productive employment opportunities for many more people than it does at present, providing that the land ownership pattern is re-structured along the lines of a family farm (small ownership) system, agricultural production cooperatives, or a combination of these forms.

Even if it were possible, in the absence of land reform, to avoid this mass movement to the cities, people cannot simply be placed "on ice" until such time as they are needed. They must be engaged in worthwhile, productive activity in order to develop their individual, human capacities and thereby develop the skills and the discipline which both a modern agriculture and industry require. Perhaps an even more important impact of idleness is the depression of hopes, aspirations and self-respect, especially among the young, who look to adults of their own social group and community for models to emulate.

The development of human capacities is not likely to be achieved when large numbers are forced to rely solely on the public dole--even if it were possible to administer the necessary tax and welfare policies to accomplish this.¹ Land must be viewed not merely as a resource to be efficiently combined with scarce capital so as to maximize agricultural output, but also as a vehicle for employing people and for developing their skills and experience. Indeed the manner in which increased production is achieved, and the number of people who participate in and reap benefits from the experience, may be as significant as the short-run production increase itself.

It is in trying to combine output with employment and distribution goals in the same general policy, rather than in their separation, that land reform becomes strategic. This combination cannot be achieved without redistribution of property rights in land from those owning (or claiming) much to those owning little or none. Land resources are usually insufficient within existing small farm, subsistence areas to deal with the problems without such redistribution. Poverty cannot be eliminated by working only with the poor. The poor need resources now controlled by others.

The separation of production policies from distribution policies is frequently defended by pointing out that unless and until production is increased, there is little to distribute. This argument is not convincing; indeed it is often a rationalization of the well-to-do who are trying to protect their privileged position. Given the

¹A vast public welfare system is itself impossible in poor countries where from one half to two-thirds of the population is at the margin of subsistence.

circumstances existing in many of the less developed countries (a redundant labor supply, a lack of bargaining power, the inability to finance and administer massive social welfare programs, and a concentration of property ownership), those who own the means of production also receive the income from their use. Increased output is more or less automatically distributed, in the very process of its production, to these owners. Under these circumstances, the institutions of private property, freedom of contract and competition may well accentuate the existing inequalities. These institutions cannot perform in the public interest until there is a more equal distribution of wealth, power, and opportunity. A rigid commitment to and a blind protection of the existing structure of property rights may lead to the complete elimination of these institutions. A more flexible, reformist approach will often lead to mixed systems of private, state and cooperative enterprises which may be much more appropriate for meeting developmental needs. The argument for separating production from distribution policies also fails to take account of the fact that the resulting product mix may be inappropriate to begin with.

Mahbub Ul Haq, former chief economist of the Pakistan Planning Commission has stated the point eloquently, "Once you have increased your GNP by producing more luxury houses and cars, it is not very easy to convert them into low cost housing or bus transport. . . . In my own country, Pakistan, the very institutions we created for promoting faster growth and capital accumulation later frustrated all our attempts for better distribution and greater social justice. I am

afraid that the evidence is unmistakable and the conclusion inescapable: divorce between production and distribution policies is false and dangerous. The distribution policies must be built into the very pattern and organization of production."²

It might make sense to separate employment-welfare-income distribution policies from production policies if the rules governing the ownership of property were considered fixed, sacred, and unchangeable. If the large farm owner is to be provided with the necessary incentives to increase output efficiently (according to private decision-making criteria of efficiency rather than efficiency criteria appropriate to society), he must not be required to support a labor force he does not need and does not wish to manage. But it is precisely the rules of property ownership (land tenure) that must often be changed in order to make increased output and improved access to economic opportunities for the underprivileged a unified and consistent goal of policy. The technological gap is too wide, the internal disparities too great, and the population growth rates too high to continue a policy course which separates production from employment creation and distribution. The performance records of the past several decades in those countries where major land reforms have been implemented indicate no incompatibility between these two policy objectives of increasing agricultural output and increasing employment with a more egalitarian income distribution.

Of course land redistribution by itself, even though it may

²Mahbub Ul Haq, "Employment in the 1970's: A New Perspective", International Development Review, 1971/4, pp. 10-11.

eliminate the traditional economic power of present landlords, will not result in broad based rural development nor prevent aimless migration to the cities. Special programs are needed to create and improve delivery systems for credit, farm inputs and outputs, and health and educational services so that they reach the present small farmers and the beneficiaries of land reform programs. The newly won equity in land following a land reform must, through these programs, be converted into market opportunities.

These, then, are some of the basic issues. Economic growth has not been too disappointing--during the 1960s growth in GNP in many of the developing countries averaged over five percent per year. Although there is not always a high degree of correlation between outside assistance and growth in GNP, assistance did contribute to this performance. While it would undoubtedly be desirable to increase this rate of growth, there is no assurance it would lead to more employment opportunities and a better distribution of income unless and until changes in development strategies make it possible for the mass of poor people to benefit. Without such changes, unemployment and poverty will continue to be growing ills--even with a more rapid rate of economic growth.

Before addressing the specific questions of re-directions in United States foreign assistance programs, several misleading notions should be corrected.

1. In this difficult process of development, we cannot blame all the failures on the outside assistance agency. The effort of the host

government will always be the most crucial factor in effectively utilizing assistance.

2. With all its wealth, the United States can and must play a major role in providing appropriate capital and technical assistance to the less developed countries. It cannot withdraw from the world, nor can it take the simple way out by shifting responsibility elsewhere, that is, by channeling all assistance through international agencies. The United States must continue to give full support to the United Nations and the international development banks, but on these key issues of employment and distribution, the record of United States bilateral assistance has been no worse, perhaps even better, than that of the multilateral agencies.³ There is need for better communication and coordination among the various multi- and bilateral assistance agencies in any given country. Ideally such coordination should be accomplished through the country's own planning process, but there should be enough similarity in development goals that international assistance agencies are not operating at cross purposes.

³I have discussed these issues at some length in "Problem and Prospects of Multi- and Bilateral Assistance for Agricultural Development", a statement prepared for the United States Senate Appropriations Subcommittee on Foreign Operations, June 2, 1972.

3. Although extricating the United States from the Southeast Asian war must have top priority on the nation's agenda, we should not conclude that bilateral assistance efforts are the root cause of that mistaken policy.
4. The development process presents some baffling intellectual and analytical problems and issues. There is no generally accepted doctrine nor fully adequate theory dealing with these complexities of the real world. As mentioned earlier, failures in this process are due not to ill-intent but to misconceptions and the inability of those managing development and assistance programs to influence the necessary political decisions.
5. United States foreign assistance cannot be based and defended on "what's in it" for the United States in the short run. While individuals might take a shorter-run view, the nation cannot. In the longer run there are certainly many advantages to be expected: less tension in international affairs, higher and better distributed incomes in the less developed countries leading to more trade and cultural interchange among all peoples, greater international monetary stability, and improved prospects for world peace. It has often been said that the United States moved into foreign economic assistance on the basis of

expectations created by the successful recovery programs of the Marshall Plan. These recoveries, however, were made in largely industrialized nations devastated by war. These nations had experienced a century or more of industrialization, they had the technical personnel and the institutional structure to move ahead quickly with the help of outside capital. Furthermore, the capital and technology which the United States provided matched quite well their factor proportions. The cold war issues that developed during the same period unfortunately carried over into our development assistance efforts in the less developed, largely agrarian countries. These countries, many of which emerged from colonialism only within the past two decades, and which now face population growth rates never experienced by the industrial countries, present altogether different economic and political issues.

6. Partly because of the successes in European recovery, Congress perhaps expected too much--too many quick, short-term benefits from international assistance. The Agency for International Development (AID) and its various predecessor agencies have never been considered permanent, nor have they been

given the long term financing which development planning requires. There was thus a built-in tendency to make loans and grants for those projects that had a quick payoff with tangible, measurable results. As a result of the cold war ideology, both Congress and the Executive branch chose to combine military and internal security assistance with economic and technical assistance. Foreign assistance was expected to "save" a certain government regime, avoid its overthrow or ensure its re-election (or vice versa, at times to encourage its displacement). These strictly political and/or military objectives are totally inconsistent with and inappropriate to foreign economic and technical assistance.

Some specific changes in United States foreign assistance efforts can help to avoid mistakes and misconceptions like those just noted, as well as to direct assistance toward the broader development objectives outlined earlier.⁴

1. Economic and technical assistance must be separated from military and security assistance. These should be subject to different criteria, decided on different grounds, and administered

⁴See also William C. Thiesenhusen, "Rich Land, Poor Lands--A Perilous Gap Between", The Milwaukee Journal, Sunday, March 5, 1972, Part Five, pp. 1 and 3.

by different agencies. Although I would not wish to rule out categorically all military and internal security assistance, this whole area deserves a careful review by Congress. Building national police and military forces for internal security purposes may indeed at times be justified in terms of United States strategic national interests. But such assistance has too often resulted in repressive measures against internal forces working for constructive change. External threats may be real, but too often they are merely assumed to exist, based on outdated cold war ideology.

2. In its economic and technical assistance, the United States should insist on supporting those efforts designed to reach the broad mass of poor people. Criteria for project evaluation selection and design must be extended so that social, employment, and income distribution effects of development projects are accorded equal weight vis a vis the other variables in conventional benefit-cost analysis. This realignment will mean special focus on improved delivery systems

for credit, farm inputs, health, education, and other services so that these reach the small farmers, the farm tenants, the landless and the city poor.

3. The United States must encourage and help to develop in-country research capacity for analyzing the problems specific to each nation. These problems and the techniques for their solution--including machine and biological technology as well as institutional change--will often be quite different from those based on the experience of the industrialized nations. International research centers (such as the corn and wheat center in Mexico and the rice center in the Philippines) must also be expanded and multiplied to include additional crops as well as livestock, and to develop mechanical technology more appropriate to the surplus labor condition existing in most of the less developed countries. Research at United States universities--in full partnership with professionals and students at research and educational institutions in the less developed countries--requires more adequate

and long-term support.

4. The United States has been much more willing and flexible in seeking accommodation over fundamental issues of ideology vis a vis the Soviet Union and Eastern Europe than in the so-called third world. A beginning has been made in establishing new contacts with mainland China. But thus far, it seems to me, the United States has been less open with respect to basic social and economic reforms in the less developed countries. This contradiction will continue to hamper U.S. foreign assistance efforts. The need to re-structure economic and social institutions is almost universal. Any time a government is able to muster the political will and overcome the forces of presently entrenched interests, United States assistance should make every effort to help such a government achieve its goal of restructuring its economic system, so long as the reforms will lead to a much wider participation by the presently excluded masses in productive labor and the fruits of increased output.
5. More of our assistance should take the form of grants which will not add to external debt burdens and balance of payments problems now

plaguing most of the less developed countries. Grants are especially needed for the construction of social overhead capital and certain infrastructural projects where the benefits are widely diffused and accrue over many years in the future.

6. We must abandon the notion that we can help the poor by aiding the rich.

These changes of purpose, criteria and philosophy in foreign assistance policies will, I believe, produce much more positive results and avoid many of the mistakes of the past. There is also some ground for optimism in that the U.S. Agency for International Development, as well as some of the international agencies and banks, have been showing greater flexibility in their response to developmental issues. There is a growing number of people within these agencies who are very much interested in having international assistance directed toward these broader objectives--equalization of opportunities, creation of secure employment on the land, improved income distribution, and a reduction of mass poverty. Congress can strengthen and support these efforts by enunciating a clear policy position on foreign assistance and incorporating the proposed changes. Our policy should recognize explicitly that the human needs and objectives of the large majority of mankind must be the central concern of development.

U.S. ECONOMIC POLICIES TOWARD LESS DEVELOPED COUNTRIES

(By Charles R. Frank, Jr., Professor of Economics and International Affairs, Woodrow Wilson School of Public and International Affairs, Princeton University and Senior Fellow, Brookings Institution)

The focus of U.S. policies toward less developed countries in the sixties has been the Foreign Assistance Act. Although it is dangerous to characterize in any simple fashion the motives of the Congress and the executive branch in proposing and passing this legislation, I think it is justified to point to two important themes:

1. Concern with providing substantial financial support to politically and economically unstable countries which were in danger of falling into the Chinese or Russian sphere of influence (the rationale behind supporting assistance and military assistance programs to countries like Vietnam, Korea, Taiwan, Israel, Turkey, and the Congo), and

2. Assistance to the development and modernization effort in more stable and politically viable countries in the hope that economic growth would provide continued internal political stability which would help to maintain the status quo with respect to spheres of influence of the major powers (the rationale behind the development, loans, technical assistance, and commodity to Latin America, South Asian, and African countries).

The approach embodied in the Foreign Assistance Act, however, has failed for a number of reasons. Supporting assistance operations have failed to accomplish their objectives in one important country, Vietnam, and have been accompanied by congressional fears that they create vested interests which may lead to future military involvement of the United States in other countries; for example, Israel and the Congo. Development loans and technical assistance have had a spotty record in producing the results expected of them. A number of countries receiving large amounts of U.S. assistance have failed to grow rapidly (India is the most outstanding example), while countries with moderate to rapid growth assisted by foreign aid have not maintained internal political stability and have drifted under increasing influence from the Eastern Bloc countries (Nigeria, Chile, and Pakistan).

The disenchantment with the foreign aid program on the part of Congress and the increasing concern with domestic problems has led President Nixon to adopt a new approach, outlined in the Peterson report and embodied in the proposed International Development and

Humanitarian Assistance Act of 1971. Although the Peterson recommendations have not all been implemented, the following changes are taking place in the basic structure of our aid program :

(1) Separation of the political and strategic aspects of the program from those which emphasize long-range economic development and political stability. Thus, the military and supporting assistance programs are separated from the development loan and technical assistance parts of the foreign aid program.

(2) Assumption of a "lower profile" approach to foreign assistance by reduction in the importance and responsibilities of overseas missions, moving away from the country programing approach to formulating a U.S. aid package for specific less developed countries, and deemphasizing "performance conditioning" of U.S. aid which makes U.S. assistance dependent on adherence by an individual country to a set of economic policies and prescriptions determined largely on the basis of recommendations from the overseas missions.

(3) Placing the focus of technical assistance on a non-controversial programmatic basis (as opposed to a country basis) which emphasizes education, agricultural research and extension, population control, and social services. This is the implied emphasis of the reorganization of the Agency for International Development.

(4) Linking technical assistance and development loans with disaster relief and the efforts of voluntary relief organizations in the International Development and Humanitarian Assistance Act.

(5) Shifting emphasis away from bilateral aid programs to multilateral institutions particularly the World Bank, the regional development banks, the Inter-American Development Bank (IDB) and the Asian Development Bank (ADB), and various donor consortia and consultative groups, as sources of funds and/or as the foci of recipient country programing and coordination of aid programs.

The proponents of this new approach hope that it will accomplish two important goals: (1) Eliminate the political friction between the United States and the respective recipient countries which result from the existence of large foreign aid missions overseas, tying of aid to U.S. political and strategic goals and the imposition of politically sensitive fiscal, monetary, and commercial policy conditions on aid giving, and (2) generate more U.S. financial support for international development because of the relative absence of disturbing political frictions, emphasis on a noncontroversial programmatic approach to technical assistance, and linking foreign aid to humanitarian programs rather than to political and strategic goals.

I don't think, however, that this new approach has much chance of succeeding in accomplishing these goals. Congressional appropriations for technical assistance, development loans, and commodity assistance are not likely to be any greater under the new scheme than they would have been under the old. Political and strategic considerations have always been the basis for selling the aid program to the Congress, and humanitarian arguments are not likely to be as persuasive when placed against the humanitarian needs of the poor in the United States, and the need for expenditures on education and social services in our backward rural areas and urban slums. Increased appropriations for the World Bank and the regional development banks are

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likely to continue to be scrutinized very carefully. The Congress is unlikely to appropriate large amounts of funds for multilateral institutions over which they have little control or are likely to place such strong restrictions on the use of appropriated funds that the effectiveness of the multilateral institutions and their stature as independently functioning institutions will be imperiled. Technical assistance must be coordinated very closely with host country requirements which really requires capable and well-staffed overseas organizations.

The reduction in the role of the U.S. Agency for International Development leaves a vacuum of responsibility for dealing with the less developed countries on economic matters and probably will lead to increased exercise of power by the Treasury, Commerce, and Agriculture, which are more likely to be influenced by special interest groups whose concerns may be inimical to U.S. interests in foreign policy and international relations. Finally, I think that the Nixon program, which attempts to depoliticize foreign aid, involves the surrender of a foreign policy tool, which, if used properly to promote legitimate U.S. interests abroad, could be a powerful and useful policy instrument.

I would like to see an entirely new emphasis on the U.S. foreign assistance program and a focus on what I believe will be and should be the broad objectives of U.S. foreign economic policy in the seventies. Economic policy toward the less developed countries should be aimed at helping them to achieve a more prominent role in a growing world economy, one in which goods and services are traded freely and in increasing volume, private capital is free to move into areas of high return across international borders, and people can move freely throughout the world for purposes of business or tourism. The less developed countries should be encouraged to remove restrictions on trade and capital investments, including very high tariff rates, export subsidies, quantitative restrictions on trade, administrative controls on repatriation of foreign income and on capital movements (with the possible exception of direct investment). In order to facilitate the movement toward more liberal trade and commercial policies by the less developed countries, they must (1) pursue monetary and exchange rate policies which do not result in consistent and increasing overvaluation of their local currencies, and (2) achieve rapid growth both of their gross domestic product and of exports. The benefits to the United States of liberal trade regimes and rapid growth in most less developed countries are the usual ones cited in the free trade literature. Increasing markets for our exports and lower cost imports, particularly, raw materials and low technology, labor intensive manufactured goods. The cost to the United States, of course, may be the costs of adjusting to a different composition of exports and imports.

In the context of working toward incorporating the third world into a free trade world economy, rapid economic growth would not be viewed as part of a strategy of political development and stability but rather as a means of facilitating a liberalization of trade and capital movements in the less developed world. Similarly, foreign assistance would not be viewed as a resource transfer to aid the process of growth in LDC's until some mythical time when self-sustaining growth is possible, but as a means of providing temporary funds for adjustment assistance in moving to a more liberal trade and payments regime.

This approach toward foreign assistance would place it squarely in the context where it belongs, as part of an overall approach to international economic relations with the less developed countries in which bargaining over foreign assistance and trade and commercial policies will occur simultaneously. By concentrating on the trade and payments aspects of policy of less developed countries rather than on the whole set of policies aimed at growth and development, we focus our political relations on an area where it is clear to U.S. and LDC policymakers alike that we have a legitimate interest and concern.

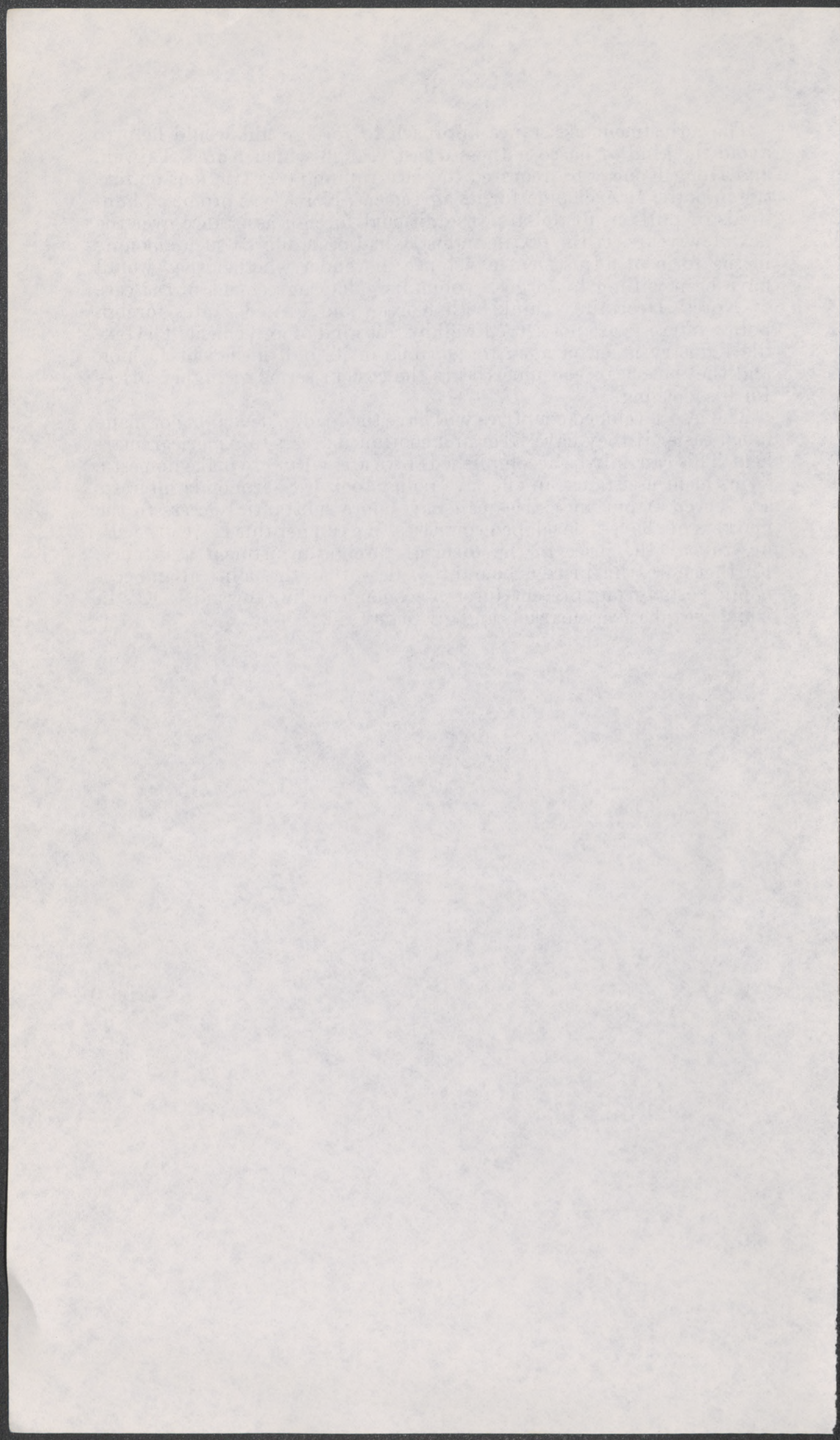
The less developed countries themselves would most likely benefit from this new approach and would achieve much more rapid economic growth. This conclusion stems from my belief that much of the stagnation which has taken place in some less developed economies results mainly from monetary and exchange rate policies have resulted in substantial overvaluation of local currencies. This overvaluation has tended to lead to a series of ad hoc measures to attempt to alleviate the resulting balance-of-payments pressures including prohibitive tariffs, quantitative restrictions on imports, capital controls, exchange controls, and the like. These measures have encouraged the establishment of very inefficient import substitution industries and have cut drastically incentives to export. The increasing inefficiency of import substitution industries, the slow growth of exports, and continued inflation results in a continually increasing overvaluation of the local currency, more ad hoc measures aimed at the balance of payments, and more inefficiency until the growth process is choked off. By encouraging less developed countries to adjust their exchange rates frequently to present overvaluation and permit liberalization of the trade and payment regime, fewer countries will fall into the stagnation trap caused by increasing overvaluation of their currency.

The way in which I would like to see this change in focus implemented would be in the form of an omnibus trade and adjustment assistance bill. Foreign aid would be viewed in basically the same manner as domestic adjustment assistance. There would be some important differences, however, between the way in which we currently administer domestic adjustment assistance which requires a finding of injury due to some tariff concession before adjustment assistance is given. Rather adjustment assistance would be given to less developed countries which agree (not necessarily on a reciprocal basis) to a specific program of trade and payments liberalization. For example, if a country agrees on a program of tariff reduction and reform, a relaxation of import quotas and controls, elimination of restrictions on payments such as profit remittances, relaxation of restrictions on direct investments or foreign loans, the setting up of free areas open on an unrestricted and duty-free basis to American firms, or even a price stabilization program to relieve the tendency toward currency overvaluation, then that country would be eligible for adjustment assistance. The amounts and terms of that assistance would be the subject of bilateral negotiation as would be the specific elements of the reform program of the less developed country.

Similarly, adjustment assistance given to U.S. firms and workers would not require a finding of injury, but would be given automatically whenever imports of the commodity in question were shown to be increasing much more rapidly than domestic sales.

The adjustment assistance approach to foreign aid would help to avoid the kind of fiasco witnessed last year in which Korea, Taiwan, and Hong Kong were required to place voluntary restrictions on textile imports. In exchange for its agreement, Korea was promised hundreds of millions of dollars of additional foreign assistance over the next few years. If the textile industry had been offered such amounts in the form of adjustment assistance, I wonder whether they would have been willing to forgo a voluntary quota agreement in the case of Korea. I certainly think both Korean and United States foreign policy interests are not served well by this kind of agreement. The textile industry is encouraged to continue in its old, inefficient fashion and the American consumer bears the cost in terms of higher prices for his clothing.

The less developed countries will have the road to development made much easier if they have freer and continued access to American markets. This can only be accomplished if we are willing to make domestic adjustment assistance an effective policy tool. U.S. economic interests are served if our industries can have more substantial access to the markets of the less developed countries. We can get this if we are willing to pay the price in the form of foreign adjustment assistance. Furthermore, this price is bound to be less than the political and economic costs of our present foreign economic policy toward LDC's in which we take away markets and give away aid.



SCHOOL OF ADVANCED INTERNATIONAL STUDIES
THE JOHNS HOPKINS UNIVERSITY

1740 MASSACHUSETTS AVENUE, N. W. WASHINGTON, D. C. 20036

May 1, 1972

Senator J.W. Fulbright, Chairman
 Committee on Foreign Relations
 United States Senate
 Washington, D.C. 20510

Dear Senator Fulbright:

I am writing in response to your letter of April 5 on foreign aid in which you invite my views as to "what is wrong with the current policy and what we should do in this field in the years ahead". Because this is such a big subject and because a plethora of literature has poured forth on it in recent years, I shall confine my brief remarks to a limited number of points that strike me as fundamental.

1. In concentrating on "what is wrong" with the foreign aid program, it is easy to lose sight of the fact that in historical perspective a tremendous breakthrough has been achieved in the third world. In country after country in Asia, Africa and Latin America, where the Western world had come to accept centuries of stagnation as a natural and inevitable condition, we now witness impressive, and in some cases spectacular, progress. Although the misery and poverty still prevalent in the developing world provide no grounds for complacency, we have reason to believe, perhaps for the first time in history, that the problem can in time be overcome.

2. The reason more assistance is needed today is not that things are getting worse in the developing world. On the contrary, it is the high pay-off that can be realized from additional resources when much of the groundwork for rapid growth has already been laid. To cite a few examples:

a. Many years were required to develop the technological basis for the green revolution, but tremendous returns can flow today from relatively modest additional assistance to enable countries to apply the new technologies on a broad scale.

b. In the field of population control, highly significant advances in technology have been achieved and changes in attitudes awakened, but their full potentialities have yet to be exploited.

c. Equally important but less apparent has been the shift in many developing countries away from extreme forms of import substitution toward more rational industrialization policies. As a result, foreign assistance can yield high returns in rapidly increasing earnings from exports of manufactured products which in many cases have more than offset the slow growth of world markets for the traditional primary commodities of low-income countries.

3. High growth rates should not be the dominant objective of a development strategy. Equally important, and not necessarily in conflict with the former, is tangible improvement in the welfare of the lowest 40% of income recipients. If the poorest groups in society do not participate fully in the gains from economic growth, then development cannot be considered a success regardless of rates of increase in overall per capita income.

4. Development assistance should be conceived of in less activist terms than in the past -- more as responses to the goals and initiatives of recipients than as rewards for meeting the conditions laid down by donors. The U.S. in particular has reason for humility as it views its own growth performance over the past two decades and as it experiences the enormous frustrations of attempting to decelerate an inflation once it has gathered momentum.

5. Development assistance should be increasingly conveyed through multilateral institutions where: it can probably be more effectively insulated from the special bilateral interests of donors; the developing countries themselves can participate in administering the aid; a greater likelihood exists that assistance will be funded on a long-term basis; and donors can more equitably share in its financing.

6. Bilateral assistance should continue to play a part in U.S. support for development. Given the desire of other major donors to continue their own bilateral programs, to shift all U.S. assistance to multilateral channels would endanger its international character. Moreover, a diversity of major sources of aid within a cooperative international framework is desirable, since no single institution or donor has a monopoly of wisdom on how to promote the goals of social and economic development. I need not belabor, however, the now widely accepted point that our bilateral development assistance should be sharply separated both legislatively and administratively from military and "supporting" assistance.

7. It has become quite clear in the last few years that conventional U.S. appropriated funds will not be adequate to meet our fair share of the world's requirements for development assistance. I applaud therefore the Administra-

tion's announced willingness to augment such funds through participation in multilateral debt relief operations and through the possible use of SDRs in support of development. Other mechanisms should also be actively pursued including improved market access for the exports of developing countries and new techniques for mobilizing private foreign capital, technology and management in ways that may induce a lesser degree of tension in host countries than the more traditional forms of private direct foreign investment.

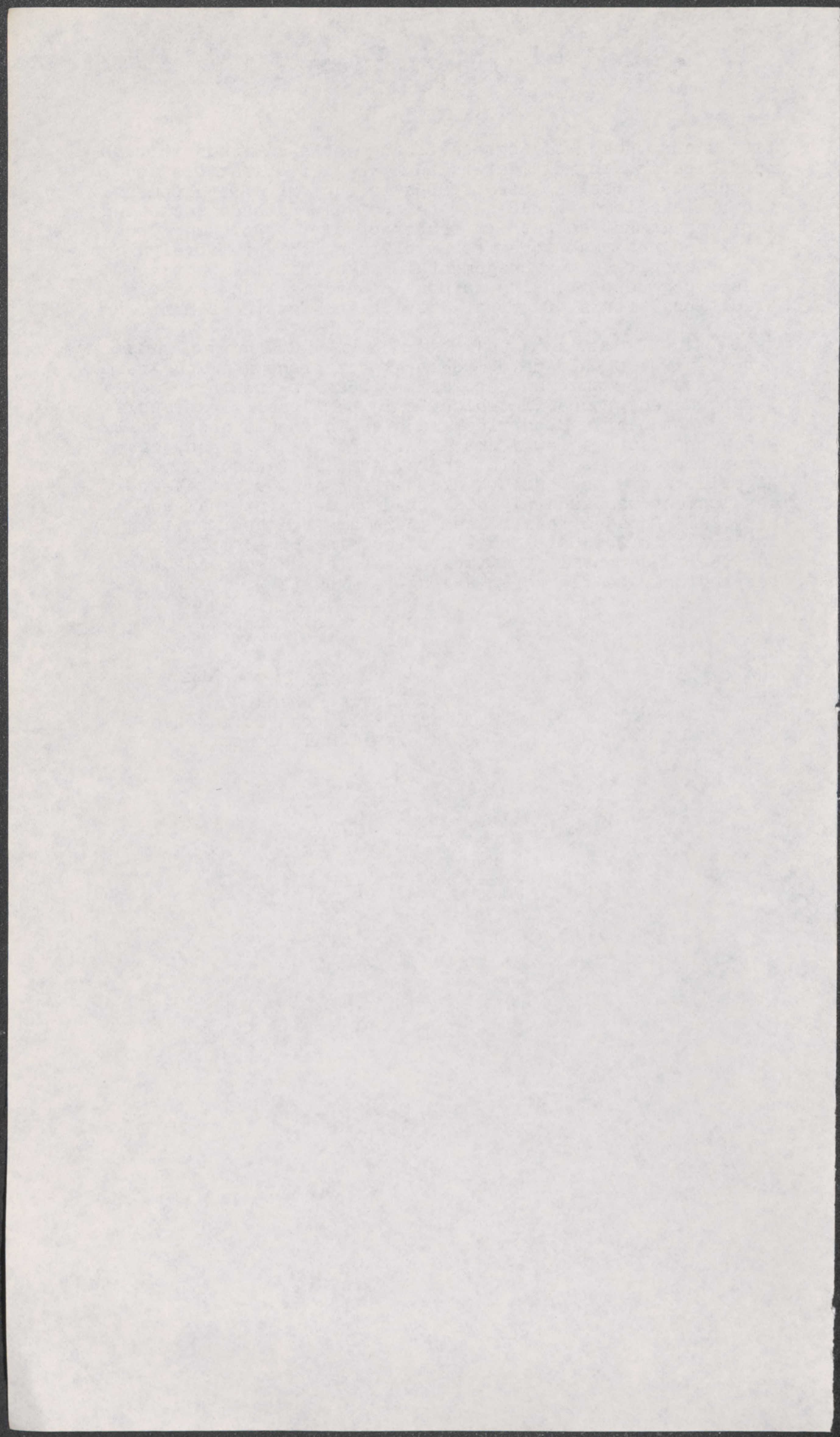
8. In assessing the results of development assistance, I believe we should have modest expectations and long-term horizons. Economic and social progress in the third world is an uneven process in which it is perilous to extrapolate the recent past. Countries, such as Indonesia and Brazil, whose prospects a few years ago seemed bleak indeed, have risen from the ashes. In others, such as Pakistan and Nigeria, where the outlook at one time seemed brightest, development was suddenly disrupted by deep internal upheavals. Decades rather than years are the appropriate intervals in which to judge progress in this complex field, and our fundamental commitment to assistance should correspondingly be placed on a long-term basis.

Sincerely yours,

Isaiah Frank

Isaiah Frank

William L. Clayton Professor of
International Economics



STATEMENT ON PSYCHOLOGICAL ASPECTS ON FOREIGN AID

(Jerome D. Frank, M.D., The Johns Hopkins University School of Medicine,
Baltimore, Maryland)

In whatever altruistic terms it may be couched, the overriding goal of the foreign aid program is to foster the interests of the United States; that is, to strengthen its relative power in the world and enhance its economic welfare. In the short term, these interests are best served by using foreign aid to support regimes that maintain internal order in their countries, support the international political aims of the United States and offer favorable terms for American businessmen and investors. In the long term, American interests are best served by a stable international system and a more equitable distribution of resources among the nations of the world and within each country. Unfortunately, military and economic aid given to implement the short-term interests often conflict with those aimed at realizing the long-term ones, especially in new, non-industrialized nations.

It seems to be in the immediate interest of the industrialized nations, who are the providers of aid, to keep the non-industrialized ones as sources of raw materials rather than encouraging them to become competitors. The effect is to widen the gap between the standards of living of the industrialized and unindustrialized countries, increasing the instability of the international system. Furthermore, the

new nations are usually ruled by a small military oligarchy belligerently nationalistic with respect to its foreign relations and exploitative towards its own people. As a result, military and economic aid given to them can heighten international tensions and contribute towards increasing the gap within the country between a small, rich ruling group and the masses of the poor. This results in civil unrest and often the eventual overthrow of a friendly government by an unfriendly one which blames the United States for many of the country's evils, as in Cuba and Chile.

This cursory summary suggests certain psychological obstacles to the creation of a foreign aid program that serves the long-term interests of the United States.

From the standpoint of the donor country, the basic psychological difficulty is an example of a universal principle, namely that immediate rewards and punishments affect behavior much more strongly than distant ones. A familiar example is the unwillingness of the habitual smoker to forego the immediate small pleasure of the next cigarette because of the prospect that continuing to smoke may lead to much suffering and a shortened life span in the future. That is, a small, immediate, certain reward far outweighs a distant, uncertain penalty. Hence considerations of immediate benefit to the power and economic position of the United States inevitably have more effect on decisions concerning foreign aid policy than the possibility of catastrophe in the distant future.

From the standpoint of the recipient nation, militant nationalism has deep psychological roots. Every newly formed group is preoccupied with establishing and consolidating its identity, and belligerence towards other groups is the classic means towards this goal. Rivalries between factions are submerged in the overriding need to withstand a common enemy, and the successful exercise of power against another group enhances the self-esteem and sense of identity of one's own.

Moreover, in such societies the welfare of one's own family and friends tends to take precedence over the welfare of the larger group. Even in well established nations with (at least until recently) a strong sense of group identity, such as the United States, the endless, unsuccessful struggle against "corruption" is evidence for the power of this priority. In countries that have not yet developed a sense of national identity, in which life has always been a hard struggle, and in which the tradition of family loyalty is strong, the placing of the welfare of one's immediate circle above that of the embryo nation as a whole is inevitable. Exploitation of the poor by the rich was held in check in the past in these countries by a set of reciprocal responsibilities supported by strong social sanctions. These have been greatly weakened by the forces of modern life. Thus the first thing every new ruling group does is to aggrandize its own power and wealth, and this is not viewed as immoral. On the contrary, it is what any good family man would be expected to do.

Accordingly, it is unrealistic to expect leaders of most underdeveloped nations that have not yet achieved a clear national identity to use foreign aid in their country's "best interests," since this would involve instituting economic and political reforms that would reduce their privileged positions.

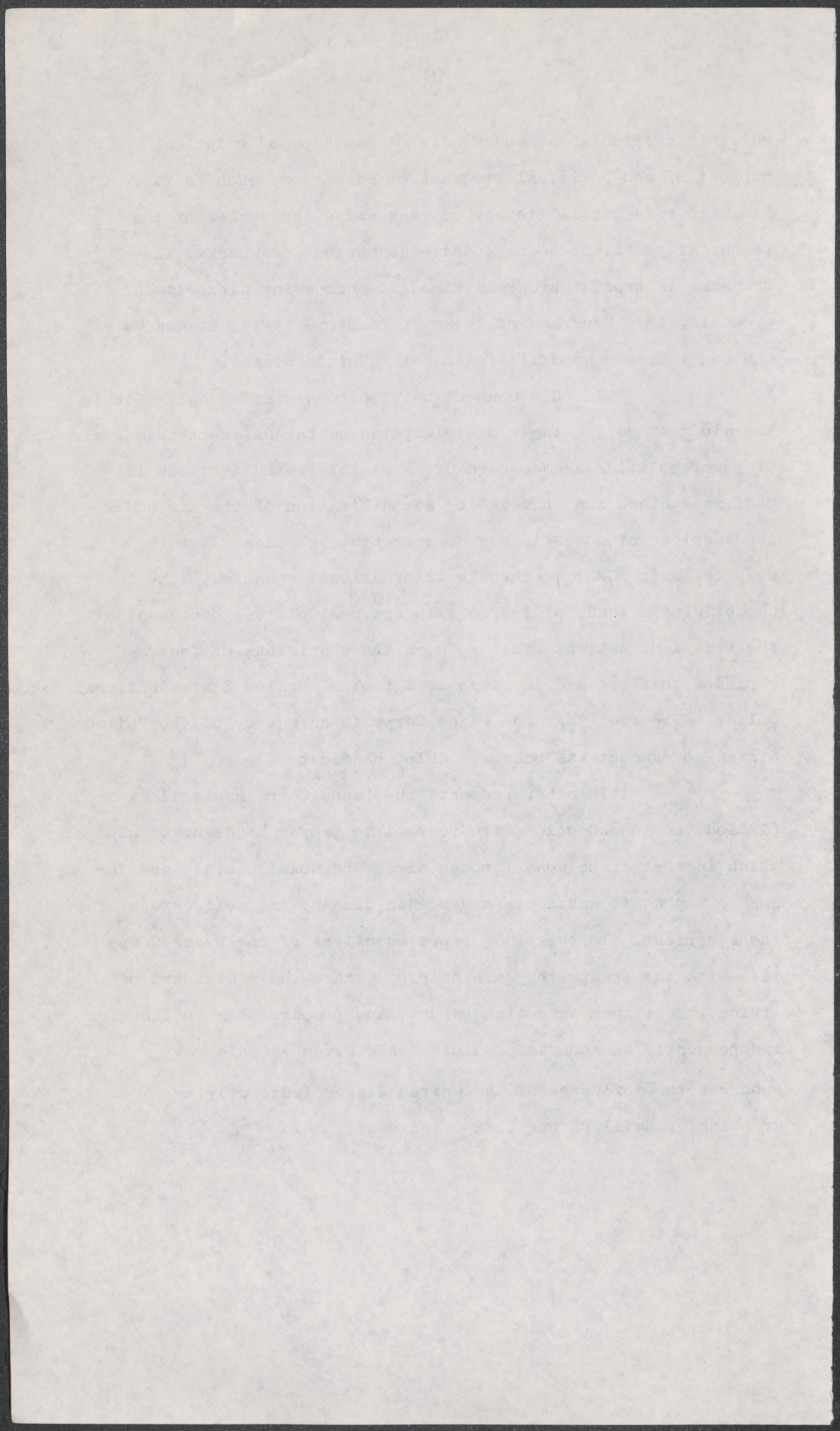
From the standpoint of this analysis, the goal of using foreign aid to serve the long-term interests of the United States--that is, to reduce international tensions and promote the economic welfare of the entire populations of recipient countries--would seem to be virtually unachievable. The analysis does reinforce the conclusion, equally well arrived at by other considerations, that certain kinds of aid clearly work against long-range goals. These are military aid and the supplying of expensive items whose main function is to enhance national prestige. Military aid is used primarily to try to intimidate rival nations or suppress domestic movements for political and economic reform. Prestige items like airlines buy national self-esteem at the cost of impeding genuine economic development.

Fortunately, certain types of economic aid can serve long-term goals of the United States without conflicting with short-term ones because they do not have direct political or economic implications. These forms of aid include medical and public health assistance that reduce suffering and raise the general level of health of the population. These have problems of their own, to be sure, notably the fostering of a population explosion that can negate all they try to accomplish,

but this particular drawback offers some hope of solution. Support of non-political programs of education, such as those aimed at reducing illiteracy or increasing the number of the technically skilled, seems to have no obvious drawbacks, and the same is true of programs aimed at increasing agricultural productivity. Programs of this type improve living standards and can increase goodwill towards the United States.

In this connection, two points stand out. First, the aid must be genuinely disinterested as far as short-term goals of power politics are concerned. A disinterested attitude is best maintained and conveyed by administration of the aid under the auspices of domestic non-governmental agencies, like the hospital ship HOPE, or through international agencies, like the UN Children's Fund, of course with approval of the government of the recipient nation. This reduces the suspicions of the recipients that the aid is given as a tool of United States national policy. The fact that the Peace Corps is an agency of the United States government has been its chief handicap.

In other respects the Peace Corps has well exemplified the second point with respect to proper handling of aid, which is that it be done through direct personal contact and in such a way as to enhance, rather than demean, the self-esteem of the recipient. To this end, representatives of the Peace Corps live with the groups they are helping, share their standard of living, treat them as collaborators, and prepare them to function independently as soon as possible. Aid given in this way enhances the influence of the United States indirectly by creating goodwill rather than resentment.



THE BROOKINGS INSTITUTION,
FOREIGN POLICY STUDIES PROGRAM,
Washington, D.C. November 21, 1972.

Hon. J. W. FULBRIGHT,
United States Senate,
Washington, D.C.

DEAR SENATOR FULBRIGHT: Thank you for the invitation to comment on foreign aid policy. Perhaps the most useful response I can make is to send you the enclosed Tripartite Report on Reassessing North-South Economic Relations, which is soon to be published. It was written in Brussels November 9-15 by a group of U.S., Canadian, European, and Japanese economists, of which my colleague at Brookings, Philip Trezise, and I were members. The meeting was sponsored by the Brookings Institution, the European Community Institute for University Studies, and the Japanese Economic Research Center, as part of a continuing series to examine international economic policies from the vantage point of the three main industrial areas.

The report concerns itself with improvements in trade, investment, and aid policies of the industrial countries that would contribute to economic development in the poor countries. Its central conclusions are:

(1) There are practical economic and political reasons why development in the South should be an objective of the governments and peoples of the more fortunate countries; this would be so even if we were to ignore the great moral questions raised by extremes of wealth and poverty in the world. Next year's negotiations on monetary reform and world trade and future negotiations on the environment and on energy illustrate the point. All will require the active participation of developing countries. We in the advanced countries can better provide for our own prosperity and for the preservation of the global environment only by collaboration and cooperation with the developing world.

(2) This collaboration should be based on common, rather than competitive, development policies among the industrialized countries of the North. We are in danger of drifting toward a series of special North-South relations: between Europe and Africa, between Japan and Southeast Asia, and between the United States and Latin America. This would be a grave mistake, for both political and economic reasons.

(3) North-South collaboration should be based on equality, not tutelage. The developing world includes many countries that are growing rapidly and are substantial participants in the international economic system, others that are fortunate in having oil to finance development, and still others that possess the technical and administrative capacity for rapid development, although they are heavily burdened by the pressure of people on resources. Only about 20 to 30, with a total population of 150 million, are in the preindustrial stage. Massive problems of poverty are still widespread in the developing world. Nevertheless, there is sufficient change taking place to suggest that we could be on the threshold of a new North-South relationship based on shared responsibilities and shared obligations.

(4) These propositions have specific implications for trade, investment, and aid policies:

In trade, both the industrial and the developing countries have been preoccupied with constructing a series of preferential arrangements, both regional and general. The record shows, however, that the countries benefiting most from trade need only access to markets in the rich countries, not preferences. A general move to provide greatly enlarged market opportunities in the high income countries would put a number of developing countries on the road to rapid growth. This is not a question of rich countries giving assistance to poor ones, but of engaging in normal international commerce which, by definition, provides benefits for all.

As for the flow of private capital: Direct investment export credits, bond issues, and private borrowing—all can contribute to development. So far as there are problems or misgivings associated with these flows—and there are many—the solution lies in the direction of internationally agreed and monitored procedures.

Official assistance is needed primarily for (a) the preindustrial nations, and (b) those with a particularly unfavorable population-resource ratio, e.g., the countries of South Asia. If trade opportunities are made available, and if official assistance is timely and improved in quality, most of the countries in the second category could be self-sustaining within a decade. The best way to provide the right kinds of assistance to the right countries—and to distribute the cost equitably—is to do so through the World Bank, the regional lending institutions and other multilateral arrangements.

Monetary reform provides an opportunity to link international liquidity to development assistance, thus creating an attractive supplementary source for financing multilateral lending institutions.

(5) This analysis argues that the United States should exert its influence to persuade the international community—industrial and developing countries alike—to move toward a global, non-political approach to the development problem, based as much as possible on professional, businesslike relationships, on maximum use of market forces and incentives as a guide to economic policy, and on multilaterally determined and administered development policies.

I hope the report will be of some use to your Committee in its consideration of these problems.

Sincerely yours,

EDWARD R. FRIED, *Senior Fellow.*

TRIPARTITE REPORT ON REASSESSING NORTH-SOUTH ECONOMIC RELATIONS—BRUSSELS, NOVEMBER 15, 1972

Participants in the Tripartite Meeting on Reassessing North-South Economic Relations, organized by the European Community Institute for University Studies, Brussels, the Brookings Institution, Washington, and the Japan Economic Research Center, Tokyo, held at the Brussels Europa Hotel on November 13–15, 1972.

North American participants:

Mr. Edward R. Fried, senior fellow, Brookings Institution.

Mr. Philip Trezise, senior fellow, Brookings Institution.

Mr. Paul Wonnacott, professor at the University of Maryland, former senior staff economist, Council of Economic Advisers.

Mr. A. F. W. Plumptre, special adviser to the president of the International Development Research Center (Ottawa).

Japanese participants:

Mr. Yusuke Kashiwagi, former Vice-Minister of Finance for International Affairs.

Dr. Saburo Okita, president of the Japan Economic Research Center, Tokyo.

Dr. Akira Onishi, chief economist, International Development Center of Japan.

Prof. Tsunehiko Watanabe, professor at the Osaka University.

European participants:

Prof. Theodor Dams, director of the Institute for Development Policy of the University of Freiburg.

Mr. Sidney Golt, economic consultant; former Deputy Secretary, Department of Trade and Industry, London.

Prof. François Luchaire, president of the University of Paris (Panthéon-Sorbonne).

Mr. Franco-Maria Malfatti, former president, Commission of the European Communities.

Mr. Auguste Vanistendael, president of international foundation "Humanum."

Chairman, Mr. Max Kohnstamm, president of the European Community Institute for University Studies.

Staff members of the Institute: Mr. Diarmid McLaughlin, secretary general; Mr. Wolfgang Hager, director of studies; Mr. Henri Perroy, rapporteur.

REASSESSING NORTH-SOUTH ECONOMIC RELATIONS

CHAPTER I

Introduction

"* * * Earlier the problems of East-West tension were dominant; now we have a North-South problem of equal importance. * * * If 12 years ago the balance of the world turned on the recovery of Western Europe, now it turns on a right relationship of the industrial north of the globe to the developing south * * *."

—Sir Oliver Franks in 1959.

For more than a decade, the industrial countries—the north in Sir Oliver Franks' durable phrase—have been formally pledged to the assistance of the south, specifically: "The economically more advanced nations should cooperate in assisting to the best of their ability the countries in process of economic development."¹

In this report, we propose to assess developments since the OECD countries thus committed themselves to help the developing countries and to consider what policies and actions by the industrial north are appropriate to the evolving relationship with the south.

In so doing, we shall examine whether we can achieve a more dynamic international division of labor and an adequate participation by the developing nations in the world economy. It is worth pointing out parenthetically that this will depend on an international monetary system that will insure realistic exchange rates, a subject now under active negotiation.²

The accomplishments of the past decade have not been considerable. When measured against the problems of development, however, they leave much to be desired.

In the field of development assistance, all the industrialized countries have accepted, some with qualifications, United Nations targets for development assistance. Virtually all of these countries have by now established official agencies responsible for planning and providing development aid. Over the 12 years 1960–71, net loans and grants financed by public funds ("official development assistance" in the term used by the OECD Development Assistance Committee) came to \$72 billion. Finally, as evidenced by the "green revolution," a promising start has been made in the development of technologies specifically related to the economic and social conditions of the south.

¹ The citation is from the OECD Convention of 1960. Subscribers to it are the United States, Canada, Japan, Australia, and all of the countries of Western Europe.

² This subject was examined in a tripartite report on "Reshaping the International Monetary Order," Washington, D.C., January 1972.

In the field of international trade arrangements, the industrialized countries in 1965 undertook special obligations in the GATT to assure the low-income countries of greater access to their markets. More recently, most of them have adopted tariff procedures intended to provide for enlarged imports of goods from developing countries.

Although progress has been uneven, a number of developing countries have had very substantial economic growth, with GNP expanding annually in double figures. We have seen some low-income, agricultural societies become high-growth, industrializing economies in astonishingly short periods, and others may well follow. Trade in primary products, except for petroleum, has stagnated in relative terms, but exports of manufactures seem to have crossed a threshold. The south, considered as a whole, has been increasing its sales of manufactured products to the point where they now account for 23 percent of all the exports of the poorer countries.

If we look at the averages, the developing countries as a group have in recent years shared at an accelerating rate in the remarkable economic expansion of the postwar era. During the first half of the 1960's, the GNP of the developing countries taken together rose by an average of less than 5 percent per year. For the balance of the decade, the average was well over 6 percent.

The difficulty is that the averages obscure some stubborn facts. Many are by now familiar, but we must not blind ourselves to them on that account.

First of all, it has become clear that the capacities and the needs of the developing countries differ widely.

Some have neither resources nor modern experience in the arts of production or administration; others have administrative skills and experience, but are vastly overpopulated in relation to their natural resources; still others seem to be much nearer to a situation in which they need but little outside help, particularly if they can look forward to enlarging markets for products which then can produce efficiently; and then, of course, some have reserves of petroleum or other primary materials which provide the basis for general economic expansion.

Second, most of the millions of people living in the developing countries are desparately poor. Their average standard of well-being is less than one-tenth of the level in the industrial countries. There are more people below than above that average. Unemployment and underemployment exist in massive proportions and present an overriding issue for most of the governments concerned. Undernourishment and disease still impair the mentality and vitality of masses of human beings. And even the improvement in production and availability of food tends to be eaten up by the addition of millions of mouths, a trend which has scarcely begun to yield to the various and varied approaches to better family planning. Finally a debt burden has developed which, if it continues to accumulate, will become insupportable.

Furthermore, we cannot ignore the real obstacles to economic advance in the developing countries.

One of these is the difficulty of dialog between the South and the North, a constraint on effective interaction that has become increasingly evident in recent years.

It appears in relations with newly independent countries as well as in longer established nations. In some international institutions, dialog has tended to deteriorate into unrelieved confrontation.

A further one relates to technology. The advances of modern technology are primarily suited to the needs of the industrialized countries. But the mass of the population in the developing countries needs more food, a more balanced diet, better health measures, and better family planning—all within the context of cultures far removed from the jet and the computer.

A third constraint arises from shortcomings in administration, organization, and innovation. These familiar attributes of our societies are only acquired very slowly where they are not indigenous.

And insofar as the unique responsibilities of the North are concerned, the fact is that most developed countries have not met their aid commitments, nor opened their markets in the spirit of their pledges in GATT.

Despite these obstacles, we remain convinced that economic progress in the developing countries is an objective that is both feasible and right. The ability to open our markets and to provide for an increased flow of resources to the poor countries is beyond reasonable question. If the Soviet Union and Eastern Europe could mount an effort comparable to that of the other developed countries, the task would be easier still.

We may note, and not merely in passing, that official development assistance of about \$7 billion per year represents only one twenty-fifth of the military budgets of the industrial countries. Surely an improvement in the international environment should in itself be an opportunity to spend less on armaments and more on assistance.

The broad political case for encouraging economic development in the South still rests basically, as it always has, on the belief that gross inequalities in the international distribution of wealth are morally unacceptable and incompatible with world peace and prosperity. The same motivation that leads the more advanced regions within a country to alleviate poverty in the less advanced may well be extended to the far deeper disparities that exist between different regions of the world. Development, in the words of the Pearson report, is not a guarantee that the poorer nations will choose any particular ideology or value system. Nor can it assure in any part of the world, either stability or responsible behavior. But it may well be indispensable to providing leeway for and giving constructive direction to social change.

Beyond these general considerations, there are compelling particular reasons, at this time, for a positive Northern policy toward the South. The industrialized countries have recently begun the process of re-ordering their own economic relationships, in the aftermath of the 1971 crisis of the Bretton Woods system. Monetary reform negotiations have begun. A new round of trade talks is scheduled to begin in 1973. Direct investment and the multinational corporation are potential items for the international agenda, and so may be the question of energy supplies.

These matters cannot be debated and resolved without the participation of the developing countries. Monetary reform, which is arguably

the centerpiece of the enterprise, will in practice require the concurrence and the cooperation of nonindustrial members of the International Monetary Fund. In other things as well, the views and interests of the South will impinge on the concerns of the industrial world, and accommodations will have to be made.

Thus the management of the natural environment and the conservation of the world's resources will require more and more communication and cooperation between North and South. We do not accept the apocalyptic arguments which call for an end to economic expansion because of the alleged impending exhaustion of the earth's physical endowments; we believe, on the contrary, that only through well-directed economic growth can many of the world's problems be controlled successfully. But we do not set aside the warnings of potentially grave damage to the environment to be seen in the destruction of animal species, in the deterioration of the quality of the air, in polluted waterways and even seas.

It is clear that these ecological threats cannot all be dealt with by one country or any selected group of countries; collaboration on a global scale is also necessary. As was learned at the Stockholm Conference, however, the North and South have somewhat differing perceptions of their interests; to many people in the South poverty is the primary pollution to be eliminated. These differences will have to be reconciled not simply through discussion and negotiation, but by building habits of collaboration into the economic relations between the widely differing countries of the world.

All of this is only to restate the reality that the developing nations are part of an increasingly interdependent world system. We in the advanced countries can better provide for our own prosperity and for the preservation of the global environment only by collaboration and cooperation with the developing world.

Thus a right relationship between the industrial North and the developing South is as relevant and even more necessary than it seemed to Sir Oliver Franks 13 years ago. Even if we were to ignore the great moral questions raised by extremes of wealth and poverty in the world—which we cannot—there would be pressing economic, political, and practical reasons why development in the South should be an objective of the governments and peoples of the more fortunate countries. The central question is not whether or why, but rather how—can the development objective be pursued effectively in the changed circumstances of the 1970's?

CHAPTER II

Alternative approaches

Steady growth and high employment in the industrial countries are essential conditions for, although not in themselves a guarantee of, economic progress in the nonindustrial nations. In our highly interdependent world, a well functioning international monetary system is important for all countries, not just the principal financial powers. If the United States, Canada, Japan and the European Community are to try to resolve the trade problems that exist among them, the result will be critically important for the developing countries. So, although we focus our attention on three subjects—trade, private in-

vestment, and official development assistance—we are conscious of the interrelationship of these matters with other policies, especially with domestic employment policies and with the international monetary arrangements.

We need first to consider the general approaches of the north to their relations with the south. We have two interrelated issues in mind. One relates to “zones of influence,” the other relates to independence and membership in the family of nations.

Most developing countries in the south have special ties, of one sort or another, with particular countries or groups of countries in the north. In many cases the relationship stems from a colonial one, sometimes extending up to a relatively few years ago. In other cases it stems from a politico-military situation such as that epitomized in the Monroe Doctrine. In another case, that of Japan, the relationship that has been emerging with Asian countries is based on the economic dynamism exhibited by that country in the postwar period.

The question that now arises is whether that type of relationship should, as far as development policy is concerned, be continued and crystallized into accepted “zones of influence”?

It is our view that such a regionalization of world development policies would be a grave mistake. Of course traditional ties of many sorts will continue and geography will not change. Nevertheless, we believe that the thrust of the future should be in the direction of common rather than competitive development policies amongst the industrialized countries of the north.

A future world divided formally into “zones of influence” is not out of the question. The European Community has established preferential arrangements with a sizeable number of African and Mediterranean states. Under the terms of British entry, these arrangements may be extended into a preferential system covering most of Africa and the Mediterranean area. Japan’s natural economic ties with Asia might provide a basis for a regional system there. And the concept of a United States-Latin American preferential trading area will always have its political attractions for some.

Quite apart from the economic consequences of regionalization, all political experience argues that economic blocs are likely to acquire a neocolonial stigma. Instances are all too available—the United States and Latin America, Britain and parts of the sterling area, France and postindependence Algeria may be mentioned—which suggest that close and extensive economic ties do not assure smooth bilateral relations. Expectations that special economic arrangements will provide preferred access to markets and raw materials or give security to investments are likely to be disappointed. It is the global competitive market rather than the preferential regional market that works out as having the stronger potentiality and ultimately the stronger attraction.

We are convinced of the advantages of concerted efforts among the industrial countries in the development policies. A basic requirement is improved market access for the manufactured goods of the developing countries. In practice, this can be achieved in satisfactory measure only if the rich countries act together to open their markets and to circumscribe the use of safeguards against market disruption.

In the same way, the depoliticizing of development assistance can best be achieved through increasing reliance on multilateral coordination and provision of aid. The debt problems of the developing countries obviously call for agreements among all creditors on how to manage their separate and joint interests; and an agreed doctrine and practice on export credits is urgently needed if more acute debt situations are to be avoided. We think that the best prospect for reducing the political objections to private investment probably lies in multilaterally agreed and monitored policies.

In the second place we have the related issue of the independence, sovereignty, or self-determination of the developing countries. The North-South relationship will be most satisfactory, least open to misunderstandings and misrepresentation, if the developing countries are considered as full members of the family of nations.

To this principle we would add a point of elaboration. Just as the law and practice of most countries recognizes the need to insure that bargains are not unbalanced and that the strong do not oppress or exploit the weak, so in the international community is it necessary for the industrialized countries to recognize and try to avoid the misunderstandings that are possible in dealing with countries whose cultural backgrounds and administrative experience differ widely.

If, subject to this elaboration, country-to-country dealings are on the basis of equals, this implies that trade, the private capital markets, and direct investment should have expanding roles in the development process, and developing countries should have access to commodity and capital markets in any part of the world; they should not feel constricted to any particular zone. Official assistance, which will be a necessary and substantial supplement for some countries for longer or shorter periods, ought increasingly to be directed through the international institutions to points of need, for requirements that could not otherwise be met, and on nonpolitical bases.

A North-South development relationship based on equality implies shared responsibilities and obligations. Thus we believe the poorer countries should allow investment disputes to be placed before international bodies for adjudication, assuming those bodies include representatives from South and North alike. We think that applicable GATT rules ought to be accepted by all contracting parties. We consider that the poor as well as the rich countries should submit their exchange rate policies to greater international surveillance in the future. The evolving international economic order surely is going to require further limitations on "sovereign rights" and the developing countries should expect to take their place in this process.

At the same time, we believe the developing countries must have equal opportunity to advance their interests in the evolution of the international order. This principle should apply to negotiations on trade, on monetary arrangements, on environmental safeguards—indeed, wherever the steady trend toward interdependence will require the reworking of economic arrangements.

There is finally to be considered how questions of social justice should affect the North-South relationship. In many of the poor countries today, we see extreme disparities of income, inhuman conditions of life, or unrepresentative governments. In reaction to these conditions,

a body of opinion has grown up which believes that the priority given to economic growth itself may be wrong. The argument is advanced that a radically more equal distribution of income, accompanied by priority measures to maximize employment, provide the proper model for many of the developing countries.

We believe that these matters in the main must be left to those directly concerned. It would be unfair to assume that peoples have disavowed an interest in achieving greater material well-being before they have been given the chance to exercise a choice. We do not think that the issue of social justice can be determined from the outside. Economic growth will, of course, make little sense if its benefits are not spread generally. But while we may be able to concentrate development aid on labor intensive projects and otherwise to integrate social with economic aims, our development policies cannot be decisive in achieving social goals for others. These judgments must be made by the developing countries themselves, and the outcome will depend principally on their actions. This is consistent with our general proposition that the North-South relationship must be increasingly between independent partners.

We are persuaded, in summary, that the "right" North-South relationship, properly understood, is an integral part of the "right" relationship that must be built among all countries in the world. The direction of Northern policy towards economic development should be founded on economic principles and directed towards multilateral action. It must deemphasize tutelage and emphasize shared responsibilities and obligations. These propositions will be expressed in more concrete terms in the pages to follow.

CHAPTER III

Trade policy

Trade policy may well be the primary test of North-South relations, just as it will be for relations among industrial countries. The objective in both cases is the same: can we achieve a more productive and dynamic worldwide division of labor? This is not a question of rich countries giving assistance to poor ones, but of assuring greater mutual gains. As far as the developing countries are concerned, it is a question of providing the greatest possible opportunity for them to achieve the gains which their export potential can make available for them.

The world stands now at the outset of a major negotiation on the shape of the monetary and trade relations. The possible content and its desirable outcome of these forthcoming negotiations were discussed in detail in a report³ in which some of us collaborated, and the general conclusions of which we endorse. Briefly, these were as follows:

1. It is the first essential to get the basic international monetary structure right.

In our view, if this is achieved a large first step will have been taken towards removing some of the more evident causes of disequilibrium, and it will be possible to move forward again in the civilizing of trade relations, the momentum of which is currently interrupted.

³ A tripartite report on "Reshaping the international economic order", Washington, D.C., January 1972.

2. There should be a renewed attack by the advanced industrial countries on remaining barriers to international trade, and in particular, their tariffs and quotas on manufactured goods and raw materials should be eliminated in stages, over a 10-year period. There should also be a systematic reduction of agricultural protection; agreement on rules governing other nontariff restrictions; and an agreed regime to limit any relief required for particular industries.

It is within a framework of this kind that we see the greatest hope for expanding the trade of the developing countries. Export expansion was a major stimulus to the remarkable growth of output in the world during the 1960's. It can play an even more substantial role during the 1970's as a contribution to continuing growth of the developing countries.

This is not to embrace the rhetoric of "trade not aid"—a slogan which, like so many others which have become fashionable in the development field, obscures rather than clarifies the issue. The relationship between trade and aid as engines of progress is complex, but certainly they should be complementary. For some of the countries which have been successful as exporters, the industrial and commercial infrastructure which aid has helped to provide has been a necessary ingredient. We think it inevitable that exports must continue to finance the bulk of imports required for development, quite apart from the influence of active export industries in promoting productive internal change.

Trade in manufactures

It is, however, necessary to qualify the traditional picture of what is involved in this situation. Certainly, much of the export activity of the developing countries will continue to be in traditional products. But an increasing number of them are building up an efficient basis for substantial new exports. As a group, they have been increasing their industrial exports at about 15 percent a year in money terms for almost 10 years, and are progressively adopting the policies on exchange and interest rates which are needed for success in export policy. Countries like Brazil, Iran, Mexico have joined the earlier exponents of export-led growth—Korea, Taiwan, Hong Kong and Singapore. A growing number of primary product exporters—for example Malaysia, Thailand, Colombia, El Salvador, the Ivory Coast and Ghana—are increasing their exports of manufactured products at a rapid rate, along with a growing number of primary product exporters—for example Malaysia, and transport equipment were the two fastest growing export groups of the 1960's. A continuing rapid growth of these countries through the 1970's will make them major participants in world trade by the end of the decade. For some others, the prospects are less bright for an early development of manufactured exports. Where the developing countries make substantial progress in export markets, a significant contribution will be made to their growth; and the developed countries will likewise gain from the increased efficiency of world production and the higher overall level of welfare.

We therefore welcome the statements which have already been made at the session of the Contracting Parties to the GATT which began on November 10, 1972, and which foreshadow negotiations on this pat-

tern. We look forward to the creation of conditions in which there will be continuing growth of exports of manufactures from an increasing number of developing countries.

If, however, the fullest possibilities of this kind are to be realized, the developing countries must be brought fully into the negotiations from the beginning, and there must be a specific effort to insure that the interests and problems of the developing countries are seen as an integral part of the whole. No doubt the main dynamic in the trade negotiations will be the desire of the United States, the European Community and Japan to overcome the problems that arise between them. But there is much to be put right in the relations between the developing and developed countries and in the operation of policies which have borne adversely on the developing.

All industrial countries have applied quantitative restrictions on a wide range of manufactured products, sometimes with meager justification. Textile quotas, sanctified by international agreement under the GATT, are only the best known example. The United States uses or has used the technique of voluntary export restraint agreements to restrict imports of such commodities as wood screws, thermometer blanks, umbrella frames, and stainless steel flatware, as well as a major item like steel. Western European countries continue to have a large number of import quotas in contravention of the GATT, and applied in a discriminatory way against Japan and the low-wage countries. Japan, until recently maintained many import quotas, even in the face of a balance-of-payments surplus that assumed embarrassing proportions. We see the negotiations as the opportunity to make a determined effort to deal with these impediments.

Again, the negotiations will no doubt be based on the principle of reciprocity of bargaining between the major countries—and in the last resort this means striking a bargain acceptable to the United States and the European Community, Japan and Canada. We do not believe that the industrial countries should expect any sizable reciprocal contribution, in conventional trade negotiation terms, such as substantial reduction in tariff protection of domestic industry, from the developing. On the other hand, for those developing countries who are playing a significant part in international trade, and hope to become full partners in it, it will be in their own long term interests to accept progressively the same international discipline—in regard, say, to such matters as export subsidies, nontariff barriers and other distortions of trade, avoidance of discrimination and the gradual elimination of excessive protection—as their developed partners. The ultimate objective is a sharing of rights and obligations; the sooner that there is a concerted move towards this the better.

We believe that progress of this kind would enable new productive centers in the world, with widespread benefits for all. But this is not to say that these benefits do not bring in their train problems for existing industries in the older developed countries. They can cause adjustment problems.

Still, it would be wrong to exaggerate the adjustment difficulties in the developed countries associated with an increase of developing countries exports. We are certainly nowhere near a general deluge of goods from the developing countries. To put the magnitudes into per-

spective: if manufactured exports from developing to developed countries expanded by 15 percent per year, they would still reach only \$28 billion by 1980—or approximately 7 percent of the total imports of manufactures in the more affluent countries. Adjustment to the growth of imports from the developing countries will represent only a small change compared to the adjustments continuously taking place in the face of changes in technology and everyday shifts in demand.

For particular industries, and for particular localities, the economic impact and social consequences could, of course, be considerably greater than the aggregate data suggest. Cases involving substantial job losses in uncompetitive industries may call for remedial government actions, of which the most important are measures to promote economic expansion and full employment. In most industrial countries, the potential job displacement effects of imports might well be swamped by the job requirements of full employment. But it will not be possible to escape the need to include in the negotiations some provision for specific safeguards against market disruption; to do so would be to fly in the face of realities.

Nor need this be deplored. With lowered barriers to trade and greatly increased international commodity flows, occasions will arise when a sudden heavy increase in imports will prove too much for the normal processes of economic adjustment to absorb. In these circumstances some kind of safeguards to restrict imports will be politically and socially necessary. Dangers arise from the fact that safeguards mean different things to different people. To some, they are a means to facilitate trade liberalization in the sense described above. To others they are exactly the opposite: a means of restricting trade wherever the competition becomes significant. To others again they are a device to postpone painful adjustment decisions or to pass the burden of adjustment to others.

In examining this question, the OECD group on trade and related problems emphasized that when safeguards are permitted they must be limited in time, decreasing in incidence, and internationally agreed and monitored; and they placed the responsibility where it belongs—on the obligations to be undertaken by the country applying safeguard restrictions. They specified these obligations as follows:

(a) In the first place, the temporary nature of the protection measures should be emphasized by setting a relatively short time limit on their application.

(b) Second, the applicant country should undertake in any case not to reduce its imports below their level at the time the restrictive measures are applied and to allow imports to increase at a reasonable rate.

(c) Finally—and this is a fundamental point—application of the safeguard measures should be accompanied by action to bring about domestic adjustment so that use of the safeguard mechanism will in fact be temporary.

Adjustment to trade liberalization need not create a great burden. The safeguard and adjustment provisions in the Rome Treaty have barely been used. Nor have the safeguard provisions of the EFTA convention. No significant difficulties seem to have been experienced in accommodating to the full removal of tariffs despite a manifold increase in trade in both cases.

Japan's future growth, indeed, is partly predicated on its plans for structural adjustment. If, as projected by the Japan Economic Research Center, the growth of Japanese real GNP averages 9.5 percent during the rest of the decade, the average wage of Japanese workers will reach 80 percent of the expected U.S. wage in 1980. In preparation for this, the Japanese Government is encouraging a shift in production away from labor-intensive products with the deliberate intention of replacing them by imported manufactures. The share of manufactures in imports is projected to rise from 30 percent in 1971 to at least 50 percent in 1980. This will amount to \$40 billion, of which no doubt a sizable proportion will come from developing countries.

We have tried in the foregoing to sketch the ways in which the developing countries might share in the benefits to be gained from the forthcoming international negotiations, and the actions the developed countries should take to this end. Meanwhile, many developed countries (but not yet the United States or Canada) have introduced the so-called generalized preference schemes and much has been hoped for from these schemes as the answer to the developing countries' problems on exports.

The objectives of the original proposals on special treatment for developing countries were not, in fact, "preference" in the form in which it has emerged. It was rather access to the industrial countries markets, unimpeded by tariffs or quotas and without any reciprocal concessions by the beneficiary countries; it was an attempt to apply for the developing countries, faster and more completely than the developed countries were ready to do for their supposedly more competitive industrial trading partners, the possibility of duty-free entry, without quota restriction. This was (and remains) the logical outcome and ultimate vision of the process of trade and tariff negotiation of which the Kennedy round, at that time, was the concrete manifestation.

In the event, the generalized preference schemes are a pale shadow of these objectives. By all means, efforts should be made to improve them—to get rid of exceptions, to extend their application to other products, including especially processed raw materials and processed agricultural products, and to eliminate their restrictive aspects. Because of these limitations, the existing preference schemes now stand in some danger of worsening rather than improving the real opportunities available in the developed countries markets.

In our view, it would be misleading to regard these schemes as a substitute for insuring the full participation of the developing countries in a successful major trade negotiation. We believe that the best prospect for the developing countries is real and irreversible progress in the improvement of their opportunities in all markets by movement toward elimination of tariffs and real, not sham, removal of quantitative restrictions. They will be the more secure in the achievement of these benefits if all the major trading countries act jointly in this regard, and action for each of them is made easier by the knowledge that the others are doing the same.

Primary products and agriculture

Primary materials and agricultural goods still account for the majority of the exports of the less advanced regions. Nevertheless, allowing for certain exceptions, the outlook for these products does not

indicate rapid expansion of exports on anything like the scale which seems possible for manufactured goods.

For the countries which have sizable reserves of petroleum and certain minerals, of course, export prospects are strong. Demand is rising sharply, the volume of trade is immense, and the major producing countries are able, within limits, to exert upward pressure on prices.

Most other primary products will have expanding markets, as the world economy grows, but none of them are remotely to be compared to petroleum as potential export earners. The primary materials present questions about ownership and control and about the proper location of processing facilities. Each case of this kind is likely to be special, however, and we do not see the basis for policies of general application, beyond the benefits that would accrue from the removal of tariffs.

Agriculture is overwhelmingly the principal activity of the developing countries. Improvements in the conditions of agricultural production and increases in farm income will remain priority problems in the poorer countries for the foreseeable future. They will also have to meet an increasing demand for food in rural and urban areas while relying less on international food aid. These requirements suggest that agricultural products—with some few exceptions—do not offer major prospects for export growth to developed countries. It is worth noting market prospects in each of the major agriculture export categories.

Market opportunities for tropical products have in some ways improved in recent years as trade barriers have been removed. Further improvements might be achieved if special excise tax burdens were reduced and if the Soviet Union and East European countries were to change their buying and internal price policies for these products. But in general, demand is rather inelastic, and the room for expansion limited.

There are agricultural raw materials, like jute, hard fibers, rubber, and many others, where there is considerable room for increased processing in the developing countries of their origin. The inclusion of processed products in the arrangements we have discussed above for manufactured goods would significantly improve the developing countries' prospects. General tariff reductions would similarly help exports of processed foodstuffs. This is one of the areas of trade where developed countries have been most resistant to liberalization; this has manifested itself even in the restrictions within the generalized preference schemes.

There have been many efforts—including most recently for cocoa—to create international commodity agreements for tropical agricultural products, as well as for raw materials. So far, there exist for tin and for coffee more or less worldwide agreements, which have been successful in preventing sharp declines in prices. There are a variety of other more limited arrangements, some of them affecting only part of the producing countries, others built around special price or supply arrangements for the benefit of particular suppliers.

There may be other cases in which the international community can organize markets so as to prevent wide price fluctuations and provide benefits for producers in developing countries. These would be all to the good. We are doubtful, however, that commodity agreements can

be an effective means for a substantial increase in export earnings for primary goods on a world scale.

There remain those agriculture products which compete with temperate zone production. We believe that in their own interests, the developed countries need to begin to dismantle the formidable structure of obstacles to trade in those products, and that reduction in agricultural protection are an essential element in the forthcoming negotiations. There will no doubt be benefits to the developing countries from this process, and there may be particularly encouraging prospects for some commodities, such as animal feed grains, beef, fish, and perhaps fruit.

There are also some products where there is room for expansion of trade among developing countries themselves. But it remains true that in the general run of products of this kind, developing countries are on the whole less efficient producers than most developed exporting countries, and that in many cases they cannot meet their own needs from domestic production. We do not, therefore, see the likelihood of substantial export gains in these areas. Nevertheless, the policy prescription for developed countries is clear: to provide technical assistance, wherever feasible, to improve efficiency and to provide access to their markets if export surpluses do arise.

Sugar is a special case which is produced in both the tropical and the temperate zones. Sugar ranks third among internationally traded agricultural goods, and it is of special importance to the export trade of some of the poorest countries. Trade in sugar is now subject to a number of special arrangements: the International Sugar Agreement (relevant mainly to the small free markets); the Commonwealth Sugar Agreement between the United Kingdom and its associates; the U.S. sugar legislation (which holds part of the American market open to imports, normally at premium prices); and the European community's internal system of guaranteed price which has made the Community of Six a sugar exporter on a substantial scale.

The American sugar law, the Commonwealth Agreement, and the International Sugar Agreement all are up for renewal or revision in 1974. Commonwealth arrangements in any case must be fitted into the community's agricultural policy. The occasion arises therefore to agree on changes in domestic price and production policies in the industrial countries, so as to open markets for lower cost and low-income suppliers.

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We believe therefore that for both manufactures and primary products the interests of the developing as of the developed countries will best be served by determined resolutions to bring about the success of the trade negotiations on the lines that have been suggested. Increasing freedom of the international market in manufactures over the past 20 years has been the engine of vastly increased prosperity for the developed countries. In the last 10 years, an increasing number of developing countries have demonstrated that even with existing limitations, they can benefit substantially from access to that market. On all counts, including their own self-interests, the duty of the developed countries

now is to refrain from actively distorting the freedom of the market against the developing countries.

It would be reasonable, and will no doubt be necessary, to find ways of moderating the effects of change, especially of rapid change concentrated in particular narrow sectors. But the developed countries should make all possible effort to refrain from restrictionist interventions and to remove current distortion. As far as agriculture is concerned, the attainable prices for the developing countries are perhaps smaller; but the goal is the same. Over the whole field, it will be of the utmost importance to insure that the problems of the South are fully considered in the process of negotiation, and that the countries of the South participate effectively in that process.

CHAPTER IV

Private investment and development

Flows of private direct investment to the developing countries have been rising steadily and in 1971 were more than \$4 billion. These flows of course are separate and distinct from official development assistance. Their volume and character are determined in largest part by the decisions of private firms.

Of the total stock of private direct investment in developing countries, which comes to about \$40 billion, one-third is in manufacturing industry, about equal to investment in petroleum. In spite of its expansion and diversification, however, private direct investment has come under criticism in some developing countries and on the part of observers elsewhere as having only a limited or even a negative impact on economic development.

The critique of private investment (and the multinational corporation) includes several points:

It may be costly in balance-of-payments terms.

It may lead to the creation of foreign enclaves which discourage the growth of local entrepreneurship.

It may be anticompetitive, either because it is based on overwhelmingly superior market organization or because the multinational corporation is powerful enough to assign market shares to its subsidiaries; it may thus inhibit rather than stimulate the growth of exports of manufactures.

When host governments offer investment incentives in the form of subsidies or import protection—in some cases at the demand of the foreign firms—it may bring about and perpetuate uneconomic production.

In the bargaining between a large multinational corporation and the government of a developing country, the former may have overriding advantages in its access to legal and other skills and in its sheer market power.

It may take up local savings which might otherwise go to local investment.

It may interfere with or distort host government development planning by causing an allocation of resources different from that of the plan.

We recognize that the misgivings about the role of private direct investment are a factor in the North-South relationship. The affirma-

tive case, however, also must be recognized. In the first place, the transfer of resources, skills, and knowledge through the vehicle of private investment is a standard, tested procedure, which comes naturally out of the manner in which the advanced market economies are organized. As a practical matter, the private corporation in these economies is a unique possessor of certain skills, especially of an organizational and managerial kind, and of technological processes as well. In some cases, these can be provided only through direct investment. (In others, the alternatives—licensing of technology or contracting for managerial help—may be feasible for countries in an early stage of industrial growth). The package of capital, technique, and technology that a multinational firm can provide may not be available in any other form. Second, private investment is likely to allocate resources efficiently. (It is nevertheless true that distortions may be introduced, either by host governments which are willing to subsidize investment in various ways or by private firms with market power.) And third, foreign direct investment will be essential to enable the developing countries to take optimum advantage of greater access to export markets. In the countries where manufacturing export industries already have had strong growth, foreign private investment has been an important factor, and it can play an important role in the development of other countries.

Whatsoever the weight of the different arguments, one thing seems to be clear: It is not to the developed nations to decide for the others whether they should avail themselves of the opportunities offered by foreign direct investment. This decision is and must remain theirs.

Undoubtedly there will be problems, as when a country seeks assistance from an international institution to finance an investment which could be made, in other circumstances, by a foreign private firm. The argument will then be raised that the use of concessional funds for this purpose is unwarranted since these funds would then not be available for purposes that could not otherwise be financed. We have no general solution for such problems, and we doubt that there is one. Each instance is bound to differ from the last.

In recognizing the right of each country to decide its own policy toward foreign investment, we believe that an obligation exists to assure fair treatment of investments already in place and to accept impartial mediation of disputes, for example through the International Center for Settlement of Investment Disputes.

So far as the advanced countries are concerned, official policy has a rather limited direct role in determining the volume of private investment abroad. A few countries offer tax or other incentives to investors in developing countries and the United States has exempted these countries from the application of its official restraints on foreign direct investment. In the main, however, the principal means of encouraging investment flows has been to offer governmental insurance against political and exchange risks.

The official insurance schemes evidently do contribute to increasing the flows of investment. In major investing countries—the United States, Germany, and Japan—the insurance facilities are used for a substantial portion of total investment in the developing countries and many investment decisions no doubt rest on the ability of firms to

insure against the special risk believed to exist in certain developing nations.

On the other hand, investment insurance may bring governments into the investment process in a greater measure than intended. Official risk-bearing implies some official voice in deciding which investments will be safe, and in what degree, and therefore which should be made. Moreover, if insured investments are nationalized, the insuring government is likely to become more involved than would normally be the case; we foresee the possibility of political confrontations arising out of investment disputes.

We consider that the proposed World Bank multilateral insurance plan (the International Investment Insurance Agency) would be a desirable addition and alternative to the national schemes. While offering the same incentive to investors as do the bilateral insurance plans, it would be at greater remove from national concerns; its participation in the process would give the developing countries a neutral source of advice. And even if the developing countries did not participate in its financing—as now seems probable—it would still represent the World Bank community and would help to diffuse and reduce emotional and political factors.

We note with great interest the considerable innovation in the forms which private foreign investment has taken in recent years—all designed to provide for increased local participation in ownership and management. The Development Assistance Committee of the OECD mentions, for example, joint ventures with local, private, or public interests; participation by regional investment companies and the International Finance Corporation (IFC); consortia in which no single investing country has a controlling interest; minority investments coupled with management contracts; and production sharing agreements. The private business section of our countries seem to be quite flexible in adapting to attitudes in the developing countries.

New modes of overseas private investment are being discussed in Japan. They include technology transfer separate from equity and management participation, gradual transfer of ownership to local entrepreneurs (divestment), production-sharing arrangements to recover investment in the form of products, and transfer of know-how of medium and small scale industries by providing government funds to private enterprises.

These nontraditional methods of investment must be tailored to individual situations. We believe that the IFC may be able to have an increasing role in the adaptation of private investment to the changing political climate. We have in mind in particular that the IFC can take a minority equity position in particular instances. This equity can later be sold to local investors, as the enterprise becomes settled in and as local funds become available. The direct participation of the IFC is helpful, moreover, in assuring that direct investments do not include features unfair to the host countries. An extensive role for the IFC in equity participation in direct investment, however, will require an increase in its paid-in capital.

Finally, we have considered whether a code, or codes, of conduct for private investors and for host governments would be feasible or useful. Foreign direct investment has been the subject of a considerable

amount of study in our several countries, but we do not feel able to make specific recommendations regarding codes of conduct without more exploration than was possible on this occasion.

CHAPTER V

Export credits and portfolio investment

A. Export credit.—The subject of export credit flows to the developing countries is both important and complicated.

In the first place the amount of export or supplier credit is large. The net flow to developing countries rose from an average of \$668 million in 1960–65 to \$2.7 billion in 1971. The 1971 level was almost identical with the total of bilateral development loans to the developing nations.

Second, export credits apply to virtually the entire range of commercial transactions between the developed and the less developed countries. Also, it is now normal procedure almost everywhere for governments to guarantee export transactions of all sorts, ranging from sales of heavy equipment to sales of consumer goods. The ready availability of these government guarantees unquestionably has helped to swell the volume of export transactions.

Third, it appears that the increase in export credits—or borrowing to finance imports—has been in most countries a factor contributing to economic expansion. The assumption must be that the goods so financed in the main are being used effectively to sustain and foster economic activity.

Where the export credit phenomenon becomes troubling is in the context of the debt service problem of the developing countries. Outpayments on foreign debt threaten to increase at an average of 15 percent or more during the 1970's and to be an extremely heavy burden for some countries. The Development Assistance Committee has warned that debt will continue to be a priority problem in the course of this decade. Three quarters of all present debt service is traceable to export credits.

To the extent that debt service cannot be managed out of foreign exchange reserves and earnings, it must be financed by other loans or grants, renegotiated, or defaulted. When the form of financing is official development assistance used indirectly to pay for debts incurred through the export credit mechanism, an obvious question of fairness arises. A very divisive issue appears when some advanced countries find themselves regularly paying for other advanced countries' exports. Furthermore, to allocate development assistance financing to countries having the most severe debt problems is not necessarily the most useful distribution of scarce resources.

It is difficult, therefore, to avoid the judgment that if the international community is going to finance exports to the developing world on an excessive scale, the end result must be to convert some of the export credits, through the process of debt rescheduling, into long term lending. Thus, we may see the export credits becoming in part another form of official, development assistance. And, while the export credits originate in a competitive scramble for exports, debt rescheduling

needs to be done collectively, so that all lending countries are assigned fair shares of the costs of revising the terms of debts.

Debt rescheduling, however necessary it may be, is likely to be costly to the developing countries, since in many cases they will find that their credit worthiness and ability to borrow will have been damaged.

We find no simple answer to these problems, however. Export credits do contribute to the economic development of the poor countries as well as to day-to-day economic activity. But they may also, as we have seen, make more difficult the debt servicing problem. In some cases, moreover, easily available export credits have led to unwise and wasteful imports by developing countries.

What is warranted, we believe, is that the international community should monitor its practices and policies in the export credit field much more strictly than has been the case up until now. The best way to do this, we think, would be for the International Monetary Fund to take responsibility for reviewing flows of export credits to particular countries, evaluating them in relation to domestic economic growth and against the background of the volume of debt being assumed. This would be a kind of early warning system through which borrowers and lenders alike could be advised of potential problems ahead. The IMF could discuss its findings with both lending and borrowing countries in the course of its regular annual consultations. In especially threatening situations, the Fund could recommend more rigorous controls over export credits or even the imposition of temporary ceilings.

B. Portfolio investment.—A growing number of developing countries have been turning to the private capital markets in the industrial countries, and for increasing amounts of funds. The volume of borrowing, through bond issues and bank credits of 7 to 10 years in duration, may have been as large as \$3 billion in 1971.

The borrowings differ from guaranteed export credits in an important way. The developing country—or rather its government—is normally the borrower and thus the guarantor of the loans. The commercial market, rather than the government in the lending country, judges the credit worthiness of the borrower, and decides on the risk to be taken.

We see in this growing recourse to private capital market a highly desirable trend. It represents a return to a traditional method of financing economic expansion. It leaves the borrowing country free to make its own decisions and it puts on the private market the responsibility for evaluating the merits of each bond issue or loan. As more developing countries acquire the capacity to borrow on private markets, official development assistance should correspondingly be concentrated in areas of greatest need.

In our opinion the World Bank might provide technical advice on request to developing countries wishing to go on their own to the private markets. The Bank's long experience with the world capital markets makes it a repository of knowledge and skill which could be made available to the developing countries.

Borrowing on the private market could, of course, be overdone, and the management of debt burdens made more difficult thereby. We would not wish to see pressures arising for official assistance for the

purpose of paying off private lenders in the advanced countries. We would expect that an IMF review procedure, as suggested above, would examine the entire structure of obligations in individual cases and would be prepared to comment and advise on potential problems associated with all forms of debt.

CHAPTER VI

Official assistance

We have left to last the discussion of official development assistance, the element of north/south relations that usually receives the most attention. Flows of capital on grant or highly concessional terms have helped to build basic facilities in a large number of developing countries and have been a key factor enabling some to reach a path of strong growth. They continue to be large and relatively important, accounting in 1971 for about \$7 billion out of a total flow of \$18 billion in financial resources moving from industrial to developing countries. Without them, the debt service problem would long since have become unmanageable.

We must recognize, however, that official assistance has been relatively stagnant over the past 10 years particularly if allowance is made for price increases, despite the various commitments undertaken by the industrial countries to have their assistance reach a social proportion of their GNP. In general, very little progress has been made in untying bilateral development assistance. This failure not only reduces its flexibility but also its value since only untied assistance can be used effectively for program as well as project purposes. It seems evident to us that a reversal of this trend is required.

The principal reason for this lackluster record is the lagging performance of the United States, which has only in part been made up by increased assistance from other countries. Insofar as long-term, untied development assistance is concerned, none of the industrial countries has an outstanding record. Nor has the trend in development assistance from the U.S.S.R. and eastern Europe helped matters; it has not increased and remains a very small percentage of GNP.

Bilateral programs have been the principal means of providing development assistance and continue to account for four-fifths of the total. These funds, whether for technical assistance or development grants and loans, are provided mainly on the basis of special historic, cultural, or political links between donor and recipient countries. Assistance through multilateral institutions, principally the World Bank, the regional financial institutions, the European Development Fund and the United Nations Development Program is growing fastest but still accounts for only one-fifth of the total.

A number of countries have a diminishing need for official assistance because they can tap private capital markets. They do this on their own or through what amounts to the intermediation of the World Bank and the regional financial institutions. These countries have come a long distance toward being full participants in the international trading and investment system and they continue to expand at home at a rapid pace. Notable examples are Brazil, Taiwan, Korea, and Mexico. Many others with records of high and consistent growth

are diversifying their economies and are on the way toward becoming exporters of manufactured goods on a significant scale. It seems probable that additional countries are likely to join this group over the balance of the decade.

The principal oil producing countries form a second category. Some like Iran are able through oil revenues to finance rapid economic expansion on their own. Others like Kuwait and Saudi Arabia are themselves a source of assistance to other countries in their region. Still others like Nigeria and Indonesia are benefiting from oil revenues, but not yet sufficiently to achieve on their own the necessary turnaround in their economies.

There are two additional categories of countries that clearly will continue to require a means of obtaining external resources on a concessional basis.

The first comprises the least developed countries—perhaps 25 to 30 in number having a total population of approximately 150 million. They are overwhelmingly nonindustrial, and they are lacking in public facilities and services, such as education, transportation and communications, and financial institutions. These countries have still to develop the basic, social, and economic structure that will permit sustained economic expansion. There is little prospect of their being able to do this without receiving concessional assistance from abroad for a long time to come.

The second category comprises a smaller number of countries with a much larger total population. India, Pakistan, Bangladesh, and perhaps Indonesia and Nigeria are the largest countries in this group. Unlike the first category, these countries in the main have the basic public and technical facilities to support economic expansion and to become substantial members of the world trading community. They are burdened, however, by low per capita income and heavy pressure of population on resources. In this situation, great difficulty in effectively employing available manpower is virtually endemic. These countries will need large-scale assistance for at least a decade, not to bring about economic expansion but to accelerate its pace and to broaden its impact. Their prospects will primarily be decided by their own policies, which for example will determine how greatly they can benefit from increasing trade. Nevertheless, left to their own, their development effort will be vulnerable to great risk of failure and they will have little margin for coping with their enormous problem of poverty and unemployment.

If these are likely to be the principal purposes for which official development assistance is needed over the balance of the decade how can they best be met?

A substantial contribution will no doubt continue to come from bilateral programs for the special reasons noted above. The key condition, however, will be to raise the volume and improve the quality of assistance. That implies providing assistance that is highly concessional in character so as to minimize the debt service burden, untied so as to maximize its usefulness, and nonpolitical so as to insure that it will go to countries where it is most needed and can be most effectively used.

A similar need exists for improving the quality of technical assistance so as to develop new technology, or the adaptation of existing

technology, to the special needs of the developing countries. Its basic purpose is to increase productivity, enhance employment opportunities, and improve the quality of life in those sectors unlikely to be touched for many years by either foreign investment or foreign trade. Much of this effort will necessarily have to be focused on rural development. To an increasing degree the development and improvement of the necessary technology should be within the poor countries, rather than through institutes in the industrial countries.

This kind of assistance—both capital and technical—can be said to be the special concern of the international community as a whole, to be shared on an agreed basis. Its characteristics argue for much greater emphasis on assistance supplied through the multilateral institutions. In the case of financial assistance, this would mean the World Bank group and the regional financial institutions; they now account for the largest share of current official development lending (including loans made on near commercial terms) and they are rapidly expanding their capabilities to assume greater responsibility and leadership in this field. In the case of technical assistance, a larger role could be played by the U.N. agencies and in the bilateral programs greater emphasis could be placed on financing joint international projects and independent experimental institutes with governing boards, including experts from developing and industrialized countries.

We have no strong views as to how much of an increase in official assistance will be required, beyond the belief that the IDA and the soft loan facilities of the regional institutions in particular will have to be financed on a substantially larger scale than at present. It seems to us that a guide to answering this question could be accomplished by a tentative estimate drawn up for a 3- to 5-year period by the World Bank in collaboration with a group of experts drawn from the regional lending institutions and the UNDP, and perhaps from a few lending and borrowing countries.

An estimate drawn up on this basis would not of course be binding on the governments of the industrial countries. Nevertheless it would give them a basis for seeking appropriations, a method of facilitating agreement on sharing requirements among each other, an indication of how much progress had been made, and a sense of future trends.

It is in furtherance with such a system that a connection between monetary reform and development finance could be useful. Negotiated by a tentative estimate drawn up for a 3- to 5-year period by the further internationalizing of development-aid. One way to do this would be through use of the following procedure.

As new allocations of special drawing rights occur, the industrial countries could assign a portion of their total allocation to the International Development Association (IDA), for low-interest, long-term lending. Additional funds could be made available to IDA if the monetary reform negotiations include arrangements to consolidate reserves held in U.S. dollars and sterling by exchanging them for SDR's. The IMF could then turn over to IDA any net earnings it realizes from such arrangements. The amounts that might result will necessarily be uncertain since they will depend on the need for international liquidity which will be determined on entirely independent grounds. Hence we would consider these sources for financing multi-

lateral assistance as supplementing rather than substituting current methods.

We see the above procedures as part of a process for coordinating all forms of development assistance, bilateral and multilateral, governmental and private. Our objectives should be to improve the degree to which all of these resources are responsive to the needs and priorities of the developing countries. We see this happening not only through greater resort to multilateral assistance but also through wider use of consortia and the formulation of bilateral programs in a multilateral context.

CHAPTER VII

Concluding remarks

In this report we have assessed separately the major elements in North-South economic relations insofar as they apply to the policies of the industrial countries. We have emphasized the possibilities for actions by the industrial countries in the fields of trade, private capital flows, and development assistance—actions that would advance the objective of economic development. It is useful now to see how our suggestions may fit within a more general perspective.

Let us suppose that in the seventies the economies of the United States, Canada, the European Community, and Japan grow at rates more or less the same as in the sixties. By 1980, the combined gross national product of this grouping, in today's dollars, will be \$4 trillion.

Let us further suppose that our imports grow at an average rate of 8 percent per year for the rest of the decade, and that their composition does not change very much. In 1980, total imports, valued in today's dollars, will be in the neighborhood of \$400 billion, of which perhaps \$250 billion will be in manufactures.

We think it is a fair question to ask whether, against these conservatively stated magnitudes, there should be any doubt about our ability to buy the goods that the developing countries can produce efficiently? Or whether there should be any doubt about our ability to transfer a growing volume of development resources through public as well as private channels? The conclusion must be that we can afford to cooperate with the poorer countries abroad even as we do more to deal with our problems at home.

If, further, the hopeful signs of a lessening of East-West tensions are borne out, then we can begin—with the Soviet Union—to direct resources on a very large scale from military uses to the pressing needs of the poorer countries, as well as to our problems at home.

The truth is that we have the wealth, the productive capacity, the skills and the knowledge, not to make over the world but assuredly to provide in a decade the basis for genuine hope for the future. Our potential is immensely greater than the difficulties that seem so large when we look at the matters separately and narrowly.

To set its relations with the South on a new and hopeful course, the North needs only to widen its vision.

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THE GRADUATE FACULTY

DEPARTMENT OF ECONOMICS

April 26, 1972

Senator J. W. Fulbright, Chairman
 Committee on Foreign Relations
 United States Senate
 Washington, D.C. 20510

Dear Senator:

It is really impossible to do justice to your letter in anything short of a long article. Hence I shall be very brief and assertive and make no attempt to "prove" my arguments.

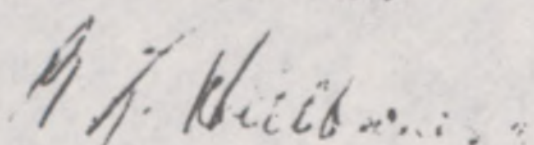
In general, I suspect that my views are very closely aligned with yours. I would like to see the United States devote a substantial sum of money -- perhaps up to 1% of GNP -- to the improvement of economic conditions in the Third World. At the same time, I am very leery of the present program which has become entangled with military assistance and which puts us in an unenviable position vis-a-vis the recipient country. In general, I would strongly urge the internationalization of aid through the U.N.

All the above has the air of banality. I fear it is almost impossible to discuss these questions except on a country-to-country basis. There are some nations where the immediate need seems to be the provision of food, others where the pressing requirement is machinery. Assistance with regard to the application of birth control is almost universally required. In a very few cases it may be necessary for the United States to assist the strengthening of a country's military forces, but I think this should in every case be clearly disassociated from "economic assistance".

There has been some discussion among economists recently as to whether the receipt of aid in fact results in a diminution of effort on the part of the receiving country. Again I feel this is a matter about which one cannot generalize. It may very well be that with certain countries every American dollar received simply results in a dollar less of their own savings. In other nations this may not be the case at all.

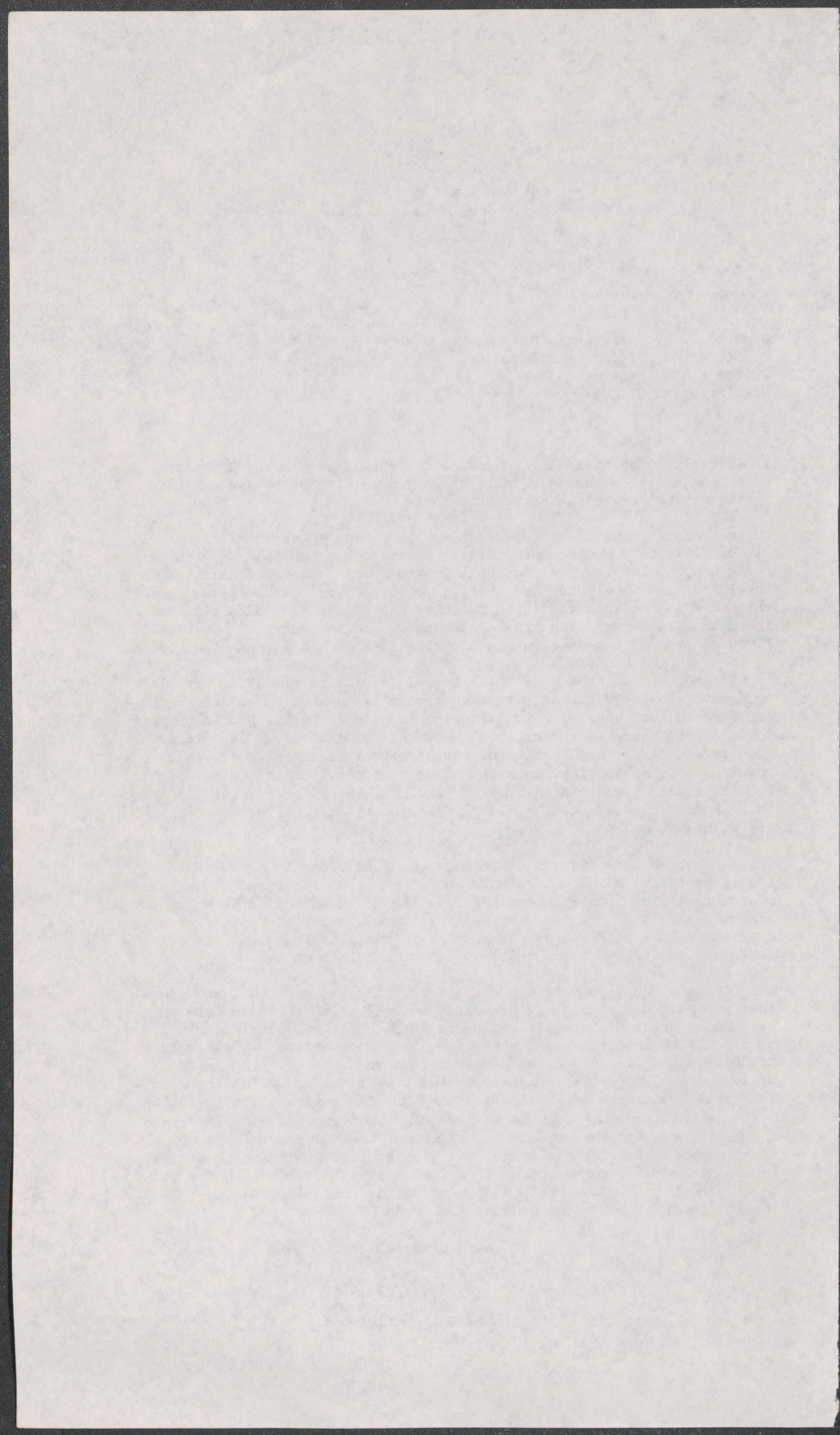
All of the above simply reinforces my previous statement that the problems you raise defy simple generalization. I believe that in foreign aid, as in most areas of international relations, political considerations are of the utmost importance and these are largely determined by the values of those who devise and direct the programs in question. In a word, I would be more favorably inclined towards a massive foreign aid program under a liberal Democratic administration than under a conservative Republican one. At the same time I think we have all discovered to our chagrin in the last few years that economic development is an exceedingly difficult task, in which foreign assistance can play at best a marginal role. I repeat, therefore, my recommendation that the United States should strive to internationalize the assistance process in order to lessen the inevitable frictions between donor and donee.

Yours sincerely,



Robert L. Heilbroner
 Chairman

RLH:ls



OVERSEAS DEVELOPMENT COUNCIL,
Washington, D.C.

August 24, 1972

The Honorable J.W. Fulbright
Chairman
Foreign Relations Committee
United States Senate
Washington, D.C. 20510

Dear Senator Fulbright:

Your letter of April 11, 1972, initiating a basic study of foreign aid was most welcome. Because I believe the study is so important, I have prepared a detailed statement in reply to your four questions. Although your study covers both security and development assistance -- multilateral and bilateral -- my attached paper is confined to U.S. bilateral development aid.

The timeliness of your study is underscored by the evident need to forge a new U.S. foreign policy that will take account of the changing world that is now emerging. Quite apart from the relationship between the superpowers, evidence is on every hand of the closing of an old era. In Asia, the emergence of China onto the world scene, the spectacular rise of Japan, and the winding down of the war in Vietnam point to the need for a new policy. In South Asia, the old U.S. policy has been dead since the end of the war between India and Pakistan -- with no visible stirrings of a new policy to take its place. In Africa, where the U.S. defers to Europe, and in Latin America, where we assert a special, perhaps hegemonial relationship, we are encouraging the very trading blocs we deplore as enemies of an open world economic system.

From UNCTAD III in Santiago to the U.N. Conference on the Environment in Stockholm it is evident the U.S. has little interest in the Third World. Our only concern seems to be with the centers of power -- chiefly but not exclusively centers of military power -- Moscow and Peking. To a lesser extent, we are concerned with economic centers of power, including Europe and Japan. And the Russians are no better; the leaders of the two superpowers met in Moscow in May of this year and issued a joint communique covering both "bilateral relations" and "international issues" which included not one word about the developing countries.

Thus, if we have a foreign policy, it is not a global one, for it has no place in it for that part of the world where three-fourths of the world's people live. But a new foreign policy is sorely needed that does include the poor countries, and this initiative of the Senate Foreign Relations Committee is needed to supply a missing part of the foundation for such a policy.

Turning to foreign aid, a basic theme recurring throughout the attached study is that the impact of U.S. development assistance programs has been exaggerated by its friends, foes, and academic analysts alike. From that central overestimate of the role of U.S. aid, several important errors have ensued. U.S. aid has been administered in a style that intrudes too deeply into the affairs of other nations. Too many results have been promised by aid's friends. The content of the aid legislation reflects the same exaggerated expectations of the program. Even the recipients of aid have sometimes overestimated its power, thereby lending credence to the myth, so dear to all Americans -- whether friends or enemies of the program -- that U.S. aid is somehow central to the affairs of scores of foreign lands. The opponents of aid are even more unrealistic about its power than its supporters. They sometimes see in the aid instrument a great evil force that creates dictators, widens the gap between rich and poor, and keeps whole nations in bondage to the Americans. In short, an assumption of near omnipotence has permeated the origins, legislation, administration, news treatment, and scholarly analysis of American aid.

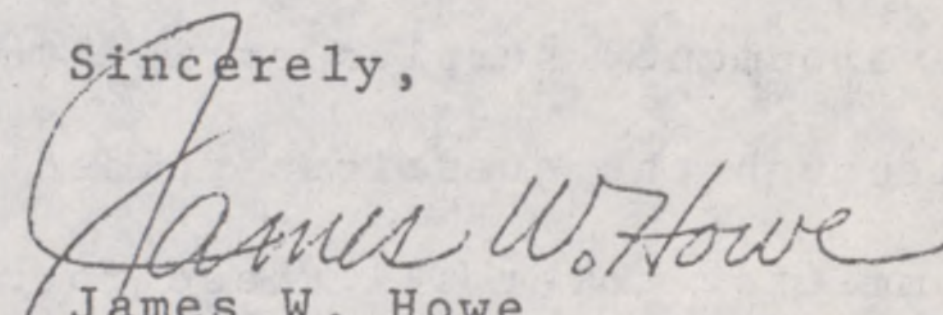
The simple truth about the U.S. development aid program is quite unacceptable to the American mentality: aid is not a central factor in the political life of most recipient nations and has very little short-run influence on their affairs. But aid from all the rich countries taken cumulatively over the medium and long term, can be a big factor in the development of these countries. The gap between our expectations of aid and its capabilities is so great that we must begin by reducing those expectations. But this step will not be enough to close the gap. We must also improve the effectiveness of the program in ways such as those suggested in the attached paper. In particular, we should provide more resources to the program. For notwithstanding the criticisms of the current bilateral economic aid program, American aid, as part of a cooperative international effort, can make a big difference in the success or failure of development efforts throughout the world. It warrants additional resources.

But even more important than aid in channelling resources to development, are our other economic acts -- e.g. trade, investment and monetary affairs -- and the acts of the international institutions we have helped to create. Hence in an annex to the paper -- because this subject goes beyond your questions -- I have listed, without elaboration, a half dozen international reforms needed to remove serious impediments to the development of the poor countries.

I am convinced that development of the poor countries is second in importance only to avoiding nuclear or ecological suicide. To be sure, the outcome depends primarily on what each poor nation does for itself, but many factors vital to development are beyond their control. These factors are controlled by the rich nations and by the international institutions they have created and largely shaped. If these rich nations want to help development, then the centerpiece of their efforts over the remainder of this century ought to be the reform of national and international systems to eliminate the factors that are hostile to the development efforts of the poor countries and replace them with friendly ones, including aid. Leading the rich countries of the world to undertake such reforms should be the goal of the Senate Foreign Relations Committee study.

Thank you for giving me the opportunity to comment.

Sincerely,


James W. Howe
Senior Fellow

Attachment

U.S. FOREIGN BILATERAL DEVELOPMENT AID
A Study of its Faults and of Changes Needed

Public and Congressional support for the United States foreign aid program is in disarray. Some of the reasons for this are found in real faults in the aid program. Others are due to popular misconceptions, or to the disappointments with foreign affairs that have attended our discovery -- after a decade of spectacular success in foreign relations -- that the world will not always bend to our well-meant efforts to protect it from the dangers and heal it of the illnesses that we perceive. It is the failure of support for aid that gives rise to the Senate Foreign Relations Committee study, and hence to this paper. That study covers the entire aid program consisting of several parts: military, development, surplus agricultural commodities and disaster relief. Although the questions raised by the Senate Foreign Relations Committee cover all these forms of aid, I am confining my remarks to the U.S. program of development aid. And although growing emphasis is given to development aid administered by multilateral agencies, I am confining my remarks to bilateral development aid. I do so despite the fact that I share the conviction of many developers that the world should increasingly provide aid through multilateral rather than bilateral channels. But for several reasons, this will take time and the bilateral program needs to be improved and strengthened in the meantime.

To begin with, multilateral technical assistance programs are not ready to pick up the burden at any time in the foreseeable future. The Jackson Capacity Study described some of the shortcomings of the U.N. programs of technical assistance, including its extreme slowness in making decisions to start projects matched by great delays at the execution stage.

In the case of capital assistance, the transfer to multilateral channels is nearer at hand, because the international banks are better able to take on the job, although two years ago I thought the transition would take about five years. Today, however, I think the transition period will be closer to ten. The first reason for the change is a reassessment of the time it takes for the international banks to build themselves into institutions that can take over without loss of development momentum. Until the, AID -- together with its counterparts in countries such as the UK, Germany, Sweden, Canada, France, Japan and Israel -- will still continue to be too creative and too valuable a source of human energy to be abandoned. Second, time has cast doubt on two cherished assumptions: that Congress would provide more resources for multilateral development assistance and would impose fewer legislative restrictions. Finally, two years ago the U.S. bilateral aid program appeared to be so abrasive and so engrossed in fighting with recipients over control of their development policy that it did not seem to be very effective. But today AID is clearly a much better agency, and I believe it should be kept in the capital assistance business for the remainder of the decade. However as soon as it appears that a switch from bilateral to

multilateral capital assistance can be made without loss of development momentum, I would do so. In the meantime, the U.S. should work with other donors in strengthening the international banks. This should include, when the situation permits, the full activation of the African Development Bank. It should also include continued strengthening of the international system of cooperation among bilateral and multilateral programs.

If my view is correct that a decade or more will be required to shift capital aid from bilateral to multilateral channels and much more time in the case of technical assistance, there is reason to review bilateral aid anew and to consider how it can be improved in order to perform its tasks better during the years when it is still needed. The AID has suffered from being a temporary agency subject to termination without notice. It or a successor should be given recognition as a semi-permanent part of the Executive Branch, with a life expectancy ranging from eight years minimum in the case of capital aid to the rest of the century, in the case of technical assistance. With this assurance it should be able to attract and hold competent, dedicated people. Under present conditions of uncertainty the wonder is not that AID is losing good people but that it has held a core of good people as well as it has.

This paper seeks to contribute to a review of how U.S. bilateral development aid can be improved over the years ahead.

* * *

Each of the four questions in the following study are taken from the April 11 letter of inquiry from Senator Fulbright, Chairman of the Senate Foreign Relations Committee.

First Question: What should be the objective of U.S. foreign (development) assistance?

There should be one objective only: namely, to help poor countries develop. This should be for the sake of the development itself and not for the sake of the improved relations resulting from the act of helping. I don't think aid wins adherents or allies either for us or for the Russians (witness their recent rupture with Egypt). It should not be counted on to improve relations between giver and reciever. But on the other hand, there is a beneficial effect in building international institutions and habits of cooperation resulting from the nations of the world working together for development. For these benefits are real whether or not development succeeds. Needless to say, there is more benefit if the efforts are successful than if they fail. But with this one windfall benefit aside, the principle goal of development assistance should be to promote development.

Why should the rich countries, in general, and the U.S., in particular, support this objective? I find three reasons.

Moral. Although U.S. foreign policy has been motivated largely by self-interest it is no less true that throughout our history many Americans have asserted a supremacy of moral values (what benefits man as man) over purely economic and military interests (what is in it for American business and security). This attitude provides a broad humanitarian basis for a permanent commitment by

our country to provide generous assistance for the development of poor countries: not because of economic or political motivations, but rather because of a genuine concern for the quality of human life everywhere.

Worldwide Common Interest. We all feel a sense of impending danger that the world is rapidly dividing into two alien camps, the one composed largely of white northerners, a dwindling and incomparably wealthy minority; and the other, a burgeoning majority, composed mostly of non-whites who live further to the south and who are poor. These two camps see more of each other every day, thanks to the revolution in travel and communications, but they have less rapport, thanks to the growing economic gap between them. I believe this trend is dangerous, particularly in a world growing technologically more interdependent. It is also a world in which an increasing number of national problems -- e.g. narcotics, unemployment, pollution -- can best be solved by international cooperation. And this cooperation in turn depends on the capability and willingness of all nations to work together.

For example, part of the answer to the U.S. problem of drug addiction lies in the international control of narcotics traffic. That takes international cooperation. Part of the answer to U.S. unemployment lies in increasing our exports. That takes cooperation to establish an open trading world and to strengthen and reform the international monetary system. *

* The latter reform takes up to an 85 percent majority of the members of the IMF which requires a high degree of international cooperation.

pollution too, lies in international agreements that will limit practices harmful to the ecosystem on which we are all dependent. The recent Stockholm meeting on the world environment demonstrated that securing cooperation by the poor countries on that front is related, certainly in their view, to our cooperation in support of their development.

In sum, development can help to reduce or restrain the economic gap between the two camps, to improve understanding between them, and to increase the capability and willingness of poor countries to participate in international cooperative efforts. While support for development doesn't assure these good results, it certainly improves the odds they will occur, and it is far better than the current drift toward a divided world.

Trade. There are both short-run and long-run trade reasons for the United States and other rich countries to help the poor countries with their economic development. The short-run reason is that the rich countries -- and the U.S. among them -- need to increase the net flow of resources to the poor countries, in order for the economic policies of the rich countries to succeed. Those policies depend on rich countries exporting more than they import. But not all rich countries can achieve this happy state at the same time. Indeed if one added up the surplus of exports over imports that each rich country would like to achieve, some economists believe the total would come to between \$15 and \$20 billion a year. But among all trading partners such a cumulative surplus is logically impossible. Surpluses must equal deficits. Of course, there is one

way for all rich countries simultaneously to achieve a net surplus of exports over imports. That is for the poor countries to accept an excess of imports over exports (that is to incur a trade deficit). The U.S. did this during certain periods of its development. Fortunately, the poor countries are willing to do this and, indeed, they need to do so to help them develop. But they can't pay for these imports unless the rich countries help them. Thus, to make the system work, it is clearly in our short term economic interest to help finance the deficit through grants, credits, development loans, special drawing rights, investments, debt rollovers and any other suitable instruments we may have the wit to devise.

In addition, there is a long-run (and, in my view, a more enduring) way in which our helping to promote development will help us with our trade. One day the world's economy will be in better balance, so that nations do not seek an export surplus as compulsively as they do today. It will then be good for us (in the rich countries) if the poor countries are able to pay for our exports with money they earn from us. To this end it is in our economic interest to help them develop so that they have the means to pay their own way in international trade. Moreover our dependence on their raw materials is growing. If they rely on a large flow of goods from us, that will give them an incentive to ship their raw materials to us. Helping poor countries develop would benefit us not only as producers but also as consumers. As consumers we would be better off producing the high technology goods and services which we can do best and importing labor-intensive products, which the poor

countries produce more cheaply. Indeed, the whole world would be better off if everyone were to produce the things he does best and if trade therefore increased. But of course developing the export capacities of the poor countries is a necessary part of such a mutually beneficial evolution.

These are three major reasons that I see for wanting to help development. Each tends to appeal to a different group of people, but there is nothing incompatible among them, because in each case the objective is the same: to help the poor countries develop.

But if development is the important goal, other goals -- particularly incompatible goals -- will have to be laid aside. More is said about this below.

Second Question: What is wrong with current foreign aid policy?

Much of what is commonly seen as wrong with foreign aid really pertains to military aid or to economic aid provided to support a security objective. To facilitate analysis, it is first necessary to separate security-related aid from development aid. Both the Senate and the Executive Branch have tried and failed to make that separation in legislation. Nevertheless, it is both simple and essential to separate the two conceptually even though the two are carried in the same legislative vehicle and to some extent, are administered by the same agency.

If we make this separation, a number of the criticisms of development aid disappear. Some remain:

Overestimation of Influence. Most important, Americans overestimate the influence of aid on recipient nations. From this basic misperception of the role of aid have grown many other related faults. All of us who are interested in aid have been guilty. This is true of the White House, the State Department, the AID administration, the Congress, the news media, and disinterested scholars. All think of aid as being more central and more capable of controlling events than it is. The model of occupied Japan and of erstwhile client states -- South Korea, Taiwan and the Dominican Republic -- may be in their minds. Of course, in these cases, U.S. influence -- not just from economic aid -- was great. And economic aid was very large. We had our way to an unprecedented extent -- although, even in these cases, our control of events was not as great as some of us imagined.

But for several reasons, that heady experience was no guide to our aid relationship in other countries. First, the volume of U.S. development aid in most countries today is not large in relation to the development resources available from other sources. America is now only one of many donors. Second, recipient countries are increasingly able to make sensible development plans for themselves -- often with outside experts who are a part of their planning staffs. They no longer feel the need of guidance from other governments.

And, whether they need guidance or not, they are determined to run their own affairs. Third, outside aid normally supplies imported capital or technical resources. But this aid is only one ingredient among many which the recipient must have for development. And the recipient often must put up many times more money than the donor for any given project. Fourth, almost universally modernization has become too political a topic to be decided abroad, particularly since another hot political topic is independence from control by the great powers.

Thus a poor-country politician believes he knows better than outsiders what is best for his country, and he certainly knows what political realities he must face at home. And given the relatively small amount of U.S. aid and its increasing real cost, it is unthinkable for an LDC leader to accept, or appear to accept orders from an outsider on development -- the most important of domestic concerns. This is particularly true when the outsider is as large and powerful as the U.S. That is the way aid is looked at by most poor-country governments. It could not be otherwise, as any American politician who puts himself in the shoes of a poor country politician for just a moment can understand. He can readily see that outsiders can never successfully impose conditions on their aid if it constitutes a major political cost to the host government, or to any of its ministers. Yet all of us have strayed far from that elementary, common-sense perception of the aid relationship.

The U.S. Executive Branch, historically the worst offender, has often thought that American aid entitled it to bring pressure on the recipient government to modify its broad development strategy -- indeed to insist upon painful policy changes as a condition for U.S. aid. Sometimes this intent was wholly benevolent -- to promote the recipient's development. Sometimes it was to serve a U.S. purpose, such as protecting U.S. investors. In either case, it is folly to imagine we can continue this practice. There is not that much leverage inherent in our aid. If a government agrees that the American ideas are intrinsically desirable, they need not be attached as aid conditions. If it disagrees, and if it considers the subject important, U.S. aid is most unlikely to change the recipient's policies. The fact that such conditions have been attached to our aid at all, simply arms the government with a political opportunity to turn the U.S. down, denouncing it as a bully, thus making domestic political capital for itself.

In fairness it must be said that AID is learning this lesson. Under current statements of its policy, it no longer demands that recipients make major policy changes as a condition of its aid. However, AID still is not free from the practice of overestimating the leverage of aid. Before giving U.S. technical assistance for a project it still may insist that there be overall changes made in the project -- even though our input may be a small fraction of the project's total cost. But the political realities are such that, unless the suggested changes sell themselves by their own manifest desirability, we are quite likely to be turned down with some loss both of rapport among countries and development.

Another U.S. policy is even more unrealistic than attempts to influence projects. This policy was reflected in the recent White House announcement that a precondition for receiving aid is a satisfactory policy concerning private enterprise activity (including U.S. owned enterprise) in the recipient country. In my view, this policy also badly overestimates the leverage of aid while giving an ill disposed government an opportunity to play the role of a small valiant victim of U.S. bullying. The Europeans, who dislike expropriation of their property as much as we, seem to be somewhat more subtle, thus avoiding unproductive confrontations with the developing countries.

Not only the Administration, but also the Congress overestimates the role and leverage of aid. For example, it has specified that aid should be cut off if a country fails to cooperate in controlling narcotics, expropriates U.S. property without compensation, lets its ships sail to North Vietnam or Cuba, seizes U.S. fishing vessels, or defaults on its U.N. dues. However, it is just not realistic to expect our small aid programs to be able to change a government's policy on such politically sensitive matters as these. One may argue, however, that these rules are imposed by the Congress as its only means of telling the Executive Branch which diplomatic goals it considers top priority. The problem with this view is that there are now so many such rules that any sense of Congressional priority is lost. Moreover, using foreign aid to wrestle with the President over diplomatic priorities takes a toll in what should be the one purpose of the aid program -- namely development itself.

However, despite all these cautionary notes, it should not be said that outside donors are without influence. They have enormous influence through training less developed country (LDC) officials (or future officials), or persuading them of the validity of a particular course of action. This subject is discussed more fully below.

In summary, development aid can provide technical assistance, training and capital which, in favorable circumstances, will support development, yet it cannot obtain for the donor a controlling place in the councils of high policy in the recipient country. Both the Executive Branch and the Congress have been at fault in failing to learn this lesson. And this failure is the most serious and pervasive fault in the aid program.

Promised too Much. Over the years proponents of U.S. development aid have promised too much, far more than prudent men should have done. Now the current aid program is paying the price of that imprudence. Promises were made implicitly or explicitly that aid would create democracies, egalitarian societies, stability within and among countries, and allies for the U.S. To have made such promises reflected a gross misreading of the power of one nation's development loans and technical assistance -- at least in the time frame in which results are being judged. Of course, many aid practitioners knew these implied promises were exaggerated, and said so. But the impression was created in many minds that aid should

be judged against these exaggerated promises. Just as our aid will not let us direct the development policies of recipient countries, so it neither creates democracies, retains dictators nor builds egalitarian societies -- at least not in the short-run. In the very long-run aid may -- and should -- exert a democratic and egalitarian influence. Thus I fault the aid program not for failure to deliver on its promises but for making absurd promises. But to say this is not to detract in the least from the very impressive track record made by U.S. and other aid programs in helping development.

By the same token, those critics of aid who imagine that aid creates dictatorships or inequality, or foists an American model on unwilling countries, are guilty of the same fault of overestimating the effect of aid. Many Americans love to view aid as the final (and early) salvation of man. Others do not even mind seeing it as the devil machine which is bringing man closer to destruction. The one thing all cannot stand is to see aid for what it really is: namely, a modest program that makes a contribution to development and nothing more.

But of course that is the truth about development aid and both the Executive Branch and the Congress really ought to stick with the truth. Aid's proponents in both branches of government have always feared that telling the truth about aid -- or even admitting it to themselves -- might kill the whole thing. They feared that if Americans cannot play a central and dominant role in the recipient

countries, then we might just take our marbles and go home. But aid seems to be dwindling anyway: we might as well give the truth its day. It might even help. Once we see aid for what it really is, disrobed of both its demoniac and heroic garments, it may be possible to lower the level of tension that surrounds it. Whether in a lower-key atmosphere, it could obtain as much or more resources with fewer restrictions is open to conjecture. But at least the process should require less political effort. Proponents of aid ought to take the initiative by scrupulously avoiding excessive promises.

Aid is Starved for Funds. The third major fault with development aid, flows from the second -- i.e., the volume of aid is too small. First, it is too small in relation to the things it can do well. (Here, it should be noted, my discussion includes not only bilateral but also multilateral development aid funds.) And second, it is too small in terms of a fair sharing among the rich countries of the costs of aid.

Turning to the first point, I will not try to prove that any given additional amount of aid could be put to effective use. I am acutely aware of the difficulties of using aid well. I know that a major limiting factor has been the low capability of the poor countries to convert good ideas into tangible, ready-to-go projects and then to execute such projects. But despite these observations, three facts convince me that more aid could be used than is now being provided. First, there is substantially less net

U.S. bilateral development aid today than poor countries have been able to use in the past -- particularly when corrections are made for price increases and for the growing flow of repayments on past loans. Second, the International Development Association has run out of funds because of the tardy U.S. contribution. Many worthwhile projects are awaiting IDA financing. Third, the admittedly low capability of poor countries to use development capital effectively is increasing.

In regard to our fair share, the U.S. is clearly lagging behind the other rich countries. A decade ago the U.S. led the international community in establishing formulas for sharing the aid burden. It was our idea because we were then providing most of the aid, and we wanted others to increase their contributions. So formulas were agreed to, together with an annual review -- conducted by the Development Assistance Committee (DAC) of the OECD -- in which the finger of guilt was to be pointed at laggards. Now under the system we helped to design, the U.S. is looking at the finger of guilt.

I do not agree with people who say that these formulas are unfair to the U.S. It is often argued that the U.S. should be given credit for its defense expenditures, including military aid, because this is part of the burden we carry on behalf of world peace. But many nations including even friendly ones feel threatened, not protected, by our large military expenditures (as well as by those of the U.S.S.R.). They do not always regard our military outlays as

a contribution to peace. Indeed, many Americans today share this doubt. Thus it is not likely we could convince the others in DAC that we should be given credit for military expenditures. Indeed the Europeans often assert that in terms of power and national interests, the U.S. gains more from its military contributions than it costs.

Some people have argued that the GNP of the U.S. is a poor measure of capacity to help because it contains many things that they do not consider real economic wealth -- advertising, over-powered cars, and even such luxuries as liquor, cosmetics, and tobacco. On the contrary, the presence in our GNP of these items appears to me as proof that we have fat that could be put to better use -- helping poor countries develop -- rather than as evidence of lack of capacity to assist other nations.

Furthermore, the point has been made that French aid is over-counted because it includes aid to former colonies. But it is neither less of a burden, less help to development, or less praise-worthy to help a former colony. Thus I see no reason the French should not be allowed to count such aid as part of its contribution. After all the U.S. takes credit for the supporting assistance we spend in Vietnam. That amounts to nearly half a billion a year, vastly larger than aid to any other country. And that is probably less related to development than French aid to its former colonies.

Thus, in spite of criticisms, I believe the DAC formula is more than fair to the U.S. We are by far the wealthiest people in the world yet we are asked to pay the same percentage of our wealth as the poorest of the DAC members. In domestic taxation parlance that would be called a "regressive" formula which favors the rich. Yet despite that built-in bias in our favor, the formula still finds us wanting. We are twelfth in a field of sixteen aid givers, as measured by the agreed formula -- percent of GNP devoted to Official Development Assistance (ODA) -- and dropping. The U.S. actually spent .31% of its GNP on ODA in 1970. By 1975, it is estimated we will be tied for the last place.

If one seeks reasons why the development aid program is too small, there is blame enough to go around. The White House has not given the program a very high priority, clearly ranking development aid behind military aid. The Congress has been cool, if not hostile, and the public has been indifferent at best. Yet if the Senate Foreign Relations Committee studies can set to rest some false views of the program, and help to put it in truer perspective, it may help to secure more funds for the development aid program.

Before leaving this section on "what is wrong with foreign aid" it seems only fair to ask the question "what is right with foreign (development) aid?" For there is much that is right. Two points in particular need to be made, i.e. that aid does have influence on the policies of recipients and that aid deserves to be credited for many specific successes.

Development aid does have great influence. But not the kind most people think. An offer of aid, or a threat to withhold aid will not make a country change an important policy. But aid is influential in much more subtle and constructive ways. Aid pays for research to get information needed by the policy-makers, and disseminates this information. Aid supplies American machinery, designs, and systems, which influence the choice of development models. It sends technicians overseas to fill essential positions or advise foreign governments and it brings foreign students and officials to the U.S. for study and training. All of these activities inevitably help shape the attitudes, the approach, and even the specific solutions to development problems.

Aid programs of other donors -- including socialist countries -- offer different attitudes, approaches, and solutions. One of the fortunate results is to enable poor country officials to profit from a wide range of others' experiences in designing their own development. They need not unthinkingly try to transplant someone else's unadapted model into their own soil. Because U.S. experience is rich with success, it has been an important guide to others and has been drawn upon extensively. I have no doubt that by a generous margin it has been more useful to the poor countries as a whole than that of any other nation (excluding the colonial experience). The world will be a better place if there is ample aid to make that experience increasingly available to others.

In addition to being influential, U.S. aid, public and private, also has some important specific achievements to its credit. Some of the achievements it pioneered. In other cases it made a more modest contribution. An incomplete list of achievements for which it deserves a varying measure of credit would include: the green revolution, the rapidly spreading interest in population stabilization, the 5% average growth in GNP among poor countries during the 1960s, the economic success stories of Korea, Taiwan, and Israel; the spectacular growth rates in several other developing countries. Thousands of other small successes include projects in village water systems, income tax systems, education curriculum development; vocational education; establishing colleges of veterinary medicine, and of engineering; helping to create national agricultural research systems, land tenure reform programs, savings and credit systems and cooperative programs; inoculation programs which have controlled certain diseases in important areas, small breakthroughs in knowledge about grasses, legumes, sorghums, animal diseases, and industrial processes, and many, many more.

In addition, American private as well as public aid programs, deserve special credit for four major global transformations.

First, through initiatives such as the Charter of Punta del Este, the setting of global targets, Presidential statements, and the deliberate optimism institutionalized in the several aid agencies, the U.S. has helped to convince the entire world that modernization was desirable and possible. The world now believes both, but it did not always do so. Only two decades ago the

struggle between the traditional and modern way was widespread and intense. Today the struggle is resolved. With few exceptions no political party in a poor country could present itself to an electorate without featuring the theme of development. Great credit is due to U.S. efforts -- public and private -- for this change.

Second, U.S. private and public aid programs have consistently helped countries to adopt a comprehensive, orderly plan for development. These programs have also helped many countries become able to design such plans. Most poor countries now have governmental planning machinery, some of which is quite competent.

Third, after the recovery of the Western Europeans from the Second World War, the U.S. pushed other countries to "share the burden" of helping with development. Today, as indicated earlier, it is clear that that mission has been accomplished. Others are carrying their share of the burden.

Fourth, the U.S. sought to create an international system for coordinating the several bilateral and international aid programs. Today, elements of such a system are in place and performing with increasing effectiveness. These elements include a series of agreed general targets for development embodied in the International Development Strategy for the Second United Nations Development Decade; the United Nations System with its Resident Representatives stationed in developing countries; the Development

Assistance Committee of the OECD; a number of consortiums or consultative groups each dealing with an individual country; and, of course, the international financial institutions both global and regional. The U.S. deserves major credit for this achievement.

As a result of these four advances, the prospects have brightened that outside aid will be put to good use in helping countries develop. Thus it is particularly regrettable that U.S. aid efforts are now faltering.

Third Question: Does the current U.S. aid program serve the best interests of the recipient country?

The best way to answer this question is to ask another: "Best interests according to whom: the recipient country, or the U.S.?" After all, there is a history of tension between U.S. aid programs and the governments of poor countries, generated precisely by our effort to assure that the aid program served the best interests of the recipient country; as we perceived those interests. The U.S. has assumed that giving aid entitled it to make -- or share importantly in making -- the judgment of what is best for the poor country.

No doubt there are many cases where a U.S. judgment on use of resources will produce more development than a judgment made by the host government. But there is a greater goal than getting a high product from each aid-supported project -- namely helping

developing countries become able to get a high product. If the U.S. insists upon its judgments being used, it may sacrifice this higher goal. Unfortunately, in spite of much progress in recent years, the U.S. too often still seeks to impose its judgments of what is best for the host country to a much greater extent than do many other donors. Of course, all donors take certain steps to assure themselves that their aid will be reasonably well used. This is only common sense. But there is no need to get bogged down in a struggle with the recipient over whose views should prevail. For example, British aid has published a formula in some countries under which it will finance a specified portion of the expenses of a British technician if the recipient country will appoint him to a regular position and pay him their regular going rate for that position. If the recipient is willing to put up that much money (and to endure the political cost of appointing a foreigner) the British believe that this is good enough evidence he is needed and will be reasonably well used. No further checks are made. The savings in staff time and paper are enormous. In one country, where I was familiar with the operation of the British program, their staff of six people managed a technical assistance program twice as large as that of the entire U.S. program for all of Africa. And my personal -- and unscientific -- observation from living there for two years did not reveal a noticeably higher rate of error in the British program than in ours. It is something to think about.

Contrast this with the U.S. review system. That system often uses a request to aid a project as an opening to review the recipients judgment about policy matters -- within -- or even beyond -- the field in which the project fits. For example, if a country asked us to furnish part of the costs of one or two biologists to help establish a fresh water fish research institution, the AID internal approval procedure (at least in some geographic regions) requires the requesting country to provide AID with a thorough analysis along the following lines: Is there a protein shortage? Demonstrate and quantify. What is the most effective way of producing protein? Why fish? Why not cattle? Why fresh water rather than marine? What are quantitative goals for fish production? What is the connection between these goals and the proposed research institute? Analyze the institute, its total staffing and budget. Are they viable? How do the U.S. biologists fit in?

And this is not a perfunctory analysis. Each answer to the questions will be gone over thoroughly in Washington and perhaps in some university which works with AID on the subject. And at every step, counter approaches may be proposed. Fierce battles may take place. The specialists and the generalists who preside over the process may lose all sense of appropriateness.

Other donors accept such a request and simply consider whether to support them. But not AID. It may spend months seeking to protect the recipient country from making an error before approving the technician's assignment.

There is reason to hope this situation is improving. In his "Memorandum to All Employees" of January 24, 1972, the AID Administrator, Dr. John Hannah called for "a more collaborative style of assistance which recognizes that the people of the developing countries are at the center of development cooperation programs..." In June, in a speech in Houston, he said:

"...(developing countries) still want foreign assistance. They still require specialized technical advice. But they are appropriately less and less willing to tolerate donor countries attempting to tell them what their priorities should be; how they should plan; how they should budget and expend resources. The old tutorial relationship which has marked relationships between donors and recipients has become obsolete. They realize that for every dollar of foreign aid from all sources, the developing country must invest at least eight dollars of its own resources. It is increasingly clear that the problems of the LDC must be solved in that country, by their own people."

As this philosophy is translated into action -- and I am convinced Dr. Hannah intends to do just that -- it will make the AID of the seventies incomparably superior to any of its predecessors in terms of serving the interests of developing countries.

But the U.S. Congress also imposes some rules which reduce the effectiveness of aid in serving the recipient's interests. Important among these is the practice of prior project review. This applies to technical assistance projects. Before it approves any money for technical assistance, Congress now makes AID submit information on each project for the coming fiscal year. Furthermore, under the U.S. budgetary system, the planning process on these projects

must begin a year and a half earlier. For example, a new project before Congress now, in August 1972, will probably not be funded by Congress much before Christmas. Yet it was first designed by a U.S. AID office somewhere abroad a year and a half earlier, in the spring of 1971.

In most instances, that project was not seriously discussed with host governments, and for a very good reason: the U.S. could not begin negotiating with the host governments about the project until after Congress had made the money available. It would be embarrassing indeed to discuss the project with the host government and then have to refuse to contribute to it because of Congressional cuts after the host country and other donors had made firm plans and taken actions based on the expectation of a U.S. contribution. One cannot do that without losing the mutual trust necessary for us to help the poor countries develop.

Instead, therefore, the projects AID presents Congress are in fact designed unilaterally by AID. Then, after Congress has provided the money, AID offers to help the recipient countries on specific projects on a "take it or leave it" basis -- a far cry from Dr. Hannah's collaborative style. Yet this "take it or leave it" approach is unavoidable as long as Congress maintains its strict rules against starting a new project not included in the presentation to Congress.

How can we resolve this dilemma? Congress must be willing to provide money first and wait until after projects are negotiated to receive project details. If Congress will do so, the collaborative style will be possible. Otherwise it is not. Some members of Congress advocate the collaborative style and criticize the old U.S. abrasiveness in aid-giving. Others insist on prior project review. The Congress needs to make up its mind. In my view, the intrusive style -- practiced by both the Executive Branch and Congress -- causes the U.S. to fall short of the optimum in serving the best interests of the host country.

Fourth Question: What should the United States do to help other countries on their development problems in the years ahead and how should we go about doing it?

In the pages that follow I identify certain courses of action which I believe would make the aid program more effective.

1. Explicitly limit the goals of development aid to development.

The Foreign Assistance Act should be terminated and in its place legislation should be enacted which separates foreign assistance into the quite discrete purposes it serves. One act or possibly two acts should contain only bilateral and multilateral assistance for development. It should make explicit the policy of the President and Congress that the only purpose of the act is to support development. It should forbid the use of its funds for diplomatic ends except as such ends may be served as a by-product of supporting development.

2. Explicitly endorse a collaborative style of aid.

As far as bilateral development aid is concerned, the President and Congress should specify that aid will be provided in a collaborative style which (a) seeks to encourage recipient countries to get control of their own affairs (b) limits any U.S. aid-related influence on recipient country policies to persuasion and training and (c) endorses the principle of blending U.S. aid with that of other donors where that is the preference of the recipient country.

3. Provide maximum flexibility for those who administer aid in the new collaborative style.

Rules and procedures in legislation and Executive Branch manual orders should be kept to a minimum. Of course, there must be some common sense rules spelling out who is eligible to receive aid, and assuring ourselves that our aid is well used for the agreed purposes. The second rule is easier to apply and doesn't require extensive legislation. It should merely specify that basic professional standards be met -- e.g. that the project is economically and financially sound, well engineered, and will be carefully administered. The first rule, however, is much more difficult: who is eligible to receive aid? One of the most troublesome questions relates to whether our aid gets down to the ordinary people. Suppose country X has an elite ruling class,

and the little man doesn't get fair treatment. Country X asks the U.S. for a loan to buy fertilizer and for technical assistance in agricultural research. For our part, although we see some gradual improvement in country X and see opportunities to work with it in improving the lives of its poorest people, nevertheless we are not satisfied with the country's political, economic and social structure. A disproportionate share of any increase in national production winds up in the hands of the ruling class. Should we give aid through that unsatisfactory structure or save our aid for those countries whose structures are relatively more egalitarian? This amounts to asking whether we should help the really underdeveloped countries -- despite their shortcomings -- or only help those relatively well off such as Korea, Taiwan, Hong Kong, Singapore and Israel. After all, the fact is that the developing countries which have political and economic structures that widely share power and wealth tend to be relatively more advanced than those which still have feudal or traditional structures. My own view is that unless we judge a country to be so beyond redemption that its poor people clearly will not derive significant benefit from our aid, we should help, despite the deficiencies in the country's structure. There are two reasons for this. First, refusing to help will not make them improve their structure. Second, helping them at least exposes them to our arguments for structural reform.

Hence new development legislation should prohibit the quixotic exercise of trying to lever countries into structural or policy reform by threatening to cut off aid. It should provide that countries are eligible to receive aid if there are reasonable prospects that -- over time -- the giving of aid will help their poor people.

4. Explicitly recognize the long-term low-key nature of aid.

The President and Congress should articulate their recognition and acceptance of aid as a modest tool which has results only over the long run. The invariable temptation in both the White House and Capitol Hill is to backslide and use the aid program to promote a certain deal or to punish a wayward ally. This legislation would not prevent such lapses, but it would officially brand them as wrong and thus strengthen the hand of those who oppose them.

5. Urge the President to decentralize the AID decision-making process to the overseas aid missions.

Currently, AID is centralizing its decision-making power in Washington. In my view, this is an error. AID says it intends to stop attempting to direct development and instead to collaborate with poor countries which direct their own development. In that case it should not dismantle its capability to consult with them in their own capitals about what they want to do. Centralizing more decisions in Washington hardly fits the new collaborative style. Instead a few able people ought to be kept in the poor countries and be equipped with authority to make decisions. Any staff reductions in the field ought not to be greater than reductions

in supervisory staff in Washington. Otherwise there will inevitably be a concentration of decision-making at the center and away from host government policy makers with whom we should collaborate.

6. Improve the capability of AID to deal with non-aid aspects of development.

As I argue in the annex to this paper, the most important actions rich nations can take to help development involve other tools besides appropriated aid. If so, then AID should organize itself to influence some of these other more important actions. The U.S. Government should consider AID to be its agency for development in the broadest sense, not just the agency that administers aid. Therefore, AID should be the expert body on development within the U.S. Government whenever decisions are being made on trade, international monetary affairs, investment, shipping, the law of the seas and any other subject that affects the development of the Third World. If it is to have a voice in such matters it will need to have a corresponding capability. Thus the AID Washington staff, should spend more time on these topics and less on controlling the details of aid projects. This, of course, would require a change in the kind of staff AID has in Washington. In his January memorandum to all employees, Dr. Hannah explicitly states his hope that AID can assume this wider role in the U.S. Government.

7. Resist the temptation to specialize.

One proposal which deserves careful analysis would limit U.S. bilateral development aid to three or four functional sectors such as education, health population control and agriculture. Such a legislative limitation is now being given serious consideration in influential Congressional quarters. Indeed, AID has virtually invited the Congress to so limit aid by the emphasis given to such a functional focus in its most recent presentation to Congress. Yet in opting for specialization, AID reveals that it has not yet fully faced up to all of the consequences of adopting a collaborative style. And until it does, there will be inconsistencies in the thinking of the Agency. For I believe it is inconsistent with the collaborative style to specialize in a few fields such as agriculture, population control, health and education.

Why are specialization and the collaborative style inconsistent? Because such inflexibility on the part of the world's major bilateral aid agency makes the host country's job much harder. It is certainly one objective of the collaborative style to encourage the host country to plan its own development and to design and manage its development projects, mixing its own funds and people with selected contributions from a number of outside aid agencies and managing all such resources to achieve a balanced product. If the aid agencies are flexible in the variety of aid they can supply, the recipient country can more easily achieve its own and others' investments. Historically the United States has offered a wide variety of talents. I believe the task of many developing

countries would be complicated if aid legislation were to limit U.S. offerings to four selected fields. And if other donor agencies followed suit and specialized also, those complications would be greater. For my fear is that each donor would want to secure for itself some of the same fields of specialization that the U.S. is staking out: agriculture, health, population and education. These are glamorous fields. Indeed, AID's presentation to Congress implies that these fields should universally have the highest priority. Would other donors be content to specialize in less glamorous or "lower priority" fields? If not, there would be major gaps in such fields as industry, transportation, power, telecommunications, tax administration, budgeting and personnel administration.

AID's statements seem to indicate that it wants to change from a "directive" to a "collaborative" style provided that each country does exactly what we want. We will collaborate with a host country:

1. If the collaboration is in one of our chosen four fields;
 2. If we are satisfied that the recipient country is following a strategy of full employment and equitable income distribution.
- (This has not yet been stated overtly to my knowledge, but it is reasonable to infer from the Congressional presentation that it is being considered as a rule);

3. If the project being aided attacks problems that cut across national boundaries (something these new fiercely nationalistic nations may not agree with).

These self-imposed restrictions, when taken cumulatively, make the AID program much less, rather than more, amenable to the collaborative style which AID is seeking to follow.

Moreover, nowhere have I seen a persuasive argument in favor of specialization. What is its purpose? (1) Is it to influence the recipient country to put more emphasis on these four fields? (2) Is it being proposed because the U.S. is more expert in these four fields than in others? (3) Or is specialization a cosmetic to help get more appropriations by giving the U.S. aid program a tangible, focussed, no-nonsense appearance?

If the reason for specialization is the first -- to increase the emphasis given to these fields -- then there are three things wrong with such an approach. First, even if we were right in our judgment that these are highest priority for all countries, it has limited ability to force a change in emphasis. Funds are interchangeable, so the host country can accept our aid in these four fields, and still avoid increasing the relative emphasis given to them if it is determined to do so, simply by spending less of its own money on the fields aided by U.S. funds and applying its own funds to other fields. However, it should be recognized that this may be so complicated that the end result may be to emphasize the fields of our choice. Second, it is simply wrong to imply

that these four fields should have the highest priority in each country. We should have learned at least one lesson after a quarter of a century in the aid business: viz, that each country is unique. There is no standard -- made in Washington -- formula that fits all of them. Third, what of the collaborative style? Right or wrong, is it really our job to make the judgment for them about their development priorities?

If we specialize for the second reason mentioned above -- because the U.S. is better in some fields than in others, then I would quarrel with the selection of these four fields. I would accept agriculture as a field in which we excel both at home and in our aid programs abroad. In population, we do not excel at home -- though we have done much pioneering in our population programs abroad. In education and health, we have a mixed record at home and a spotty record abroad. We have encouraged some countries to adopt health programs -- and in some cases education programs -- that were too sophisticated and expensive for their needs.

By contrast we have a very strong record in transportation, power, telecommunications, and some areas of public administration both at home and in our aid programs abroad. And what of industry? Is America, of all countries, to forbid its official aid program to help strengthen the private industrial sectors of the developing countries?

Finally, it seems likely that the real reason for the move toward specialization is to get more Congressional support for aid. I concede that one often hears the complaint from Congress that the aid program tries to do too many things -- that it is too fragmented to understand and explain to busy colleagues. Hence the view that if the legislation limited aid to three or four fields and if these were fields that Congressmen can relate to -- such as agriculture, health and education -- Congress might support a higher level of aid. The point is made that the medical, educational, and agricultural communities of interest in the U.S. would become pressure groups in favor of more aid.

I am sure some Congressmen would thereby be moved to support more aid. But other Congressmen may prefer aid appropriations on a country-by-country basis. I certainly agree that the present division of aid into loans and grants stirs little Congressional interest. But surely a critical question is whether aid for three or four fields would move the normally implacable appropriations committees to provide more funds. Moreover, whether support for aid from the specialized communities of interest would materialize or not is open to question. Information is already presented each year to the Congress on how much aid is proposed for each field, yet that has not generated effective support. One wonders whether setting these amounts in concrete through legislation would really make any difference.

I concede these views are starkly out of step with a growing consensus among developers -- a consensus favoring unilateral specialization by the U.S. But the development community has been wrong before. I need only remind the reader that at one time or another there was a consensus favoring import substitution or urbanization industrialization or land consolidation.

The current move toward specialization is only the latest in a long series of efforts to reshape the American aid program to give it more symmetry, more simplicity, and better definition. When the Kennedy Administration took over, it inveighed against the "scatteration" of American aid and vowed a "turnaround" (reminiscent of Saint Paul) to a program that was "concentrated." Four years later President Johnson gave an order to the Latin American bureau of AID to focus aid on three fields: agriculture, education and health. Even in those days, it was beyond the power of AID officials to unilaterally focus their aid. Even then they had the power of refusal but not the power to decide what should be done. Consequently they did the only thing open to them -- apart from closing down a large part of the aid program: they redescribed aid in terms of health, agriculture or education. Roads became "farm to market" roads. Telecommunications became "rural-urban networks." Tax administration experts were engaged in "education" -- that is, education of their counterparts in the host government. Innovative bureaucrats soon learned that almost all of human endeavor can be grouped under one of these three headings.

A year or two later, under the leadership of the President's Science Advisory Committee, a move got under way to focus all technical assistance on just one field: science and technology. This had a brief play in some corners of the bureaucracy and then faded, although it threatens to erupt again to this day. Meanwhile the redefiners engaged in a few internal exercises to prove that everything that AID was doing or could think of doing was quite properly classified under the heading "science and technology."

It must always be thus if aid administrators are required (or impose upon themselves the requirement) to put all aid in this or that basket or baskets. In the real world of savagely independent and sensitive nation states, U.S. aid administrators cannot comply with such limitations so they must either decimate the aid program or respond with a massive relabelling effort. Thus far their gifts at redecorative artistry have not fallen short of the challenge.

If the Congress wants to be cajoled into a secure feeling that the U.S. has unilateral control of U.S. aid and can shape it into attractive simple packages that yield quantifiable results, then let them enshrine into law a requirement that U.S. aid specialize in three fields or four fields, or only be used to benefit people whose income is at the level of, say, the bottom 20 percent of that society. While they are at it, they may as well go all the way and require that aid only benefit the pure in heart. It matters little if the Congressional purpose is to coat the development program with a cosmetic that makes it easier for

Congress to support. What the Congress should understand however, is that the result can only be either (a) to make U.S. aid that much more out of step with the real world or (b) to provide more challenging careers for the re-labellers. In no case is the new law likely to change the actual substance of the U.S. aid program or the development decisions of politicians in the poor countries.

For it is unrealistic to expect the U.S. ingredient in the development-resource blend to have a symmetry and beauty of its own. It is only a thread in the fabric woven by each LDC government. Or, to change to the musical simile often used within AID, which often speaks of "orchestrating the development process," U.S. aid is only one of the instruments in an orchestra directed by the host government and playing a score which that government composed (borrowing liberally from familiar themes written in the developed countries). When sequestered from the rest of the orchestra, that instrument's part may not have much beauty. And if it insists on playing its own score or playing in a key of its own choosing the results may be cacaphonic. The U.S. has made great strides toward realism by no longer insisting on sharing the podium with the director. But we will not have achieved a truly collaborative style until we learn to quietly play our part with the rest of the orchestra. Development, in today's world, is no job for a prima donna.

To leave our musical metaphore, if the U.S. is determined to specialize, however unwisely, then the only collaborative way to do so would be in concert with other members of the development community. Let the U.S. propose -- perhaps in a special DAC working group with LDC's represented -- a carefully thoughtout system of specialization for the entire community, assigning to each donor those fields in which it excells and assuring that for every field of activity there are several donors -- so that the LDC's have some choice. Let that proposal be debated for a year or two and then let the U.S. accept the roles assigned to it by these negotiations.

I personally doubt that the advantages of specialization are worth the effort. I would prefer a much looser, more free wheeling world aid system. But if specialization is our goal, let us not forget that there is a world out there with other participants in an international aid system that we originally took the lead in building. We owe it to them not to make a unilateral declaration of specialization. To do so might well damage that system.

In summary, I oppose specialization of American aid either by the Executive as at present or as proposed through legislation. Such an approach would be harmful to the collaborative style to the course of development, and to the international donor system, and it is doubtful it would generate additional support for aid.

8. Provide more funds for development.

Increasing development funds is easy to state but hard to implement. Perhaps the other seven actions recommended above will make development aid more attractive so that the President will support more of it and the Congress will approve it. In addition, I think it is very important to sequester development aid (technical assistance and capital loans both bilateral and multi-lateral) from all other forms of international economic and military transactions so that development assistance -- which has little enough support as it is -- does not lose support because of the size of the package or because some Congressmen object to military aid. I doubt the validity of the argument that development aid gets strength from association with military aid. In fact, the association of the two has deprived development assistance of one of its strongest arguments -- "we ought to do it because it's right."

Whether these changes will generate more funds is not certain. Beyond these changes, my only prescription is to keep it as good a program as possible, tell the truth about it, keep the arguments low key, and see what is made available. There is little to lose. After all, the strident over-promises, high pressure salesmanship, and spurious justifications of the past have not paid off. At the same time development aid will probably not go much lower because of the university and business constituencies that depend on it. While telling the truth about development assistance might not yield more appropriations, it probably would not yield less -- and in any case would do so at a much lower political cost.

But I think the future of development aid is brighter than this. The truth eventually catches up with misimpressions. I believe that if two simple facts could be communicated to the American people, the climate of U.S. opinion for aid would change.

The first fact is that aid is part of an agreed international effort, which increasingly plans, negotiates, administers and evaluates internationally the flow of development aid. The goals of that international effort are enthusiastically supported by other nations. America's input is an essential part of a larger whole. If we don't do our part the whole international effort is threatened. But the U.S. is not doing its part. Our performance is below the agreed norm and is dropping.

The second fact is that the burden of aid is light. Most people think that development aid is a large part of the federal budget. Most young college people queried during a recent series of meetings, sponsored by the Overseas Development Council, thought the figure for aid was 20% of the U.S. budget. Actually, it is less than 1%. People think that aid is a heavy balance of payments burden. Actually U.S. development aid, multilateral and bilateral, -- far from being a balance of payments burden -- has been a foreign exchange earner. Over the past five years it has earned \$2.5 billion in foreign exchange, or nearly half a billion a year. And as I suggested above, there is no burden of loss of resources. As a society we want to find outlets for resources so that we can keep our

factories, farms and workers employed and in any event the flow from the U.S. of development resources under aid programs amounts to about one third of one percent of total resources produced in the U.S. The internationally agreed target is seven tenths of one percent.

Perhaps this Senate Foreign Relations Committee study can play a role in getting these two small truths told. I have confidence that one day they will be widely understood and for that reason I am optimistic the U.S. ultimately will improve its performance in support of development.

ANNEX

Although the Senate Foreign Relations Committee study is concerned with aid rather than with general foreign economic policy vis-a-vis the third world, no paper on development would be complete without making the point that aid is only one way -- and not necessarily the most important way -- to help development. There are three basic reasons why the poor countries are underdeveloped. First, poor countries lack capital and, in some cases, natural resources. Second, they do not manage their resources very efficiently, and third, they suffer from severe discrimination from rich country policies and from the discriminatory aspects of the international economic systems in such matters as trade and investment. Aid programs help with the first two problems but, of course, not with the third.

Yet the third factor, i.e. the hostile economic environment in which the poor countries live, is important in the view of a growing number of scholars. What is this unfavorable environment? Listed below are only the most important examples of factors which impede the development of poor countries.

1) Rich country tariff and non-tariff barriers against goods produced in poor countries are higher than against goods produced in other rich countries. Yet unless the markets of the rich are accessible to the products of the poor, development cannot succeed, even if aid programs meet utopian targets.

2) Similarly, borrowing in the private bond markets of the world is harder for poor countries than for rich countries.

3) The mineral resources at the bottom of the sea and the fish in its waters -- although theoretically open to all nations -- are in fact, available only to countries which have the technology and capital to exploit them. With some exceptions in the case of fish, and none in the case of sea-bed minerals, these are the developed countries.

4) The existing organization of international shipping places the developing countries at a disadvantage. They lack bargaining power with the powerful liner conferences concerning the setting of freight rates, which are a considerable drain on their limited foreign exchange.

5) The poor countries owe the rich countries over \$60 billion and the annual payments on that debt have reached nearly \$6 billion. These annual payments are increasing at the annual rate of 14 percent. This growing outflow is becoming a major impediment to development.

6) When the International Monetary Fund creates "paper gold" and distributes it (at the rate of more than \$3 billion per year during the past three years) free of charge to its members, the 25 rich countries get nearly three quarters of this new asset while the 87 participating poor members get the rest. A more equitable distribution could help development.

7) The long term market forces often work against poor country exports -- which tend to be raw materials -- both in relatively declining prices for their exports and in harmful price fluctuations, and

8) Rich country exporters have access to export credit from their own governments on a subsidized basis. Poor country exporters do not.

These things did not happen because the rich conspired to hold the poor down. They happened because the rich worked out rules that met their own needs and they did not think to take into account the needs of the poor. But the result impedes the development of the poor just as surely as if the rich had meant to do so. Since foreign aid does not attack these problems, it misses a large part of the causes of underdevelopment. This fact highlights the need for this Senatorial review to go beyond development aid programs and to give careful thought to these less

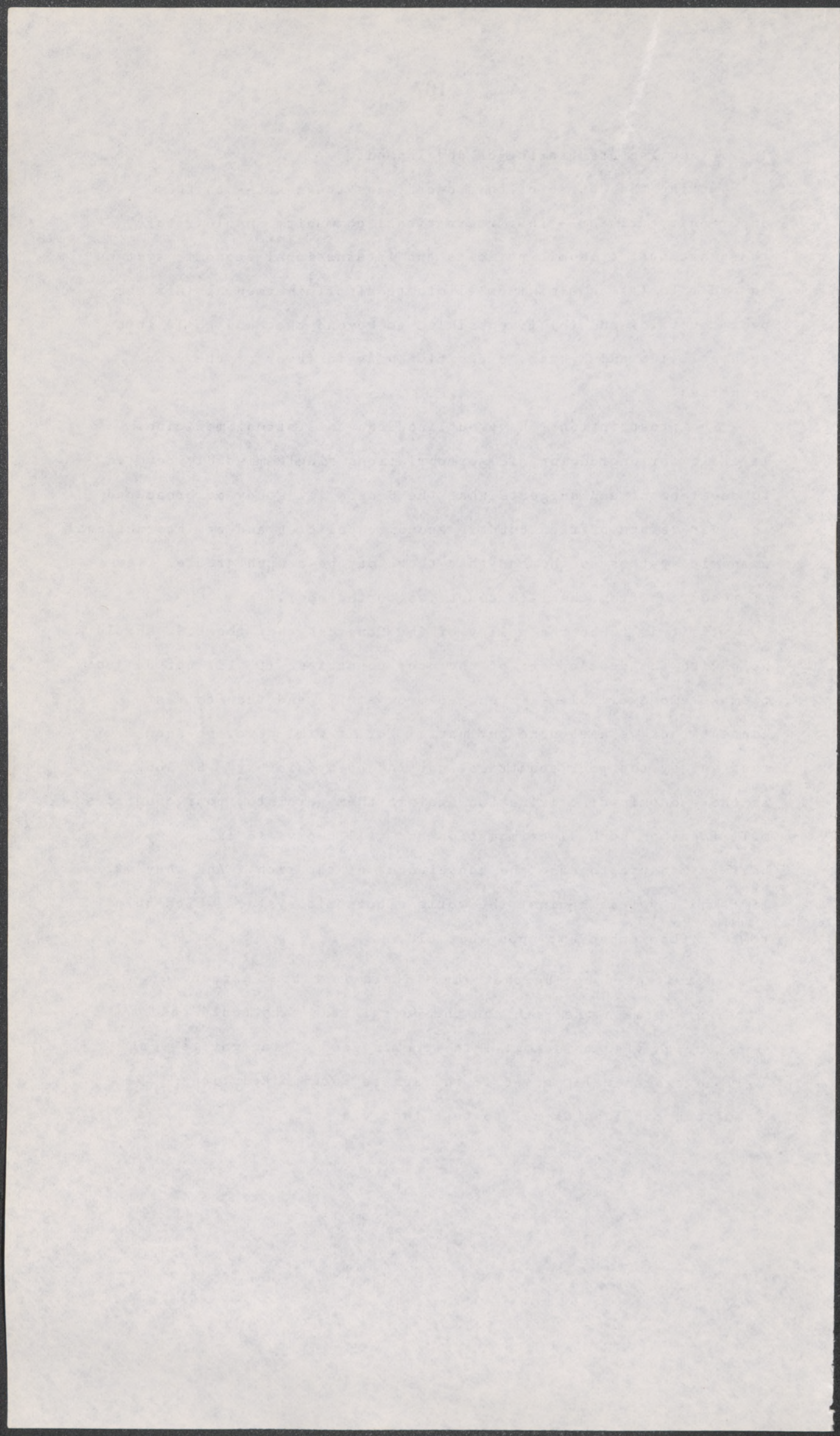
recognized factors bearing on development.

During the course of this decade and the next -- as the opportunity arises -- the international community should reform these national economic policies and international economic systems in order to (a) as a minimum eliminate discrimination against the poor countries and (b) if possible, go beyond that and build into such policies and systems a positive bias in favor of the poor countries.

The prescription I have outlined above is strong medicine. It calls for ungrudging aid appropriations single mindedly devoted to development and suggests that the Senatorial study be broadened to cover reform of rich country economic policies and of international economic systems to the end that there may be a much greater flow of resources from the rich countries to the poor.

If it is to be the policy of the Congress that the U.S. should help with the development of the poor countries, it will not do just to make aid available -- even generous aid -- and then to rest content that we have done our part. For it will never be seen that way by the poor countries, nor indeed by history. So long as the economic discrimination against them persists, poor countries will focus on such discrimination and will decry aid as a halfway measure to ease the consciences of the rich. And they will lift their voices against the world's economic systems which help to keep them dependent upon that aid.

But it need not be that way. There is a true harmony of interest between the rich and the poor if the rich could take a long enough view to see it. The common good of the entire world will have been well served if the Senate Foreign Relations Committee can lead us all to take that view.



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April 18, 1972

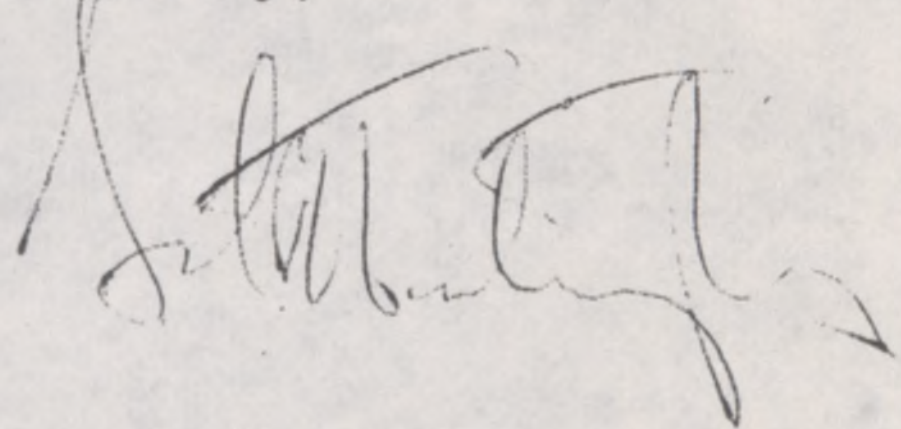
Honorable J. W. Fulbright
Committee on Foreign Relations
United States Senate
Washington, D. C. 20510

Dear Senator Fulbright:

I am responding to your letter of April 5 concerning foreign aid legislation. The questions you raise are, of course, fundamental ones so far as the U.S. foreign assistance program is concerned. As a member of the Peterson Task Force on foreign aid, I generally believe that the recommendations which we made still are valid and ought to be implemented by Congress. I have spelled out more explicitly my own feelings on foreign assistance in the enclosed article, which was published in the journal Foreign Policy, and which you are free to reprint in the compilation of views which you wish to publish. In this article I deal with all four of the questions which you raise in your letter, and in particular try to outline the significant national purposes which the U.S. can achieve by having limited but diverse foreign aid programs.

With best wishes,

Sincerely,



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FOREIGN AID FOR WHAT AND FOR WHOM

by Samuel P. Huntington

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"Foreign Aid: Billions in Search of a Good Reason" was the title of a 1963 *Fortune* article by Charles J. V. Murphy. Seven years later, the billions may be fewer in number, but the search for the good reason is all the more intense. The continued quest for a rationale for foreign aid is one of its distinguishing characteristics as an area of public policy. It is a quest which has been pursued through countless commissions, study groups, conferences, reports, and memoranda. President Nixon told the most recent presidential task force that its primary mission was to come up with a new concept or purpose for foreign aid. This search for a rationale will come to a public head in the spring of 1971 when Congress will probably pass the first completely new authorization act for foreign aid since it approved the Kennedy Administration program in 1961. This legislation will presumably set the course for the U.S. foreign assistance program for the 1970's.

One would expect the *opponents* of foreign aid to ask: "What's its rationale?" Instead, it is those most fervently committed to foreign aid who most often raise the question. Here is a marked reversal of the usual pattern. For in other areas of public policy, the purposes of a program are fairly clear: there is, for instance, obvious good reason to improve the economic well-being of the urban Negro; the problem is to come up with the right program or programs (welfare, job training, black capitalism, equal job opportunity) to achieve that goal. Similarly, there are obvious reasons why the United States conducts intelligence

*This is the first of a two-part series. The second part will appear in the next issue of FOREIGN POLICY.

activities, engages in overseas public information and propaganda, and maintains a nuclear retaliatory force and a Marine Corps. One may or may not agree with the reasons for these activities, but at least there is little doubt as to what those reasons are.

With respect to foreign aid, on the other hand, many people seem to feel that it is a good thing but that they lack convincing reasons as to why it is a good thing. It is tribute to the emotional dedication and loyalty of its supporters that foreign aid has staggered along as well as it has during the past few years. Both the strength and the weakness of foreign aid stem from the fact that its supporters remain firmly committed to it despite their difficulties in finding a rationale. To the dedicated, foreign aid is a "good-in-itself" and the more of it the better. The criterion of progress and of the wisdom of Congress as a legislative body is the size of the annual foreign aid appropriation.

Supporters of foreign aid agree that its rationale is "inadequate." They do not, however, draw the obvious conclusion: namely, that if its rationale is inadequate, foreign aid should be reduced. Instead of scaling down the program, they seek to beef up the rationale. At the same time they castigate Congress for taking the inadequate rationale at its face value. The development of the rationale becomes the means of preserving and expanding a program which is good-in-itself, whatever the weakness of the arguments for it. The psychology of the foreign aid devotee often bears a striking resemblance to that of the battleship admiral or bomber general who views American ships and airplanes as good in themselves quite apart from any national purposes they might serve.

Those who do not belong to the select, articulate corps of aid true believers may look at the program slightly differently. To what extent is foreign aid something "good-in-itself"? If we had not inherited a foreign aid program from the past, would there be any clear national need to create one? If there

were such a need would we create a program resembling the current one?

The only way to deal with these questions is to reverse the implicit means-end relationship of the aid true believers. Foreign aid involves the concessional transfer of resources—capital, commodities, expertise—from the United States to other countries. Foreign aid is, in some sense, the foreign counterpart of federal grants-in-aid to the states. These latter programs may be devoted to a variety of purposes from road-building to public housing to welfare to education. In the domestic context, grants-in-aid are recognized as simply one means of achieving a number of goals. In the international context, the facts are the same but perceptions are different. The federal government has no single "foreign aid program" any more than it has one "domestic subsidy program." Aid is a means which can serve a variety of ends most of which can also be served by other means. The scope and nature of U.S. foreign aid presumably should reflect: (a) the relative importance of the ends to be served by foreign aid in comparison with other goals; and (b) the relative effectiveness of foreign aid as a means to achieve those ends in comparison with other means.

In analyzing the purposes to which foreign aid may be relevant in the 1970's, it will be desirable:

1. to reconsider and to restate the U.S. interest in the principal purpose to which foreign aid has been devoted in the 1960's, i.e., the economic development of poor countries;¹
2. to disentangle from each other this and other purposes served by foreign aid and to realign programs and organizations in terms of major purposes; and
3. to identify any new purposes of high priority for the United States which might be promoted by some form of foreign aid.

¹Those who prefer bureaucratese should think "LDC", or "less developed country," when they read "poor country" in this essay.

The pages immediately following analyze the interest of the United States in economic development. The remaining two topics will be dealt with in the next issue of *FOREIGN POLICY*.

I. Trends in the 1960's

Sensitivity to the problems of economic development manifested itself in the higher echelons of the U.S. government in the late 1950's. In 1961 the Foreign Assistance Act replaced the old Mutual Security Act as the legislative basis for aid programs. The new act declared that emphasis should be given to long-range assistance to promote economic and social development. Two years later Congress warned that such assistance should not be diverted to "short term emergency purposes . . . or any other purpose not essential to the long range economic development of recipient countries." Economic development thus became the prime rationale for American economic assistance programs. There was, as Edward S. Mason observed, "a growing conviction that the primary objective of aid was the promotion of economic development."² In the years after 1961, this conviction became an increasingly accepted assumption for most people actively concerned with the aid program. Indeed, "aid" and "development" came to be so closely linked as to be almost interchangeable.³

The growing emphasis on economic development of poor countries as the purpose of U.S. foreign aid more or less coincided with two other trends in the quantity and quality of U.S. foreign assistance. The amount of U.S. economic assistance moved sharply up-

ward in the very early 1960's, when the economic development rationale was new, peaked in the mid-1960's (somewhere between 1963 and 1966, depending on what statistics are used), and then declined slowly but regularly to the end of the decade. Perhaps more significantly, Congressional appropriations for the central economic development assistance program in the Agency for International Development (AID) declined much more sharply. At the same time that there was this over-all decline in the quantity of economic development assistance, there was also a marked deterioration in what is generally called the quality of such assistance. In successive annual authorization and appropriation acts, Congress wrote in more and more restrictions as to how, where, and for what aid could be used. The restrictions ranged from those designed to prohibit aid to certain countries (e.g. those who trade with Cuba, who fail to prevent mob destruction of U.S. property, who expropriate U.S. property, or who are delinquent in debt repayments), to those which were designed to safeguard the U.S. balance of payments and provide minimum interest rates for U.S. loans, to those which benefit specific U.S. industries. The 1969 Foreign Assistance Act took 84 pages to spell out restrictions which had accumulated over the years in response to the special interest demands of legislators and lobbies. There were, at that point, some 65 individual restrictions on the checklist for the making of loans. "It is probably not an overstatement to suggest," one AID report put it, "that perhaps as much manpower, talent and energy are spent in insuring compliance with specifically imposed restrictions as is spent in the execution of programs and projects."

The declining level of aid since the mid-1960's and the multiplying restrictions on aid since the early 1960's all suggest that economic development as a purpose lacked a certain appeal among key policy-making groups, most notably in Congress. This is not surprising.

² Edward S. Mason, "The Diplomacy of Economic Assistance" (Middlebury College, 1966), p. 16.

³ Note also the changing styles in the names of Presidential study groups concerned with foreign aid. The Clay Committee (1963) was officially "The Committee to Strengthen the Security of the Free World." In 1968, however, the Perkins Committee was the "President's General Advisory Committee on Foreign Assistance Programs" and by 1969 the transition was complete with the Peterson "Presidential Task Force on International Development."

U.S. aid programs in the 1940's and early 1950's were largely devoted to the reconstruction and recovery of an area of the world (Western Europe) whose independence, defensibility, and prosperity were obviously of crucial importance to the United States. The Mutual Security programs of the later 1950's were largely devoted to strengthening "forward defense" countries, like Korea, Taiwan, Iran, Turkey, and Greece, whose security appeared to be essential to that of the United States and who appeared to be threatened by Soviet or Chinese expansion. Compared to the national interest in European recovery and containing Communism, the U.S. interest in the general economic development of poor foreign countries could easily seem somewhat remote. If a country is threatened by 50,000 Communist troops, the rationale for U.S. economic and military aid to that country is fairly clear. If a country is threatened by a 3 percent rate of economic growth, the implications for American national interests are not quite so obvious, to put it mildly. In addition, so long as the rationale for aid is primarily in terms of *economic* benefits to a *foreign* country, it is hard to defend the aid program against restrictions and conditions designed to provide *economic* benefits for the *United States* (e.g., tying aid, shipping restrictions, the Hickenlooper Amendment). Why, indeed, should we put economic advantages for other countries ahead of the protection of seemingly legitimate United States economic interests?

II. Foreign Aid Without Foreign Policy: The Purist Rationale

The general weakening of U.S. support for economic assistance in part reflected the belief that the economic development of poor foreign countries was not and could not be a very high priority goal for the United States. It also, in part, reflected the negative impact of one type of rationale which was advanced in support of developmental aid. The argument was often eloquently made that eco-

nomics development should itself be a high-priority goal of U.S. foreign policy, but that economic development assistance should not reflect U.S. foreign policy. Economic development was made an end-in-itself, just as at a lower level of abstraction foreign aid was considered an end-in-itself. The organizational implication of this "purist rationale" was that the administration of developmental assistance should have an autonomous status (in an independent bank or institute) divorced from the State Department. This argument undoubtedly reassured aid supporters of the morality and importance of their cause at the same time that it weakened that cause. Three aspects of this approach are worth noting.

First, the purist rationale emphasized the general relation between the developed and the underdeveloped world, stressing the extent to which development is an extraordinarily long-term process. It abstracted the whole question of development from the particular interests which the United States may have in particular countries for particular periods of time. The case for aid was typically phrased in terms of foreign needs rather than U.S. purposes. As portrayed by the supporters of aid, the needs of the poor countries were so great that anything the United States might do would make little difference. The 1969 Pearson Commission report begins by saying, "The widening gap between the developed and developing countries has become a central issue of our time." According to one analysis, however, even if the Pearson Commission recommendations were implemented, the gap would "continue to increase to three or four times its present size by the end of the century."⁴

If indeed this is true, then the case for not bothering to do anything becomes overpowering. As Ambassador Edward Korry

⁴Richard Jolly, "The Aid Relationship—Reflections on the Pearson Report" (Paper prepared for Columbia University Conference on International Economic Development, Williamsburg and New York, February 15-21, 1970), p. 3.

neatly put it: "by not differentiating our development objectives in accordance with realities, we appear to be engaged in developing virtually the entire less-developed world. An undertaking of that kind is simply not credible."⁵

Not only has the purist rationale typically been formulated in universal terms so far as geography is concerned but it also has been formulated in indefinite terms so far as time is concerned. The promoters of aid, indeed, have gone out of their way to emphasize that development is a long-term process. This, to be sure, it is. But a government aid program needs to be directed to specific objectives which can be achieved in particular periods of time. The indefinite, universal quality which adheres to the goal of economic development contrasts with the limited, specific character of the most successful U.S. aid effort. The Marshall Plan was: (a) directed to specific and well-defined goals; (b) limited to a geographic area of vital concern to the U.S.; and (c) designed for a limited period of time. U.S. efforts to promote economic development in Third World countries have lacked all three of these characteristics. As a result, those efforts appear to have little relation to U.S. foreign policy purposes.

A second key proposition in the purist rationale is that economic development assistance should, as one memorandum put it, "be treated as separate and independent from the shorter-term political and economic goals which both donors and recipients pursue as a matter of immediate national advantage." Indeed, if there is any cliché which is regularly invoked in almost every report and analysis of aid, it is this: economic development programs must be separated from "short-term political objectives." Nothing could better illustrate the self-defeating character of the purist rationale. As anyone having even a marginal familiarity with government knows, "short-term political ob-

jectives" are precisely the thing to which political leaders devote most of their time. By proclaiming that economic development is divorced from "short-term political goals," the aid enthusiasts are saying that it should be divorced from the main concerns of political leaders. It is a little peculiar to try to mobilize the support of politicians for something by arguing that it has no relevance to politics. In economic development assistance, as elsewhere, those who wish to be pure-in-spirit are usually doomed to be poor-in-pocket.

In fact, of course, economic development assistance can be very relevant to politics, just as aid which is given for political purposes has been very relevant to economic development. By stressing again and again that economic development must be pursued as an end-in-itself, apart from all other goals, the proponents of economic development limit the potential supporters of aid. The proponents of aid in the United States might well have learned something from those other countries which have had relatively high or increasing aid levels in recent years. French official economic assistance has consistently been fifty to almost a hundred percent higher than U.S. assistance as a ratio of Gross National Product (GNP). One reason for this may well be that French aid has had the very consciously defined political purpose of maintaining French influence in its former colonies and that it has been almost exclusively concentrated in those former colonies. Such purposes make sense to chief executives and legislatures. In a somewhat similar fashion, the rapidly increasing Japanese aid has been directly tied to the efforts of the Tokyo government to extend Japanese commerce and investments in Asia. It seems highly unlikely that the foreign aid administrators of France, Japan, or any other country would ever repeat the statement of the U.S. aid administrator who declared it absolutely false that "the foreign aid program can and should win friends for the United States and

⁵New York Times, March 8, 1970, p. 22.

increase our bargaining power in the United Nations and other international forums."⁶ If supporters of economic development want the United States to spend the same proportion of its GNP on aid that France does, they might well forgo their ideological purity and graciously endorse aid being used for purposes similar to those which French aid serves.

The most extreme version of the purist rationale argues not only that economic development should be pursued independently of political goals but that economic development is the *only* legitimate goal of economic assistance. The use of economic assistance for other purposes is either immoral or ineffective. "If the objective of economic assistance is to have an immediate influence on the political behavior of aid-receiving countries," in Professor Mason's words, "we had better get out of the aid business now."⁷ In practice, however, the United States has frequently given economic assistance to achieve non-economic objectives, and with results which have been at least as relatively successful as its efforts to promote economic development. This assistance has generally tended to take three forms:

1. The granting of economic assistance to a friendly government to help it consolidate its position after initially coming to power (e.g., Brazil, 1964), to help it to survive a temporary period of financial crisis (Iran, 1961), or to help it win an election against somebody we would rather not see in power (Chile, 1964). In these cases, there is mutuality of interest between the government of the country and the U.S. government.

2. The granting of economic assistance to a government which may or may not be very friendly to the U.S. in return for that government giving us something which we want,

e.g., base rights, a U.N. vote, troops in Vietnam, the rejection of aid from another country. In this case there is a reciprocity of interest between the government of the United States and the other government; the relationship depends simply on each government feeling that it has gotten what it wanted from the bargain.

3. The denying of economic assistance to governments which do things we do not like or refuse to do things which we want done. Often the U.S. has, for instance, suspended assistance to governments which have come to power through *coups d'état* until such governments have scheduled elections. At other times, the U.S. has attempted to use the threat of suspending assistance to induce governments to settle controversies or refrain from other political acts.

The desirability of economic assistance for political purposes in situations (1) and (2) depends on how one rates the purpose to be achieved and the price which is paid to achieve it. Such aid is almost always effective. Efforts to induce other governments to change their behavior by threatening to deny them aid (situation [3]), on the other hand, are often not effective. Psychologically and politically, it is easier for another government to accept aid in return for performing some service to the U.S. than it is for that government to allow itself to be "coerced" into doing something by the threat that the U.S. will take away aid.

The exchange of economic assistance for political benefits between the U.S. and poor governments during the past decade has rested on the fact that the U.S. government has had hard currency which other governments have lacked and wanted, while poor governments have had other things (e.g., strategic locations) which the U.S. government has lacked and wanted. In the future, as the U.S. increasingly assumes a "low posture" in many parts of the world, presumably there will be fewer other things

⁶Quoted in Roy J. Bullock, Memorandum on What to Do About Foreign Aid, U.S. Congress, House Committee on Foreign Affairs, 91st Cong. 1st Sess., January 21, 1969, p. 2.

⁷Edward S. Mason, *op. cit.*, p. 13.

which the U.S. government would consider worth a lot of economic assistance. To the extent that other governments also come to place less value on economic assistance, they will, presumably, be less willing to perform services for the United States in exchange for such assistance. Thus, the use of economic assistance purely for "short-term political objectives" is likely to decrease. Given the differences in resources and in goals among governments, however, such assistance will appropriately and naturally continue to exist in one form or another, and it does not serve any useful purpose to argue that there is something inherently illegitimate about it.

III. *Pick a Number, Any Dramatic Number*

The purist rationale also divorces economic development assistance from foreign policy by defining the goal as a level of foreign aid equal to some percentage, usually 1 percent (for all resources flows) or .7 percent (for official aid) of GNP. It is difficult to conceive of a more telling admission of bankruptcy of purpose than the enthusiasm with which the proponents of economic development have espoused this target. Such a figure is, of course, completely unrelated to the differing and changing interests and purposes of the aid donors; it is almost equally unrelated to the differing and changing requirements of the aid-receivers. The amount of aid which the poor countries could effectively use for development has to be worked out on a country-by-country basis. Their total needs might or might not be more than one percent of the GNP of the developed countries. Estimates of the probable needs of the poor countries in 1973, for instance, range from a low of \$13 billion to a high of \$22 billion. The latter figure is somewhat more than 1 percent of the probable GNP of the developed countries in 1973; the former is about 2/3 of 1 percent, or just about the level of United States aid in 1968. In addition, of course, a target such as this "puts the emphasis on the wrong

side of the partnership"⁸ for yet another reason: a decrease in the GNP of the rich countries could well coincide with an increase in the development assistance needs of the poor countries.

There is something basically wrong with a program when its supporters define its goal in terms of *how much* should be spent on it rather than *what* should be achieved by it. The establishment of percentage goals reflects the view that foreign aid is a good-in-itself: pick a good round figure, which can be easily dramatized, which is substantially higher than existing levels, but which is not entirely beyond the range of the economically and politically feasible, and make this your target! In the absence of a clear relationship between foreign aid spending and some vital national purpose, however, the percentage goal becomes highly unreal. Expenditures are justified only insofar as they serve some important objective, and the national interest in them will presumably change over time. Thus, it is not surprising that at one time some countries (Japan, Germany) may find it in their interest to increase their aid efforts significantly, while another country (the United States) may find it in its interest to cut back on aid because it is moving into a "low posture" in foreign affairs and giving increased attention to domestic needs. The foreign aid programs of different countries are designed to serve different ends. It makes little sense to add together apples and oranges to produce international comparisons of aid levels, when the resulting totals obscure crucial differences in content, quality, scope, and purpose.

There is no more rationale for setting official development assistance at .7 percent of GNP than there is for setting military spending at 10 percent of GNP or educational spending at 4 percent of GNP. In the mid-1950's when the Eisenhower Administration was sharply reducing the defense budget, some generals in

⁸Task Force on International Development, U.S. Foreign Assistance in the 1970's: A New Approach, March 4, 1970, p. 37.

the Pentagon came up with the idea of trying to get Congress to declare that 10 percent of the GNP should be regularly spent on defense. Fortunately, for both the defense program and the country, nothing came of this idea. At that time, however, the generals, like the proponents of foreign aid today, were having a hard time making a convincing case for higher military spending. Their seizing on the 10 percent figure, like the current seizing on the 1 percent figure, was a sign of the weakness of their case.

A percentage can be a target, but it is not a purpose. The aid proponents' enthusiasm for a fixed level of aid underlines a desire to escape from politics and a reluctance to develop a rationale relating aid and development to other U.S. foreign policy goals. It is, however, precisely a statement of such relationships which is required today.

IV. *Economic Development and Foreign Policy: U.S. Interests*

A more conscious effort is needed to place economic development in the over-all context of U.S. foreign policy. Many arguments and analyses have been devoted to this purpose. Much of what has been said has been quite persuasive, though some of it has been rather extravagant in the claims made for a U.S. interest in economic development. What follows in this section is an effort to take a cold, hard look at these claims and come up with an honest answer to the question: To what extent is the promotion of the economic development of poor foreign countries a desirable and important goal for U.S. foreign policy?

U.S. concern with the economic development of poor foreign countries can presumably be analyzed in terms of moral obligation and national interest.

The moral obligation is clearly that of the rich to be concerned with alleviating the poverty of the poor. In the words of the Pearson Commission, "The simplest answer to the question [Why aid?] is the moral one:

that it is only right for those who have to share with those who have not."⁹ This argument is persuasive and unchallengeable. The problem is that in its simple form it does not reach very far. Those who can help have the obvious responsibility to help eliminate the obvious evils of hunger, disease, illiteracy, inadequate housing. The moral obligation to attack such evils furnishes an effective justification for many elements of U.S. foreign aid, including the Peace Corps, food programs, relief programs, health programs, and, perhaps, population control. The justification for longer-term and, usually, larger projects and programs oriented more specifically toward economic development, on the other hand, is more tenuous. The moral obligation to feed the hungry in India is fairly obvious. The moral obligation to insure that India's economy grows at 6 percent per annum is considerably less obvious.

The moral obligation is further weakened by the nature of the public aid-giving process. This typically involves the transfer of resources or credit from one government to another government. The moral obligation, however, is to help the poor *people* of poor countries, not the governments of poor countries. Yet aid which is given to the government of a poor country may well yield little direct or indirect benefit to the poor people in the poor country. This is the reason why private relief programs and public programs, such as the Peace Corps, which can show direct results in aid-to-people, advance a greater moral claim for support than those which involve aid processed from the "power structure" and upper- or middle-class bureaucracy of one country to comparable institutions in another country.

The moral argument is thus persuasive when it comes to providing minimum economic well-being for individuals, but much less so when it comes to promoting optimal

⁹Partners in Development: Report of the Commission on International Development (New York: Praeger, 1969), p. 8.

economic growth of societies. Indeed, in some sense the goal of promoting economic development may conflict with the implicit assumptions underlying the case for moral concern. It is, for instance, generally agreed that aid for economic development should be given primarily on the basis of past or prospective economic performance. Donors should help those who help themselves. The moral case for aid, on the other hand, normally is made in terms of need, not performance, which means helping those who are not able to help themselves.¹⁰

What then is the U.S. national interest in promoting economic development in the Third World? Three arguments—economic, security, political—are usually advanced. First, economically developed countries are better markets for U.S. goods and better locations for U.S. investments than less developed countries. This proposition is indisputable. The extent to which it necessarily follows that the U.S. has a clear economic interest in the economic development of Third World countries is not quite so obvious. Economic development of those countries will not only open up sales and investment outlets; it will also produce many industries which may compete with U.S. products in foreign markets and conceivably in the U.S. market. Economic development may also have other consequences which could counterbalance the benefits of new sales and investment outlets. Nonetheless, it seems likely that the long-term effects of the economic development of the Third World would probably be more beneficial than not to the economic interests of the U.S.

The second, or security, argument for a

¹⁰There is some question as to whether either of these criteria has been consistently applied in the U.S. economic aid program. One index of need, presumably, is the level of per capita GNP in a society. One index of performance, presumably, is the rate of growth of GNP in a society. In terms of these measures of both need and performance, the East Asian societies where the U.S. is eliminating aid are far more deserving of assistance than the Latin American societies (with higher per capita GNP's and lower growth rates) where the U.S. is continuing aid.

U.S. interest in the economic development of poor foreign countries revolves around the inherent instability of a situation in which a tremendous gap exists between a small proportion of the people of the world who are rich and a large majority who are poor. Reducing this gap is essential to the security of the affluent minority. If this does not happen, resentment, frustration, hostility will escalate and violence will inevitably result.

This argument is not very persuasive. In fact, poor countries are less likely to have either the desire or the capacity to threaten the security of others than are countries engaged in rapid economic and social development. Only countries which have reached a minimum level of economic strength are in a position to undertake aggression. Historically, war and economic development have been closely related. Economic development of a poor country contributes to U.S. security only where the security of that country is essential to the security of the United States. By and large, poor countries, so long as they are poor, lack the capability to threaten U.S. security, whatever their desires may be. Once they are richer, they will have greater capability to be a threat to the United States, and there is little or no basis in logic or history to think that any desire to threaten the U.S. will be significantly lowered simply because they are richer. (This is not, let me hasten to add, to argue that the U.S. should therefore do what it can to promote grinding poverty in other countries. It is simply to say that the elimination of grinding poverty in other countries will not increase U.S. security and may well decrease it. Since grinding poverty is an evil-in-itself, I, for one, am quite willing to run the risk of some insecurity for the U.S., in order to have less poverty for others.)

V. The Political Argument

Finally, the political argument for U.S. help for Third World economic development is that the current poor countries are going to develop economically by hook or by crook

anyway, and that it is in the long-term interest of the U.S. to help them in order to win their friendship and understanding or at least to minimize the bitterness which a failure to aid them would engender. On the surface, this argument has a persuasive simplicity to it, and one can think of cases (U.A.R., Cuba) where U.S. refusal to give aid probably contributed to subsequent hostility towards the U.S. But as with most commonsensical propositions, there is also a commonsensical counterproposition. How many times have we heard that one cannot buy friends by giving them aid, that it is a mistake to think that other people are going to like us because we help them, that such relationships are more likely to breed feelings of resentment, guilt, and frustration on both sides?

More generally, the gratitude of nations and governments is normally a transient thing at best, and is apt to approximate the classic expression of the ward heeler to the political boss: "But what have you done for me lately?" The country, after all, which received more U.S. aid than any other, France, was hardly a model ally for many years thereafter. On the other hand, insofar as the governments of both rich and poor countries expect the United States to demonstrate an interest in the economic development of poor countries, the U.S. may well have a political interest in demonstrating such an interest in order to avoid the critical opinions and antagonistic behavior which might result if such expectations were disappointed. This derived or secondary political interest could lead the U.S. to promote such development even if the direct political benefits which might result therefrom were minimally positive or minimally negative.

This political argument is often based on the explicit proposition that economic development is the overriding goal of the people and governments in the poor countries. That it is a goal is quite clear. That it transcends all other goals is not clear at all. Governments, in particular, have to be concerned with many

other things which often conflict with economic development and must often take precedence over it. The prime requisite of any government is to remain a government, and political leaders give first priority to staying in power. They are likely to rate the goals of internal order and external security above that of economic development. They may prefer to have a greater degree of national independence than a higher growth rate. Some may be more interested in ideological and symbolic goals than in the more mundane demands of economic development. In fact, of course, some political leaders of poor countries clearly have not given very high priority to economic development. The extent to which the World Bank, AID, and consortia have found it necessary to impose conditions for aid in the form of demands for fiscal and economic reforms suggests that the recipient governments, if left to their own devices, would give priority to other needs. Foreign and international aid donors often appear more interested in the economic development of the aid recipient than is the recipient government itself. Since the donor agencies have that as their *raison d'être* and since governments are inherently multipurposed, this situation should cause neither surprise nor alarm. It does mean, however, that the economic development goal which may be the be-all and end-all for donor agency officials is only one of several targets for the harassed and cross-pressured political leaders of the recipient government.

When viewed from a somewhat broader perspective than that of the aid agencies, economic development is also unlikely to be the overriding American interest in most poor countries. Take India, for example. The U.S. has a definite interest in promoting Indian economic development. The U.S. also has, however, at least three other important interests in India:

1. The military security of India against external attack, particularly from Communist China.

2. The national integration of India, preventing its break-up into half-a-dozen or more squabbling ethnic-linguistic states.

3. The political stability of India as the largest democracy in the world and one of the few effectively functioning democracies in the Third World.

Each of these three goals, it can be argued, is considerably more important to the U.S. than the economic development of India. In some respects, economic development may contribute to the achievement of these other goals, but it also may threaten these goals. The economic development of India would, presumably, make a net contribution to the security of India by increasing its ability to arm itself and to defend itself. (It may also, of course, contribute to the insecurity of Pakistan, but that's another issue.) Economic development, on the other hand, is likely to have some negative effects on Indian national unity. It could well exacerbate regional differences, promote differential rates of social mobilization and economic well-being among ethnic groups, and enhance communal consciousness through increasing literacy and education. So far as political stability is concerned, clearly the future of India's democratic system depends, in some measure, on its ability to bring about at least gradual improvements in the economic well-being of the Indian people. At the same time, very rapid rates of economic development, certain unbalanced forms of economic growth, and particularly (as we have seen in Pakistan) high rates of growth which involve and in part may be dependent upon at least temporary increases in income inequality, can be politically destabilizing. Presumably few would argue that India should abandon democracy and adopt an authoritarian system of government because that system could promote a higher rate of economic growth (assuming that would be the case). Similarly, no one would argue that India should eschew economic development simply because it might produce strains on its democratic system. The

problem, obviously, is to achieve an appropriate mix of two inherently desirable goals which may in some situations be reinforcing but in others be incompatible.

The general point simply is that the U.S. interest in the economic development of India or any other part of the Third World has to be viewed in the context of other U.S. interests in those areas. Economic development cannot be presumed to be the only U.S. interest or even the primary U.S. interest in developing countries.

VI. *Where and How Much*

Assuming the U.S. does have an interest in the economic development of at least certain Third World countries, there is still the question of how great an interest it has. How important is it to the U.S. that India achieve a 6 percent rate of economic growth rather than a 5 percent rate of growth? If that 1 percent higher rate of growth were clearly dependent upon \$300 million or \$500 million or \$1 billion aid from the U.S. during the next five years, what case could be made for giving that use priority over, say, (a) investing the money in U.S. urban ghettos; (b) granting additional tax cuts to the U.S. poor; (c) allocating the amount to medical and scientific research; or (d) reducing inflationary pressures by not spending the money at all? There probably is no way to answer this question which is both rational and persuasive, but it is clearly the sort of question which is in the minds of many critics of aid and which has to be grappled with in one way or another.

Assuming the U.S. has some general interest in the economic development of poor countries, there is still the question of its *particular* interest in the development of individual countries. Recent arguments on behalf of development assistance have generally not been framed in terms of individual countries. Presumably, however, the U.S. does have a greater interest in promoting the economic development of some countries than of others. What criteria might be used

to distinguish among countries in terms of the extent of U.S. interest in their economic development? The obvious answer furnished by the logic of economic development is the manifest interest of the recipient government in promoting its own economic development, measured by past or prospective economic performance. Yet even the enthusiasts for economic development recognize that while they may be able to make a case for the use of purely economic criteria in allocating resources within a country, they clearly cannot hope to persuade political leaders that purely economic criteria should be used in allocating resources among countries. These criteria may play some role, but other factors necessarily and indeed appropriately also come into the picture. Perhaps five criteria are relevant:

1. Economic performance, i.e., the demonstrated or probable ability of the country to make effective use of aid for economic development and its willingness to commit its own resources and to adapt its own politics to this goal;

2. Security relevance, i.e., the extent to which a country's external security is of major interest to the U.S. and the extent to which that security is or could be threatened by another power;

3. Political democracy, i.e., the extent to which the country has a broad-based, democratic political system with meaningful elections and protection of individual civil liberties;

4. Historical association, i.e., the extent to which some special, historical relationship has existed between the country and the U.S., giving that country an extra claim on U.S. consideration and help;

5. Global importance, i.e., the relative weight which the country does have or potentially may have in world politics.

Presumably the U.S. interest in the economic development of countries which meet several of these criteria is considerably higher than its interest in those which meet none or

only a few of them. The critical point is that the U.S. interest in the economic development of a country is one aspect of the over-all U.S. interest in that country and has to be meshed with the totality of U.S. foreign policy toward that country.

VII. Economic Aid as a Means to Economic Development

If the U.S. does have some interest in promoting the economic development of Third World countries, to what extent is economic assistance an effective way of achieving that goal? Are there other means, such as tariff preferences or investment guarantees, which may be equally effective or more effective than capital and technical assistance in promoting economic growth? Economists may provide academic answers as to the relative effectiveness of differing means of economic development, but the United States government is singularly ill-equipped to consider this issue on a policy basis. AID is the only agency primarily concerned with the economic development of poor countries. AID's only real means of promoting this goal, however, is in effect through capital and technical assistance. It is in no position to consider the trade-offs between aid and other ways of achieving economic development. These other means fall within the jurisdiction of the Treasury Department, the U.S. Tariff Commission, or Commerce Department, for whom the economic development of poor countries is a relatively low-priority concern.

In practice, therefore, economic assistance becomes the principal means of promoting economic development. How effective has it been in doing this? Here again the talents of the economist are essential. But it cannot be blindly assumed that there is a direct positive relationship between economic assistance and economic development. The relationship may exist, but it has to be demonstrated. During the 1960's, aid financed 10 percent of the capital investment in the poor countries and 20 percent of their imports. Alan Strout has

evidence that in developing countries, "the GNP contribution of foreign capital has equaled or exceeded that of exports in spite of the fact that export earnings were larger than foreign capital receipts by a factor of 5:1" and that it was also greater than the contribution of all of agriculture.¹¹ In a few countries (Korea, Taiwan, Iran, Turkey) massive doses of aid apparently led to high rates of growth which either have freed or promise to free these countries from reliance on concessional aid. In Pakistan, between 1960 and 1965, as Professor Mason has pointed out, 40 percent of the total developmental expenditures and 70 percent of developmental imports were made possible by foreign aid. Technical assistance has contributed enormously to the ability of poor countries to plan and manage their development and to educate the additional manpower needed for development. In agriculture, foreign assistance has made possible the "Green Revolution" which promises to make many countries self-sufficient in food, thus freeing foreign exchange for other developmental purposes.

At the same time that a case of this sort can be made for the role of aid in promoting economic development, it is also necessary to note that there may be a few holes in the relationship. Even the Pearson Commission is forced to admit that despite the contribution of aid, "the correlation between the amounts of aid received in the past decades and the growth performance is very weak."¹² Raymond Mikesell argues that:

Historically, some countries have developed without significant capital imports and, in some cases, the achievement of sustained growth preceded a substantial capital inflow. On the other hand, large capital inflows have frequently made little contribution to development. As a general proposition, external capital or aid is

neither a necessary nor a sufficient condition for development.¹³

In a similar vein, Professor Mason has pointed out that external assistance to India under the Third Five Year Plan was double that under the Second Five Year Plan, yet there was no significant increase in the Indian growth rate.¹⁴ This testimony would seem to suggest that in some situations high rates of economic development may be achieved with low levels of foreign aid and that in other situations high levels of foreign aid may not alter low rates of economic development.

The impact of different types of economic aid on economic development also does not appear entirely predictable. Economists tend, for instance, to view defense support or supporting assistance as a somewhat dubious form of foreign aid which clearly does not have the same impact as project aid or technical assistance. Commodity assistance they seem to be of a divided mind about. "It is," therefore, as Professor Nelson has observed, rather "striking that among the countries receiving sizeable U.S. assistance, those that have recently achieved or are expected to achieve self-sustaining growth are the countries in which U.S. aid was initially and for some years after directed to security problems. The outstanding characteristic of these programs was sustained large-scale commodity assistance. This assistance almost surely served as a powerful catalyst for later rapid growth."¹⁵ That this aid would have this effect apparently was not anticipated by most economists. Nor does there seem to be any general agreement now among the economists as to the relative value of program and project assistance. Non-economists, consequently, may perhaps be excused if they remain some-

¹¹ "Foreign Capital and Economic Growth" (Paper, The Brookings Institution, December 24, 1969), pp. 1-2.

¹² *Partners in Development*, p. 49.

¹³ Raymond Mikesell, *The Economics of Foreign Aid* (Chicago: Aldine, 1968), p. 258.

¹⁴ *Diplomacy of Economic Assistance*, op. cit., p. 24.

¹⁵ Joan M. Nelson, *Aid, Influence, and Foreign Policy* (New York: Macmillan, 1968), p. 41.

what perplexed as to the real efficacy of different types of aid in promoting economic development.

VIII. *The Opponents of Aid*

One question deserving more attention is the increasingly hostile attitude of groups within recipient countries toward foreign aid. While American thinkers have been searching for a new rationale for aid, Third World thinkers have been developing a new rationale against aid. This anti-aid rationale is rooted in three increasingly important intellectual currents: nationalism, socialism, and traditionalism or anti-Westernism. The intellectual opposition to aid generally accepts the view that aid makes a difference—it does have an effect—but this effect is more negative than positive. As one representative Brazilian intellectual has argued, foreign aid is good for the U.S. because it helps to maintain a channel for the exercise of U.S. influence in Brazil, to keep in power a Brazilian government friendly to the U.S., and to insure a receptivity in Brazil to U.S. private investment. (This latter point that a main purpose of U.S. aid was to create a favorable environment for U.S. private investment was widely endorsed by AID officials in Brazil.) So far as Brazil was concerned, however, U.S. aid impeded development and sustained the status quo. Development in Brazil could come about through either the emergence of a vigorous national bourgeoisie or by the overthrow of the existing system by a revolutionary elite. U.S. aid encouraged U.S. private investment, which, with its superior resources and managerial talent, now dominated the dynamic sectors of Brazilian industry. (This judgment, too, was confirmed by U.S. aid officials in Brazil.) Hence, there were increasing obstacles to the emergence of an autonomous Brazilian entrepreneurial class. The absence of such a class would place a ceiling on the extent to which Brazil could develop under a capitalistic or mixed economy. At the same time, U.S. military and economic assistance strength-

ened the repressive powers of the government and consequently made it more difficult for a revolutionary movement to overthrow the existing system. U.S. aid thus condemned Brazil to economic and social backwardness.

In one form or another, this type of argument has been expressed by intellectuals, not all of them either Communist or Marxist, in almost every developing country. These expressions range from the argument by the Chilean psychiatrist, Vincent Sanchez, that U.S. aid is creating "cultural psychosis" in Chile to that elaborated by Ivan Illich that the export of Western concepts, aspirations, and techniques of mass production and consumerism induces "chronic underdevelopment" in poor countries from which the latter can escape only by evolving some fundamentally different alternatives unknown to developed Western societies.¹⁶

Not only is there an anti-aid rationale developing among Third World intellectuals, but there are also some second thoughts on aid appearing among Third World governments. In Brazil, for instance, the U.S. suspended aid in December 1968 in response to the Institutional Acts disbanding Congress and severely restricting individual liberties. The effects of this action on the Brazilian government, however, were nil. U.S. aid was largely directed towards education and agriculture, and these apparently did not rate very high among the concerns of the military officers running Brazil. The willingness of the governments of Peru, Bolivia, and other countries to risk aid cut-offs under the Hickenlooper Amendment suggests that aid in itself occupies a subordinate position in their hierarchy of values. Such attitudes may seem perverse to Americans preoccupied with development as the overriding goal. Yet it is perfectly natural and rational for the govern-

¹⁶ See New York Times, August 24, 1969; Ivan Illich, "Outwitting the Developed Countries," New York Review of Books, November 6, 1969; Oswaldo Sunkel, "National Development Policy and External Dependence in Latin America," Journal of Development Studies, 6 (October 1969), 23-48.

ment of a poor country to be as much concerned with *how* its economy develops as with *how fast* it develops. All aid involves some costs for the recipient, and the additional 10 percent investment (supplied by aid) may simply not be worth those costs to many governments.

IX. A Few Conclusions

U.S. assistance to the economic development of poor countries has suffered from the tendencies of its supporters to divorce economic development from over-all U.S. foreign policy objectives and, more generally, to make the case for U.S. economic development assistance in terms of the needs of the poor countries rather than in terms of the interests of the United States. Economic development assistance has been underfunded in part because it has been oversold. In this essay, we have attempted to escape from the rhetoric and sentimentality which has so often been adduced on behalf of foreign aid and instead to take a cold, hard look at the interest of the U.S. in the economic development of poor countries. Three general conclusions seem to flow from this discussion:

1. As the wealthiest country in the world, the United States has a moral obligation to help alleviate the sufferings of poor people in poor countries.
2. The United States has some real but not overriding interest, primarily economic and long-term, in the economic development of poor countries generally; it also has some derived political interest in not disappointing the expectations of other governments that it ought to be interested in the economic development of poor countries.
3. The United States has special interests in the economic development of individual countries which are of particular concern to the U.S. usually for noneconomic reasons and the promotion of whose development is an integral part of over-all

U.S. foreign policy toward those countries. Rarely, however, is the economic development of a country the primary interest which the United States has in that country.

In most countries, economic assistance probably helps economic development, but the relationship between levels and types of aid, on the one hand, and economic growth, on the other, is by no means clear. There may also be other policies, particularly in the areas of trade and encouragement of private investment, by which rich governments can equally well promote the economic development of poor countries. Finally but most importantly, the governments of poor countries may have good reasons to prefer less aid rather than more aid.

From this, one can conclude that the U.S. ought to maintain at least three different types of economic assistance programs: humanitarian and related programs aimed primarily at alleviating immediate evils to poor peoples; general economic assistance grants channeled through the World Bank and other multilateral agencies to assist in the over-all economic development of the Third World; and bilateral programs which are an integral part of U.S. foreign policy toward countries where the U.S. has special political, economic, or security interests.

FOREIGN AID FOR WHAT AND FOR WHOM (II)

by Samuel P. Huntington

The year 1971 could be an historic one for U.S. foreign aid. Congress and the President have the opportunity this year to make fundamental innovations. The effort is timely, for many of the programs of the past decade have already outlived their usefulness. New forms of organization and funding should replace the familiar instruments of our post-war aid endeavor. New problems of world overcrowding, pollution, and depletion of resources have got to be faced.

I. Disaggregating the Programs

Economic development is the primary but clearly not the only goal the United States pursues by means of foreign aid. Aid is also used to promote military security, U.S. exports, disposal of agricultural surpluses, U.S. overseas investment, private enterprise abroad, social welfare, political participation and democratic government, diplomatic support for the United States, political support for friendly regimes.

An activity which has a multiplicity of goals should command support, one would think, from a multiplicity of sources. This kind of multiple support, however, is rarely given to bureaucratic programs and governmental agencies. Those are best off in which there is a clear identification of one major purpose with one particular program and that particular program with one distinctive agency. When an agency serves a large number of purposes no one constituency feels that it has any great stake in its program, and

the general public lacks a clear perception of the public needs met by the agency. Most important of all, the agency's personnel tend to become demoralized as they find themselves having to serve a variety of often conflicting purposes. They also feel vulnerable to criticism by Congress and the public because they can always be attacked for not making sufficient effort to achieve one goal when they have been preoccupied in trying to achieve several others. An agency asked to serve many different purposes tends to lose its sense of commitment to any one of them.

This multiplicity of aid goals has been reflected in the multifunctionality of the Agency for International Development (AID), the only comprehensive aid agency in the world. AID is simultaneously a bank, foundation, management consultant service, operations agency, economic developer and planner, political manipulator, and technical adviser. Organizationally, this situation in a way resembles that of the pre-McNamara Pentagon.

Until the Defense Department reforms, begun in 1958 and completed in 1961, our military system was organized around multipurpose, multifunctional agencies; the key elements were the Departments of Army, Navy and Air Force. Thus, for example, the Air Force included strategic retaliatory forces, tactical support forces, continental defense forces, air transport forces, and antisubmarine planes—and the Navy and Army each duplicated some of these functions. In the Pentagon of the 1950's, as in AID in the 1960's, the multipurpose *means* of policy were stressed at the expense of the *ends* of policy. In bidding for funds and support, the Navy repeated *ad nauseum* that 70 percent of the earth's surface was water; the Army reminded everyone that man was a land animal; the Air Force pointed to the speed and flexibility of moving through the air. But the nation had no intrinsic interest in any of these three methods; they were valuable only insofar as they served more general purposes such as strategic deterrence and continental

This is the conclusion of a two-part series by the author. The first installment appeared in Number 1 of FOREIGN POLICY.

defense, limited war capability and the protection of Europe from attack. The McNamara reforms restructured military planning in terms of ends rather than means. Each service now had to justify its weapons and forces not according to "the needs of the service" but according to how they contributed to over-all national objectives.

The multifunction, multipurpose aid program of today is a prime target for similar changes. Aid, like airpower, needs the McNamara treatment. The disaggregation of aid programs will help identify what goals aid may serve and to what extent those goals may be justified. Disaggregation involves, as a first step, doing away with the annual omnibus foreign aid act and with the omnibus economic assistance agency. Both these hallowed institutions have lived beyond their time. They no longer play the critical role they once did in either aid or development, and they need to be replaced by more flexible, specialized, and purposeful mechanisms.

II. From AID to Aid

In the early 1960's both the Foreign Assistance Act and the Agency for International Development were the central institutions of U.S. foreign aid. This is now no longer true. For Fiscal Year (FY) 1962, the Foreign Assistance Act's first year, total U.S. economic assistance to poor countries was \$4.5 billion; for FY 1970 it was \$4.1 billion, a decline of only 8.5 percent. For FY 1962 AID grants and loans were \$2.5 billion; for FY 1970, they were \$1.7 billion, a drop of 33 percent. In FY 1962, 55 percent of the total U.S. economic assistance to poor countries was administered through AID. In FY 1970, a bare 40 percent went through AID. In FY 1969 only 43 percent of all U.S. development assistance was authorized in the Foreign Assistance Act. While over-all U.S. contributions to economic development declined somewhat during the 1960's, this decline was concentrated entirely in AID appropriations and expenditures. Non-AID economic loans and grants to poor countries,

indeed, went up 22 percent from \$2,015 million in FY 1962 to \$2,470 million in FY 1970. The most significant increase took place in U.S. contributions to international organizations. Such contributions accounted for an average of \$207 million a year between FY 1960 and FY 1963. They rose to \$571 million in FY 1968 and \$627 million in FY 1969. Of this FY 1969 total, \$480 million went to international lending agencies, nearly as much as the \$570 million which AID itself lent that year. In a somewhat similar manner, both AID and the Foreign Assistance Act also played a declining role in security assistance. In FY 1969 only 29 percent of the total U.S. security assistance was provided in the Act and only 13 percent was administered through AID.

A major contrast thus exists between the AID portion of U.S. development assistance and the other portions of that assistance, particularly those which are handled through international agencies. This contrast is highlighted by the fact that between FY 1957 and FY 1968, the International Development Association (a World Bank affiliate) and the Inter-American Development Bank had perfect records in Congressional appropriations, getting 100 percent of the funds requested, while AID had the worst record of seventeen foreign affairs agencies, obtaining only 81 percent of its requested funds.¹ What declined during the 1960's was assistance administered through the Agency for International Development; other forms of economic assistance increased. What has developed, in short, is not so much an aid crisis as it is an AID crisis.

This decline in the importance of the omnibus Foreign Assistance Act and the multipurposed economic assistance agency was the natural result of the diversification of U.S. aims in world politics and of the multi-

¹David Howard Davis, "The Price of Power: The Appropriations Process for Seventeen Foreign Affairs Agencies," *Public Policy*, 18 (Spring, 1970), pp. 355-382. Recent congressional actions, however, suggest that as they become more important, multilateral programs may also become more vulnerable to appropriations cuts.

plication of means by which these aims could be achieved. It has often been noted that the business corporation in which the vice president for international affairs is important does not itself normally play a major international role. Once a major share of a corporation's business is international business, the vice president for international affairs becomes superfluous, as its regular vice presidents and division managers discharge their functions abroad as well as at home. Something similar may be true of the foreign aid organization of the U.S. government. Aid is an instrument which can be used for many purposes and which now has proliferated in so many different forms that it cannot be encompassed within the confines of a single agency or a single piece of legislation. Aid is a means which almost any government agency may use to achieve goals which cut across national boundaries. (CIA, for instance, has for years presumably given "foreign aid" worth millions of dollars to foreign governments in the form of intelligence information.) The abolition of the omnibus act and the omnibus agency will simply bring to a culmination a process which has been underway for some period of time.

III. The Pros and Cons of Disaggregation

The principal arguments against disaggregation (apart from those rooted in the vested interests of Congressional committees and bureaucratic bodies) are twofold. First, it is said, in defense of a multipurpose aid agency, that any specific activity can accomplish several ends. Building a road serves both military security and economic development. This is, of course, true. The fact of political-bureaucratic life, however, is that no road will ever be built unless a development administrator or a military advisor sees it as necessary to achieve *his* purpose. Someone has to have a primary interest in the activity and to see it related to some major goal. It may also make important collateral contributions to other ends. Many of these consequences,

however, will be unanticipated by the original promoters of the project and even by the subsequent collateral beneficiaries of it. The effects of any activity are normally more diffuse and varied than its purposes. The point here simply is that all those activities which are related primarily to one purpose should be grouped together no matter what their more varied consequences may be.

The second argument against disaggregation is that it may often be politically desirable for the donor government, recipient government, or both to conceal or be ambivalent about what purposes aid may serve. Some purposes at some times appear to be more legitimate than others. It is generally thought to be illegitimate for one government to give another government money simply to keep it in power. Hence, while it might make sense to have separate agencies handling aid for security and aid for development, an agency designed publicly to give aid for "short-term political purposes" simply would not have any customers. Aid which directly serves political purposes either has to be given covertly or has to be commingled with aid given for other more legitimate ends, like security or development. Disaggregation means relating programs to purposes, and if purposes cannot be publicly acknowledged then the programs cannot be disaggregated. This imposes a limit on disaggregation, but it does not invalidate it as a general principle.

Some critics of disaggregation also argue that it would reverse the major advance which was made in 1961 when capital assistance, technical assistance, and supporting assistance were all brought together under one roof in AID. In part, the 1961 consolidation was a consolidation of functions (capital assistance and technical assistance) related to a single purpose (development) and in part it was bringing under the same umbrella programs related to different primary purposes (development assistance and supporting assistance). The aggregation of capital and technical assistance was clearly desirable at that time.

Whether it is still desirable today is debatable. Purposive disaggregation, however, would not necessarily affect the relation between capital and technical assistance. Its principal aim is to separate functions related to different purposes, not those related to the same purposes.

These objections to disaggregation thus do not carry much weight. On the other side, the positive advantages of disaggregation are that it:

- (a) focuses attention on the goals of policy rather than upon one means (foreign aid) by which those goals may be achieved;
- (b) makes possible a more considered and informed choice among goals;
- (c) makes possible a more rational choice among the means appropriate to achieve each goal;
- (d) brings together, in both the legislature and the executive, decision-making responsibility for the achievement of each goal;
- (e) clarifies and highlights priorities for officials and thus should improve their morale, efficiency, and performance.

IV. *Four Main Goals of Aid*

The multiplicity of goals which foreign aid may serve cannot be analyzed in detail. Some of the more important goals can, however, be distinguished from each other and institutional mechanisms can be suggested for promoting them. Four goals which seem particularly important are discussed below.

1. To enhance the military security of selected countries.

The United States has had and presumably will continue to have an interest in giving assistance to selected countries to enhance their security against attack by hostile powers. The number of countries in which this is a major U.S. interest may well increase somewhat in the near future as the United States reduces its own troop deployments and bases overseas. In the longer run, however, U.S. military assistance is likely to decline.

Currently, the Foreign Assistance Act

authorizes appropriations for military assistance, supporting assistance, budget support for political purposes, and public safety programs (all of which are justifiable in terms of security) in addition to economic assistance justified in terms of development. Military assistance is administered by the Defense Department with policy guidance from the State Department. Military assistance for Vietnam, however, is appropriated not along with military assistance to other countries in the foreign aid bill, but instead in the Defense Department appropriation bill. Loans to foreign governments to buy military equipment are authorized in a separate Foreign Military Sales Act, also administered by the Defense Department. Supporting assistance (which in recent years has been almost exclusively for Southeast Asia), budget support and public safety aid are administered by AID. Thus AID, which is supposed to be concerned with development, has substantial programs aimed at security, and security assistance each year involves four different pieces of legislation.

This tangle of authority and administration has led almost every recent study group to urge a separation of security assistance from developmental assistance. In the 1950's the latter was supposedly tied to the former in order to benefit from the greater popular and Congressional support for security. This consideration, if it was ever valid, certainly is no longer valid today. Security assistance programs and particularly military assistance and military credits serve the same purpose as U.S. military forces and programs; there are obvious trade-offs between military assistance to a country like South Korea and the size of U.S. forces deployed in or committed to Korea. Hence, authority for security activity should be contained in one piece or closely related pieces of legislation and responsibility for security programs should rest in agencies not concerned with economic development. The general principle is that all military assistance programs should be in the Depart-

ment of Defense and all nonmilitary security assistance programs in the Department of State. On the legislative side, either all military assistance should be in the Defense Department budget and security assistance in the State Department appropriation or, as was suggested by the Peterson Task Force, all forms of security assistance (military and nonmilitary) should be grouped together in an International Security Cooperation Act.

2. *To encourage the economic development of the Third World in general.*

Part I of this essay argued that the United States has a limited but real interest in the general economic development of the Third World. This goal has widely shared international support, and the most appropriate means of achieving it is through international agencies. The number, activities, and lending operations of the multilateral aid-giving agencies, the World Bank Group and the regional banks, have been increasing significantly in recent years. Gross disbursements for economic development by multilateral agencies totaled \$483 million in 1960 and \$1.5 billion in 1968. The international agencies, particularly the World Bank, have also been expanding their capacity to provide more diversified forms of developmental assistance. In this context, the United States should follow the recommendations of the Peterson Task Force and: (a) rely on international organizations to develop aid programs and performance standards with developing countries; (b) increase its contributions to the multilateral agencies, provided other countries make proportional increases; and (c) cooperate with other governments in strengthening the capabilities of the multilateral agencies.

One controversial issue remains. What level of U.S. aid is warranted by the U.S. interest in promoting the economic development of poor foreign countries generally? Any answer necessarily requires a weighing of this interest against other goals which the United States

should pursue at home and abroad. Even a narrow definition of the U.S. interest in the economic development of poor foreign countries, however, would seem to argue for more rather than less U.S. effort. The Peterson Task Force proposed a doubling of the annual U.S. contribution to multilateral development institutions—from the present \$500 million to a new total of \$1 billion. In terms of the rather hard-headed definition of the general U.S. interest in the economic development of poor foreign countries advanced earlier in this essay, the Peterson recommendation would appear to be a reasonable target.

3. *To promote the economic development of selected countries as one element of over-all U.S. foreign policy toward those countries.*

For the foreseeable future, the United States will continue to have special interests in the development of particular countries which cannot be satisfactorily met through multilateral aid programs. Bilateral action to promote the development of these countries will remain a necessity, although in many cases it should also be closely coordinated with multilateral assistance. U.S. promotion of the economic development of these countries or regions would be one aspect of its over-all foreign policy. The rationale for a bilateral aid program, in short, is not that the economic development of the Third World is important to the United States but rather that Country X is important to the United States. The rationale stems from a general concern with a limited territory rather than with a limited concern with the Third World generally.

U.S. bilateral aid programs in particular countries and regions should thus reflect U.S. foreign policy goals in those countries. They should be designed to achieve specified ends in specified countries within specified periods of time. This would mark a return to the original pattern of U.S. foreign assistance in the Marshall Plan and the Greek-Turk Aid Programs. The objectives and the countries

involved in such programs would change over time within the changing context of U.S. foreign policy goals and needs.

How should such aid be organized and administered? The general disaggregation of foreign aid will involve the transfer of non-military security assistance and, possibly, of much technical assistance from AID to other agencies. Little reason exists to maintain AID simply to administer bilateral capital assistance programs. The Peterson Task Force proposed that these programs be handled through a U.S. International Development Bank, which would be an independent governmental body with a board of directors composed of government officials and private citizens. This would provide a more rational and effective organization than exists at the present time. If, however, major reliance is to be placed upon the increased role of international, multilateral lending agencies to meet the general needs of Third World countries, the reasons for creating a parallel banking organization to handle bilateral U.S. capital assistance decrease in persuasiveness. This U.S. development bank either would function primarily like a bank, in which case it should not be and would not be sensitive to changing U.S. foreign policy needs, or it would not function like a bank, in which case it should not be mislabeled a bank.

If bilateral aid is to be an integral part of U.S. foreign policy, it ought to be administered by and through the agency responsible for U.S. foreign policy, the Department of State. Presently, AID and State work closely together. Under the reorganization I would propose, that portion of U.S. economic assistance which should be carried out relatively independently of other U.S. foreign policy goals would be handled through multilateral agencies or through other instrumentalities independent of the State Department. That portion of U.S. economic assistance which was designed to be an integral part of U.S. foreign policy would be handled directly through the Department of State. The num-

ber of people necessary to perform these functions would not be great. The large-scale overseas AID mission would disappear and the small number of people with the requisite economic and administrative skills necessary for a modest bilateral lending program would be assimilated into the regular embassy staff.

Since these bilateral assistance programs would be focused on particular objectives for particular countries, legislative authorization for them would appropriately take the form of individual acts for individual countries or regions which would remain valid for designated periods of time. The State Department might, for instance, draw up a four-year country program for Indian economic development which would reflect over-all U.S. foreign policy objectives and include, as appropriate, legislative proposals not only for aid but also for trading arrangements, debt moratoria, incentives to private investment, primary products quotas, and any other ways in which the United States might contribute to Indian development. Congress would then consider and act on an India Development Act designed to help India to achieve the specified economic goals within a four-year period and authorizing annual aid appropriations and other measures to achieve this goal. At the end of the period, the State Department could propose an extension or renewal of the act or a new three- or four-year program designed to help India to achieve additional goals in its next phase of economic development. In any event, the foreign affairs committees of Congress would at that point have the opportunity to review thoroughly the success or failure of the program over the preceding three- or four-year period and to take whatever action they thought appropriate in the light of that record.

4. *To encourage the emergence of pluralistic societies.*

In the past the U.S. government has been caught between two beliefs, each of which is undoubtedly supported by large elements of

American opinion and each of which is undoubtedly in part true: *first*, that the people of a country have a right to shape their own political, economic, and social institutions free from outside interference; and *second*, that the most desirable society is a pluralistic one characterized by private enterprise, social equity, and political democracy. The conflicting demands of these two propositions have come to a head again and again as U.S. officials debate whether to recognize or not to recognize a military junta, to suspend or not to suspend aid to a government which suppresses liberties or expropriates property, to use or not to use "leverage" to promote economic and social reforms in another land.

On the one hand, Americans, like most people, feel that their institutions are not only right and good for them, but that they also have a more universal moral validity and practical applicability. The need to express this belief stems in large part from the need to have confidence in one's own society and its forms of social, political, and economic organization. More objectively, cases can be made that private enterprise, social equity, and democratic politics may also contribute to other goals like economic development and peaceful political development. In addition, to the extent that private enterprise, social equity, and democratic politics do exist in other states, the leaders of those states are more likely to identify their interests with the United States and to be sympathetic to American aims. Hence it is argued that the United States has an interest in using foreign aid as a means of promoting these goals in other countries.

On the other hand, the problems of attempting to induce, bribe, coerce, or persuade another government to make changes which it would otherwise be reluctant to make in its economic, political, and social institutions usually ends only in frustration for all concerned. It thus seems generally desirable not to use economic development assistance or military assistance, warranted

on other grounds, as levers or weapons to attempt to produce significant changes in the basic structures of other societies. Since the changes which the United States is interested in making often involve restricting or cutting back on the scope of government, there is, indeed, an inherent contradiction in attempting to do this through that government.

The conclusion consequently is that promotion of greater pluralism and equity in other societies is an important and legitimate purpose for the United States but one which is quite separate from its interests in the promotion of the economic development or military security of particular societies which are of special concern to it. The U.S. interest in pluralism embodies a more general concern reflecting the type of organization which we prefer and which we would like to encourage other societies to adopt. The most effective way for the U.S. to promote this goal is to do it indirectly rather than on a government to government basis. The United States should, as the Peterson Task Force recommended, promote local private investment overseas by investing more capital in local development banks, supporting regional private investment companies, and helping to develop capital and credit markets in poor countries. In addition, the United States should promote measures for social equity, like land reform, by encouraging the development in other societies of democratic social and civic organizations, such as trade unions, cooperatives, peasant associations, and professional groups. The Inter-American Social Development Institute authorized by Congress in 1969 and established in the fall of 1970 is one means of promoting this goal in Latin America. No reason exists to restrict this type of operation to that region. Such an organization can provide a way for getting resources directly to private groups, bypassing governmental bureaucracy, and it could help to bring about fundamental social change in modernizing societies.

V. *Toward a Livable World*

Foreign aid is a means which has served many purposes in the years since World War II. In the late 1940's, the primary purpose was European recovery. In the 1950's it was mutual security. In the 1960's it was economic development. Are there other purposes which might be served by foreign aid in the 1970's?

One such set of new purposes stems from the real interest which the United States will increasingly have in the maintenance of a benign world environment. This interest derives from the simple fact that we live in a shrinking world and an increasingly crowded world. Perhaps the most fundamental change which has occurred on a global scale during the past twenty years has been the compression of the world brought about by population growth and the revolutions in transportation and communication. This increased interaction means that the United States has a new and fundamental interest in the promotion of a human and physical environment suitable for the survival and improvement of the conditions of life on this planet. This interest did not exist in the past; it will become increasingly vital in the future.

Perhaps the most significant result of man's conquest of the moon was not new knowledge about space but new insight into life on earth. The voyage of Apollo 11 vividly dramatized the extent to which the earth is a small green oasis of life in a solar system and, perhaps, a universe which is vast and dead. "Gradually entering the world's consciousness, like a silent and rising tide within the human imagination," as Lester Pearson eloquently put it, "are those pictures taken by earthmen from interstellar space showing our planet, full of light, hanging small, fragile and vulnerable, single and alone, in the cold void, with a oneness, a unity that suddenly takes on a new meaning."² The development of intelligent life on earth could be but a brief

phase in the otherwise timeless evolution of a dead planet. The American people share with other peoples a common interest in insuring the continuation of a livable world and the existence of at least a minimum quality of life on this planet.

The problems of global maintenance which are already of common concern to nations include: overpopulation and migration; natural resource exhaustion; pollution and waste disposal; public health and nutrition; and the uses of weather, space, and the oceans. These problems have in the past been dealt with by individual nations. In the future they will increasingly require joint international action. In part this joint action will have to be of a regulatory character: the crucial need will be to create effective international authority to define and to monitor permissible behavior by governments and private groups. In large part, however, the joint action will require research, development, and operational programs to cope with the problems: the crucial need then will be money to provide the necessary people and resources. A major share of the required funds as well as a good deal of the initiative, expertise, and leadership will have to come from the United States.

Global maintenance is often of more immediate concern to rich nations than to poor ones. For poorer states, the conflict between ecology and development can be real. It undoubtedly behooves rich nations to give greater emphasis to the former than to the latter. Poor nations, on the other hand, will pay more attention to development. They will be rightly suspicious of demands from rich nations that they be concerned about the environment when by comparison they have such relatively little ability to pollute the environment. In the longer term, however, the relation of poor nations to the environment parallels that of suburbs to the ghetto. The problems of the environment will come to plague the contemporary poor as well as the contemporary rich. Apart from the pollution which follows on development, how-

²*The Crisis of Development*, (New York: Praeger, 1970), p. 33.

ever, the other problems involved in the maintenance of a livable world—such as overpopulation, natural resource exhaustion, control of weather and the oceans—even now concern the poor as well as the rich.

In the 1950's U.S. foreign aid was justified largely by the conflict between East and West. In the 1960's it was increasingly justified by the gap between North and South. Both these purposes continue to be served in some measure by foreign aid today. But in the 1970's the U.S. can also use foreign aid to serve the common interests of North, South, East, and West in building a benign global environment. This interest is quite distinct from the moral responsibility and national interest of industrial nations in helping poorer nations develop economically. This U.S. interest is not to help other people solve their problems but rather to help the world solve common problems which affect the United States as much as anyone else.

In a sense, the United States is a tenant occupying the largest, most elegant, most luxuriously furnished penthouse suite in a global cooperative apartment house. The hundred or so other tenants occupy premises of varying sizes and degrees of attractiveness. As one tenant among many, the United States does not have any direct concern with how other tenants decorate their apartments. That is basically their responsibility, although the United States may wish to help out in the case of special friends and neighbors. The United States does, however, have a basic interest in the structural soundness of the building as a whole. It is precisely that soundness which is in question. The condition of the building is beginning to deteriorate rapidly, and drastic action is needed to correct crumbling foundations, defective wiring, corroded plumbing, leaking roofs, not to mention overcrowding in some apartments and muggings in some stairwells. Unless these basic repairs and maintenance are undertaken, the building is liable to collapse or to go up in smoke. As the wealthiest tenant in

the building, the United States has more to lose than anyone else from the deterioration of the living conditions in the building. The United States has a clear interest in insuring that the structure as a whole is sound and that minimum conditions for decent human existence prevail in the building.

VI. *Organizing for Survival*

It follows that the United States should take the lead in developing programs to attack some of the common problems which confront mankind as a whole. The focus here should be on "problem programs" instead of "country programs." Such programs should operate on a global basis, tackling problems where they are most serious and where there is greatest likelihood that something can be done about them. In terms of the familiar types of aid, these programs would consist primarily of technical assistance and, to a much lesser extent, of capital and commodity assistance. Starting from present U.S. technical assistance efforts, they would involve the creation over the years of new programs designed to deal with new problems of global maintenance as they arise. The type of initiative needed is comparable to that which the United States took in May 1970 when it proposed a new international treaty establishing international control over seabed resources beyond the 200-meter depth. George Kennan's proposal that the industrial nations take the lead in creating an "International Environmental Agency" is a suggestion for somewhat parallel action with respect to another major global problem.³ A major element in these programs would be research on how to solve environmental problems. The results of this research would, of course, be disseminated rapidly throughout the world. The object would be to duplicate in other fields the "Green Revolution" in agriculture and the lesser revolutions in birth control techniques. The pay-off of such programs

³"To Prevent a World Wasteland: A Proposal," *Foreign Affairs*, 48 (April 1970), pp. 401-413.

can be big, and the benefits come more or less simultaneously to those who need them in whatever country they may be.

The growing U.S. interest in the promotion and maintenance of a "livable world" would in many respects be a natural next step in the evolution of the U.S. purposes served by foreign aid. These purposes and the accompanying aid programs have reflected a gradually expanding geographical concern on the part of the United States which has, in turn, reflected the extent to which changes in transportation and communication have brought the rest of the world to the American doorstep. In the 1940's the principal purposes served by aid were limited to Western Europe. In the 1950's the mutual security program saw an expansion of U.S. geographical concern to the rim countries of Asia stretching from Iran to Korea, which appeared to be threatened by Soviet or Chinese expansion. In the 1960's with the shift to economic development, the geographical focus of American concern similarly broadened to encompass almost all areas of the Third World, including Africa and Latin America. (In 1970, the fifteen major recipients of AID assistance included five Latin American, five East Asian, three South Asian and Middle Eastern, and two African countries.) The U.S. interest in global maintenance would carry this process of broadening the geographical scope of U.S. concern to the globe as a whole.

The organizational means for expressing the interest of all nations in human survival may take a variety of forms. New international structures with adequate financial support and legal authority will be necessary. At present the international capability for action is limited and the United States must take the lead. U.S. participation in these programs would reflect our general and continuing interest in promoting a benign world environment. The heart of foreign policy, however, is the definition and implementation of changing U.S. attitudes, involvements, and commitments toward different countries and

regions. World maintenance programs consequently could not be thought of as instruments of U.S. foreign policy, as foreign policy is commonly conceived. The actual operation of many of the programs would involve techniques, skills, and resources which at present are concentrated in U.S. domestic agencies. Very possibly these agencies could expand their operations to the international scene, channeling the U.S. contribution to international agencies. Alternatively, some of these new programs might be organized and administered through a new executive agency, responsible to the President and completely independent of the Department of State.

VII. The Ends—and End—of Foreign Aid

Except for those who oppose all forms of "foreign aid" no matter what purpose it serves, little reason exists to talk about foreign aid as an end in itself. The discussion of policy should be in terms of, first, the desirability and importance of the goals which may be served by foreign aid, and, then, the relative effectiveness of aid as against other means for achieving those goals. Given the multifarious purposes to which aid may contribute, a "foreign aid act" and a "foreign aid agency" are clearly anachronisms. Current aid programs need to be disaggregated in terms of their purposes and new programs inaugurated to reflect emerging U.S. interests in global maintenance.

By focusing on these purposes, the supporters of foreign aid would shift the focus of attention from a means which has politically negative connotations to ends which are more likely to have positive appeal. In addition, they would transform the effort to develop a "constituency" for foreign aid (which is the equivalent of developing a constituency for "subsidies") into more meaningful and successful efforts to develop special constituencies for the particular purposes which foreign aid may serve. The net result of this disaggregation could be more or less foreign aid than there has been in the recent past,

but happily no one would know for sure which it was.

Focusing on the ends of aid should thus clarify both purpose and understanding. Above and beyond this, however, there is the possibility that foreign aid even as a means may be in the process of becoming less meaningful. Foreign aid, as it is commonly conceived and practiced, was a product of the emergence of the Western state system in the sixteenth and seventeenth centuries. It has normally meant military, economic, or political assistance from one government to another one.

In many areas of policy, however, the distinction between foreign and domestic programs has already become blurred. Private organizations, international bodies, and "domestic" agencies of different governments blithely pursue their objectives across international boundaries. As these transnational operations expand, the identification of "aid flows" themselves becomes increasingly difficult, and trying to pinpoint the net benefits and costs of any particular transaction to national territories practically impossible. When an American-based multinational corporation uses profits from a plant it has previously constructed in Brazil to build a new one in Peru, who is contributing to the development of whom? When one government lends to another at less-than-commercial interest rates so that the borrower can buy capital goods from the lending government's country, how much of the loan is aid, how much of it is an export subsidy, and how much of it just a straight business deal? Such questions are becoming more and more frequent and more and more difficult to answer. As such relationships become increasingly complex and diversified, the entire concept of foreign aid could itself become anomalous and irrelevant.

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CONFLICT IN THE THIRD WORLD:
THE EFFECTS OF MILITARY ASSISTANCE PROGRAMS

Geoffrey Kemp*

The New International Milieu

Wars and violent conflict in the Third World have been endemic over the past twenty-five years. The most serious of them have involved the United States and the Soviet Union either directly or by proxy. But now, as direct American involvement in one of the biggest and most bloody conflicts winds down, it has become fashionable to talk of a new diffusion of power and the emergence of a more multi-polar system based upon a series of pentagonal relationships between the United States, the Soviet Union, China, Japan, and the Western European community. It is also suggested by some that at the same time that the United States is preparing to withdraw from South-East Asia, the Soviet Union is making a concerted effort to increase its global reach in the Asian theater, partly for ideological reasons, partly to provide military security against its most dangerous antagonist, China.

It is not possible to predict the exact direction and pace of the changes that are occurring within the international system, but it would seem fair to say that some of the dogmatic overtones of the old ideological conflict are being replaced by more diffuse ingredients of great power interactions. Conflict and competition for scarce economic resources, especially fossil fuels, is but one example of a new emphasis upon old issues. Dusty copies of Admiral Mahan's studies on the importance of sea-power are being re-read by those concerned about

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the location of off-shore oil and the growth of Soviet naval strength. The importance of the population and resource issue in international affairs is now perceived to be greater than at any time since the hey-day of Social Darwinism at the turn of the century; neo-Mahanist and neo-Malthusian perspectives on strategy and power politics can no longer be ignored even if they turn out to be of little long-term significance. Geo-politics, a subject rarely emphasized by the post-war generation of students of international relations - with the notable exceptions of Harold and Margaret Sprout - has now once more emerged as a topic for serious study.

These changes suggest continuing conflict throughout the world, especially in the less developed areas where the residual effects of colonialism combine with growing antagonisms between rich and poor over resources. Conflict, in turn, has a traditional tendency to generate a large appetite for military forces.

Role of Military Assistance

It is against this background that one has to speculate about the future nature and direction of U.S. military assistance and sales programs. In this context, the first and most fundamental question to ask is what the basic goals of U.S. foreign policy should be over the next decade, how these goals relate to the current national security programs both of the United States and its allies, and how, if at all, security assistance can help achieve these goals?

I will not attempt to answer such a broad, general question. Instead, I will address three more direct questions:-

- 1) What have been the effects of past military assistance programs (MAP) upon the political, military, and economic behavior of recipients? How good is our ability to calculate these effects?
- 2) What have been the costs and benefits of past military assistance and sales programs to United States interests?
- 3) What kinds of operational questions should Congress ask when future requests for military assistance are made by the Administration?

Obviously each question deserves a very thorough answer. Based upon my own research over the past five years, I will attempt to summarize my views on these questions and present them in as succinct and readable manner as possible. However, I hope that the Committee will appreciate that in my search for brevity much of the support for my arguments has been eliminated.

The Effects of Past Programs on Recipient Behavior: Does Military Assistance Contribute to Stability or Instability in the Third World?

While we can all think of particular examples when the effects of MAP's have been clear, it is not easy to infer general causal relationships between the supply of weapons and military training on the one hand, and propensities in the direction of war or peace on the other hand. To the best of my knowledge no-one has yet come up with an empirical study that indicates such causation. To be sure the effects of specific cases on particular U.S. interests are important, but these cases should not allow us at this stage to pass simple judgements on the entire sweep of U.S. military assistance programs since the end of World War II.

Why is our knowledge so sketchy? I believe that one reason for this is that the subject is an inherently complex one that has yet to receive the attention devoted to studies of strategic nuclear questions. There has been no

comparative study on the military and security effects of weapons transfers to Third World conflict areas that approaches the levels of expertise applied to matters relating to strategic nuclear weapons, such as the ABM issue. The SALT experience suggests that if we wish to have a meaningful dialogue with the Soviet Union about the nuclear arms race, it is necessary to be very detailed about the weapons involved, their relationship to the strategic and political milieu in which they are designed to operate, and the basic economic constraints that determine what quantities of particular weapons systems can be funded.

We still talk in the most simplistic terms about the military balance and military power relationships in many other areas of the world. Very few detailed analyses have been undertaken by Congressional Committees, or for that matter by the academic community itself, on the strategic effects of weapons transfers even to such important areas as the Middle East. Outside the closest confines of government, most discussions on Middle East arms transfers are couched either in simple aggregate or in political terms. Yet the Middle East is one area that has great relevance for future American foreign policy. It is an area that warrants the most careful and thorough examination by United States Congress of the political, military, and economic variables involved.

I would make a plea that we should study the elements of military power in the Third World more systematically and more objectively. Yet, as all students of military strategy know, the problems of calculating a military balance are extremely difficult, especially when non-nuclear weapons are involved. I would argue that unless and until scholars and statesmen alike are prepared to do justice to the complexities of military assistance programs and their relationship to the strategic milieu in particular conflict areas, the debate as to what effects weapons transfers have upon these conflicts will continue to

be couched primarily in ideological terms.

What we basically need are some sound answers to the following general questions:-

- 1) What is the relationship between political conflict, military force structures, and propensities for armed conflict in less developed countries?
- 2) If certain categories and numbers of weapons do influence propensities toward or against armed conflict, how important are external military assistance programs in achieving these outcomes?
- 3) If military assistance programs are a relevant factor, do particular types of programs have standard effects in all strategic environments in the Third World? In certain environments? What method of classification can be suggested?
- 4) Can meaningful distinctions be made between those programs that enhance certain "defensive" and certain "offensive" military capabilities of recipients?
- 5) If it is possible to come up with some classification of weapons systems which has some empirically sound methodology, how should this influence donor transfer policy?
- 6) Given that it is possible to distinguish between various types of weapons and their effects on local strategic questions, what other suppliers, other than the United States, can provide these weapons to the Third World? What are their current policies? How do these policies complement or conflict with the stated goals of U.S. policy?*

*Obviously these questions did not materialize out of thin air. Over the past five years the author and his various colleagues have attempted to address some of them in the publications listed below. However, these studies have only scratched the surface of the range of issues raised in this memorandum.

Geoffrey Kemp. Classification of Weapons Systems and Force Designs in Less Developed Country Environments. MIT Center for International Studies, February, 1970.

Arms and Security: The Egypt-Israel Case. Adelphi Paper No. 52, Institute for Strategic Studies, London, October, 1968. Reprinted January, 1969.

"Dilemmas of the Arms Traffic," Foreign Affairs, January, 1970.

Arms Traffic and Third World Conflicts. Carnegie Endowment for International Peace. International Conciliation, March, 1970.

How Should the United States Assess its Interests in Arms Transfers?

Although scholars always tend to argue that our knowledge of complex problems is scanty, we do know enough about the goals and effects of military assistance programs to make some very general observations.

It can be argued that most governments, including the United States, will continue to sanction arms transfers to retain or increase their export earnings, or to retain or increase their influence upon the general political behaviour of recipients, or to retain or increase their own military security or to achieve some permutations of all three.

There are endless ways the complex and often conflicting objectives of U.S. arms transfers can be sought. With regard to a potential recipient, it might be assumed that the United States will want to calculate in very general terms which of its various policy goals it wishes to serve as a result of a transfer, what effect this policy will have on other goals, and how these goals are to be reconciled with the policies and bargaining power of the recipient and other potential suppliers.

It might be further assumed that the United States will wish to consider the effects of its arms transfer decisions in three very broad, and by no means

Geoffrey Kemp. "The International Arms Trade: Supplier, Recipient, and Arms Control Perspectives," Political Quarterly, October, 1971.

International Defense Planning: A Study of Methods for Sharing Skills and Concepts in Defense Policy Planning. Browne and Shaw Research Corporation, November, 1967, pp. 91-106. Indian Security Affairs

Amelia C. Leiss, Geoffrey Kemp, et al. Arms Transfers to Less Developed Countries. MIT Center for International Studies, February, 1970.

Lincoln P. Bloomfield and Amelia C. Leiss. Controlling Small Wars: A Strategy for the 1970's. Knopf, 1969.

The Control of Local Conflict. A Design Study on Limited War in the Developing Areas. GPO, 1970.

exclusive, areas: the effect of arms transfers on the recipient's military behaviour; the effect on its political behaviour; and the effect on its economic behaviour.

If these are at least some of the effects the United States has to consider, then it can in theory influence certain behaviour patterns by adjusting its military assistance policies to conform to those expectations.

In reality the process may be more or less complicated than indicated here. In certain cases complex decisions concerning alliance politics, expected behaviour of friendly and unfriendly neighbours of the recipient, expected behaviour of alternative suppliers, and expected behaviour of political elites within the recipient country, together with numerous strategic and economic factors will need to be taken into account. In other cases decisions may be taken on the basis of much more simplistic calculations of national interest with little regard to future long-run effects of military assistance programs.

Nevertheless, if these questions are representative of the types of considerations that politically astute suppliers should make, it can be seen that they go far beyond the confines of expected outcomes based solely upon criteria of military efficiency or maximization of economic returns. For this reason it can be argued that the goals and objectives of U.S. military assistance programs will inevitably vary from time to time and from place to place, that the concept of U.S. "interests" can be approached from many perspectives, and for this reason simple rules about the future nature and direction of MAP programs are not likely to come to grips with the fundamental issues.

What Should Congress Do?

The third point that I think worthy of discussion concerns the kinds of questions that Congress might ask when future requests for military assistance to particular countries are made by the Administration. Clearly the detail involved in the following check-list will vary very much according to the political nuances of the particular request. Nevertheless, I believe that if this range of questions were addressed by this Committee, as well as others, then at least we would all have a much clearer idea as to why the request was being made, what possible effects it would have both on the recipient and United States interests, and how these effects might relate to third parties, including local powers and other potential suppliers.

Country A Requests Weapons System X
from the United States

1. What are current U.S. arms transfer policies toward Country A?

To improve or sustain or weaken certain of A's military/political/economic capabilities? To avoid any military aid programs? To sell arms to help domestic industry? What policy goals pertain in this particular case?

2. Why does Country A want Weapons System X?

a. Political Factors:

External
Factors

- (i) A's relations with immediate neighbors
- (ii) A's relations within regional framework
- (iii) A's relations within Alliance and International Organization framework.

- Internal Factors { (iv) Bureaucratic and Party rivalry (eg. interservice competition.
(v) National Prestige

b. Military Factors:

I) "Peace" time situations

- External { (i) What are immediate neighbors' military capabilities?
(ii) What is the regional military environment (are most countries well armed or poorly armed?)
(iii) What military allies does Country A have?
(iv) What military allies do potential adversaries have?
- Internal { (v) What is present status of Country A's forces? How many weapons serviceable? State of readiness? Morale of forces, etc.?
(vi) What is the internal security situation?

II) "War" time situations

- (i) Is conflict external or internal?
(ii) Is military environment "permissive" or "hostile"?
(iii) Over what terrain is conflict mainly taking place?
(iv) How effective have armed forces and weapons systems proved in conflict so far?

3. What is likely to happen if the United States agrees to supply Weapons System X?

a. Economic Costs

- (i) Who pays, i.e., sale or aid?

- (ii) When and under what terms?
- (iii) How much will sale earn, or how much will assistance cost?
How much technical assistance required, etc.?

b. Effect of transfer of Weapons System X on A's capabilities and environment

- (i) Domestic and regional political capabilities
- (ii) A's economic capabilities
- (iii) A's internal military capabilities
- (iv) A's external military capabilities
- (v) The local power balance
- (vi) The alliance power balance

c. Effect of transfer on U.S. political and military options

- (i) Will transfer be precursor for additional requests? From Country A? From Country A's neighbours? From other countries?
- (ii) Will transfer tie United States to closer political and military involvement with Country A?
- (iii) Will transfer antagonize or strengthen U.S. political and military relations with Country A's neighbours?

4. Suppose the United States does not supply Weapons System X?

a. Constraints on the United States

- (i) Political (current domestic policy on arms transfers)
- (ii) Own military requirements
- (iii) Economic cost
- (iv) Transfer may lead other local countries to request assistance or sales from the United States, or U.S.'s allies, or U.S.'s enemies. (See also 3(c))

b. United States offers to supply Weapons System Y instead

1) Country A accepts Weapons System Y

- a) What is likely to happen if United States agrees to supply Weapons System Y instead of Weapons System X?

(This would need a repeat analysis of paragraph 3)

2) Suppose A rejects offer of Weapons System Y

Relevant questions for the United States

(1) What happens if no one supplies A?

- (i) Refer to analysis in paragraph 2: (a) and (b)
- (ii) What is A's indigenous weapons production capacity?
- (iii) Would refusal to supply arms encourage A to expand indigenous weapons production option? What might be effect of this? In the short-run? In the long-run?

(2) Who else can supply Weapons System X or Y?

- (i) How many countries? Who are they?
- (ii) Political, strategic, and economic relationship of other potential suppliers with A
- (iii) What would other suppliers stand to gain by supply of System X or Y in the short-run and in the long-run?
 - (a) Economic advantages
 - (b) Political advantages
 - (c) Military advantages
- (iv) How important is it for the United States to prevent other supplier gaining advantages?

The first part of the paper discusses the importance of the study and the objectives of the research. It then proceeds to a literature review, followed by a description of the methodology used in the study. The results of the study are presented in the next section, followed by a discussion of the findings and their implications. The paper concludes with a summary of the main points and a list of references.

The study was conducted in a laboratory setting, using a series of experiments to measure the effect of different factors on the rate of reaction. The results show that the rate of reaction increases with increasing temperature and decreasing concentration of the reactants. The data also indicates that the reaction is first order with respect to the concentration of the reactants.

The findings of this study have important implications for the understanding of chemical reactions and the design of industrial processes. The results can be used to optimize reaction conditions and to develop new catalysts for the reaction.

The author would like to thank the following people for their assistance in the study: Dr. J. Smith, Dr. M. Jones, and Dr. K. Brown. The author also wishes to express his appreciation to the National Science Foundation for their support of this research.

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April 17, 1972

The Honorable J.W. Fulbright
United States Senate
Committee on Foreign Relations
Washington, D.C. 20510

Dear Senator Fulbright:

Thank you for your letter of April 5.

My answers to the questions which your letter asks have changed little since my testimony before the Latin American Subcommittee of your Committee on June 24, 1969. My views are as they were set out in the attached Foreign Affairs article and in the last three chapters of my book, Engines of Change (Alfred Knopf, 1970).

To summarize:

1. The objectives of U.S. foreign assistance should be the promotion and protection of long range United States interests. Any other objective is presumptuous, and bound to fail. U.S. interests are:

a. To foster that political, social and economic change which is essential to the self-determination of less developed communities and to their effective participation in the world community.

b. To recognize that this change can only occur under the leadership and direction of those communities themselves; that often change will appear to threaten short term U.S. interests; that the change process is beyond the control of the United States; that the most we can seek is that it be effective, and relatively humane, and that over time the efforts of the United States be perceived as harmonious with its general direction.

2. The current foreign aid program cannot work because it ties the U.S. inextricably to the status quo. It constitutes massive intervention on the side of whatever regime, whatever collection of power happens to be ascendant at any particular point in time. If it is denied a particular regime, it becomes a punishment and an ineffective one at that.

The present arrangement also hinders necessary diplomatic relations. Instead of an ambassador being the representative of the President of the United States to a foreign government, the ambassador is forced by existing assistance policy to sustain or subvert that government.

Current policy invariably places the United States athwart the inevitable change process.

3. Whether or not current U.S. aid policy "serves the best interests of the recipient country" depends upon who is defining "best." The only valid criterion for assistance from the United States is what is in the best interests of the United States. Foreigners can accept U.S. assistance with pride and understanding only if the motive for granting the assistance is absolutely clear and acceptable to all concerned. The definition of "best interests" is therefore one which the United States must make and recipients should have the option to accept or reject. I believe it should conform to what is set out in (1) above.

4. The United States should distribute assistance through two separate channels, one national and the other multi-national.

The national channel should follow the model of the Inter-American Foundation, which is designed expressly to provide financial assistance directly to Latin American organizations which show promise of being able to introduce change in order to increase the distribution of goods and services among peoples and to increase the control of the individual over his political and economic environment. Such organizations will usually be non-governmental but may be associated in various ways with government. Grants may be used for the purchase of technical assistance from whatever source the recipient finds most useful.

The multi-national channel is for that assistance which goes essentially to foreign governments and governmentally blessed undertakings. International development banks, regional development agencies and the like fall within this category.

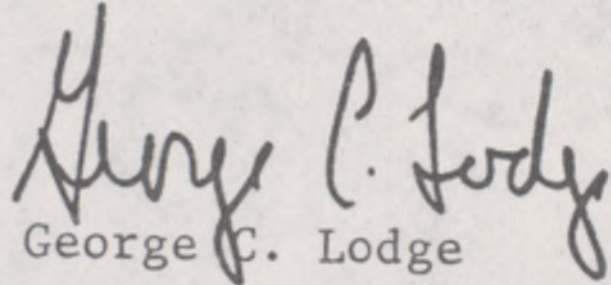
The intention here is to leave for U.S. distribution relatively small amounts of money designed explicitly to perfect the change process and to identify the United States with it. Larger amounts of funds, also for perfecting the change process, would be distributed according to international, governmental decision. Putting it bluntly, under this arrangement we would recognize that the bulk of assistance must be to foreign governments and their adjuncts but we would also recognize that the responsibility for the allocation of such assistance should fall on international authorities.

The first channel would always be experimental and innovative. The second would be for sustaining the more routine but essential processes of construction, production, education, health care and the like which must accompany the more experimental change efforts.

This approach to assistance is based upon a certain doctrine of development. A~~n~~ issue is multiple, manifold change involving all aspects of a community. We have long been misled by the notions of the specialists and the experts that development or change is a process which can be understood and undertaken through focused efforts directed at parts of an environmental system, the economy, food production, health, education or whatever. The evidence is now overwhelming in our own country and elsewhere that change is a total process and must be treated as such. (See Chapter 6 of Engines of Change.)

Thank you for the opportunity to contribute my views. I have done so in rather sketchy form trusting that if I can be of help in providing further detail you will call on me.

Sincerely,


George C. Lodge

GCL:jgf
Enc.

U.S. AID TO LATIN AMERICA:
FUNDING RADICAL CHANGE

By George C. Lodge

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U.S. AID TO LATIN AMERICA: FUNDING RADICAL CHANGE

By George C. Lodge

WE are confronting in Latin America what is in essence an ideological crisis—a question of purpose. Given our national predilections this is the kind of problem we find most difficult to deal with. The temptation is to retreat, retrench and look inward. This is an impossibility: our wealth is too great not to share, our enterprise too successful and too useful not to expand, our interests—and the peace of the world—too vulnerable not to protect.

The central issue is revolution—radical, structural change in the political, economic and social systems of Latin America—and the relationship to it of the United States. Comforting and noncontroversial as it may be to speak in familiar technical terms of “development,” particularly “economic development,” we must accept the fact that real development is change; and that change necessarily raises questions of speed, direction and control which are in the largest sense inherently political and deeply controversial. In the Latin American environment particularly, the introduction of seemingly innocuous economic or technological change often in fact requires profound, permanent and radical alteration of existing systems.

Let us take food production, which has been hobbling along beneath the burden of rising population. We have generally supposed improving agricultural output to be a matter of better seed, more fertilizer, irrigation and the like. We have proceeded on the vague assumption that Latin American peasants resemble in some half-formed way the homesteaders of our own West—confident, Protestant entrepreneurs eagerly waiting for the means to a better life. We have treated Latin American states as though they were in fact representative of their people, able and willing to introduce the manifold changes which we encourage—and pay—they to promise, and prepared to mobilize efficiently a vast spread of governmental services to their rural areas. While some governments receiving assistance may have such capacity and determination, most do not. The Latin American peasant, generally speaking, is snared in an historical web of pressures and powers which allows him little con-

trol over his environment and deprives him of confidence and motivation. He feels little or no identification with his government or with what is called his nation; his sole concern is survival and the agonies that it involves. Disorganized, isolated and detached, he, like the Black American, has been denied power in his own country. While this condition has afflicted roughly only 20 percent of North Americans, it circumscribes the existence of perhaps 80 percent of Latin Americans. A change in the production of food, or any other sort of meaningful change, requires a fundamental realignment of the structures and the power which contain this condition. More than technology, it is a problem of land tenure, of markets, of credit, of motivation, of organization and of commitment. It is in the largest sense a political problem. The bonds that tie the peasants to their traditional marginal existence are not to be undone by governments dependent upon the existing power structure. That would constitute an unreal form of self-subversion. The job must be done by a variety of self-sustaining, largely nongovernmental, engines of change.

Here and there these engines are at work: campesino federations in Venezuela and the Dominican Republic; organizations of the radical Church, like those in Brazil, Chile and Panama; some trade unions; and various enterprises, such as the large commercial farms of Mexico, and certain integrated food production, processing and distribution activities of some U.S.-based multinational corporations.

They are contributing to the development of true communities in Latin America, helping them to form and organize in such a way that they can govern themselves, determine their values and goals and build the institutions and organizations necessary for a vigorous, responsive and lasting political system. These engines of change are providing a new confidence that power in the environment is not permanently fixed, that movement is possible; a new sense of purpose and legitimacy. And this matter of purpose is at the heart of Latin America's difficulties.

In Veraguas Province, Panama, for example, the problem of education is substantially irrelevant to the number of schoolhouses; it is rooted in the fact that the campesino sees no special purpose in having his child in school on time, regularly, year in and year out. He does not visualize for his child a life that is substantially different from his own. When, however, 25 cam-

pesinos joined together for a coöperative effort in the village of San Francisco, and when they discovered that the only person in the village who could keep the group's small accounts was the local priest, they recognized in a remarkably short time the need for education. As never before, they had their children in school on time and overtime.

Student organizations and nationalist guerrilla movements are also endeavoring to operate as engines of change, but so far with limited success. And, surprisingly perhaps, communism in Latin America has been dramatically unsuccessful in causing change. Its European-based Marxist ideology has consistently shown itself to be irrelevant to the Latin American reality. Its fealty to Moscow has made it an unacceptable form of neo-colonialism, an affront to nationalism; and in the clinch, Moscow has been unable to protect its Latin American offspring. Although the Soviet Union is stuck with the economic burden of Castro, it is plain that it does not support his brand of revolutionary warfare, and indeed, given Castro's open defiance of the party line as laid down by the Kremlin, it is questionable whether it is accurate or useful to call him and his followers elsewhere in Latin America communists. They are more precisely described as revolutionary nationalists who may or may not receive assistance from Moscow. The Soviet Union's principal efforts in Latin America are devoted to increasing its general influence by promoting trade and commerce and securing friendly governments by exerting pressure within the existing political structures—most notably today in Chile, Peru and Uruguay.

The changing nature of the cold war and the demise of the communist apparatus as an important threat in Latin America have removed the most readily understood and for some the most compelling purpose of our foreign policy and program in Latin America. While we have always denied that foreign aid was necessarily tied to protection against communists, there has been some question whether anyone really believed it. Anti-communism has served a useful purpose for us; it has allowed us to defer clarifying our own ideology, our vision of what we mean by a good community. It has permitted us to live with a fundamental contradiction between stability and change. We could insist upon changes of all sorts, as in the Alliance for Progress, but at the same time we could sustain institutions which thwarted change, arguing the necessity of stability. We have

spoken regularly of freedom, democracy and self-determination, the inference being that both change and stability were preconditions for the fulfillment of these political ideals. Because of communism, however, we were able to avoid facing the hard reality that in much of Latin America democracy is a euphemism and will remain so until the advent of the widespread political organization upon which democracy must rest. And because of communism we were able to skirt the issue of who was "determining" what for whom. Thus, because of communism we have been conducting a policy which has combined an offering of lip service to radical structural change with support for the status quo.

This is not to say that the Agency for International Development and the Alliance for Progress have not done good things. They have built roads, schoolhouses, hospitals and dams; they have financed housing, training and the introduction of new industry and technology; they have promoted exports, economic diversification and the passage of a sizable amount of reform legislation (much of it unimplemented). All this has been done, however, for the most part through local government and in collaboration with members of the existing power structure. While our assistance may have caused a marginal improvement in the standard of life for some, it has also, equally importantly, provided a source of patronage and political strength for the status quo.

And all too often a road, a bridge or a hydroelectric station has been considered to be in and of itself a good thing. All too often the question of whether the road or the bridge is located properly to promote the organization of the population for its inclusion into the nation, or whether the hydroelectric station and its output are so arranged as to bring power and light more cheaply to more people, receives little consideration. Our aid has in reality changed Latin America very little.

U.S. military assistance programs heighten dramatically the inherent conflict in our quest for both stability and change. The case of the Maryknoll priest, Father Thomas Melville, in Guatemala, is a relevant example. In the early 1960s guerrilla bands formed in the Guatemalan wilderness. It is imprecise and misleading to call the groups communists, for as far as can be determined, they were not uniformly the recipients of international communist assistance nor were they by any means under com-

munist orders. They were merely insistent upon change in the structures of Guatemalan power and therefore could well be called nationalist revolutionaries. They were quite successful for a time, until a special band of anti-guerrilla fighters was formed, presumably with the assistance of U.S. military groups which were in Guatemala for the purpose, and armed with U.S. equipment. The effectiveness of this special group was so impressive that landowners of Guatemala sought their services and emulated their procedures in the name of anti-communism. Father Melville, meanwhile, was engaged in organizing illiterate, impoverished Indians into a coöperative of sorts to improve their relationship with their environment. The local landowners, however, looked upon Father Melville's operations as subversive interference—the plot of communists. They therefore engaged anti-guerrilla vigilantes to harass the Father and his workers. The priest, arguing self-defense, went to some guerrilla friends and obtained guns, at which point he was expelled from the country. It is hardly stretching the point to say that here we had the United States arming and training men to shoot up U.S. priests. The conflict can hardly be overlooked.

Stripped of the protective rationale of anti-communism, we must now face the unveiled question of where we stand on revolution or radical change in Latin America. To answer this question we must identify our interests precisely. Our priorities would seem to be in the following order:

The chief concern of the Government of the United States must be the survival of the American people. Survival is threatened by the existence anywhere of chaos and disorganization. These produce socio-political vacuums which the bully and the predator are tempted to fill aggressively. In this day and age such aggression can bring the threat of total war.

The second concern of the U.S. Government must be the protection of the rights and interests of U.S. citizens in Latin America.

It follows from these primary and secondary objectives that the control of violent conflict is a vital interest of the United States.¹ The control of conflict requires the presence in any

¹ Some distinction must be made between necessary and avoidable conflict and violence. The Mexican revolution took a million lives; but few today would say that it had not been necessary. The hope must be that communities have become more sophisticated since then, more able to make less painful the revolution which nation-building seems to require inevitably.

community—national or international—of an effective police capable of apprehending and confining the bandit and the criminal. But in Latin America, banditry and criminality are neither the root nor the principal potential cause of violence; and care must be taken not to confuse such lawlessness with revolution, the right to which is deep in our own political and moral heritage. Our reason for being as a nation is linked to the pledge that *all* men have certain rights to life, liberty and the pursuit of happiness; that governments are instituted “to secure these rights;” and that “whenever any form of government becomes destructive of these ends, it is the Right of the People to alter or abolish it, and to institute new Government. . . .”

The cause of conflict in Latin America comes in large measure from the desire of increasing numbers to achieve these rights. In the context of the Latin American environment this achievement requires change which is sufficiently radical to deserve the name of revolution. It thus becomes the interest of the United States to promote that revolution; and it is a subsidiary interest to promote the revolution in such a way that the violent conflict which often accompanies radical change is minimized.

It should be emphasized that this objective is also in accord with our moral stance, corresponding to what we proclaim as the definition of the good community. And in as much as the revolution is inevitable it is axiomatic that our political interest lies in closer coöperation with it. We cannot win a war with the inevitable even though today we are dangerously close to trying.

The revolution in Latin America requires the mobilization of those political institutions which I have already referred to as engines of change, and which are essential for self-determination. Our policy thus should become solidly oriented toward sustaining these institutions rather than those of the status quo. This will undoubtedly arouse controversy between us and those who hold power in Latin America. They will tend to regard it as a policy of subversion, which in a sense it is. They will speak of intervention in the internal political affairs of sovereign states, which it is. They should be reminded, however, that our present policy also constitutes intervention, only on their behalf. It is time to recognize that almost any foreign assistance in Latin America is bound to be interventionary in one way or another.

It is easy, however, to overestimate the controversy and to ignore means by which it can be minimized. The fact is that

many government leaders in Latin America are themselves keenly aware of the need for radical change. But they are hobbled in their efforts to introduce it by recalcitrant oligarchs and conservative bureaucracies, both of which tend to be bolstered by our aid program; they are also impeded by insufficient organization for change outside of government. Many of these leaders would, therefore, secretly, if not publicly, welcome such a shift in U.S. policy.

Our alternative to adopting this policy would seem to be to continue our equivocation in the matter of change. This in turn will tend to force those urging change, from the radical Church to the revolutionary nationalists, into seeking assistance from other world powers, including the Soviet Union. In spite of the weakness of its hemispheric apparatus and its recent peaceful policies in Latin America, the U.S.S.R. still, of course, has the power to intervene if it feels it necessary to its world position.

The implementation of such a policy calls for substantial changes in the organization of our foreign assistance. What follows is an outline of such a reorganization, not intended as a full-fledged or final proposal but as an indicator of the direction in which U.S. policy must move.²

II

Although the total thrust of a new foreign assistance policy should be directed at the purposes set by the Alliance for Progress, this policy is best achieved by dividing programs into two general categories—those which work within existing structures and those which are designed to introduce basic, structural change. For this purpose AID, both in Washington and Latin America, should be replaced by two principal alternative assistance channels and perhaps several subsidiary ones. (A similar reorganization of U.S. assistance elsewhere in the world should undoubtedly follow.)

The first channel, which we shall call the New Alliance for Progress, should be a multilateral structure receiving perhaps 70 percent of U.S. assistance for Latin America. The second, which will be called the American Foundation, would distribute about 25 percent. The remainder might be distributed through other routes, such as the overseas investment corporation which has

² This plan is in part similar to that proposed by Teodoro Moscoso, first Coördinator of the Alliance for Progress, in a speech before the U.S. Chamber of Commerce, May 8, 1968.

been proposed for encouraging private investment in less developed countries.

The New Alliance would include programs designed to sustain, nourish and improve existing national growth structures. Essentially supplemental in nature, such programs would presuppose the existence of effective local structures capable of directing economic inputs into a coherent, purposeful development scheme. They would be designed, therefore, to assist national governments and those public and private institutions and enterprises which are generally connected with or endorsed by government. These programs, for example, would concern: health, education and public works; routine industrial development; military, police and civil administration training and assistance; trade and tariffs and export development.

Such programs are in essence non-revolutionary. Although they may well contribute to the gradual evolution of existing structures, they are primarily aimed at improving the conditions of life within them. While they are necessary and consistent with our interests, they may often obstruct change because they are still tied to national governments and therefore tend to support the status quo. For this reason they should be channeled through multilateral agencies, relieving the United States of sole responsibility for their effect. The blame should be shared regionally.

Latin American leadership would be better suited than the U.S. Government to harass and chide Latin American governments to make the most efficient use of large quantities of assistance; it would also be more sensitive to questions of priority, timing, concentration and focus. All programs in this category should be carried out under the direction of the Inter-American Committee of the Alliance for Progress (CIAP), acting for the Organization of American States. To implement its programs CIAP would use the World Bank, the International Development Association, the Inter-American Development Bank, regional development banks and such additional institutions as it may deem necessary. In order to coordinate the foreign assistance activities of these institutions, CIAP would have a regional office in each of the Latin American countries, replacing existing AID missions.

Programs under the New Alliance for Progress would be financed by contributions from Latin American governments, the

United States Government, and European government members of the Organization for Economic Coöperation and Development. The task of insuring that these funds were being used honestly and efficiently would fall upon the international institutions themselves, which experience has shown can be hard and tough in this regard—often more so than U.S. officials can or want to be. This proposal envisages an expansion of the existing programs which for the most part have worked well, and an extension and strengthening of Latin American control over these programs. The Alliance for Progress would continue as a true “alliance;” and opportunities for regional growth and integrated development independent of U.S. pressures and influence would be increased. Because of its regional character, the New Alliance would be more appealing to Europe and Japan, perhaps even enticing assistance from the Soviet Union. Training and technical assistance could be brought from many countries other than the United States. Israel in particular has much to offer. It is difficult today for AID to arrange for Israeli assistance to Latin America for a variety of reasons, not the least of which is the Arabs. Then, too, regional control of military and police assistance and training would be a particularly salutary innovation, removing the United States at least one step from this sticky area and providing us with political distance and manoeuvring room which we do not now have.

But perhaps the most important effect of the New Alliance would be the added impetus which it would give to national and regional planning and thus to the integration of Latin America—at first commercially and economically and then politically. We have seen how damaging the close proximity of the United States and its officialdom can be to Latin American initiative. We cannot help ourselves; it is in the nature of things; we are large and powerful and our breath is heavy. The closer we are to the processes by which Latin Americans plan, establish priorities, identify their interests and determine actions, the more these processes will be distorted, dampened and defeated. We have long spoken about the necessity of “giving the Latin Americans the tools and letting them do the job for themselves,” but we have found it difficult to act accordingly. Our AID programs have become an increasingly self-defeating exercise with almost the opposite effect. We are fond of using the word “self-help,” but it is generally more a sham than a reality.

The regional organization of foreign assistance would also facilitate foreign investment. CIAP and the New Alliance, as part of their integration planning could, for example, greatly strengthen and expand the work of multinational investment companies such as ADELA, which would be natural allies of CIAP and the Inter-American Development Bank in building up the Latin American Free Trade Association.

The purposes of the New Alliance would be very much like those of its predecessor. While we can hope that it will find new and better ways to achieve them, we cannot expect the Alliance, by itself, to speed up the revolutionary process to the extent that U.S. and Latin American interests dictate.

III

U.S. objectives, therefore, require a second and quite distinct system of assistance programs to find and fuel the engines of change which work directly to revolutionize Latin American social and political structures. As the New Alliance would sustain local growth structures, the second category of programs would help to design and construct such structures where they do not exist and assist in the formation of new local organizations to exert pressure for radical change in existing structures.

It may appear that the two program categories are contradictory. In a sense they are and must be. Our purpose, however, is to make the contradiction more precise and manageable. The contradiction between change and stability exists today; we can be sure it will exist tomorrow. The vital interests of both the United States and Latin America lie in designing better ways of handling it.

Second-category programs would be essentially nongovernmental. They would seek to strengthen those organizations and institutions which can bring pressure to bear upon government and establish useful links with it. But they would be definitely distinct from government and in fact might often be hostile to the régime in power, or to parts of that régime. They are the critical levers required to set the process of change in motion and keep it moving.

These programs must by their nature be local—aimed at a particular community, organization, group or institution. The workings of our engines of change are fundamentally rooted in a particular place and a particular group of leaders and followers.

Confidence and participation in representative government develop at the local level. As continuing pressure comes to be exerted on the decision-making processes of the national government, the motivation and capacity for rural action on the part of government administrative officials grow. The campesino's trust in, and ability to use, his government increase in turn.

For some time Category Two programs would obviously be controversial; they would have to be handled with great care and delicacy, moving experimentally from small to larger undertakings. Even so, this new idea will be attacked; it would never survive the onslaught of the status quo if it were part of a large international bureaucracy.

Congress should, therefore, establish and fund an American Foundation for the purpose of launching Category Two programs, using a diversity of nongovernmental groups, institutes, centers and organizations, representing a broad spectrum of U.S. interests and talents, each with special capability to work with and assist a Latin American purpose-making institution. I am here suggesting that we make the most of the pluralism of American society, accentuating its great and varied strength and employing it to connect U.S. groups naturally to Latin American counterparts.

The Foundation would be under the direction of a distinguished Board of Trustees. Members of the board and the Foundation's president would be appointed by the President of the United States and should represent a broad spectrum of North American as well as Latin American interests and points of view. The reasons for the Foundation are fundamental: revolutionary change is underway; it is inevitable; it is in many ways essential and morally justified; the interests of world peace and of the United States require that this change be assisted: while it may require some conflict, the objective should be clearly to minimize violence. The objectives of the Foundation would be to make the revolution peaceful; to make it effective; to make it consistent with the best interests of the United States and Latin America. The commitment of the Trustees to these purposes would be an important factor in their selection. Before critics cry "sham" let it be emphasized that the Foundation would be frankly an instrument of the United States to foster nongovernmental U.S. organizations to find and fuel engines of change in Latin America. But while a creation of the U.S. Government, it would be dis-

tinct from it. Indeed, much of its validity would derive from its independence of government control.³

Acting in accordance with the principles of the Charter of Punta del Este and subsequent Alliance doctrine, the Foundation would, through grant and agreement, fund the activities of those U.S. institutions best suited to establish constructive relationships with change and purpose-making institutions in Latin America—such as organizations of the radical Church, peasant unions, trade unions, universities and change-oriented varieties of local and multinational enterprises. AID cannot reach many of these at all today; and its governmental connection prevents it from reaching others effectively and efficiently.

Perhaps most important would be the role of the Foundation in making possible direct ties between U.S. and Latin American universities, uncluttered by governmental considerations on either side. The Foundation could halt the futile and mutually debasing efforts of the U.S. Government in concert with some U.S. universities to make Latin American universities into replicas of our own. The basic problem of the university in Latin America is not that it is dissimilar from its U.S. counterpart but rather that it has remained detached from the community in which it exists and often largely ignorant of it.

Latin America needs above all else the study and the insight necessary to formulate its own independent purposes and goals. This study requires the discipline and detachment which only a great university can provide. It is perhaps presumptuous to suppose that the United States can play a significant role in such an important and precarious venture. But I believe that our Foundation, working with the best of North America's universities, could be of great use, if only perhaps in one pursuit: the support of greatly expanded research by Latin American scholars, with young U.S. counterparts and assistants, into the real nature and problems of their respective communities. Latin Americans should not come to the United States to study their region; we should go there to learn about their communities with them. U.S. scholars have a good deal to offer in research: the idea itself, first of all, of actually getting out into the streets, factories and fields and asking questions. Getting dirty and hot in the pursuit of knowledge is an unfamiliar notion to many. Then the tech-

³ While it seems farfetched at first blush, the Smithsonian Institution might offer something of a rough administrative model for the American Foundation.

niques of research have been highly developed in North America—the use of computers and advanced methods of inquiry, for example. All of this is essential to give the revolutionary process intelligent and deeply considered direction, and also to hasten its progress. It is extremely doubtful, however, that such activities could be carried out under the existing government-tied AID program with its bureaucratic overhead and political sensitivity.

But what happens, you may ask, when a Foundation-supported group is drawn into conflict with the status quo in Latin America? How do you deal with the implication of subversion in this situation? After all, we are bypassing government to introduce change to which government may be resistant.

Here is where the great advantage of separation from the U.S. governmental apparatus—the embassy and AID—becomes clear. Under our proposed scheme of things, although the Ambassador would be informed about Foundation-supported activities in his country of assignment, he would have no official responsibility for them.

For those who say this is unrealistic, I would only point out that West German Government funds are given to a variety of nongovernmental institutions and organizations for development purposes in Latin America. Some of these funds undoubtedly, for example, end up assisting the organizations of the radical Church in northeast Brazil. I strongly doubt, however, that the German Ambassador is held responsible by the Brazilian Government for these activities in the northeast which, from time to time as we have seen, have caused it considerable discomfort.

The fundamental idea here is that we stop running our foreign assistance activities as though we were a statist monolith like the Soviet Union. Our greatest strength lies in our plurality of interests, points of view and competences. And by working through a number of independent groups we will also be better able to avoid the kind of cultural imperialism which tends to be a by-product of monolithic government-centered undertakings. Much of our current effort kindles this fear, which is entirely consistent with the apprehension of many U.S. critics about our own activities abroad.

There will be many questions raised about the American Foundation: Will not the U.S. Government interfere if a Foundation activity threatens the interest of a U.S. business? Will

not the Departments of State and Defense demand the right to approve Foundation projects? How long would an Ambassador refrain from acting against an offending program? The answers to these questions lie quite obviously in the acceptance of the fundamental purposes of the Foundation by those who wield power in the United States and in the intelligent administration of Foundation activities. To be successful it must rest upon a new sense of the vital interests of the United States and must be directed by men of considerable discretion and good sense.

IV

These proposed alterations in the philosophy and structure of U.S. foreign assistance would have a profound effect on the role of the Ambassador. In the replacement of the Agency for International Development and its foreign missions with the new structures mentioned, the Ambassador's responsibility for the administration of U.S. assistance programs would be eliminated.

Ambassadorial representation should not imply approval or disapproval of the régime in power; it should merely be recognition of an existing state of affairs and condition of power. Although as the representative of the President the Ambassador would be expected to make known the interests of the United States, it would not be his function—as it often is today—to seek to change the internal structures upon which the régime receiving his credentials rests.

Existing programs and functions of AID which are consistent with our new formulation of interests and objectives would be taken over either by the American Foundation and its related groups or by the New Alliance. The only AID programs of importance left orphaned by this scheme are those offering guarantees, incentives and assistance to U.S. private investment in Latin America. These should be expanded and placed under the supervision of the Department of Commerce or of the proposed overseas investment corporation. Some of the more experimental projects, involving the development of new entrepreneurial forms as engines of change, would, however, undoubtedly fall within the purview of the Foundation and the New Alliance.

Some may think it odd to suggest such a radical transformation of foreign assistance at a time when the existing program is in jeopardy and isolationist sentiment seems to be increasing in this country. A close look at Congressional attitudes toward

foreign aid, however, will show that the most serious criticism is coming from those who have long been the staunchest supporters of aid. These men are disturbed because foreign aid seems to be failing to achieve its own prescribed objectives. In fact, as we noted earlier, some feel that our aid is indeed retarding long-term growth, especially political development. It was Congressional initiative—not that of AID—which forced foreign assistance administrators to place greater emphasis on political development by adding Title IX to the Foreign Assistance Act several years ago. It is my belief that in this respect many leaders of Congress have been ahead of AID in realizing the necessity for a radically different approach.

Only by some such new approach can we hope to arouse the national enthusiasm required to raise the levels of U.S. foreign assistance to where they should be—at least 1 percent of the gross national product and in time hopefully more.

BRIEF REPLIES TO SENATOR FULBRIGHT'S QUESTIONS ON FOREIGN AID

(Raymond F. Mikesell, W. E. Minor, Professor of Economics,
University of Oregon)

May 4, 1972

1. What should be the objective of U.S. foreign assistance, economic and military?

The United States should in cooperation with other developed countries provide financial and technical assistance to the poorer countries of the world to help them in achieving higher levels of living particularly for their lower income classes and in promoting important social goals such as improved health, sanitation, education and reduced rates of population growth. While in many cases social progress will require higher rates of growth in GNP, this should not be our primary objective. The basic rationale for our foreign economic assistance should be broadly humanitarian rather than the achievement of specific U.S. political and commercial objectives.

As regards military assistance, I would support aid to democratic countries threatened with external aggression, including external aggression in the form of material assistance to minority groups within these countries that may be seeking to overthrow democratically elected governments by force.

2. What is wrong with the current foreign aid policy?

In general our economic programs have been too closely associated with our military, political and commercial objectives and programs. In many countries our missions are competently staffed and making good use of the very limited funds they have. But they are severely handicapped by the uncertainties surrounding the future of our foreign aid programs and by the constraints imposed by both the Congress and the Administration on our assistance programs.

3. Does the current U.S. aid program serve the best interests of the recipient country?

There is a need for improvement in both the objectives and the implementation of our aid programs along the lines suggested in my answer to question (4) below. Recently our bilateral aid programs have been oriented less to comprehensive programming for achieving target rates of growth in GNP and more toward the achievement of high priority social objectives by means of project and subsector loans and technical assistance. This new approach is to be commended and encouraged.

4. What should the United States do to help other countries in their development or security problems in years ahead? How should we go about doing it?

The U.S. aid program should be revamped along the lines of the recommendations of the Peterson report which by and large were embodied in the President's Message to Congress of September 15, 1970.

As I strongly argued in my book, The Economics of Foreign Aid (Aldine 1968), the bulk of U.S. economic assistance should be channeled through multinational institutions. Nevertheless, I believe the United States should have a bilateral development loan and technical assistance program operating in close cooperation with multilateral assistance agencies. My reasons for this are too complex to be developed in this short statement but I believe that a well formulated U.S. bilateral program administered by high calibre American missions in developing countries constitutes an important avenue for carrying out the international humanitarian goals of the American people. Representatives of the American government should have a direct involvement in the solution of social and economic problems of the poorer nations of the world and I believe that such an expression of concern can provide broad political benefits in terms of good will for the United States. In order to be effective in these terms, this program should be divorced from military objectives and should not be administered with a view to promoting specific U.S. political and commercial objectives in the recipient countries.

HARVARD UNIVERSITY,
JOHN FITZGERALD KENNEDY SCHOOL OF GOVERNMENT,
Cambridge, Mass., May 5, 1972.

Hon. J. W. FULBRIGHT,
Chairman, Committee on Foreign Relations, U.S. Senate,
Washington, D.C.

DEAR SENATOR FULBRIGHT: Your letter of April 5 is a timely and hopeful reminder that something can still be done about foreign aid, an important and tested instrument of foreign policy. I will try to respond to your questions as directly as I can, though they do not exhaust my opinions about the program.

I. What should be the objective of U.S. foreign assistance, economic and military?

Since no one has succeeded in defining the national interest coherently, I will begin by listing certain specific interests I think the foreign aid program now serves and try to weigh them before I suggest what I consider its primary objective should be.

1. Commercial interests. A substantial portion of the foreign aid funds (15% or so by some estimates) goes to pay the difference between the world market prices of American goods and services and the prices actually paid for them by beneficiary governments. Foreign aid is used to subsidize the export of several non-competitive American enterprises such as shipping, some agriculture, and some industries representing medium-level technologies that are no longer competitive because of the labor costs and deteriorating equipment. It would not be difficult for your Committee to get more precise estimates of these subsidy costs so that it could determine how much of our foreign aid is domestic aid. If, as I suspect, it turns out that a significant sum is involved, your Committee might want to consider whether such costs should be borne by other government agencies such as the Export-Import Bank and the Departments of Agriculture and Commerce. Obviously one difficulty with transferring the subsidy function out of foreign aid would be the loss of some favorable votes in Congress. The judgment as to whether and how foreign aid legislation should reflect these concerns should rest, I believe, with your Committee. But it should be faced squarely. I no longer have any doubt that subsidies unfavorably affect the overseas impact of foreign aid.

2. Military interests. Both economic assistance and military weapons are supplied to countries whose capacity for self-defense is considered to be an immediate American concern. Most of the countries receiving large-scale aid are on the "rim" of the Communist world; they qualify for aid under the old containment doctrine. Other countries are considered to be in the American sphere of interest because of a variety of geo-political considerations (notably those in the Caribbean and Central America plus the northern parts of Latin America). Both of these concepts—"containment" and "spheres of influence"—are becoming increasingly marginal as guides to policy, and the relevance of our military programs to either of them is faint indeed. Our experience in getting other countries to use American equipment to serve our purposes if they lack a commitment to them (examples: Pakistan, India, Greece, Turkey) is extremely spotty. Moreover, studies of weapons systems supplied by the United States and the Soviet Union have concluded that they are a poor military investment for the underdeveloped countries themselves (whether they pay for them or not) because the sophisticated systems of technologies we provide are costly to maintain and inflexible tactically. Our military weaponry often provides "less bang for a buck" than the systems they replace. It may be true that such aid provides support to the U.S. weapons industry and keeps our production lines going, so that we can manufacture new items for American defense while DOD ships out obsolescent material to our allies. But these considerations relate more to our continental defense than to foreign aid. I think they should be resolved elsewhere than in your committee, and otherwise than by foreign aid.

Military advisory groups where no hardware is supplied could be managed out of the military attaché's office. And use of aid programs as a cover for intelligence gathering or operations should be discontinued.

3. Compensatory and diplomatic interests. U.S. foreign aid has been offered to an additional group of countries regardless of their economic condition, their military position, or their political "acceptability," in exchange for special favors such as the provision of bases or the right of access to strategic materials. It has also served as a diplomatic gesture of good will and to display an American presence. For example, it is sometimes used to encourage new regimes to take favorable positions toward the United States in the future. Such gestures are sometimes useful but they are rarely vital to American interests. They have the disadvantage of distorting the purposes of foreign aid programming, which is supposedly used for economic and developmental activities. Reciprocal aid does bring some benefit to the United States, for example it permits us to see that funds paid for base rentals does some "good" abroad since presumably AID is more likely to use money for "good" purposes than are some of the governments from which we expect favors. In my opinion these benefits are quite often outweighed by the disadvantages of confusing the image and purpose of our aid program. Moreover, countries receiving American aid in the form of royalties or rentals would probably prefer to program the funds themselves, and would in most cases prefer cash or commodities to a foreign aid program. I would therefore recommend that these uses of foreign aid be handled in the State or Defense Department with advice from an aid agency.

4. Humanitarian purposes. Of all purposes now served by the U.S. aid program, this one seems the most clearly defensible, both as a distinct obligation of the world's leading democracy and as our response to increasingly insistent demands from other United Nations members. Humanitarian purposes are not necessarily soft-headed or "merely" altruistic (I think a good case can be made against altruism on the part of a government). For example, short-term emergency relief in the wake of war and famine probably does less for America's public relations than long-term humanitarian programs, since these deeds are rarely publicized and in any case are not unique to the United States. But the fact is that efforts to improve the economic position and quality of life for underdeveloped countries and their poorer citizens are a unique American invention. They also serve American interests, defined even in the most selfish terms. For one thing, they create a favorable "image" to help to offset anti-American crusades directed against "imperialism, mercantilism, and dollar diplomacy," and thus save on window panes and kidnap ransom fees overseas. A renewed image of foreign aid as a frankly humanitarian program, uncluttered by the other interests described above, would reduce the resentments of the American presence that are exploited so successfully in the developing countries. A direct contribution to a "better world" is presumably in the American national interest.

I confess that evidence does not really support the proposition that economic development necessarily reduces conflict, induces political development, or contributes to friendly attitudes toward the United States. The simplistic assumption that economic development as such in other parts of the world automatically produces gain for the United States is not a sufficient justification for our effort. The argument I make is much less pretentious but more easily demonstrated: systematic efforts to aid selected underprivileged groups in other countries—nor with "cash" but through technological improvements—do produce favorable and receptive attitudes and commitments. In the past our aid program has not addressed itself primarily to the problem of improving the inhuman conditions in which the very poor people live in the Third World, but I believe we have the intellectual and technological capabilities for doing so, as no other country or international agency has.

II. What is wrong with current foreign aid policy?

The main weakness of the U.S. foreign aid program is not in its administration but in its politics. AID is better organized, and has a better staff of technicians and economists, than any other bilateral foreign aid effort, or than any of the UN special agencies. Its experience and structure give it a professional quality comparable to that of most other federal agencies. Its stability of tradition and breadth of purpose have not yet been approached by any UN agency except the World Bank, whose functions are far more limited than those of AID. Reorganization alone is not the answer.

Nor do I think the main weakness with American foreign aid has been insufficient funds. In spite of the decline of U.S. effort as a proportion of GNP, the magnitude and scope of our program dwarf those of other nations. I can understand how a much larger program in dollar terms would be hard to justify given the other global and domestic commitments of the United States. More money is not the answer.

In my opinion, the greatest weakness of the foreign aid program is its political ambivalence, the mixture of purposes imposed upon the administering agency, its association with undercover activities and hidden commercial ventures, and a want of general public understanding. Redefinition and refinement are needed.

The foreign aid program is one of the few active and positive elements of American foreign policy, and the various attempts to submerge it under the conflicting purposes I mentioned above have weakened its ability to serve either a domestic or foreign constituency effectively. These weaknesses can all be greatly improved by Congressional leadership in separating the foreign aid program from other instruments of U.S. policy abroad, a task which the Executive Branch is not likely to undertake, and which requires bipartisan Congressional leadership.

In the aftermath of the Indochina wars, it is possible that a streamlined, clearly visible, positive foreign aid program could constitute one of the very few options available by which Americans can express a continuity with their most dramatic and successful experiences in international leadership.

III. Does the current U.S. aid program serve the best interests of the recipient country?

Since I have already argued that it is difficult to define the national interest of the United States, I should argue even more strongly that we do not know "the best interests of the recipient country." During the Kennedy administration, many AID programmers thought they knew; but the reign of economic development as an absolute value has passed.

I believe that the element of foreign aid I have labeled "humanitarian" would serve an interest with which the United States can be associated everywhere it wants to have a presence, with little risk of incurring political resentment. Efforts to improve the quality of life, to reduce the pressures of disease and privation, and to increase opportunities for self-development come much closer to being absolute goods than the abstraction known as national economic development, whose benefits do not readily reach the masses of citizens. Not all governments place a very high priority on programs designed to improve the lot of their own poor; they might not conceive of U.S. aid programs so directed as being in their "best interest." But I doubt if any government, even the most oppressive, would feel that it was against their interest to do anything, or to permit anything to be done, to alleviate the lot of the poor.

This still does not answer your question as fully as I think experience permits. For in all honesty we must concede that sometimes our aid has injured the countries it was designed to help (overly sophisticated weapons systems, industrial technologies that introduce unemployment without bringing the benefits of cheaper consumer goods to the public, programs designed to strengthen the hand of an oligarchy, and the like). The one element of the foreign aid program that seems to me to avoid such risks is that involving technical cooperation or technical assistance aimed at disease, ignorance, malnutrition, overpopulation, unemployment, and squalor. Innovative efforts by American research to develop technologies for these specific needs of Third World population can provide a service that cannot be performed by the underdeveloped countries themselves.

IV. What should the United States do to help other countries on their development or security problems in the years ahead? How should we go about doing this?

First, on the development side, I think the United States should gradually phase out its bilateral loan programs and turn these operations over to the World Bank and other multilateral agencies. There is nothing special about loans supplied by the United States that gives any advantage to the borrower unless our concessional terms are more favorable, which increasingly they are not. One of the difficulties with increasing the American contribution to the World Bank is the danger of submerging its operations under American financing and American points of view, thus robbing it of its international character. But there are also

regional banks which can serve the same purpose. Where capital assistance can be provided by American sources without impinging upon their functions is in a renewed grant program (soft loans are only a less gracious equivalent for grants anyway). But such a program should be specifically designed to accommodate needs that are not served under the banking criteria used by IBRD and its regional counterparts. I am particularly thinking of funds designed to support highly experimental programs in support of new technologies where the potential pay-off is great but the risk exceedingly high.

Second, I would eliminate requirements now imposed on aid receiving countries that constitute a subsidy to American industry. These subsidies ought to be made available through other channels, as is the case of government-supported exports in Europe and Japan. The result would be to improve the competitive position of American industry on a global basis rather than exclusively in countries receiving American aid.

Third, I support the establishment of the proposed International Development Institute whose primary purpose would be to conduct research on technological systems for development and to supply technical assistance and cooperative ventures in introducing technological innovations. I participated in a task force appointed by the National Academy of Sciences which prepared a proposal which I regard as a reasonable attempt to describe how such a semi-autonomous institute for technical cooperation might be organized.

I have not made a special study of the American military aid program, but I have had occasion to observe it in Vietnam, Thailand, Taiwan, and Turkey. My impression is that the programs have been much too narrowly professionalized. They follow military standards and strategies appropriate to the United States with insufficient effort to adapt our military systems to the needs of other countries. Compared with the technologies introduced by the Agency for International Development, these programs seem to be crude and primitive simply because they are so rigidly structured in the American mode. Somehow, in spite of (perhaps because of) incessant criticism, the AID programs in education, health, transportation, industry, agriculture, and so forth seem to have been more creative and more flexible than those in the military fields. I do not believe this rigidity is characteristic of our defense establishment, and I have concluded that there are structural reasons why our military efforts overseas has been so much less successful than they have been at home. These reasons include the career structure, the patterning of overseas tours on military assistance assignments, the kinds of military technology research supported by the Defense Department, and the rewards of the career system itself. The military assistance program, especially through ARPA, has sponsored some extremely valuable and important research overseas, but I have not observed many cases where it has been applied to military problems or strategic planning under our MAAGs. I may be mistaken in these impressions, since I have not had access to any classified information, but I think the question deserves very serious inspection by your Committee.

Yours very sincerely,

JOHN D. MONTGOMERY.

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April 17, 1972

The Honorable J. William Fulbright
Committee on Foreign Relations
United States Senate
Washington, D.C. 20510

Dear Senator Fulbright:

This is in reply to your letter of April 5 in which you solicited my views on the U.S. foreign aid program. I appreciate the opportunity to respond in this way, since this subject is of considerable interest to me.

Your letter did not indicate the expected length of the responses you solicit, nor the time scale over which you wish to receive them. I assume, therefore, that you want a rather brief outline, and within a matter of weeks. Hence, this letter. I would, of course, be glad to expand on any of the topics discussed in this letter, either in writing or in person, if such need arises.

Qualifications.

Since the subject you asked me about is a broad one, I would like to outline briefly what I believe are my strengths and limitations to serve as an expert witness.

I am a theoretical physicist by profession, with about a decade of interest and practical experience in international scientific assistance. Besides having written about 25 articles on various topics in science policy, organization, and administration, particularly in connection with less developed countries, I have also had considerable field experience covering about 40 countries in Europe, Latin America, and South, Southeast, and East Asia, and I have been asked to participate in a number of conference and study groups on this subject. My organizational connections include the chairmanship of the Committee on International Education in Physics, and membership on the Advisory Committee on East Asia of the Committee on International Exchange of Persons. As far as scientific (and to a lesser extent, technological) international assistance is concerned, therefore, I believe I belong to the relatively small number of active scientists who are experienced in this subject.

When it comes to the military, economic, and political aspects of foreign aid, my qualifications are more modest. I did travel extensively, as mentioned above, and I also had personal experience, before my immigration to the United

States in 1948, in living under both right and left totalitarian regimes. I believe that these two elements give me a practical perspective not readily available to the majority of Americans. In addition, I have had rather extensive personal contact with people who have been working with these other aspects of international assistance, and hence had a good opportunity to absorb second-hand information. Apart from these factors, however, my qualifications to discuss the broader aspects of foreign aid are about the same as those of any other citizen who takes a little spare time to try to educate himself on some public issues.

What should be the objective of U.S. foreign assistance, economic and military?

I strongly believe that international assistance, like any other major national goal, objective, or program, must have a wide spectrum of justifications and hence, a wide spectrum of objectives, in order to enjoy broad support. In a large, free, and heterogeneous society like ours, there is a healthy spread of values, personal philosophies, views and perceptions. Consequently, a popular cause must fit into a great number of different frameworks, and hence, must have a variety of motivations, justifications, and objectives. I want to emphasize this because purists sometimes tend to believe that such a multifaceted cause must ipso facto be Machiavellian in character. On the contrary, such causes exemplify the principles of compromise and tolerance that have made our society as successful as it has been.

I will now list a few of the motivations that U.S. international assistance should have. Others, I hope, will broaden this list.

I believe that one of the main motivations for international assistance should be to help to equalize the opportunities (economical, cultural, political, and developmental) for all countries in the world. I believe that this motivation is in the self-interest of the United States and is also a worthwhile altruistic goal. (Incidentally, I do not believe in the generally assumed basic conflict between self-interest and altruism. In my view, wise self-interest generally coincides with altruism.) In equalizing the opportunities, international assistance works toward reducing tensions, toward reducing the dependence of the world on a few superpowers, toward creating an eventual world order. The elimination of large economic and military disparities are important for this context.

I might add here that I am somewhat skeptical of the power of international assistance to eliminate what I consider the main stumbling blocks toward a better world, namely the existence of fanatical ideologies. They appear to fade only very slowly, being in the short term impervious to rational and material factors, and when they do fade, they are often replaced by other ones.

Second, international assistance has some immediate, practical motivations also. A prosperous economy on a worldwide scale benefits all of its participants. A country with sufficient military capability to insure its independence from foreign military and paramilitary pressure is a necessary component of a stable

world. Finally, an extension of the human problem-solving capability from a few advanced countries to the whole world would undoubtedly be a major asset. At the moment, virtually all problems in the world, scientific, technological, or otherwise, fall on the shoulders of those few countries which have the trained manpower to cope with them.

Third, the motivation for international assistance also comes from philosophical considerations. I consider it fundamentally good to be able to convert one's given talents and aspirations into accomplishments, and at the moment a large part of the world is too preoccupied with providing for food and shelter to be able to devote itself to the above goal. Along the same line, I also believe that civilizations come and go, and that it is our duty, as the presently dominant civilization, to transmit as much of our heritage to others as possible, so as to optimize the input into the next civilization which will eventually develop and which might come from a now undeveloped part of the world.

The objectives resulting from these motivations dictate that we should attempt, through international assistance, to increase the self-sufficiency and self-reliance of countries around the world, and we should also insure that they are not open to military or political domination by other countries, and at the same time, do not dominate other countries militarily or politically.

There is also one objective sometimes mentioned in connection with foreign aid that I believe should not be one, not because it is necessarily wrong, but because it is unrealistic. This is "to make friends." I do not believe that the relationship between the donor and the recipient of international assistance is such as to lend itself to the development of a love affair between two countries. The developing countries have too much pride, mingled with an inferiority complex, to show "gratefulness" for foreign aid, and I truly believe they should not be expected to love us in exchange for our aid, as if the whole business were a matter of international prostitution.

To conclude the very brief discussion of this question, let me touch upon the often discussed question of whether foreign aid should or should not have "strings attached to it." Protestations to the contrary, I have never met a person who, when it came down to concrete cases, truly advocated the no-strings approach. People might disagree as to whether it is the People's Republic of China, or Rhodesia that should be barred from foreign aid because of its misbehavior, but generally some conditions are advocated to accompany some of foreign aid. I concur in the with-strings approach, and believe that a no-strings kind of charity approach is bad for the donor and the recipient alike. This does not mean that all of international assistance should be made conditional, but in general I see nothing evil either in a practical or in a philosophical sense with exerting one's influence to some extent when helping others.

What is wrong with the current foreign aid policy?

International assistance is an art and not a science, and nobody has

convincing theories of the way to do it right. It is, in fact, possible that there is no right way to do it. By this I mean that all possible approaches to this problem might be constantly vulnerable to attacks or at least gripes from a multitude of fronts. I do not consider this a sign of failure, and in this respect, I take exception to the phrase in your letter which claimed that "it is apparent that the existing policy does not enjoy the respect of either Congress or the public." I consider this statement, in this categorical form, of doubtful validity.

Nevertheless, there are many things wrong with the current foreign aid program, a statement which I believe was also true 20 years ago and will also be true 20 years hence, no matter which course we choose. We must be reconciled to the inherently low batting average in this game, and yet make constant attempts to improve it and to learn from past experience. With that in mind, here is a list of shortcomings:

1. Our foreign aid is too little and is decreasing. The U.N. guideline, which is rather modest, calls for 0.7 - 1.0% of the GNP of the advanced countries to be channeled into assistance to developing countries. For the U.S., even counting aid through private channels, the amount is at most one half of that. Perhaps as a corollary of this, the amount of trained manpower devoted to foreign assistance in the U.S. is also much too little.

2. Our foreign aid is too formal, and does not sufficiently enlist the cooperation of Americans outside the official foreign aid personnel. Professional societies, labor groups, business organizations, state governments, and other entities have not been made use of sufficiently. I believe that virtually any American organization should have a small but active section concerned with the worldwide propagation and application of whatever skills that organization has. Finally, individual Americans, who are ready to participate in international assistance, but who are not in direct contact with official aid-giving bodies, have not been utilized sufficiently either.

3. Our foreign aid has not paid enough attention to catalyzing and coordinating already existing latent resources which can be directed toward international assistance. I believe, for example, that every American university should have a sister university overseas, with which it maintains a bilateral relationship. The potential of regional cooperation among developing countries, which needs, at least initially, some external catalyst, has not been exploited sufficiently.

4. Our foreign aid has been overstressing specific applied projects and has neglected the building of the indigenous infrastructure on which such projects can be based. As a result, many projects turn out to be inefficient and non-selfregenerating.

5. Our foreign aid has overstressed short term projects at the expense of long-term projects. U.S. AID officials tell you openly that they could not deal with projects which do not produce conspicuous results within five years, and they blame Congress for this shortsighted attitude.

6. Our foreign aid has overstressed large projects at the expense of small ones. U.S. AID officials will tell you that they have insufficient personnel to administer many small projects. There are, however, many things that cannot be done on a large scale, or which should be experimented with first on a small scale.

7. Our foreign aid programs are deficient in training manpower in developing countries. An integrated program should be worked out so as to train a person with his specific working environment in mind and then follow up the training and help him until he has established himself. The lack of trained manpower is the number one bottleneck in most developing countries.

8. Our foreign aid program has not been able to develop functional methods to evaluate the success or failure of foreign aid projects. This is particularly true for more sophisticated projects, dealing with people rather than material, and hence, such projects are neglected.

9. While military aid is distinguished from the rest of the assistance, there is no differentiation made within that remainder. Following the Peterson report, the science and technology component of the international assistance program should be separated from the economic part and should be administered independently and by personnel with appropriate background.

To complete this list, I want to mention one aspect of our present program which I find essential and which should not be changed substantially. I believe in multipronged funding of foreign aid, that is, I think aid should be channeled through a combination of U.S. governmental bodies, American private organizations, regional cooperative arrangements, and international agencies. One can argue about the proper balance of these four facets, but since each of them has some unique assets, all of them are necessary.

Does the current U.S. aid program serve the best interests of the recipient country?

It is not really possible to give a one-sentence answer to this question, partly because it is not clear what the best interests of the country are, and partly because some aid projects are successful and others are not. As I said, I basically believe that foreign aid is a difficult task and one must not expect too much from it. Thus, invariably some projects work out and others do not. On a relative scale, I believe American foreign aid can be compared favorably with foreign aid projects of other countries. I also believe, however, that constant experimentation, a very flexible approach, and a sensitive evaluation system are absolutely necessary to an effective approach to international assistance, and I hope that the U.S. foreign aid program will lay greater stress on these elements.

In connection with this question, I would like to touch upon the often discussed point of whether foreign aid helps "the people" or "the ruling elite." Apart from cases of obvious graft or inefficiency, I believe that the above dichotomy is an unrealistic one. In all developing countries, regardless of political system or color, a small trained group of people is, by default, responsible for the de facto running

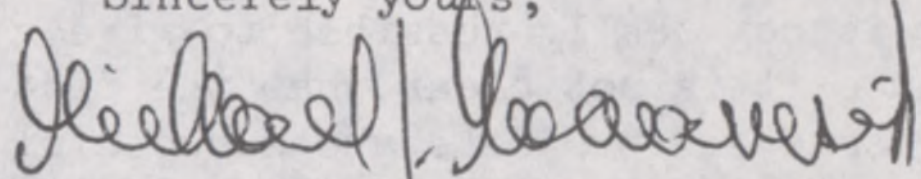
of the country, and until the educational level, the breadth of horizon, and the general way of life of the rest of the population reaches a certain relatively high level, this state of affairs will persist by necessity. One must therefore be very careful not to mistake the support of this group of leaders in their effort to make progress for a tendency to favor the few. Furthermore, economic, technological, and scientific progress often outlives the particular individuals who dominate the political scene of a country. Thus, when Syngman Rhee was swept away in South Korea, the U.S. foreign aid administered during his time continued to benefit the country, and since has helped to make it into one of the fastest growing countries in Asia.

What should the United States do to help other countries with their development or security problems in the years ahead? How should we go about doing it?

I have answered this question to some extent through my replies to the previous questions. A few more general comments will therefore suffice.

The particular elements I would want to stress in foreign aid is self-help, self-reliance, self-confidence, and self-sufficiency. The aim of foreign aid is to make itself superfluous in the shortest possible time. I believe we can point at successful examples where we managed to go a long way toward achieving such a goal. In other cases, the going is rough, and patience is needed. In yet other cases, development schemes are persistently hampered by cold and sometimes hot wars. What we need above all, therefore, is high morale, a belief that the goals of foreign aid are worthwhile, that they can be achieved, and that it is our duty to achieve them. I have little patience with the negativist and pathologically introspective attitudes that begin to appear on the American scene. We have been fortunate to become one of the leading countries in the world, and we must continue to live up to the privileges, challenges, opportunities, and responsibilities of this position, particularly as they pertain to the sharing of our material, technological, and spiritual wealth with the rest of the world.

Sincerely yours,



Michael J. Moravcsik
Professor of Physics,
Director, Institute of
Theoretical Science,
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MJM/sp

Enclosure

HARVARD ADVISORY GROUP

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December 1, 1972

Senator J. W. Fulbright
Chairman
United States Senate
Committee on Foreign Relations
WASHINGTON, D.C. 20510.

Dear Senator Fulbright:

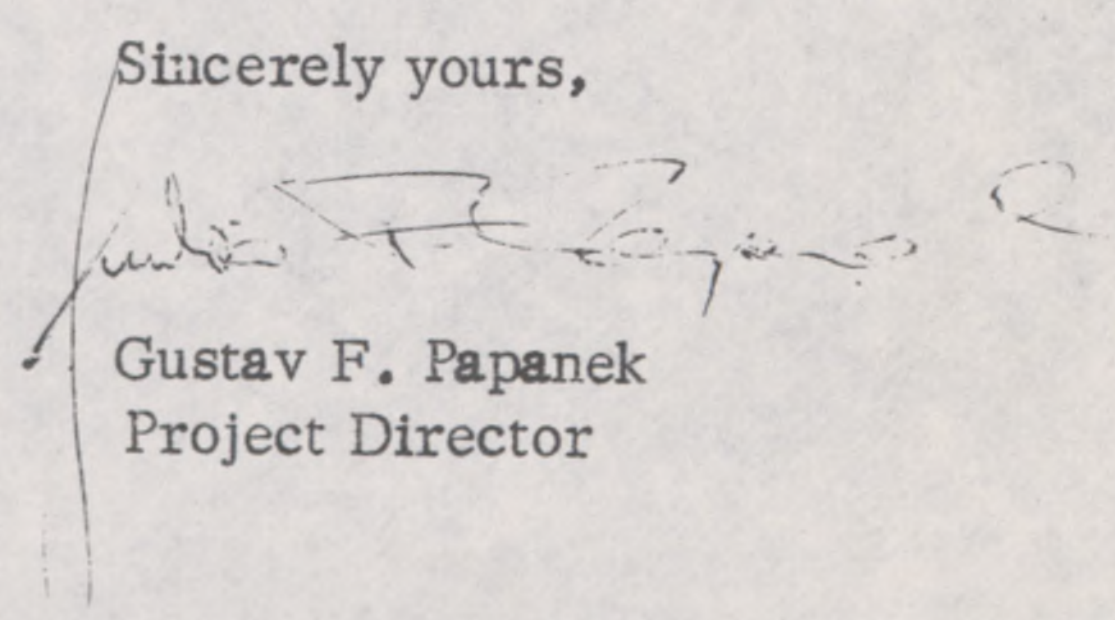
Enclosed are the comments you requested on the aid program. They are being mailed through several channels in the hope that one will reach you on time.

Since my own knowledge of the military aid program is quite limited, I have dealt only with economic aid. The paper covers all the questions raised in your letter, I believe, though it does not follow the same format.

An article of mine, recently published, is directly relevant to the recent argument on the contribution of aid to development. In case it is of interest, a copy is enclosed.

I appreciate the opportunity to make some comments for the Committee's use.

Sincerely yours,



Gustav F. Papanek
Project Director

GFP/tb

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- Objectives: The Mammy-Bus Model of Aid pp. 9-33
- Because of the diversity of objectives which the aid program has accumulated over the years, it has become a poor vehicle to achieve any of them efficiently. Development can reduce some tensions and is therefore in the U.S. interest. Aid can also be useful in achieving some short-range and long-term economic, political and military objectives of the U.S. The problem of multiple objectives has usually been dealt with by fuzzing the issue to the detriment of development and foreign policy objectives.
- Other Problems of U.S. Aid: The Effects of Combat Fatigue pp. 13-14
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- Multilateral Aid: The Problem of Monopoly pp. 14-16
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- The Future Aid Program - Lingering Illness or Quiet Death pp. 16-22
- Some specific recommendations are made: The transfer of a share of the U.S. SDR allocation to several multilateral agencies; the end of the existing aid program; transfer of debts owed to the U.S. to the regional banks; continuation of bilateral aid where the U.S. has a special advantage (PL-480 and technical assistance) and to a few countries where the politically determined position of the U.S. dictates special attention.

ECONOMIC AID

The U.S. aid program suffers from conflicting objectives, combat fatigue and growing doubt that it does much good to the recipient countries. The conflicting objectives and combat fatigue are all too real. The usefulness of aid is reduced because of the way it is now conceived and managed, but it remains of crucial importance to many of the less developed countries. For the U.S. to abandon aid, simply because its effectiveness has been reduced by the way the U.S. has designed and managed it, would be a callous rejection of responsibility for the poorest two-thirds of the human race and would harm the U.S. interest. To abandon the aid program as presently conceived and managed and to substitute a better program would be both desirable and feasible.

Does Aid Help the Poor - The New Left and the Old Right

One of the many points of agreement between the New Left and the Old Right is that aid helps very little. They contend that it simply fosters dependence and a slackening of the recipient countries' own efforts. To this has been added a second argument: that the benefits of aid go primarily to the rich and powerful, so that its moral justification - as a transfer to help the poor - largely disappears. At least the first of these arguments has received additional respectability from several professional studies that show no relationship between aid and economic growth.

When the question is asked whether aid works, it is really not facetious to ask: "compared to what?" Disappointment with the achievements of aid is in part simply a case of excessive expectations about the performance of aided countries. In view of the unprecedented problems faced by the less developed countries, they have some creditable achievements to show. Before the 1950's a rate of growth of 6% a year would have been considered quite remarkable, even if the country had great resources in land or minerals or a well-educated, healthy population. (Some countries, like the U.S. had all three.) Yet even without these assets a dozen less developed countries achieved such a growth rate in the last decade and several more came close. What would have been an astounding success in the 19th century is now considered near-failure, because these countries'

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populations and their demands are growing so much more rapidly than ever before. So disappointment is partly due to the standards we have set up and to the more difficult problems faced by the present less developed countries.

Even if less developed countries have achieved a respectable rate of growth, the question remains whether aid has really helped significantly. Some academics in the last year or two have concluded that countries that receive more resources from abroad, in the form of aid, foreign private investment and other inflows, did not grow much more rapidly than those that receive few resources from abroad. These authors conclude that aid not only fosters dependence, but that it also does little for growth.

There are several reasons why this analysis is only superficially convincing, most of which have been discussed in a separate article.* But the principal argument can be summarized quite readily. That Iraq, Venezuela, Saudi Arabia, Zambia and other mineral rich countries had a high growth rate without aid almost certainly does not show that aid is useless for less well-endowed countries. Similarly, that Korea, Vietnam, the Dominican Republic and the Philippines had low growth despite much aid during or just after they were damaged by war or civil war hardly proves that aid does not contribute to growth. Countries that saw the bottom drop out of the market for their principal export (as Colombia did for coffee between 1954 and 1963 and Ghana for cocoa between 1959 and 1965) or that are hit by floods, drought or other natural catastrophe (Tunisia, India in 1965-67, Morocco at the time of earthquakes) are bound to have a low growth rate and high aid flows, as the world comes to the rescue or as they desperately borrow abroad to keep going. In all of these cases, there is an inverse correlation between aid - and other foreign resource flows - and growth. But only an overly sophisticated analyst would conclude that the absence of aid for rapidly growing oil-rich countries and much aid for slowly growing

*G.F. Papanek, "The Effect of Aid and Other Resource Transfers on Savings and Growth in Less Developed Countries", The Economic Journal September 1972.

disaster victims proved that aid does not contribute to growth.

In fact, the countries that have received a high rate of aid over a period of time have, with a few exceptions, been among those whose income has increased most rapidly. (Examples include: Korea, Taiwan, Greece, Ivory Coast, Kenya, Israel, Jordan.) A more elaborate statistical study reaches the same conclusion: aid was a major factor in explaining the growth rate*. Cross-country analyses of this kind should always be taken with a great deal of scepticism because the results can be influenced by factors excluded from the analysis. But with that warning, this particular study suggests that aid equal to 2.5% of a country's income (or product) will raise its growth rate by about 1%. Aid received from Western countries averaged about 2.5% of the income of the less developed countries. Since the income per head of less developed countries increased about 3% per year on the average in the 1960's, the study leads to the conclusion that aid contributed about one-third of the per capita growth achieved by these countries. But this conclusion greatly understates the importance of aid, since the wealthy less developed countries, especially the mineral rich nations, received little or no aid. For the poorer of the less developed countries, aid probably accounted for half the increase in per capita income on the average (India is the major exception since it received little aid). Certainly these figures need to be taken with much salt, but at least they indicate that aid may have been absolutely crucial to growth in the poorer of the less developed countries.

Of course, some aid has gone to countries that made poor use of it. If a government is not interested in economic development, it can waste a great deal of aid with little to show for it. Ghana in the heyday of the Nkrumah regime and Indonesia during the latter period of the Sukarno government had stagnant economies despite substantial aid. More recently, the countries of Indo-China have received much aid with little in the way of economic growth to show for it.

*It covered 34 countries for the 1950's and 51 countries for the 1960's G.F. Papanek, "Aid, Foreign Private Investment and Growth in Less Developed Countries", Journal of Political Economy, January/February 1973.

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But it is clear that in nearly all these cases, aid was not given to support development but to advance very specific political interests of the United States. Aid was not designed to accelerate growth and quite naturally it often did not lead to rapid growth. It would not be very logical to argue from such cases, however, that other countries which make good use of aid for development should not receive assistance.

Another basic question remains: even if aid speeds development or economic growth, does aid help the poor in less developed countries? This is, after all, the moral basis for aid.

We know very little about the distribution of the benefits of development. We do know that there are a few corrupt and reactionary regimes which so arrange the rules of the game that a few wealthy groups emerge with most of the benefits of development. We also know that there are few less developed countries, just as there are few developed countries, where the gains from economic growth are equitably shared.

But the important moral question is simply this: do the poor benefit in absolute terms from continued economic growth, even where this growth does not result in a more equitable income distribution? If rapid growth improves their lot, then aid for development can be justified even if the benefits are not as equitably distributed as some of the aid donors might like.

There is some evidence on this point. Rapid growth in most countries is the result of both increased agricultural and industrial production. It therefore results in more jobs and lower prices for food, cloth and other goods of special importance in the budgets of the poor. The greatest gap and the greatest inequity in many countries is not between the workers and their bosses but between the regularly employed workers and the unemployed. The really poor are those who barely survive by picking up cigarette butts, by working a few days a month in harvesting or on a road, or by scrounging in various ways. (The cigarette butt collectors, of whom there are thousands in the poor countries of Asia, average about 20 cents a day in Jakarta, where male factory workers earn 70 cents to \$1.00.) Urban unemployment is also a great cause of social tension.

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If growth provides more jobs and lower food and cloth prices, it greatly improves the lot of the really poor, even if a large share of its benefits do go to wealthier groups.

The evidence I have been able to gather from India and Pakistan strongly supports the proposition that the lower income groups are better off during periods of rapid growth than during periods of stagnation. Their money wages changed only slowly, whatever happened to the economy, but during periods of rapid growth, employment increased much more than in periods of stagnation and, above all, the price of food, clothing and such items as matches dropped. Real wages therefore increased, sometimes as much as one-third in three or four years.

Rapid growth also tends to change the political situation and makes it difficult over the longer term for governments to ignore the demands of the lower income groups. Three groups which are almost universally in the forefront of demands for greater equity - students, the middle class and industrial workers - increase rapidly in number and also gain in importance. Rapid growth of industry and construction inevitably means more urban workers with regular jobs, who are used to organization and discipline and who can press their demands more effectively than the casual laborers, employed irregularly and on many different jobs. Education is one sector that usually expands even more rapidly than industry. Rapidly growing countries experience an explosion in the number of teachers and students, especially at the secondary and higher level. Finally, rapid economic growth also means very rapid growth in the professional and business middle class.

All of these groups also become more important to the economy. A stagnant economy with a low-level technology in a largely traditional society can manage with a few trained or skilled workers, and its handful of factories find hundreds clamoring for the unskilled jobs they have to offer. With growth come more sophisticated industries that can ill afford to lose their trained workers or to engage in a long drawn-out conflict with them. The political influence of workers, students and middle class professional and business groups increases with both their number and importance. Rapidly growing societies find themselves under increasing

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pressure to meet the demands of these groups, which usually include greater political participation as well as a greater share of the economic benefits of development.

These effects of rapid growth are felt even in so called "enclave" economies, where large, modern, foreign investments, usually in mining, are quite separate from the rest of the more traditional economy. Liberia has been an extreme example, with a few mining enterprises, using heavy machinery and many skilled foreign workers operating in rather remote areas. It also received a great deal of aid. But even in this classical case of an enclave economy with a tiny elite, the situation is changing rapidly. First, the government's revenues increased ten-fold. Some part was spent on roads and other investments that brought more people into the modern sector. Second, the number of students, especially from non-elite groups, multiplied. Third there was an even more drastic increase in skilled workers, employed in large units: tractor and bulldozer operators, truck drivers and mechanics, clerks and bookkeepers and so on, in the great profusion of skills that modern enterprises need and cannot import in 1970, as they could have done a century earlier. These groups, within a decade, were exerting noticeable pressure for a changed society, for a more equitable distribution of income and opportunities, and the government was responding.

Venezuela is an even clearer example of the effects of rapid growth. In the 1950's it was often cited as a country where only the oligarchy and foreigners benefited from oil wealth. But rapid growth meant rapidly rising real wages, a much larger middle class and more skilled workers. In the 1970's, the death rate has dropped dramatically, a sure sign of improved nutrition and health, education has become widely available and the average income is sharply up. Moreover, there is a democratically elected regime responsive to popular demands and strongly supported by workers and peasants against terrorist attacks.

Of course, not all countries can achieve the high growth rate of a Liberia or Venezuela; of course some societies are organised in such a way that the benefits of growth remain in a few hands for years, with pressure for equity suppressed. But rapid economic growth does set in motion

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powerful forces in any society. Sustained rapid economic change inevitably means change in social and political systems. It is not a guarantee of "stability". But it is hard to think of a country where sustained and rapid economic growth benefited only the rich. It generally benefits the poor directly, through more jobs and lower prices for necessities, and it sets in motion political and social forces that will soon end the monopoly of a small group over the benefits of development.

These "de-stabilizing" effects of economic growth can be resisted, but only at the peril of stopping growth altogether. Elite groups determined to keep their control over economic and political power in the face of the changes occurring as the result of economic growth have sometimes been able to do so, as in Haiti. But the result has been a period of economic stagnation. It is then perfectly valid -- on development grounds -- to withhold aid to countries whose policies are leading to stagnation in order to protect the interests of an elite, as was done when the United States denied aid to Haiti.

In short, there are undoubtedly some countries which have received aid but have not used it effectively in order to step up economic development. There are also some countries where few of the benefits of development go to the poor. However, in many of the less developed countries, aid has been crucial to the achievement of a reasonably satisfactory rate of economic growth. In the course of more than a decade, rapid growth has benefited the poor in these countries along with other groups.

The major moral justification for aid still seems to hold in most cases: it helps the poorest in the world by supporting the development of poor countries. Those cases in which aid has done little for growth, and where the limited growth has primarily helped the rich, have generally been countries where aid was not given to support development but to meet other objectives.

The disenchantment with aid has partly been a matter of over-selling and under-estimating how long it takes to bring about economic growth and to affect the well-being of poor people in poor countries. (It does not seem to be easy to help the poor in the poor areas of the United States either.)

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But in part this has been the result of a confusion of objectives. When aid is given not to speed development but for other reasons, it should surprise no one that it achieves little to step up economic growth.

Objectives: The Mammy-Bus Model of Aid

The U.S. aid program is like one of the overloaded buses frequently seen in less developed countries, and called Mammy-buses in parts of West Africa. Originally designed to carry a limited number of passengers from city to city, they have become a vehicle for everything from humans to goats, from letters to baskets of cabbage. They stop every few hundred yards to meet the demand of passengers, or the needs of the driver of the freight carried. They are an enjoyable vehicle for some of the occupants, they serve a definite need, but they are not a very efficient way to get from place to place.

The aid program was similarly designed for one purpose originally: to help the people of poor countries and thus to keep them from slipping behind the Iron Curtain. Even then, the program had two fundamental objectives - the humanitarian one of helping the poor and the political one of keeping them in the Free World - but both were assumed to be served by economic development.

Since then the aid program has acquired a diversity of objectives which have made it a poor vehicle to achieve any of them efficiently. While each objective may be legitimate, and while aid can help in reaching them, their number makes it difficult for aid appropriations, aid administrators or aid recipients to use aid efficiently to achieve any one of the objectives. This is one factor in the general disillusion with aid and it needs to be taken into account in designing any future aid program.

The major objectives of economic aid are pretty obvious.

- 1) Development has always been the principal public objective of aid, but two questions have been raised with increasing insistence in the last few years: why should the U.S. spend tax money to support development elsewhere and does it really do any good? The second question has already

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been discussed. The question remains why should the U.S. provide aid for development? There is not much more to be said on the moral, the humanitarian, reasons for aid. The U.S. national income is now increasing about fifteen times as fast per year as the total economic aid we provide. Aid continues to decline, although the U.S. aid performance is already worse than that of a dozen countries that are less wealthy. But all of this has been said eloquently before and anyone not convinced then that the richest country in the world has a moral obligation to devote a small share of its wealth to help the poor to develop will not be convinced by additional statistics.

But whether development is also in the long-term U.S. self-interest can be examined with a bit more evidence now. When the original Point 4 program was started many were more naive about the direct connection of development and political stability. Naturally disillusionment was swift and sharp: development was no guarantee against internal upheaval or external conflict. But evidence has also accumulated two more hopeful conclusions:

- In poor countries the national leadership often seems to make a choice between emphasizing bread or enemies, internal or external. Examples of the latter include Presidents Amin, Sukarno, and Nkrumah. Governments that give higher priority to development, that concentrate on improving the lot of their people often have proved to be less aggressive, regardless of their ideology. Revolutionary Algeria and Peru, post-Sukarno Indonesia, post-Nkrumah Ghana, socialist Tanzania and private enterprise Kenya focussed on development and avoided conflict with their neighbors. (The contrast between pre- and post-war Japan is even more striking.)
- Rapidly developing countries are in a better position to provide economic improvements for all important groups in their society, which can help to moderate social and political conflict. Examples of rapid development, seemingly reducing tensions include Malaysia, Venezuela, Iran, Brazil, Costa Rica and Nigeria (quite recently). If the Malays and Chinese of Malaysia were in competition for a share of a stagnant

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economy, for instance, the government would face formidable problems in keeping a truly multi-racial society functioning. Similarly, an expansion of economic opportunities has made it easier to re-integrate the Ibos in Nigeria. On the other hand the recent rise in India's political problems shows the difficulties of a government in a slowly developing country, even if it has recently won a war and an overwhelming electoral victory and has carried out some popular reforms.

Pakistan is a good example in support of both propositions and of their limits. The Ayub Khan government, making development its major objective, ^{regimes which actually reduced military} was one of the few military/expenditures and, for a while, was less hostile to its neighbors. It also improved the economic situation of the poorer Region and of some poorer groups and for several years after Ayub Khan came to power, social and political tensions did decrease. But the regime did not do enough, it failed in the political sphere, it got itself into a war with India and it disintegrated.

Obviously, development is not a cure-all. But if it reduces conflict and tensions to only a slight degree that is of obvious interest to the U.S.

- 2) Specific U.S. political and economic interests. Like other countries, the U.S. also provides aid to strengthen governments considered friendly and to support long-term U.S. economic interests in particular countries or areas. Presumably, this will continue as long as the U.S. has an active foreign and international economic policy. It is not surprising that in 1972 the U.S. provides more aid to Turkey and Iran than to Egypt or Syria, more to Korea, Indonesia and the Philippines than to Ceylon or Burma, and more to Brazil and Costa Rica than to Chile or Cuba.

The U.S. criteria for who is a friend keep changing - it would be splendid if one of these days we actually excluded the more brutal distatorships from that category - and governments change in less developed countries. For both reasons aid to particular countries changes. But it is neither likely nor sensible for the U.S. to abandon the use of aid as an instrument of foreign policy. Similarly, U.S. economic interests will change. But

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more is bound to go to areas where U.S. economic interests are great, like Latin America, than to areas where they are not, like East Africa or India.

- 3) Short-term political, military, economic objectives. In addition to being used in support of economic and foreign policy, aid has also been used for very specific, short-term purposes: in indirect compensation for a U.S. base or a radio relay station; to exert pressure against seizure of U.S. fishing boats or investments; to express gratitude for help, or anger at opposition, on major issues at the U.N.; to encourage military or economic action of which the U.S. approves or discourage that of which it disapproves; to support particular projects which the U.S. government, or important U.S. constituencies find attractive.

Again, such uses of aid are likely to continue. Conservatives may think aid should be used more explicitly and strongly to defend the interests of U.S. investors. Liberals may urge that aid should be withheld to show disapproval of military coups. But as long as the U.S. has political, economic and military interests in the world - and it can hardly escape them - it is certainly preferable to use aid to advance them than to try subversion, bribery, or the Marines.

- 4) The Problem of Conflicting Objectives. However, these objectives sometimes conflict. Aid to the Dominican Republic, Guatemala, Vietnam, Cambodia, Laos and other countries was extended on foreign policy grounds, but for obvious reasons did not produce much development during periods of violent conflict. Such countries are then cited as examples of the failure of aid to contribute to development. On the other hand, India is one country that could effectively use more aid for development, but does not receive U.S. aid for foreign policy reasons. It is cited as an example of the failure of aid to advance U.S. foreign policy, even if aid helped with development.

The problem of conflicting objectives affects not only the results of aid, but also its administration, allocation and appropriation. In

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the Congress, aid cuts are supported by some members because aid goes to countries that are not particularly friendly to the U.S. or to its foreign policy, to support their development. Cuts are supported by others because aid goes to some countries - in the interests of U.S. foreign policy - whose governments do not have much of a commitment to development. In allocating aid, various attempts to relate aid to a country's own development effort have failed, in part because the results are overridden by foreign policy considerations. The aid agency, administering the program, has suffered from a similar schizophrenia. Its relationship with the State Department (and the White House) have also been ambiguous. If it is charged primarily with supporting development it should be staffed with technicians and be relatively independent of the foreign policy machinery. But to the extent that it administers aid which is to support U.S. foreign policy, it needs different skills and should really be an integral part of the foreign policy staffs.

The whole problem of multiple and often conflicting objectives has been dealt with in part by fuzzing the issue. As a consequence, the aid agency sometimes makes decisions as though it were a second-rate Foreign Service, which is good neither for attracting first rate development technicians nor for achieving either development or foreign policy objectives.

Other Problems of U.S. Aid - The Effects of Combat Fatigue

Since its height in 1961, when it reached \$2.5 billion, the U.S. bilateral economic assistance program for development (excluding PL 480 and aid to Vietnam) has declined by about two-thirds in money terms. In real terms the comparison is much worse, since the intervening increase in prices (well over 15%) and the cost of tying aid to procurement in the U.S. (about 15%) need to be taken into account. In real terms economic aid for development is now less than one-third what it was in 1961.

As the magnitude of U.S. aid has declined, the friction created by the aid process has greatly increased both in the U.S. and in recipient countries. As Congress has become disenchanted with aid, the criticism of aid and of aid receivers has become more strident. Legislative and administrative restrictions on the aid process have multiplied. The aid machinery has been weakened. After several major re-organizations and under constant attack, the aid agency has lost most of its best people, who have fled to the more congenial atmosphere of the World Bank, other U.S. and international organizations, the universities and private business. As a result of disenchantment with aid and the deterioration of the aid machinery the political cost to the supporters of aid in the U.S. has increased considerably.

Simultaneously the political costs to those receiving U.S. aid have also been greatly increased. The criticism in the U.S. has its repercussions in recipient countries, as do the increasing restrictions on aid and the deterioration of the aid machinery. Political leaders who ask for aid from the U.S. are subject to growing attacks. Relations between the aid-giving and aid-receiving bureaucracies have deteriorated. In some less developed countries, the officials who have been negotiating with aid donors for the last 10-15 years have become very reluctant to expose themselves to what they regard as humiliation and as undue pressure from aid officials who, they believe, have only the most superficial understanding of the political and economic realities of the recipient countries.

With increasing friction on both sides of the aid relationship, any given amount of aid provides fewer benefits to both donors and recipients. The U.S. has found that aid is less effective in promoting friendship or influence. Even more important, accepting bilateral aid sometimes undermines the very governments the U.S. wishes to support. The recipient governments in turn sometimes take actions which are undesirable from the viewpoint of development, simply to demonstrate their independence from U.S. influence and their willingness to resist its pressures.

One solution which has been advanced is to abandon the U.S. bilateral aid program and to channel all economic aid to the World Bank's soft loan affiliate, IDA. But such a course would present problems of its own.

Multilateral Aid - The Problem of Monopoly

There really is only one multilateral agency capable of doing an effective job of handling a much larger aid program, namely the World Bank Group, and any near-monopoly has undesirable consequences. The U.N. Development Program remains hopelessly fragmented by the feudal empires of the Specialised Agencies. With some exceptions it is poorly staffed as a result of national quotas and terms that prevent it from attracting much first-rate talent. Of the regional Banks only the well-established one for Latin America comes close to having the staff and experience for handling substantial sums of money effectively. But even this Bank does not approach the competence of the World Bank in either respect. The inclination therefore has been to think of the World Bank when a shift from bilateral to multilateral aid has been proposed.

The World Bank could, in fact, very rapidly expand its lending operations. A weakness has been its centralised organization: its staff has been far away from the real problems in its elegant building in Washington, and even visits of 2 months are not adequate to overcome that. However, the Bank Group is establishing field offices, with a resident staff in some countries, which should reduce that problem.

But to make the Bank Group the chosen instrument for much of the aid provided by the West world create the problems of any near-monopoly. The Bank staff is good, but even they are sometimes wrong. Occasionally they have been completely wrong. Given the Bank's influence, countries that disagreed with its views have always been reluctant to reject its advice. Too much aid was at stake. But at least a country could usually find a major bilateral donor willing to consider financing ideas which the Bank rejected and to support the country in Bank-led consortium meetings. For many aid recipients, the U.S. has been the only realistic alternative to the Bank in providing funds or support (most of the Americas, for instance) while for others the U.S. was one of two alternatives (e.g. Indonesia, India, Pakistan, Ghana). If the U.S. channels most of its aid through the Bank, this alternative will be foreclosed.

What is needed are not only alternative sources of funds, but also of ideas, of administrative approaches and of personnel. The U.S. aid program has been one of the great innovators in the aid field - from program lending to the support of labor intensive works programs - and the loss of this center of ideas would be a real one.

Moreover, all people and institutions which give away money become increasingly convinced of their own wisdom, not to say infallibility. After all, few of the people they deal with are prepared to contradict them. The arrogance of power that this engenders is a great danger, for it means that they will push their ideas, even if wrong, with great vigor. A little competition is a good corrective, even among major aid donors.

Finally, for the U.S. to funnel most of its aid through IDA would make the U.S. such an overwhelmingly large contributor, that IDA's multilateral character would be seriously eroded, if not lost altogether.

On the other hand, the multilateral organisations have some substantial advantages over a strictly U.S. program to achieve one of the principal objectives of aid: assistance to development. They are less subject to conflicts of objectives,

to pressures to use aid for short-term political purposes, to the bruising annual appropriation process, and to the frequent changes in leadership and direction which have driven most of the good people from the U.S. aid program. A U.S. bilateral program is suspected of pursuing U.S. interests, even when it is not doing so; it therefore provides a convenient way for political opponents to attack the recipient government. The advantages of a multilateral program in this and other respects are well known. One of the advantages generally overlooked is that a multilateral program is far more efficient in countries where bilateral donors each have only small programs. Aid is difficult to administer from a distance especially without a staff that specialises in a particular country. But it is quite inefficient to have a separate staff - administrator, comptroller, economist, agricultural specialist etc. - for a country program of two or even ten million dollars. Instead of several bilateral programs and some multilateral programs each trying to have a specialist staff, two or three multilateral programs can handle the whole aid package for a small country. There are therefore some good reasons for channeling an increasing share of U.S. aid for development through multilateral channels, if the problem of a near-monopoly for IDA can be avoided.

The Aid Program - Lingering Illness or Quiet Death

Any recommendations on a future aid program must take account of the widespread dissatisfaction with the existing one. To recommend a continuation of what exists would be like spitting into the wind - not a useful exercise. There is also no point in just repeating the discussion or recommendations of the Pearson or Peterson Commissions, though most of them were sensible and well-thought out.

Recommendations should presumably stand some chance of being acceptable. Otherwise one could make a good case for extending the principles of revenue sharing to the international field. That is, to provide whatever aid is appropriated for economic development to all countries meeting certain criteria on the basis of a formula related to their need. The criteria could exclude countries clearly hostile to the U.S. or clearly not interested in development or in ameliorating the situation

of their poor. The arguments against such an approach are all the arguments against revenue sharing: some funds will be wasted, some less deserving governments will receive more than they should and so on. On the other hand, the arguments made for revenue sharing also apply: on the whole, recipients will use the funds as wisely as they would if an outside agency told them what to do, a large bureaucracy could be eliminated, decentralisation improves efficiency and recipients now cannot be prevented from wasting funds or spending them for low-priority uses, since most of their funds are not under the aid donor's control. Whatever the arguments for a revenue-sharing approach to aid, it is not likely that it would be adopted and a more realistic alternative therefore should be advanced.

1) Use SDRs to increase the U.S. contribution to multilateral Agencies.

One way of avoiding the counterproductive process of annual appropriation of tax revenues to foreign aid, is to substitute a share of the U.S. allocation of SDRs. These are, of course, received free by all countries. Compared to the previous system for creating reserves, when countries had to pay the cost of gold, SDRs represent a saving to all recipients. The present system of allocating these savings in proportion to IMF quotas was as good as any in order to establish the SDR. But now that SDRs are well accepted, there is a strong case on moral and humanitarian grounds that these free claims on resources should not go overwhelmingly to the rich countries, who are also the primary beneficiaries of the international trade system which the SDRs help to make possible.

In addition to the existing contributions to multilateral agencies, the Congress could provide that a significant part of the next U.S. SDR allocation (say 30%) will be made available to multilateral agencies for development aid. This would be a unilateral U.S. decision, not dependent on simultaneous action by other countries. If a reasonable proportion of other donor countries (say those developed countries receiving 50 or 60% of the SDRs not allocated to the U.S.) also provide at least 30% of their SDRs to multilateral aid agencies, the U.S. would increase its SDR share to 50%. A further expansion of the U.S. contribution, to the full

70% available with no restriction, would be considered with respect to subsequent SDR allocations, depending on the response of the other donor countries and the effectiveness with which the multilateral agencies use the resources to support development.

Of the initial allocation a very large share should go to IDA, with smaller shares to the regional banks and a very small additional contribution to the U.N. Development Program. This would reflect the different agencies' present capacity to use funds. Subsequent division of the additional U.S. contribution from SDRs could be made dependent on the effective use of the first instalment for development and on improvement in the management capacity of the different agencies.

The mechanism for making SDRs available in the first instance need not be a complicated one*. Eventually it would be desirable to amend the basic agreement on SDRs to provide that a share go directly to multilateral agencies.

2) End the existing aid program.

The aid program has been running down for years, in terms of appropriations, personnel and acceptability. By now, it carries a heavy historical burden of friction, disillusionment and conflict. Rather than letting it continue to linger, a quick death in its present form would clear the boards for a new start.

But since the U.S. aid allocation is already too small, in terms of need and of U.S. ability, the termination of the program should not mean a further decline in United States help. Once the U.S. contribution of SDRs reaches 50% of the U.S. allocation, it would substitute for a large part of the development aid now available from the U.S. Other steps, suggested below, could cover the rest. However, until the 50% contribution is reached, a final partial appropriation for a transitional year or two to the regular bilateral program could help fill the gap.

* A simple procedure has been described by E.R. Fried, "International Liquidity and Foreign Aid", The Brookings Institution, 1969.

Since the SDR contribution to multilateral agencies would not be tied to U.S. procurement, it would have greater value to the recipients than an equivalent amount of bilateral aid. The pipeline of appropriated but unexpended aid would gradually be used up, providing a further cushion against the initial shock of development aid termination.

3) Transfer debts to regional banks.

The United States is receiving a steadily increasing flow of repayments and interest from earlier aid loans made to less developed countries. In 1970, some \$300 million was paid by the less developed countries to the U.S. This burden for the poor countries will grow rapidly as grace periods on loans expire. In the past, the U.S. could collect on its loans and the poor countries could pay because the U.S. aid program kept increasing and new aid was much larger than repayments. For some countries, interest and repayment charges to the U.S. already exceed the new aid made available, so the poor are supposed to be transferring resources to the rich. India is a notable example. In the future, if the regular economic aid program is ended, many less developed countries would be paying more to the U.S. than they receive.

For everyone involved, it would be a difficult situation. The U.S. would be cast in the role of a heartless Shylock, trying to squeeze its pound of flesh from countries that are desperately poor. The governments of these countries would be under great political pressure to default on their payments. Governments hostile to the United States would have little to lose by defaulting. The more friendly regimes would be in a most difficult position, unwilling to offend the U.S. and the international banks by defaulting, but reluctant to open themselves to attack for continuing to transfer resources from a poor country to the world's wealthiest nation. The United States could roll over the debt, but that just postpones the problem and would probably require a substantial bureaucracy to handle debt negotiations. The friction, the ill-will, and above all the intense political pressure generated in the less developed countries are hardly worth the benefits to the U.S. of collecting some of the debts stemming from the aid program.

A better alternative would be to transfer the burden of collecting the debts to the multilateral organizations, and especially the regional banks. Then such debtors as Egypt, recipients of large loans in the past but now largely indifferent to the U.S. reaction, would come under pressure from their neighbors to pay up, since it is equally poor countries who would benefit.

The benefits of channeling interest and amortization on loans to the regional banks would be increased if the funds are used to finance intra-regional trade. An increase in such trade is important to the development of many smaller countries, especially in Africa. At the moment, trade is negligible because most countries trade primarily with the developed world and especially with the former colonial power. Attempts to increase intra-regional trade have foundered, in large part because all countries want to sell and not to buy. To sell means jobs and export earnings.

The regional banks could be authorized to use the income they receive from U.S. loan payments to finance, with very long-term low interest loans, a large proportion (say 50%) of purchases from another less-developed country.

The new aid legislation could specify that the aid administrator can transfer any debts owed to the U.S. to the regional banks and, to a small extent, to the U.N. Development Program. The primary purpose initially would be to finance intra-regional trade, trade with other less developed countries, and other intra-regional projects. As the capacity of these agencies increases, debts to the U.S. would increasingly be turned over to them until the United States has gone out of the business of collecting debts from poor countries. Instead of being a Shylock, the U.S. would be making a major contribution to development.

With respect to points 1 through 3 above, a single legislative act could cover all three actions:

- (a) termination of the normal aid program,
- (b) contribution by the U.S. to the multilateral agencies of a share of its SDRs,
- (c) contribution by the U.S. to the multilateral agencies of loan repayments and interest.

4) Continue some bilateral aid: PL 480, Technical Assistance and Supporting Aid.

There are two types of assistance which the U.S. should continue to provide: where it has a special advantage and to countries where its own politically determined priorities dictate special attention.

Multilateral aid agencies will not take full advantage of the resources available in the U.S. for technical assistance. The technical assistance programs of the World Bank and the regional banks are (just) very small. Only the U.N. has a large scale technical assistance program and it attracts little first-rate American talent. It also has quota problems. Most other countries will continue to provide technical assistance on a bilateral basis. The U.S., which has by far the largest pool of talent in several fields, such as agricultural research and extension, should do the same. Nor are the multilateral agencies well-equipped to handle surplus agricultural commodities. Since the U.S. provides several times the amount supplied by all other countries combined a multinational approach would be difficult to carry out in any case.

Finally and most important, there remain countries and situations where the U.S. has a special interest and is willing to do more than the multilateral agencies. The banks and the U.N. should be concerned almost exclusively with development potential. But even if the possibility for development is now limited in Vietnam, Cambodia, and Laos, the U.S. has accepted the obligation to provide massive aid. The U.S. obligation may not be as clearcut elsewhere, but in the future as in the past, there will be countries we will want to help: because they are politically important, or because U.S. trade or investment is significant, or because they have historical ties with the U.S., or perhaps even because they are genuinely free, democratic and egalitarian and we regard it as in our interest especially to strengthen such countries and governments.

The bilateral U.S. aid program would continue for these countries, but it would cover only what has sometimes been called "supporting assistance". It would differ from the present program in several crucial ways: (a) it would be much smaller in terms of total funds and the number of countries involved (b) it would be especially planned, justified and administered as being in the U.S. interest (c) a separate aid agency would probably be unnecessary and separate overseas aid missions could be closed in all countries except the handful where special bilateral economic assistance continues. The justification for aid in each case would have to be clearly based on the specific U.S. self-interest in that particular country.

- 5) The results and costs. A consequence of this approach to U.S. aid would be that no further tax revenues would be appropriated for aid designed principally or solely to assist development, except for the limited funds required for technical assistance. The development objective of aid, based on moral or humanitarian considerations, would be met by an increased U.S. contribution to the multilateral agencies.

A single major legislative action would establish the SDR contribution and the use of loan repayments and interest. The Congress could, however, retain control over the specific division of SDRs among multilateral agencies and could therefore continue to affect the broad policies under which the funds are used.

The U.S. could continue to provide special support to its friends and, in more general terms, use aid for foreign policy purposes. Such aid would be justified on grounds of U.S. self-interest.

The shift to multilateral aid would not be costless. One of the great advantages of multilateral aid is that the agencies can buy goods and services wherever they are cheapest and best: aid is not tied. A consequence, of course, is that some part of U.S. aid will finance other countries' exports. One calculation* was that U.S. exports would ultimately increase by 51-60% of the untied aid, if untying was unilateral and 63-73% if the other non-Communist donors also untied their aid. However, the study covered the period of the late 1960's and since then the competitive position of the U.S. has improved as most other developed countries have revalued their currency and/or had a higher rate of inflation. Since the proposal provides that only 30% of the United States SDR allocation would be provided to multilateral agencies in untied form until other countries also provided their share, the effect

* R.L. Slighton, D. Chu, R. Cooper "The Effect of Untied Development Loans on the U.S. Balance of Payments", Rand, 1972.

on the U.S. balance of payments will not be very significant*.

An aid administration would need to continue, to handle bilateral economic aid to a few countries, technical assistance, PL-480 discussions and the transfer of loan/interest repayments. However, it could be far smaller than the present AID.

For the U.N. and the weaker of the regional banks the additional resources they would receive from the U.S. and other donors can make possible an improvement of staff and procedures. The possibility of greater allocations in the future would provide a strong incentive to take these steps. If the U.N. could be induced to adopt the essential features of the report by Sir Robert Jackson, this would be a major contribution to strengthening the U.N. and its capacity to provide aid. That in itself would be a significant achievement of the new aid approach.

Gustav F. Papanek
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November 30, 1972

*If the United States provides one-half of an \$800 million annual SDR allocation to the multilateral agencies, and if 33% of this amount finances the exports of other countries, the impact on the U.S. balance of payments would be \$120 million annually.

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THE EFFECT OF AID AND OTHER RESOURCE TRANSFERS ON SAVINGS AND GROWTH IN LESS DEVELOPED COUNTRIES¹

THE early literature discussing the impact of foreign resources on the economic growth of less developed countries was curiously naïve, yet it remained essentially unchallenged until recently. Its basic assumption was that each dollar of foreign resources would result in an increase of one dollar in imports and investment. Given this assumption and a reasonably stable incremental capital-output ratio it was possible to calculate the effect of any given inflow of foreign resources on growth. Or to reverse the procedure, it was possible to calculate the inflow required to achieve a target rate of growth. Usually it was simply assumed that the significant component of such inflows was foreign aid. "Aid" and "total resource inflows" were often treated as though they were synonymous.²

Some aspects of this simple Harrod/Domar-like model were subject to subsequent modifications (including several developed by Hollis Chenery), which greatly increased its sophistication and connection with reality. In later models, growth in many less-developed countries was not determined by investment alone, but also by the capacity to import. The incremental capital-output ratio did not remain a fixed figure, but was assumed to change with the rate and composition of investment. In some cases, other factors that could affect the capital-output ratio, most notably education, were incorporated into the analysis. Domestic saving was often included as an endogenous variable, changing with the rate of growth and sometimes with other factors. But assumptions about the contribution of foreign resources were not changed: they were exactly additive to domestic savings and to domestically financed imports.

Despite their persistence, these assumptions do not have any basis in

¹ An earlier version of this paper was done jointly with Susan C. Jakubiak. Ellen Levine substantially expanded the country sample and the statistical work. I am very grateful also for the help and comments of a number of colleagues, most notably Lance Taylor, Millard Long, Walter P. Falcon, Anisur Rahman, W. B. Reddaway, Raymond Vernon, Shankar Acharya, and Thomas Weisskopf.

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² The names most prominently associated with this approach are Rosenstein-Rodan (*e.g.*, "International Aid for Underdeveloped Countries," *Review of Economics and Statistics*, May, 1961); Millikan and Rostow (*e.g.*, *A Proposal: Key to an Effective Foreign Policy*, New York: Harper, 1957); and H. B. Chenery (*e.g.*, "Foreign Assistance and Economic Development," *American Economic Review*, September, 1966, with A. Strout; "Development Alternatives in an Open Economy: The Case of Israel," *ECONOMIC JOURNAL*, March 1962, with M. Bruno; and "Foreign Aid and Economic Development: The Case of Greece," *Review of Economics and Statistics*, February 1966, with I. Adelman).

traditional economic analysis. On the contrary, conventional wisdom would hold that any additional resources are used in part to increase consumption and only in part to augment investment. Analysis would normally focus on the respective proportions. However, until recently, such analysis did not take place with respect to foreign resource inflows.

The Recent Challenge to Past Assumptions

Within the last year or two there has been a drastic change: numerous essays have concluded that only a fraction of foreign resource inflows has been additive to domestic savings, while a large share was used to increase consumption. Many of the articles focus on and are especially critical of aid. The statistical basis for their conclusions, however, is the deficit on current account, usually taken as measuring foreign resource inflows. The deficit is, of course, financed in a variety of ways: by aid (whether in the form of grants or loans), foreign private investment, short-term commercial borrowing, changes in foreign exchange reserves and even "errors and omissions" and the liquidation of private assets abroad.

Some of the essays are "revisionist" in the true sense of the term. They argue that foreign inflows, and especially aid, make little contribution to economic growth, once account is taken of their effect in reducing savings, of the poor rate of return on aid-financed investment and of debt service charges. Aid may ease the lot of the recipient country's citizens by permitting higher consumption, which is considered desirable if the analyst's humanitarian instincts outweigh his Calvinist conviction that people should struggle for their economic salvation, but it does little for growth.¹ Furthermore, some critics have argued that aid and foreign private investment have undesirable social and political consequences, strengthening oppressive governments and institutions—consequences which need to be weighed against its short-term palliative effect in permitting greater consumption. In short, some recent articles² have reached almost the opposite extreme from the earlier analysis: these revisionists see almost no increase in investment, and no increase in growth from foreign resources. Most analysts did not go so far. They agree, however, that aid and other foreign inflows reduce domestic savings and are used in part to increase consumption.

These critics³ made a very useful and significant contribution in

¹ Anisur Rahman (in "The Welfare Economics of Foreign Aid," *Pakistan Development Review*, Summer 1967) suggests, however, that it may actually be considered desirable, in the interests of intertemporal equity, to use foreign resources to increase consumption rather than investment.

² Most notably Griffin and Enos; cf. footnote following.

³ They include: (a) K. B. Griffin and J. L. Enos, "Foreign Assistance: Objectives and Consequences," *Economic Development and Cultural Change*, April 1970; and K. B. Griffin, "Foreign Capital, Domestic Savings and Economic Development," *Bulletin*, Oxford University, Institute of Economics and Statistics, May 1970; (b) Anisur Rahman, "Foreign Capital and Domestic Savings: A Test of Haavelmo's Hypothesis with Cross-Country Data," *Review of Economics and Statistics*, February 1968; (c) Kaj Areskoug, *External Borrowing: Its Role in Economic Development* (Praeger, 1969); (d) Thomas Weisskopf, "The Impact of Foreign Capital Inflow on Domestic Savings in

challenging the naïve view of the benefit of foreign inflows. It is certainly plausible that some share of foreign inflows increases consumption. Given the assumption which underlies all this work, that saving equals investment minus foreign inflows, as long as the effect of an additional unit of foreign resources on investments is less than one, its effect on savings will appear to be negative. The weaknesses in this procedure are discussed below. Much of the critical literature, however, goes beyond the argument that some part of foreign resources is used to increase consumption to suggest that there is statistical evidence that inflows *cause* a reduction in domestic savings, and that the magnitude of the reduction is measureable.¹ These results are summarised in Table I. Note that while the criticism has often focussed on aid, what is being analysed is total resource inflows.

Implicit Savings Functions

While the critics suggest that there is a negative causal relationship between foreign inflows and domestic savings they are generally not specific about the savings function which underlies their assumed relationship. Nor do they compare their implicit function with the functions derived from the rather limited work on savings in less developed countries.

There are at least two plausible savings functions² which alone or in combination would result in a fall in domestic savings, and a small or zero increase in investment, as a result of foreign inflows:

- (i) Rahman, Griffin and Weisskopf imply that savings are substantially determined by government policy and that a government's saving effort will be less vigorous if greater foreign resources are available. Specifically, if one assumes that savings are a function of government effort or policies, that governments have a fixed growth rate as their objective, that achievement of this growth rate requires a given investment, then, if any resources for investment come from abroad, a govern-

Underdeveloped Countries," *Journal of International Economics*, Vol. 2, No. 1, February 1972; (e) H. B. Chenery, "Development Alternatives for Latin America" (with P. Eckstein), *Journal of Political Economy*, July/August 1970; "A Uniform Analysis of Development Patterns" (with H. Elkington and C. Sims), *Economic Development Reports*, Nos. 148 and 158, Center for International Affairs, Harvard University; and "Targets for Development," *Economic Development Report*, 153.

¹ Weisskopf: "The numerical results . . . support the hypothesis that the impact of foreign capital inflow on *ex ante* domestic savings . . . is significantly negative." Chenery: (1970) "In twelve out of sixteen cases, the impact of additional foreign capital on saving was found to be negative" (E.D.R., No. 148) ". . . the effect of a change in the inflow of capital . . . [is a]: Fall in savings 0.49." Griffin and Enos: ". . . foreign assistance has neither accelerated growth nor helped to foster democratic political regimes. If anything, aid may have retarded development by leading to lower domestic savings, by distorting the composition of investment and thereby raising the capital-output ratio, by frustrating the emergence of an indigenous entrepreneurial class, and by inhibiting institutional reforms."

² Griffin suggests, in addition, that the availability of foreign capital reduces the incentive to save of domestic investors and that the availability of imported consumer goods, financed by foreign capital, also reduces savings incentives. It is questionable whether these would be major factors in the overall rate of savings.

ment will change its policies and programmes to reduce domestic savings by an equivalent amount.

(ii) If savings are in part a function of investment opportunities, as suggested by Houthakker¹ and Griffin, and some opportunities are pre-empted by foreign capital, then again capital inflows will be offset in part by a compensating decline of domestic savings.

TABLE I
The Effect of Resource Inflows on Savings or Investment

	No. of observations.	Time series or cross-country.	Savings or investment.	Effect of foreign inflows on savings or investment.
Griffin & Enos; Griffin	32	C	S	-0.73
Rahman	31	C	S	-0.25
Areskoug	22	T	I *	+0.40 *
Weisskopf	38	T	S	-0.23 †
Chenery (<i>JPE</i>)	16	T	S	+0.64 to -1.15 ‡
Chenery (<i>EDR</i> 148)	90	C	S	-0.49
Chenery (<i>EDR</i> 148)	90	C	I *	+0.11 *

* Since savings in all calculations is defined as investment minus foreign inflows a 0.40 increase in investment is equivalent to a 0.60 decrease in savings and vice versa.

† According to Weisskopf this is a minimum estimate and the reduction in savings is probably greater.

‡ 12 out of 16 countries show a negative relationship.

However, another set of plausible savings functions would produce a rise in savings, and a substantial increase in investment, as a result of foreign inflows:

(a) If investment is substantially a function of the foreign exchange available to import capital goods and inputs to keep installed capacity functioning, then it would increase with foreign inflows, and so raise both income and savings. The importance of the foreign exchange constraint is confirmed by some of Chenery's recent work. Foreign inflows are shown to contribute to growth in addition to their contribution to investment. Similarly, in Weisskopf's analysis, investment in eight out of thirty-one countries was foreign exchange constrained, and another six countries had both a savings and foreign exchange constraint.²

(b) If savings are a function of the level and rate of growth of the income of particular groups, such as industrialists or exporters (cf. Houthakker), capital inflows may rapidly raise savings by increasing the income of these groups, even if average income changes little.

¹ H. S. Houthakker, "On Some Determinants of Savings in Developed and Underdeveloped Countries," in E. A. G. Robinson (ed.) *Problems in Economic Development*, London, 1965.

² Robin Marris ("Can we Measure the Need for Development Assistance?", *ECONOMIC JOURNAL*, September 1970) concludes that an equal number of countries had a dominant savings and foreign exchange constraint.

(c) If savings are a function of income and the Government has no effective mechanism for achieving a reduction in the savings function (in the way postulated under (i)) to compensate for any increase in investment directly financed by foreign capital, the net effect of foreign inflows on investment will depend on the proportion of inflows allocated to investment. When foreign resources first flow into a country, a large share is directly invested—almost all of aid and of foreign private investment—and aid donors exert pressure for increases in domestically financed investment: the resulting extra income will lead to an initial increase in saving. The question then is whether in a second round the Government can and will make compensatory adjustments in domestic savings and consumption in order to meet its specified objective function (if it has one of the kind postulated).

In short, there are plausible savings functions which could result in one dollar of foreign inflows producing either a positive or a negative effect on savings and anything from no increase in investment to more than one dollar of additional investment. But all of the critical analyses agree that the average impact has been to increase investment by only \$0.11 to \$0.77 for every dollar of inflow. While other results might be plausible, are there any reasons to question these quantitative results? In fact, their usefulness and reliability can be doubted because the measures of savings reflect an accounting convention rather than a behavioural relationship, because of statistical problems and, most important, because in many cases the measures involve only correlation, not demonstrated causality.

Accounting Convention vs. Behavioural Effects

The negative statistical relationship between savings and foreign inflows found in recent analyses can be in part the result of an accounting convention, not of a behavioural relationship. Confusion arises because domestic savings are calculated, following conventional economic practice, by subtracting foreign inflows (estimated in the way described above) from gross investment. This is quite appropriate to the extent that foreign resources are either (i) used for investment or (ii) are a claim on past or future savings. If foreign resources are used directly or indirectly to increase investment, then one needs to subtract the inflow of such resources from total investment to estimate the contribution of domestic savings to capital formation. On the other hand, even if foreign resources are used to increase consumption, not investment, but have to be repaid, they represent a claim against future savings. Similarly, if the foreign resources are derived by drawing down foreign exchange reserves, they represent a use of past savings. In either case it would be both standard practice and quite appropriate to subtract them from investment to obtain current real savings.

However, to the extent that foreign resources are used for consumption

and have a grant element one obtains misleading results by following conventional procedure. An extreme example would be a gift of foreign food directly to a starving group. Even if the magnitude of neither investment nor domestic savings (in the normal sense) is affected by the gift, the conventional method will show a decline in savings: the starving group has consumed in excess of its income. Or take the case of government using a foreign grant to expand government services (*e.g.*, education or health) or even receiving military aid in the form of tanks: in all these cases investment remains unchanged and there is no effect on current savings, no use of past savings and no claim on future savings.

It remains appropriate in these cases to conclude that foreign resources were used to increase consumption, not investment. It is, however, misleading to reduce domestic savings by the amount of foreign resources received as a grant for consumption purposes. Nevertheless, analyses have ignored the differences in uses and sources and have subtracted all foreign resources from investment in calculating domestic savings.

Data are admittedly defective for more sophisticated calculations and the estimates given below also use the conventional approach. It is, however, quite likely that any resultant error will not be random. Precisely the poorer, more slowly growing countries are likely to receive a higher proportion of grant aid and to use it to increase consumption. They are also likely to be countries with low savings rates. The use of the accounting convention may therefore by itself produce a correlation between low (apparent) savings and high aid inflows.

Inappropriate Aggregation, Conflicting Results and Other Statistical Problems

The critics' analyses suffer from some serious statistical problems. First, they aggregate all foreign inflows and deal with the net total flows only. Yet one would not expect aid to have the same impact on growth and savings as foreign private investment. Both are likely to differ in effect from changes in reserves, capital flight, short-term speculative movements or commercial borrowing. To draw any conclusions about the effect of one component, such as aid, one needs to analyse it separately from other flows.

Second, some of the data used inevitably have an unusual margin of error, which may introduce systematic bias.¹ Non-monetary investment is widely underestimated and is especially important in the least developed countries. The same countries also tend to underestimate monetary investment, since their calculations are often based on capital goods imports and production, with inadequate allowance for domestic value added. On the other hand, some of the more developed of the less-developed countries

¹ For the United States, Paul Taubman found that different savings series gave quite different marginal propensities to save out of normal income, ranging from 0.07 to 0.20 for the same model. ("Personal Savings: A Time Series of Three Measures of the Same Conceptual Series," *Review of Economics and Statistics*, February 1968.)

tend to overestimate investment, since their capital goods are more highly protected than other commodities. Argentina is an example. Savings estimates, when calculated as a residual by subtracting inflows from investment, are subject to greater error than investment estimates. Then if the least-developed countries, that is the poorest ones, receive more aid, there would tend to be a specious correlation in cross-country analysis between aid and low savings rates.

Third, most of the analyses compound possible error by incorrect calculation of the magnitude of foreign resource inflows. With the exception of some of Chenery's work all ignore net factor payments to abroad. They calculate foreign resource inflows as the difference between current imports and exports of goods and services, but actual foreign inflows are larger by the net factor payments made to foreigners. Such payments are of considerable importance. With a mean of 2% of G.D.P., they almost equal foreign inflows as usually measured. Their range is considerable and closely correlated with export earnings: *e.g.*, -8% of G.D.P. for Jordan and -4% for Morocco; +15% for Iraq, 10% for Venezuela, Trinidad-Tobago and Zambia, and 7% for Iran.¹ To ignore flows of such magnitude creates the possibility of serious random error and bias. For instance, if current foreign inflows just offset net factor payments to abroad arising from past investments, the country may have a low growth rate despite substantial foreign inflows. But in the absence of such inflows, and with continued factor payments, growth would have been even less. This description applies to some mineral- and oil-rich countries.

Weisskopf also ignores service payments, and deals only with commodity flows, reducing his average estimate of foreign resource inflows. Most analyses, except Weisskopf's, include a few countries that have a net outflow of resources. In effect, they suggest that since countries with capital exports have high savings and growth rates, capital imports *cause* low savings and growth rates.

Finally, it is clear that different analysts obtain strikingly different results, which casts some doubt on their reliability. The variations between 11% and 77% in average impact of foreign inflows on investment and the general dispersion noted in Table I are not negligible. They might be explained in part by differences in sample, time period and method of analysis. However, comparing time series results for the same countries still produced widely different estimates (Table II). Of course, the specifications of the models differ among analysts, but the very large variations should give one pause, especially since the differences are not systematic as one might expect if they were due to differences in specification.

¹ All figures rounded decade averages. Source: I.B.R.D. "World Tables." A Statistical Appendix is available from the author, giving basic data by country, sources and definitions.

TABLE II

The Effect of Foreign Inflows on Savings as Estimated in Three Time Series Analyses

	Weisskopf (generally 1953-66)	Chenery (J.P.E.) (generally 1950-64)	Areskoug ¹ (generally 1950-64)
Colombia ² . . .	-0.07	-0.36	-1.53
Costa Rica . . .	-0.58	-0.26	
Honduras . . .	-0.88	-0.25	
Mexico . . .	-0.06	-0.76	-0.58
Chile . . .		-0.42	+0.01
Brazil . . .		+0.07	-1.02
Guatemala . . .		+0.02	+4.30
Panama . . .		-1.15	-0.57
Paraguay . . .		+0.04	+1.54

¹ Actually Areskoug calculates the effect of foreign borrowing on investment, not savings. His relationship has been transformed into savings by simple arithmetic, using the identity $S = I - \text{Inflows}$.

² For 1950-63 Griffin's coefficient is -0.84.

Correlation vs. Causality

The most serious question on recent claims about a negative causal relationship between foreign inflows and savings is with respect to the existence of any causality. There are clearly many cases where high foreign inflows are *associated*, among countries or over time, with low savings and, in some cases, low growth rates. However, quite frequently a look at the specific circumstances will lead to doubts that low savings and growth are *caused* by high inflows. Rather, both are more likely to have been caused by a poor or deteriorating economic and/or political situation.

Poor countries, and countries passing through a temporary crisis often have low savings rates and (*ceteris paribus*) low growth rates. If, at the same time, such countries frequently have greater inflows because of greater need, then savings and growth will be negatively associated with inflows for many countries without any causal relationship between them. Aid is a major part of foreign inflows which goes primarily to the needy: poor or crisis-ridden countries. This is not the same as arguing that aid is allocated to all needy countries and in proportion to need. Clearly, most aid is allocated in large part on the basis of political considerations. But among countries who have a claim for political reasons it tends to go disproportionately to those who need foreign resources more, and any one country is likely to receive more than its average allocation during its periods of greatest need. For instance, Mexico is undoubtedly more important politically to the United States than is Pakistan, and Poland is more crucial to the U.S.S.R. than is Cuba. Yet Pakistan and Cuba are major aid recipients because they need foreign resources if their economies are to function and their governments to survive, while neither Mexico nor Poland is as dependent on aid. Both of the former countries also received more aid in

periods of bad harvest than when the weather had been good. At least one study supports the contention that the amount of aid is clearly related to need.¹

Some foreign inflows other than aid also increase in times of crisis. This is obviously true of the use of exchange reserves and IMF credits, but it applies in more sophisticated ways also. When foreign exchange is scarce, for instance, businessmen in that country are likely to look more assiduously for foreign private investors and foreign commercial loans, and governments are likely to draw more on suppliers' credit and commercial loans.

There are several categories of exogenous factors which simultaneously make for higher foreign resource flows, and lower savings and growth rates, or vice versa:

(i) *War, civil war or major political disturbances.* Most recent analyses include South Korea, Taiwan, Philippines and Israel. All of these countries had high inflows of aid and relatively low savings rates in the early 1950s (see Table III), when they were recovering from war or civil war (plus absorption of immigrants in the Israeli case). Some also had lower growth rates until recovery was well under way. By the 1960s savings were up and inflows were lower. It is at least as plausible to conclude that higher savings and lower inflows were both the result of recovery as to believe the alternative hypothesis that lower inflows caused higher savings. As a matter of fact, aid advocates have cited the same data as the aid critics for their contention that aid has been highly successful; that substantial aid in the 1950s resulted in a high growth rate, which produced higher savings subsequently and thus reduced the need for aid. The Dominican Republic, also included in many analyses, had quite respectable savings and growth rates in the 1950s. After its civil war and United States intervention, both plummeted and aid increased. Nigeria's savings rates were low in the 1960s during its civil war, when aid and foreign private investment in newly discovered oil were both high. For all of these countries, a negative correlation between savings (and sometimes growth) and foreign inflows (especially aid) will show up in both cross-section and time series analyses, but it is unlikely that there is a causal relationship.

(ii) *Terms of trade.* A very substantial change in the terms of trade, especially for countries heavily dependent on exports, generally has a substantial impact both on inflows (especially movements in reserves) and on savings rates. Export earnings from minerals or plantation crops often produce more concentrated incomes than production for the domestic market and savings are therefore derived disproportionately from the export sector.

Colombia, for instance, experienced a drop of 47% in the price of its

¹ A. Strout and P. Clark in an extensive study of aid (*Aid, Performance, Self-Help and Need*, A.I.D. Discussion Paper No. 20, Agency for International Development, July 1969) found a significant correlation of aid with *per capita* income (negative) and a calculated foreign exchange gap.

coffee between 1954 and 1963. Coffee provided 70–80% of export earnings. During the period of high coffee prices in the early 1950s Colombia substantially increased its foreign exchange reserves (it had negative inflows) and growth exceeded 5% *per annum*. Following the coffee price crisis, foreign inflows reached 2% of G.D.P. but the growth rate fell to 3%, while domestic savings declined somewhat.¹

TABLE III
*Savings, Growth and Foreign Inflows in some Countries Subject to
Exogenous Shocks*

(All as percentage of national or domestic product)

	Growth.		Gross savings.			Total net resource inflows.			Of which aid.	
	50s.	60s.	50s.	60s.	64/65.	50s.	60s.	64/65.	50s.	60s.
Korea ¹	5.7	6.3	–2.0	5.1	9.6	12.4	9.5	4.5		
Taiwan ²	7.0	9.4	6.3	12.0	15.6	5.0	2.5	–0.2		
Israel ³	9.1	7.5	9.4	13.9		20.3	15.3		10.3	5.8
Philippines ³	6.6	4.4	5.3	13.8		6.5	5.5		4.3	3.2
Dom. Rep. ³	5.5	2.9	16.1	10.8		–0.1	2.9		1.5	3.1

Sources and notes:

1. 1953–58 and 1959–65 are the periods used. From: *U.N. Yearbook of National Accounts Statistics*, 1966.

2. 1953–58 and 1959–65 were used. From: *U.N. Yearbook of National Accounts Statistics*, 1966.

3. For Growth, 1950–1960 and 1960–1968 were used. For Savings, 1951–1960 and 1961–1965 were used. Inflows used the averages of 1955 and 1960 for the 'fifties and 1960 and 1965 for the 'sixties. See Statistical Appendix, available from the author, for sources.

Ghana, as dependent on cocoa as Colombia is on coffee, experienced a drop in its terms of trade index from 112 to 57 between 1959 and 1965. As a result, savings fell from the rather high rate of 16.5% of G.N.P. which had been reached in 1960. In an attempt to maintain imports and investment, foreign exchange reserves were drawn down and resort to suppliers' credits was expanded, both steps increasing foreign inflows.

Over time, foreign inflows were negatively correlated with both growth and savings for these two countries. In cross-country analysis, Ghana in the 1960s was an example of a country with relatively low savings and high inflows. This was partly the result of the deterioration in the terms of trade.

(iii) *Weather and other exogenous variables.* Several years of good or of unfavourable weather sometimes occur in sequence, especially in monsoon agriculture. In countries where agriculture directly provides around 50% of G.D.P. and of exports, and affects the income generated in agriculture-based industry, trade and government revenues, two years of bad harvests can substantially reduce savings and growth rates for three or four years. During the same years, foreign exchange reserves are likely to be drawn

¹ Papanek, Schydlosky and Stern, *Decision-Making for Economic Development*, Houghton Mifflin, 1971.

down, while foreign borrowing and foreign aid are likely to be increased, especially since the United States has made surplus agricultural commodities available. For instance, in India the good harvest of 1964 produced high savings, growth and export rates, accompanied by low inflows of surplus agricultural commodities. The poor harvests of 1965 and 1966 resulted in a reversal (Table IV). 40% of the borrowing examined by Areskoug was for the import of United States surplus agricultural commodities. The vagaries of weather obviously have a substantial influence on this important category of foreign inflows.

TABLE IV
Agricultural Production, Savings, Growth and Food Aid in India

	1964.	Average for 1965 and 1966.
Index of agricultural production	119	108
Growth rate—%	7.8	—2.1
Savings (billion Rupees)	6	5
Aid in surplus agricultural commodities (million \$)	268	480
Exports (billion \$)	1.7	1.6

Note: All data in this paper, unless otherwise specified, are from a Statistical Appendix, available from the author. Agricultural production from *Indian Abstract of Statistics*, exports from I.M.F., *Balance of Payments Yearbook*.

There are other exogenous shocks to an economy which simultaneously reduce economic performance and savings and lead to increased inflows. With the phasing out of its Malta naval base, Britain substituted a subsidy ("aid") for payments ("exports") which had made higher savings possible. With the nationalisation of foreign enterprises and some other steps, savings dropped sharply in several countries, but increased aid from the Soviet Union became available. Earthquakes in Morocco, floods in Tunisia and similar catastrophes meant that lower savings and higher aid were correlated over time. The opposite case is the initial output of oil or other natural resources, with further development paid for by revenues from their export, not by the same foreign resources coming as investment. Savings, growth and exports all rise, while foreign aid drops, foreign investment can remain negligible and "other" foreign inflows can turn negative, as Swiss bank accounts are fattened. Again a negative correlation between savings and inflows would be shown, without direct causality.

The above three sets of factors generally make for a negative correlation of foreign inflows with savings and often growth, in time series and in most cross-country analyses. The length and severity of some swings accounts for the fact that cross-country analyses are also affected, although the correlation is temporal. Cross-country analysis is affected not only by these exogenous temporal factors, but also by long-term differences in societies.

(iv) *Low or high savings societies.* Some countries are low savers and,

ceteris paribus, have low growth rates, while others are high savers and have high growth rates for a number of social, economic and historical reasons. Religious, ideological or cultural factors can result in thrifty or extravagant societies. A history of inflation and political upheavals may discourage savings. Concentrated non-entrepreneurial income, for instance from mineral wealth, combined with further opportunities to invest in mineral development may produce high savings rates. Where aid is the principal component of foreign inflows and low savers receive more aid because of greater need, low savings and high inflows would again be correlated in cross-country analysis. If then the inflows are inadequate to compensate for low domestic savings in providing the resources for growth, high inflows will also be associated with low growth rates.

Savings, Inflows and Exports

An examination of countries with high and low savings rates confirms the significance of exogenous factors—political and military disturbances, terms of trade, weather and other shocks, and historically low or high savings propensities—in explaining the negative correlation, on a cross-section basis, between savings and foreign inflows. Table V includes all less developed countries with especially high or low savings rates from a universe of 34 countries for the 1950s and 51 countries for the 1960s.

Most of the high savers are rich in oil, metals or other natural resources. Their primary exports average more than twice those of the low savers. As one might expect they receive little aid. Curiously, on the average this resource-rich group also received little foreign private investment. For many of these countries considerable foreign private investment took place before the mid-1950s. Thereafter they either discouraged foreign investment or it declined because the mines or oil fields were largely developed. Therefore analyses which begin about 1953 would not show high foreign private investment in these resource-rich, high savings countries. In some cases, capital flight,¹ or servicing of foreign investment and loans, produced an outflow in the "other" category, balancing actual foreign private investment in analyses using only total net flow figures. The only high savings/low inflows society which is not resource-rich is Japan,² where high savings rates were not due to natural resource wealth, but historically high savings propensities.

The low savers include the war or civil-war devastated countries, and

¹ As pointed out by Raymond Vernón, capital flight by citizens of a country, like other transactions of theirs, represents (negative) "foreign resources" only in a definitional sense. Usually subtracted from foreign private investment, capital flight by citizens can lead to an understatement of actual foreign private investment, calculated on a net basis.

² In the 1960s Argentina also falls into this category in Table V. However, for peculiar structural reasons, the high savings rates of Argentina are almost certainly spurious. If both capital goods and agricultural exports were valued at world market prices in the national accounts, Argentina would not appear among the high savers.

those like Jordan with a very underdeveloped economy, that received a high level of aid. They also include some countries with high private foreign investment: the Philippines where savings were affected by recovery from war, while private investment reflected a return by United States capital after the Japanese occupation; Nigeria in the 1960s, where the civil war reduced savings and high foreign investment followed the discovery of

TABLE V
Countries with Exceptionally High or Low Savings Rates
(All figures as percentage of G.D.P.)

	Growth.	Gross savings.	Net aid.	Net foreign private investment.	Primary exports.	Other exports.
Low Savers—9% of G.D.P. or less.						
1950s						
Indonesia . . .	3.6	7.4	0.4	0.6	11.5	0.4
Pakistan . . .	2.6	6.9	1.0	0.0	4.1	0.6
Panama . . .	4.4	5.8	1.3	3.1	10.9	0.2
Philippines . .	6.6	5.3	4.3	3.3	9.5	0.3
S. Korea . . .	7.3	4.8	8.0	0.0	1.5	0.3
1960s						
Bolivia . . .	5.6	8.2	7.0	1.6	17.4	0.0
Guatemala . .	5.0	8.3	2.4	1.8	13.4	0.5
Jordan . . .	9.3	-2.5	18.6	1.0	14.5	0.9
Liberia . . .	6.0	-1.9	10.8	15.0	45.6	0.0
Nigeria . . .	5.1	8.0	1.2	3.0	14.5	0.4
S. Korea . . .	7.6	5.4	7.0	0.9	4.4	1.2
Average . . .	5.7	5.1	5.6	2.8	14.3	0.4
High Savers—18% of G.D.P. or greater.						
1950s						
Burma . . .	5.6	19.1	2.3	0.2	19.8	0.7
Iraq . . .	5.8	27.2	1.7	-4.5	56.2	0.2
Peru . . .	4.6	19.4	0.7	2.7	18.3	0.8
Venezuela . .	7.8	28.0	0.2	3.1	32.1	0.3
Japan . . .	10.5	28.4	-0.1	0.1	1.4	9.8
1960s						
Argentina . . .	2.9	19.6	0.1	0.5	9.4	0.4
Iraq . . .	4.7	18.8	0.8	0.9	33.3	0.3
Ivory Coast . .	8.1	18.5	3.3	2.2	31.2	0.4
Malaysia . . .	5.0	20.4	0.7	1.3	39.0	1.9
Peru . . .	5.5	19.8	0.6	1.3	20.2	1.5
Thailand . . .	7.7	18.7	1.2	1.3	17.1	0.4
Trinidad-Tobago	5.2	20.0	1.4	6.8	50.8	1.3
Venezuela . . .	4.5	27.7	0.0	-0.2	31.0	0.4
Zambia . . .	8.2	32.0	-4.4	1.6	66.7	0.5
Japan . . .	9.4	36.0	-0.1	0.1	1.0	9.0
Average . . .	6.3	24.0	0.4	1.2	31.7	2.2

Note: Sources, methods of calculation, definitions, and data for all countries are given in a Statistical Appendix available from the author. The basic source is the I.B.R.D. *World Tables* and in general its definitions have been accepted. "Aid" includes only funds supplied by governments or international organisations (*e.g.*, I.B.R.D.) after subtracting debt amortisation. Foreign private investment is net of repatriation of capital. For many countries (*see* Statistical Appendix) a careful examination of detailed I.M.F. statistics was undertaken because the *World Tables* provided inadequate information.

oil; and Liberia, essentially a subsistence economy with an expected low savings rate, but with an enclave of foreign investment attracted by her iron ore and other natural resources.

There is some evidence that many less developed countries fall into three groups with respect to savings, foreign inflows and growth. Since the evidence suffers from many of the problems and biases discussed earlier, it is at best suggestive of relationships that might be explored further:¹

(a) Countries which are well endowed with natural resources: often these were developed by foreign investors during an earlier period, in which case later foreign private investment is low or negative (Iraq, Ceylon, Venezuela in the 1960s). In other cases, heavy foreign private investment in mining, oil, or plantations was still taking place during the period under review (Liberia, Trinidad, Venezuela in the 1950s). These countries have a high level of primary exports, and consequently high savings rates and no severe balance of payments constraint. They have little need for foreign aid and receive little. In terms of total population none of these countries is large.

(b) Countries that are rather poor in known natural resources and that have not yet developed much of an industrial sector: they often suffer from other economic, as well as political, difficulties. Both primary and other exports are naturally low. Low exports and other problems mean low savings rates and little foreign private investment. Many of these countries are major aid receivers and the growth rate of individual countries depends very much on their level of aid. On the average, aid levels are inadequate to loosen the constraints imposed by low savings and low exports and growth is only average.

(c) Countries which have become semi-industrialised (or industrialised in the case of Japan) and which export manufactures. However, only in the case of Japan is the level of manufactured exports comparable to the level of primary exports for countries rich in natural resources. The rate of savings of these countries then depends in part on their primary exports. Some are major aid recipients because they are politically important, and because they suffer from more serious savings and balance of payments constraints than the resource-rich. Since they already have a substantial industrial base they are countries which grow rapidly if they receive substantial foreign inflows.

Table VI shows the figures for these three groupings, which accounted for 41 of the 85 observations.

¹ Some additional work involving cross-country regression analyses of the relationship of growth with savings, aid, foreign private investment and other resource inflows and of savings with exports, inflows and other factors is reported in my "Aid, Foreign Private Investment, Savings and Growth in Less Developed Countries," *Journal of Political Economy*, January/February 1973.

TABLE VI

Summary of Patterns of Exports, Savings and Foreign Inflows

(All figures are percentages of G.D.P. or G.N.P.)

	Growth.	Savings.	Aid.	Foreign invest- ment.	Primary exports.	Other exports.
Average for 34 countries in 50s	5.0	13.4	1.7	0.9	15.9	1.0
Average for 51 countries in 60s	5.6	14.1	2.6	1.9	19.7	1.5
Average for 85 observations	5.3	13.8	2.3	1.3	18.1	1.3
(a) High primary exports,* low aid pattern	5.7	19.2	1.5	2.2	39.0	0.8
(b) Low primary exports,† high aid pattern	5.3	10.2	2.8	1.2	7.3	0.5
(c) High manufactured ex- ports,‡ variable aid pattern	6.6	15.7	3.6	0.8	12.5	4.7

* Primary exports of 29% or more of G.D.P. ($n = 14$)† Primary exports below 10% and manufactured (other) exports below 1.5% of G.D.P. ($n = 13$)‡ Manufactured (or "other") exports 1.7% of G.D.P. or higher. ($n = 14$)

Note: For general explanations see notes to Table V. Details in Statistical Appendix.

Conclusions Concerning the Negative Impact of Inflows on Savings

In short, the critics' case for a negative causal relationship between foreign inflows and savings is not proved by their quantitative analyses. In many instances causality is more complex than they assume. For a number of countries it is plausible to conclude that exogenous factors caused both high inflows and low savings rates and generally low growth rates as well. For time series analyses, if one takes account of the six countries where wars or similar disturbances affected the economy, the two countries where terms of trade changed sharply and the two or more countries where weather and other exogenous shocks played a role, very little is left of the critics' evidence. For cross-country analyses another dozen countries were added, most of them with historically high savings propensities and with low inflows, without any necessary causal relationship between them.

In effect, any statistical attempt to assess the causal influence of foreign inflows on savings would need to consider whether high (or low) inflows were associated with savings which were lower (or higher) *than one would otherwise have expected*. This is true whether one uses a cross-country approach or a time series for an individual country, but the reasoning is simpler to follow for the latter. The critics' method effectively judges whether saving is higher or lower than "expected" simply by expressing the figure for each year as a percentage of G.N.P., and comparing this with the average percentage for the available years. It is, however, fairly obvious that (for example) a bad harvest, or a sudden fall in export prices, is likely to affect savings proportionately more than it affects income: consequently, this *simpliste* approach produces entirely spurious "short-falls" in savings in

those years, which would not appear if one had a more sophisticated savings function to judge what is to be "expected." There will also be corresponding spurious "excesses" in the years when the harvest or export prices are unusually favourable.

These statistical deficiencies on the savings side might not matter very much if they could be regarded as random in relation to the level of the foreign inflow for the year in question: they might then do no more than partially conceal a true relationship, in the way that is normal when there are random errors. In general, however, factors which produce below-average savings rates will produce above-average foreign inflows (including run-down of exchange reserves), and conversely for factors which produce above-average savings rates. There is a real risk, therefore, that the implicit use of a *simpliste* savings function will serve to *create* the appearance of a causal relationship, when none really exists.

But while a negative causal relationship between inflows and savings is not supported by the quantitative evidence it would be surprising if there were not some countries where the availability of foreign resources resulted in savings lower than they would have been in their absence. A careful study of Korea, for instance, concludes that in the mid-1950s the Government followed policies "for maximising the inflow of foreign aid," by "an overvalued exchange rate, relatively low tariffs on imports, no efforts to encourage exports, a deficit budget . . . and low interest rates."¹ The after-effects of the war plus conscious policy seem to have combined to produce low savings and high aid flows. Other analysts have suggested that India and Pakistan neglected agricultural development, and therefore the savings which a rapidly growing agriculture could have provided, because they knew that shortfalls would be made good by United States surplus commodities; that opportunities for Cuban, Mexican and Central American investors were pre-empted by United States capital; and that negative savings rates in Liberia and extravagant expenditures leading to lower savings in Ghana were due to the ready availability of suppliers' credits.

But only careful analysis of individual countries can really shed any light on the impact of foreign inflows on savings, exports or growth, and even such analyses are invariably subject to disagreement and dispute. For instance, what if Korea had received less aid? Would it have devalued, raised tariffs, encouraged exports, raised taxes and interest rates, or would it have imposed stricter quantitative restrictions on imports, nationalised the export industry and banks, and further depressed agricultural income, and what consequence would either set of policies have had on savings just after the civil war? In the Pakistan case, the argument that surplus commodities weakened the agricultural development effort has been countered by the contention that their availability made possible a policy of price

¹ D. C. Cole and P. Lyman, *Korean Development—The Interplay of Politics and Economics*, Cambridge: Harvard University Press, 1970, p. 170.

stabilisation and the termination of the allocation system, both crucial to increased agricultural output.

There are no good answers to the question " what would have happened with less or more foreign resource inflows? " In some circumstances, foreign inflows undoubtedly stimulated savings, so that each dollar of inflows led to more than a dollar of investment, while in other cases they discouraged savings and a dollar of inflows may have led to much less than a dollar of investment. However, as long as both savings and inflows are substantially affected by third factors, the negative correlation between the two found in many studies sheds little or no light on their causal relationship.

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Harvard University.

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SOCIETY FOR INTERNATIONAL DEVELOPMENT,
Washington, D.C.

20 July 1972

Senator J. W. Fulbright
Chairman
Committee on Foreign Relations
United States Senate
Washington, D. C. 20510

Dear Senator Fulbright:

Some time ago you were kind enough to write me to ask for my comments on the foreign aid program. I am glad to respond, although I regret being slow in doing so. Please note that these are my personal views and not those of the Society for International Development.

I am restricting my observations to so-called development aid, since I lack any particular qualification for commenting on aid aimed at other objectives. I believe that aid can serve other legitimate objectives, but that the different purposes for which aid is given should be clearly identified. For practical purposes, it is as wrong to lump all "foreign aid" together as it would be to lump all federal aid to states or cities together, as if it were insignificant whether the funds were for highways, schools, crime prevention, or the National Guard.

Development aid, as I see it, is financial and technical assistance directed to providing more opportunity for individuals in Africa, Asia, and Latin America to realize their full human potential. Most people in these continents have all kinds of obstacles to living a full life. They are, in varying degrees, poor, sick, ignorant, isolated, handicapped by accidents of caste or sex - in short, blocked by various factors, largely outside their own control, from developing fully as human beings. Development thus is "liberation;" through new means of production and distribution, medical services, education, transportation,

and so forth, individuals attain a greater measure of freedom to create their own lives. Economic growth is a key element in this liberating movement, but it is a means and not an objective in itself.

Why should development be aided by the United States? The over-riding reason, it seems to me, is that it will help bring about a better life, not only for those who are aided, but for Americans too. The arguments in behalf of this reason are essentially the same as the arguments in favor of seeking to eliminate poverty and lack of opportunity in our own country: it is morally corrupting to tolerate great extremes of wealth and deprivation; such extremes breed frustration and frustration breeds violence in which all suffer; everyone can be better off when everyone is more productive. These arguments, of course, are based on the assumption that mankind is living in a single world community. This assumption, always philosophically defensible, is now given tremendous support by what we are learning about the potential finite limits to exploitation of the earth; about the already existing degradation of the common property of all mankind, the seas and the atmosphere; about the totally destructive power of modern weaponry; about the incredibly rapid spread of ideas; and so on. We are living on a planet where, willy-nilly, each of us is affected by what other people do.

While it is not difficult to give a justification for development-oriented aid, it is far harder to determine the amounts and methods of such aid. Here certain considerations need to be borne in mind.

First, aid must be seen as a part of a total approach to development in which trade and monetary policy are also of great significance, perhaps even greater. Adjusting our trade policies to help developing countries sell more on our markets at reliable prices has a cost, of course, but it is a cost worth paying because in the long run it will lead to a more equitably balanced trading system in which all will benefit.

Second, the limitations to what aid can bring about must be understood. American aid alone cannot make development happen. American aid can, however, be a significant marginal element in making developmental progress, although accomplishments must be measured over a longer time-span than many of us would like.

Third, despite the limitations on what we can accomplish, we can and ought to direct our aid towards the ultimate human goal of greater opportunity for more people. These are "strings,"

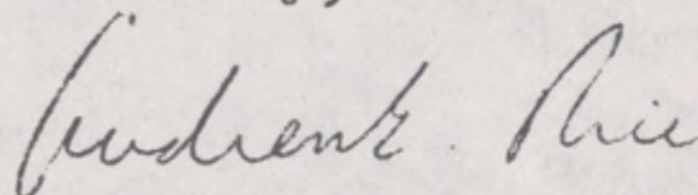
but they are not directed to any immediate self-interest, but only to our commitment to human development.

Fourth, the very fact of the growing interdependence of the world should encourage us to use our aid to promote the world institutions which are needed to cope with world-wide problems. Hence - and the same is true for all the other rich nations - a steadily greater percentage of our aid should be channeled through international institutions, so as to strengthen their capacities.

I hope these brief comments help illuminate the fundamental elements of development aid as I see them.

With all good wishes for the important re-examination you are undertaking,

Sincerely,

A handwritten signature in cursive script, reading "Andrew E. Rice". The signature is written in dark ink and is positioned above the printed name.

Andrew E. Rice

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SOCIAL AND POLITICAL DEVELOPMENT ASSISTANCE

A CASE STUDY

by

H. Jon Rosenbaum, Associate Professor
Department of Political Science
Graduate Division, The City College
The City University of New York

Submitted to:

Senator J. William Fulbright,
Chairman
Foreign Relations Committee
U.S. Senate

October 20, 1972

(289)

The allocation of United States foreign assistance in recent years appears to have been motivated largely by three general objectives. The first of these goals often has been termed "pragmatic" by its proponents and "expedient" by its detractors. It includes our attempts to contribute to the economic and military strengthening of developing nations for the purposes of buttressing American security and increasing our diplomatic leverage. The second aim of American foreign assistance programs has been to promote social and political development by seeking to stimulate greater popular participation in decision making and more equitable distribution of goods and services in the Third World. This has been branded by some as "idealistic" and "interventionist" while others have conceived it as representing a true concern for individuals rather than for elites. Although the United States has also furnished assistance of various sorts to foreign nations for purely humanitarian reasons, it is clearly the first two objectives that have proven controversial both at home and abroad. Very few Americans would deny the necessity of providing relief to countries suffering the effects of natural or man-made disasters.

The first approach, which has included the distribution of aid to military dictatorships and other authoritarian regimes, has been subjected to intense criticism in the United States Congress and by the domestic and international mass media. Social

and political development programs, however, have been analyzed primarily by the scholarly community, with the exception of the Peace Corps, which received wide publicity during the 1960's. For this reason the following brief remarks will be restricted to a consideration of social and political development.

Although it is believed by many that the "pragmatic" tendency has dominated for at least the past six years, the furtherance of social and political development in the Third World remains an integral part of the United States foreign assistance program. The Alliance for Progress, for example, may no longer emphasize political and social change, but the enactment of Title IX of the Foreign Assistance Act and the establishment of the Inter-American Foundation in the last few years indicate that the United States remains willing, even eager, to sponsor social and political development abroad.

Title IX requests the Agency for International Development to place emphasis on "assuring maximum participation in the task of economic development on the part of the developing countries, through the encouragement of democratic private and local government institutions." In conformity with the provisions of Title IX, AID has funded cooperatives and unions, for example, but it is the Inter-American Foundation that has had the funding of social and political development projects as its primary responsibility. Therefore, this contribution to the foreign aid debate will be devoted to a rather succinct discussion of the Foundation in an attempt to render some general conclusions about social and

political development. An appreciation of the Foundation's operations assumes particular importance when it is recognized that, while currently confined to Latin America and the Caribbean, the IAF is being advanced by some of its admirers as a model that deserves replication. They are hopeful that similar instruments of American social and political development assistance will be established for Africa and Asia.

Given the purpose of this paper, the presentation of opinions and commentary, a complete description of the Inter-American Foundation will not be attempted here, although some descriptive material will need to be included to substantiate judgments offered for consideration. Before beginning, however, it should be noted that the IAF has been functioning for little more than a year, although it was established as a United States government corporation toward the end of 1969. At that time Congress empowered the Foundation to "support development activities designed to achieve conditions in the Western Hemisphere under which all men will be afforded the opportunity to develop their potential, to seek through gainful and productive work the fulfillment of their aspirations for a better life, and to live in justice and peace."

This general mandate has been refined by the IAF's Board of Directors. They have determined that the organization's priorities will be the support of indigenous efforts in Latin America and the Caribbean to 1) increase and more equitably distribute goods,

services, and income to the people; 2) increase the participation of the people in the decisions and processes which affect their lives; and 3) expand relationships and communications among groups normally competitive in changing societies.

The IAF, as has already been mentioned, is still in its infancy as an institution, and procedures are continuing to be re-examined. Therefore, the following comments and criticisms may need to be qualified at another time. The IAF, nevertheless, has already made grants to over thirty organizations, and so an initial discussion of its operations is warranted. These grants have included donations to fishing cooperatives, trade unions, profit-sharing organizations, educational groups, and rural movements, and the funds have been expended to purchase equipment, develop training methods, pay for the salaries and travel expenses of technicians, conduct evaluation, construct homes, and prepare instructional materials.

* * *

It might be appropriate to begin this inquiry by considering some questions that have relevance to policy making, particularly since there are those, as has been noted, who already are advocating an expansion of the Inter-American Foundation concept to include Africa and Asia. Perhaps it is germane to consider first whether or not the new IAF will suffer from the same inadequacies and flaws that have plagued another of our development efforts in the Hemisphere, the Alliance for Progress.

As Professor George Lodge of the Harvard Business School, credited by many with initially proposing the creation of the Foundation, has stated in his book Engines of Change, " Although the policy of the Alliance was to have been Inter-American from the beginning, by default and by design the United States has taken charge." The IAF, on the other hand, has striven to avoid a similar fate; it has attempted to be responsive to Latin American initiatives. While many of the first proposals considered by the Foundation originated in the United States, the proposals being received now are almost totally of Latin American or Caribbean origin. The organization has not created any programs of its own but has funded existing groups that are believed attempting to innovate.

Nevertheless, the decisions regarding whether or not specific Latin American proposals will be funded are made solely by Americans, and our values and standards are the criteria used for judgment. The Board of Directors of the IAF may empathize with the Latin Americans, but it is composed only of American citizens. The presence of Governor Luis Ferre of Puerto Rico, an advocate of statehood, provides the only representation on the Board that could be considered at all Latin. While the legislation establishing the Foundation prohibits non-citizens from becoming Board members, a restriction that might deserve rectification, the Board at least could have among its members representatives of American groups, such as cooperatives and unions,

that are involved in social development. At present the Board is composed entirely of people associated either with business or government.

Occasionally, however, the IAF's determination to avoid becoming closely identified with the United States government has resulted in overcompensation of a negative nature. The organization was established as a "foundation" and located in suburban Rosslyn, Virginia, rather than in Washington, in order to provide it with the attributes of institutional independence. In addition, the Foundation's Board has explored ways to make disbursements with its own checks instead of relying on U.S. Treasury checks in order to help create a non-governmental image. These tactics, although perhaps innocently conceived, may not be helpful. The people of Latin America and the Caribbean are not naive and may resent these subterfuges upon becoming aware of them. The leaders of groups receiving IAF funds may realize that they are being sponsored by the United States government since the brochures of the Foundation candidly state that the organization was established by Congress. Nonetheless, the rank and file at first may not realize that their groups are being supported by the United States government, and, upon discovering the source of their funding, may feel deceived. Rather than vent their anger towards the leaders who kept them poorly informed, they may feel hostile towards the IAF. To prevent this, full disclosure rather than evasiveness should be practiced by the Foundation. Increased publicity should be encouraged by the Foundation. This publicity need not create illusions or exaggerated

expectations, something the Foundation has feared.

The Alliance for Progress also was debilitated by bureaucratic deficiencies, but "The inter-departmental competition for power and favor within the United States government," discussed by Levinson and Onis in their book The Alliance That Lost Its Way, has not threatened the vitality of the IAF. Although experiencing organizational problems at first, adjustments have been made and the Foundation's administrators are aware that additional attention will need to be devoted to internal organization as the institution develops. Proposals now are quickly evaluated by the staff, which deliberately has been kept small and still numbers only fifty, including clerical personnel.

Nonetheless, in attempting to prevent the repetition of Alliance flaws, the IAF again has created other obstacles that may impede success. For instance, although John Hannah, the Administrator of the Agency for International Development, is a member of the IAF Board and while interchange of information between the Foundation and AID both in the field and in Washington frequently occurs, coordination is negligible and perhaps opportunities for cooperation are being neglected. Moreover, duplication seems inevitable unless there is meaningful collaboration since the IAF's enabling legislation does not prohibit AID from undertaking similar activities under Title IX of the Foreign Assistance Act. Likewise, Peace Corps volunteers could be of value to the Foundation if they were used to inform

local groups of the possible availability of Foundation grants. Greater consultation between the IAF and the national foreign affairs community in Washington and overseas may be in order and need not lead automatically to bureaucratic inefficiency. Remoteness can breed jealousy and suspicion just as bureaucratic competition can lead to inertia.

Finally, perhaps the major flaw in the Alliance for Progress was that it aroused great expectations, and these illusions later resulted in disillusionment and disenchantment. To their credit IAF officials have learned from this experience and have been extremely modest in the claims they have made for their program. This is just as well because the relatively small grants the Foundation is awarding, although important to the groups being funded, probably will not have more than a marginal affect in determining the fate of the Latin American and Caribbean peoples.

Another relevant question that must be considered is whether or not the Foundation is conducting a truly innovative program. Clearly the IAF was founded because its supporters felt that it represented a unique departure from other American foreign assistance efforts. Many of these sponsors hoped that the creation of the Foundation would help to avert some of the negative, particularly violent, accompaniments of development by constructively channelling the energies of the neglected and frustrated. This could be accomplished by promoting and supporting self-help projects that would stimulate people to aggregate

politically so that they could make known their desires to national political leaders in an effective, orderly, and non-violent manner.

This aspiration for the new organization perhaps is best articulated in George Lodge's book mentioned earlier. Lodge, who is now the Vice-Chairman of the IAF's Board, states that "Radical structural change and reallocation of power are virtually inevitable [in Latin America]. These have been delayed by the peculiar tolerance and resiliency of the oligarchy. The longer they are delayed," he continues, "the more pressure and force they are apt to amass beneath them." Just what influence can the United States have in this revolutionary environment? Lodge is inconsistent in his assessment. At one point he claims that "It is still within the capacity of the United States to affect which course the revolution follows." Elsewhere in his book he concludes that "It is doubtful that the United States government can substantially affect the final outcome of this revolutionary process ...". One must assume that he believes that the United States indeed can influence the course of this revolution in a positive manner, or it is doubtful that he would have suggested the creation of an organization such as the Inter-American Foundation.

Nevertheless, believing that the IAF can affect the Latin American revolution, an event that is not predicted with such certainty by other observers, by making it more humane and less violent and actually succeeding in doing so are two different

matters. Surely the United States Congress had no intention of initiating or supporting an authentic revolutionary movement in the Western Hemisphere when it established the Foundation, and the IAF's officials assert that they are only interested in promoting gradual social change and insist that they are not engaged in revolutionary activities. There certainly is a significant difference between the radical "engine of change" suggested and sought by Lodge and the organization that is the subject of this study.

There may be substantial disagreement about the nature and extent of the desired social change, yet Lodge's fundamental belief that social change will absorb frustrations and prevent a violent revolution is shared by IAF officials and many legislators. Unfortunately the conviction that social change or reform is a substitute for revolution has not been proven conclusively. In fact, there is some evidence that social reform serves instead as a catalyst for revolution. The Russian revolution is indicative of this since it was preceded by a period of reform.

Of course, as had already been noted, the IAF may not have much affect of any kind on national politics in Latin American and the Caribbean as long as it is funded at its present level. Nevertheless, once people are organized there is more than a remote possibility that they will make demands upon their national governments. If the national leaders are unwilling to satisfy these demands or do not have the resources to do so, violent

revolution may result. The eventual politicization of the masses is inevitable, but the acceleration of this process by an external force, such as the IAF or the Peace Corps, may place intolerable burdens upon national political institutions. The volume of new demands generated may be small but adequate to tax political systems beyond their capabilities. In cases where the political system is thoroughly corrupt or authoritarian and an obstacle to progressive change, the revolutionary insurgency that ensues may be justified and necessary, although disfavored by the United States government. Yet it must be recognized that in some countries revolution may be required if stagnation is to be terminated. Unfortunately, in other cases political systems that are successfully evolving may fall victim to revolution. In these countries, foreign intervention, although seemingly benign and requested by local groups, may prove counter-productive and add to the human and material expense of national development.

However, the hazard involved is not as great as the above comments might suggest, for while the Inter-American Foundation is attempting to foster social development at the local level, its efforts are being subverted in some countries by other American foreign assistance programs. For instance, both the negative and positive consequences of Foundation programs are nullified when American economic and military aid is used by authoritarian governments to repress local groups. While the IAF has decided to operate in countries governed by authoritarian regimes, its program will be limited to funding organizations

and projects that have the approval of national leaders. Therefore, groups that wish to promote change in a manner deemed objectionable by the central governments will not be assisted; in some countries any group advocating change is suspect. In these countries Foundation involvement should be resisted since the funds expended will only identify the United States with a cruel charade.

In short, despite the possible effects just discussed, IAF programs have been, and are likely to remain, relatively small-scale, low-risk, sure-fire, and non-radical. The funding of political parties, for example, which are traditionally weak in much of Latin America could be a very effective means of increasing participation. However, they are excluded from receiving Foundation funds. Funding political parties is properly considered ~~too~~ blatantly interventionist so one of the most important vehicles for increasing participation must be ignored by the IAF. The same is true of other major agents of social change.

Lodge has written that "radical Christian, nationalist, revolutionary groups, plus their numerous allies" and "large, integrated, multinational food production, processing and distribution enterprises, foreign and domestic, organized for profit or non-profit, cooperative or otherwise" are the most important and effective engines for change. Instead of supporting these groups, however, the IAF has chosen, at least initially, to support unions and small cooperatives in large part.

No doubt the IAF's leaders are fearful of controversy. They must return to Congress for new appropriations. Nevertheless, the IAF must begin to be less cautious as it becomes more experienced if it is to have any effect whatsoever.

Following this advice may be dangerous since the United States government might recognize the revolutionary potential of the Foundation and abolish it. The legislation creating the IAF did not identify the profound and radical impact the new organization theoretically could have, and the United States government still is not prepared to foment or support revolution of any kind in Latin America, the Caribbean, or elsewhere. On the other hand, the alternative approach, a continuation of the Foundation's current wary policy, will not produce the significant change sought by the organizations earliest proponents.

Still another subject deserving examination concerns the topic of tutelary relationships. It would be grossly unfair to accuse the sponsors or administrators of the Foundation of having ulterior motives for favoring the type of foreign assistance the IAF provides. The organization is not being used as an instrument for the advancement of United States political power nor was it designed to increase American economic domination of the Western Hemisphere. The supporters of the Foundation have had the most benevolent intentions, but the IAF concept is somewhat patronizing nonetheless. Proposals, it is true, are unsolicited, yet, by selecting certain groups for support the Foundation is communicating a subtle instructional message.

The intimation is that if the Latin American and Caribbean nations follow the advice of the United States by developing unions, cooperatives, and similar organizations, they will become liberal-democratic pluralistic societies.

However, there are other paths to development, and even to democracy, besides the one favored by the Foundation, and the model approved by the United States may not be the most compatible with the traditions of the Latin Americans and the Caribbeans. Perhaps we are being arrogant in wishing to reshape Latin American institutional life and being unrealistic at the same time. The kinds of groups the Foundation wishes to aid are often led, according to the available empirical studies, by individuals with middle or upper class backgrounds. Frequently these leaders exploit their followers in order to further selfish interests and protect their positions. Often members of these groups are really not participants but are captives in a dependency relationship. Therefore, while a specific program the Foundation funds may appear worthwhile, the prevalent attitudes and structures that characterize the sponsored group may mitigate against attaining anything more than a continuation of patron - clientelism.

* * *

At this point, given the space limitations of this report, perhaps some briefer remarks on less important issues will suffice. These topics are discussed under the following headings:

1. Funding Procedures: The Foundation is trying to reinforce indigenous efforts as an alternative to initiating its own projects. As a result the IAF engages in ad hoc evaluation of proposals, considering each request for funds as it is received. There are few priorities because the Foundation's officials believe that very little is known about social development, and only after evaluating the performance of a variety of groups will specific goals be able to be established. For the present this "shopping list" approach means that decisions on particular program proposals are made in a vacuum, without regard to the requirements of sector development. Possible repercussions are overlooked because development is not viewed as occurring systemically.

Most of the grants that have been awarded so far seem to have as their general goal the encouragement of more participation in economic affairs. Just what effect this will have on political and social evolution is not clear. It could well be that once marginal groups are more prosperous they will be less inclined to participate in politics so long as their new affluence is not threatened by economic recession. If this occurs the Foundation will have reduced the burden of governments that otherwise might have been forced to undertake needed social and political reforms in order to survive. Perhaps, therefore, the IAF should restrict its grants to those countries whose governments demonstrate a real commitment to the aims of the Foundation, increased popular participation and more equitable distribution of wealth.

2. Relations with Foreign Governments: Although the Foundation

has funded private ventures to date, it is not precluded from supporting programs established and controlled by foreign governments. It might be advisable, however, for the IAF to continue its current practice since assistance given directly to a foreign government would bestow a partisan image.

Some foreign governments may view Foundation operations in their countries as a positive contribution, but others may not feel that the organization's presence is compatible with their own aspirations. While some of these governments may disapprove of what the IAF is trying to accomplish, they may not object to Foundation activities for fear of offending the United States and risking the loss of more desired forms of assistance. One wonders, however, whether a foreign aid program with the IAF's characteristics can be successful without the full and enthusiastic support of the host government. Governmental apathy or hostility can easily subvert all that the Foundation is attempting to achieve.

3. Cuban Participation: The Foundation has received no requests for funds from Cuba, is not seeking any, and has decided to exclude Cuba from participating in its program. Admittedly Cuba would be unlikely to solicit IAF funds even if invited to do so. Nevertheless, because the Foundation is not only financed by Congressional appropriations but also empowered to accept donations from the private sector, it might be the least objectionable governmental agency with which the Cubans might initially deal at an official but low level. When the United States realizes

that the isolation of Cuba is no longer productive or feasible, it might propose that the Cubans participate in the deliberations of IAF advisory committees. The Cuban revolution has experienced many errors and excesses, but there is more popular participation in Cuba now than under previous regimes and distribution of goods and services are more equitable too. The Cubans have attained many of the Foundation's goals although not in a manner prescribed by the IAF. Therefore, while it is no doubt a controversial suggestion, a dialogue with the Cubans might be worthwhile to initiate.

4. Equality versus Participation: The Foundation is involved in two quests, one for equality and the other for participation. This dual approach may be incompatible. Both equality and participation may be characteristics of modernity, but it may not be possible to promote them concurrently. It seems that there may be more of a demand for equality by the people in the developing countries of the Hemisphere than there is for participation at present. On the other hand, increased participation may be more vital for the accomplishment of increased economic productivity. People must participate if an economic system is to thrive, but, while the achievement of more equality may motivate people to participate in the effort to develop economically, it might also present an obstacle. Small farms, for example, privately owned by the many may be less efficient and productive than large commercial estates owned by the few.

The basic question being raised here is whether equality

and participation are initially harmonious and best occur simultaneously or whether they are incongruent at first and, therefore, ought to be promoted sequentially. Moreover, if the answer is that the sequential approach is optimal, it must be asked whether equality or participation should be supported first. This is an important theoretical dilemma which has not received the attention it deserves from the Foundation's directors. Unfortunately, the scholarly literature will not be of much value if these officials do decide to give appropriate consideration to this problem.

However, if the IAF's ultimate aim is to foster democracy, then it might give priority to the stimulation of participation, provided that this is interpreted as meaning freedom to participate. Certainly participation that results from compulsion is unlikely to lead to stable democratic practices. Promoting participation would be compatible with the United States' desire to contribute to the economic development of Latin America and the Caribbean and would also strengthen the intermediate groups that might serve to counter authoritarianism and demagogic populism. Cultivating equality first, on the other hand, might produce undifferentiated masses that are susceptible to totalitarian appeals.

5. Localism: To date the Foundation has restricted itself mainly to funding relatively small groups at the local level. This is understandable since the IAF is trying to determine which models

are most effective before becoming committed to larger undertakings. However, while grants may become more sizeable, the Foundation's administrators most likely will continue to favor local groups. If this policy becomes routinized, it may be perilous.

Not only are local leaders in Latin America often more venal than their national equivalents, but they are frequently more resistant to change. Foundation funds will give them resources to dispense and thus enable them to deter challenges to their authority. In addition, centrifugal forces may be unleashed. Rather than participating in national development efforts, local communities or groups may become wholly concerned with their own advancement. In countries that are still poorly integrated, this could be disastrous.

6. Reform or Revolution: While the IAF and the countries receiving its assistance are in agreement that development should be encouraged, the relevance of the Foundation's approach is disputed. Some leaders now believe that only rapid and total revolution will propel their countries into the 20th century; these leaders have little faith in evolutionary schemes. For them the Foundation represents just another in a long series of reformist programs that have failed to yield significant benefits. Their patience has been eroded, and they are seeking alternative paths to development.

Other Hemispheric rulers remain committed to reform but believe

that the central authorities must be responsible for its direction. They are suspicious of independent or local groups that contend that they can make a unique contribution to the development effort. Their fear is that these organizations will be exploited by despised politicians and used for subversive rather than virtuous purposes. Many believe that chaos can be prevented only by careful and forceful governmental supervision of all aspects of development.

Although there are other philosophies of development that have some appeal, the attitudes just summarized seem to prevail currently, at least in Latin America. This would indicate that the IAF may be confronted with a serious problem - a lack of legitimacy. It may be that the Foundation was established at an unpropitious time. If so, it is unfortunate but must be recognized and not ignored. As stated earlier, without widespread support from national political leaders any foreign assistance program is in jeopardy. The Foundation's directors do not wish to "sell" the Latin Americans on the value of participating in their program, but, while enthusiasm may develop spontaneously, unsensational publicity would probably do little damage and might even prove beneficial.

* * *

The foregoing discussion, although hardly a comprehensive account of the Inter-American Foundation, has suggested some of the organization's deficiencies. However, despite the

reservations expressed and the questions raised regarding the Foundation, social development assistance, in general, may be considered to have some utility. While the masses suffer terribly in developing nations as a result of their poverty, they usually also bear the greatest burdens during the modernization process. The masses are required to sacrifice for future generations, and are forced to save so that others may invest. If the United States can help to ease the oppressive aspects of development it should do so.

Often the leaders of the developing countries promise that equality and participation will be the rewards of patient toleration. In many countries these assurances are merely deceptions; the governments intend to continue exploiting the people for personal profit and aggrandizement. The United States should not become implicated in these prevarications. However, where our country can help to make life less onerous for the masses by helping to insure that the vows made to them are respected, we should welcome this opportunity.

Welfare measures are costly and unlikely to be given priority status by governments with few resources to distribute. Increased participation and more equitable distribution of goods and services are frequently delayed because governments fear that they will be unable to fulfill new demands and thus incur the wrath of the citizenry.

Certainly economic development is a necessity if the developing nations are ever to ~~meet~~ even the barest needs of their peoples.

At least a modicum of political stability is also required if these countries are to effectively organize their resources and populations and thus improve the living conditions of their citizens. The United States has attempted to promote both economic development and stability overseas but often has been accused of intervention, providing assistance for selfish reasons, including the enrichment of American business enterprises and the expansion of military power, and supporting the forces of reaction.

Perhaps we can be of most service by giving greater emphasis to social development assistance. Our country was transformed economically in another era; other strategies for the accumulation of wealth may be more appropriate for the nations developing at present. Military assistance has often been used to subjugate people rather than to protect them from external threats.

Of course social development in the United States has been far from a complete success. We may be more economically and militarily advanced than the developing countries, but our social welfare policies are, in some respects, as backward as theirs. For this very reason, however, we can deal with the developing nations as equals, learning from them and assisting them at the same time. The recipients of our social development assistance, therefore, need not feel demeaned. We should have learned long ago that aid, no matter in what form provided, that is perceived as charity stimulates antipathy.

We must be careful, nevertheless, not to allow our expect-

ations to become exaggerated, and this could occur if social development assistance is presumed to produce political development. We should be aware of the affects that social development assistance is likely to have on a recipient's political system, but we need not use it for political purposes. In particular there is no reason to expect that such assistance will breed democracy. Increased participation can just as easily lead to conflict as consensus. Not all pluralistic societies resolve disputes through democratic conciliation. Egalitarianism can result in mass societies and totalitarianism. Pluralism, an opportunity to participate, and equality, among other things, may be required for democracy to thrive, but it is not known just what produces democracy in the first place. Even if causation could be established, there may be other routes to its attainment than that followed by the United States and other countries.

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DEPARTMENT OF POLITICAL SCIENCE

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November 27, 1972

Senator J.W. Fulbright, Chairman
 Committee on Foreign Relations
 United States Senate
 Washington, D.C. 20510

Dear Senator Fulbright,

We had hoped to write something more elaborate in response to your letter of April 11, 1972. The Presidential campaign intervened with the result that we found ourselves writing a position paper on South Asia for the McGovern Asia Policy Committee.

There are several observations, at least, that we can make which may or may not be helpful to the Committee on Foreign Relations.

We would like to respond to the four questions stated in your letter of April 11, 1972. Before doing so, however, we should say that the responses are given without regard to domestic political constraints. This is an enormous simplification which can be justified only insofar as the answers we give do in fact capture medium run and long run national interests of this country. (The implication that domestic political constraints to a considerable extent reflect special interests, or short run forces, should be recognized.)

You ask, "What should be the objective of U.S. foreign assistance, economic and military?" In our view the largest objective is redistribution of world income on the basis of accelerated growth on the part of poorer nations. By accelerated growth we mean that the growing gap between rich and poor nations should be arrested and gradually reversed.

In terms of investment opportunities and trade balances, such a policy can benefit U.S. producers and consumers even while it benefits the poorer nations involved. A critical need in connection with economic development assistance is to publicize much more broadly the benefits that can accrue to domestic producer, service, and consumer interests.

You mentioned economic and military assistance in question one. It seems to us quite clear that the time has come to separate military from economic assistance. The objectives and policy concerns of military assistance are quite independent of and often contradictory to those of economic assistance. Furthermore, adding military assistance to economic gives a distorted impression of the expenditures in the area of foreign aid.

You also ask, "What is wrong with the current foreign aid policy?" One of the things wrong with current foreign aid policy is the mixture of military and economic assistance. Military assistance has had counterproductive effects in two ways. First, it has not, in most instances, served to enhance the national security of the United States. Nor has it served, for the most part, to enhance the security of the recipient country. The Pakistan case is, perhaps, the most dramatic example of both of these counterproductive outcomes. Assistance to Pakistan was given with the intention of strengthening the SEATO and CENTO pacts which were in turn directed towards the containment of Soviet power. The assistance was received with the intention of maintaining a military balance of power with respect to India. The effect of the assistance was marginal at best with respect to American security interests and had the effect of de-stabilizing the South Asia region. The effect internally was to support and encourage the exploitive and unrepresentative rule of East by West Pakistan. By allocating abnormally large resources to the military sector it made it disproportionate to other forces in the society, economy, and polity and contributed substantially to military rule in that country. Furthermore and equally significant, it enabled governments in Pakistan to be much less responsive and responsible to the political forces operative in that country. To put it another way, it enabled the Pakistan government to rule in a relatively repressive and, with respect to East Pakistan, colonial manner.

American policy towards South Asia was relatively productive with respect to India. There the emphasis was primarily economic assistance. While the economic picture in India is a mixed one, there have been significant gains and the prospects remain hopeful. The green revolution looks a bit less hopeful than it did a year ago but still constitutes an important macro-change in India's economic circumstances. Similarly, the evidence with respect to the population control program suggests gains and a more hopeful future.

American military assistance to South Asia, unlike economic assistance to India and Pakistan, has been almost wholly counterproductive to the interests of this country and to the countries of the subcontinent. Our view is that a similar pattern of results characterizes this relationship in other regions, particularly Southeast Asia.

You ask, also, "Does the current U.S. aid program serve the best interests of the recipient country?" Much of what we have said in response to question number two, above, is pertinent for this question. Military assistance as it is presently conceived of and administered has, for the most part, been counterproductive to the interests of the United States and of the recipient country. Economic assistance, in contrast, has had a more positive effect on recipient countries, particularly if the governments have the will and the capability to pursue growth and welfare simultaneously.

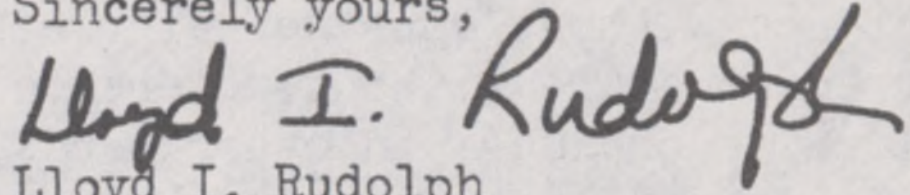
"What should the United States do to help other countries on their development or security problems in the years ahead? How should we go about doing it?" With respect to security, an important consideration should be at all times whether a particular country is willing to make the sacrifices or exercise the discipline required to provide resources in support of its own security needs. By supplying military assistance without cost we help weak and corrupt regimes to stay in power and to rule without reference to the needs or welfare of their people. We produce, in other words, client states whose security policies do not reflect so much the security needs of the country as they do the security needs of a repressive elite dependent upon its American suppliers and their conceptions of security. Military assistance and the client state phenomenon that encourages strengthens a view of world order based on pawns and players, superpowers and their satellites. Without disparaging the role of differentials in military power in world politics, it is important to recognize that much of the disorder and insecurity and violence experienced among nations since World War II has arisen out of the initiatives and problems and regional conflicts experienced by middle range and lesser powers. They are as often using the great powers as the great powers are using them. Military assistance is given within the framework of an assumed benevolent and dominant great power world order in which American motives and interests are compatible with those of the recipient countries. For reasons already dealt with, these are wrong assumptions.

Insofar as possible, economic assistance should be put on a multi-lateral or international basis and should be allocated on the basis of principles and guidelines that combine banking criteria with the redistributional policy mentioned in response to question one. Capital should cost something but not as much as it does in national and international markets and time frames for repayment should be adjusted to the type of investment (e.g. infrastructure versus consumer goods) involved.

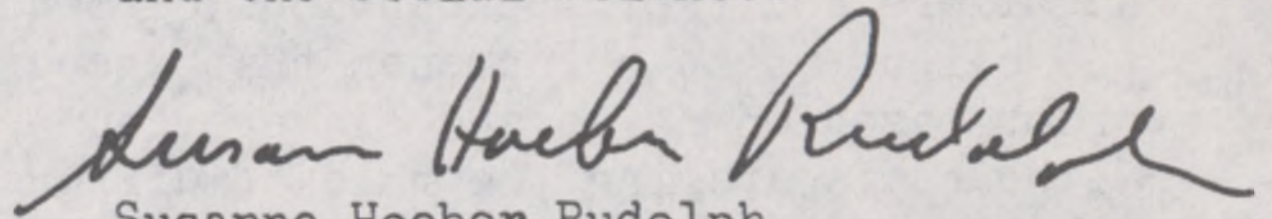
Assuming that military assistance would be put on a commercial footing and that economic assistance would be carried on in the framework of multi-lateral or international agencies and in terms of "development banking," the problem of being more friendly to some countries than to others or, conversely, hostile or punitive towards some countries and not to others, remains. It seems fairly clear that a heavy reliance in making such decisions on military power has led us to disregard and even to degrade or repudiate our own political values. We must put security calculations and concerns back in the framework of purpose. What is power being used for? Similarly, we must continue to ask with respect to economic assistance who and what is benefitting from that assistance. The answers, in order to be satisfactory, must be consistent with this country's political ideals and purposes.

We very much appreciate having the opportunity to make a few observations about the questions your Committee finds pertinent.

Sincerely yours,



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Professor of Political Science
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LIR:dh

PARTNERSHIP for PRODUCTIVITY

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April 17, 1972

Hon. J. W. Fulbright
Chairman, Committee on Foreign Relations
United States Senate
Washington, D.C. 20510

Dear Senator Fulbright:

As President of the Partnership for Productivity Foundation/USA, Inc., a non-profit private agency engaged in social/economic development in Africa, I appreciate very much your April 11 invitation to me to comment on the foreign assistance policies and programs of the United States.

Having just returned from my fifth trip to Africa in 4 years, and with an involvement in development which goes back some 20 years and covers visits to more than a dozen developing countries in Africa and Asia, I offer my comments based largely on personal observation and experience. A note is attached on my own background, together with an indication of current relationships with AID and OPIC which ought to be taken into account in evaluating these remarks. The Partnership for Productivity (PfP) pilot project in Kenya is briefly described.

I hope the following is responsive to your questions, even though not arranged to correspond to your four numbered items. Speaking generally, and supported by many foreign contacts though not from observation of specific situations, I strongly urge that economic and social assistance be completely separated at every level, legislatively and operationally, from military and security assistance. I think the latter has often been misplaced and misused. Even where justified, on its supporters' own terms, I think it raises questions about the sincerity and objectivity of our intentions with respect to economic aid. It, together with the often negative effect of CIA undercover operations, makes it much more difficult to develop the most constructive relationships with the recipient countries. ... All of the following comments relate only to economic/social development and assistance.

1. NEED FOR A CLEARER FOCUS ON PEOPLE AS THE CENTER OF DEVELOPMENT. I think that much of our development effort is confused because we do not have a clear picture of what development is. There are certainly many aspects to it; the prime needs will vary from country to country, or even among regions within one country. I am a pluralist and a pragmatist, and even in one restricted area see the need for many complementary approaches. But based on my experience largely in East Africa and India, I think we need to stress this: The greatest resource of any nation is the productivity of its people. Many more people, widely distributed, need to be strongly motivated, and enabled in very practical terms, to participate actively in their country's development

process. Natural resources and investment capital are important too, but they are of value chiefly as the people of the country are able to make effective use of them.

2. NEED TO STRENGTHEN THE CAPACITY OF THE RECIPIENT COUNTRY TO MAKE SOUND DEVELOPMENT DECISIONS. The fundamental decisions as to the scope and direction of development need to be made so far as possible by the recipient country. It is in the best interests of the United States that larger numbers of people in each country, and an increasingly representative group, should participate intelligently in the decision making process. This means that more people need to gain experience and a breadth of outlook, and need to feel that they are part of and have a stake in the process of growth and development. In many countries, particularly ex-colonies, the power to make political decisions with tremendous economic implications has been acquired rapidly. A great many political leaders, civil servants, and ordinary citizens take part in making and implementing such decisions without ever having had any experience in managing or even in directly observing economically productive activities of any size or complexity.

This is not to suggest that decisions should be made by purely economic criteria. Decisions as to speed of development should be made with an awareness of its effect on traditional and cultural values. An important part of an overseas development advisor's role is to help his local counterparts see more clearly the alternatives and their implications. An ability to be sensitive to indigenous values should be an important qualification for nearly every worker assigned abroad.

3. MORE IMPORTANT QUESTIONS THAN IDEOLOGY. The United States should operate with a minimum of bias towards the dominant ideology of the recipient country. Obviously we will have more to contribute to some economic models than to others because of our own national background. But there are aspects of development, often over-looked, which are in truth of much more intrinsic importance than labels imported from Europe or America. If everyone is conditioned to look to New Delhi or Nairobi or Lusaka for decisions and directions, the ground is being prepared for a centralized totalitarianism. Even an organization which has the name and structure of a co-operative, if it is over-paternalized by the center and not encouraged to develop its own financial and productive strength, may be just a limp adjunct of Government instead of a vigorous "third force" between the public and private sectors. For many reasons there needs to be practical encouragement to people to take initiative at the local level, though obviously a degree of national control is needed. If everything is controlled by a powerful "in-group" at the center, its members will be tempted to resort to any measures - intimidation, bribery, assassination - to stay in power. A basic essential for any kind of democratic society is that a political leader have some real alternatives, so that even if he is out of office he can nevertheless look forward to some other occupation giving him a reasonable income and some personal dignity.

4. THE OVER-LOOKED ROLE OF PRIVATE ENTERPRISE AND ENTREPRENEURSHIP. In spite of many faults, and within the context of an unbiased approach as noted above, the private enterprise has much to offer to developing countries. Unfortunately we in the West have become so sophisticated that we are unable to see the difference between their needs and our present situation. When America - and Europe too - were emerging from

a basically subsistence agriculture, it was the variety of small private enterprises which characterized this step. It was largely through the practical training which they provided that the acceptance of risk and responsibility, the ability to initiate and innovate, the forward-looking thinking and other characteristics fundamental to a progressive economy were developed. The large national or international corporation of today, which is the most visible sign of the private enterprise system (so-called) which is "exported" to developing countries, can virtually guarantee high material productivity, but may be - and often is - nearly indifferent to human values.

There has been a Congressional mandate to emphasize co-operative development, for example; this is being done in many areas and I am in full sympathy with such efforts. (See note on PfP at end). But there has been no comparable attention paid to the values inherent in entrepreneurship, particularly as it applies to rural areas which do not have a near-by metropolitan area or to tribal societies in which economic initiative is not part of the traditional culture. (As a specific example: when Congress set up the Overseas Private Investment Corporation - OPIC - it provided for a Board representative from "small business". But this referred to, or has been taken by OPIC to mean, a concern for the export opportunities of American small business and not to any desirability to help in the development of small business in the developing countries themselves.)

5. PAKISTAN AND NIGERIA - TRAGEDIES OF DEVELOPMENT CONCENTRATION? I have not the breadth of scholarship to make any flat assertions; in any case I am sure that both of these civil wars had complex causes. But I think it is plausible, at least, to suggest the following: a conscious development-investment policy was proposed, and concurred in by many officials, under which a limited area in West Pakistan received a heavy concentration of public and private industrial investment. It was justified in terms of maximum production per unit of investment. A similar argument has been applied to concentrations in Abidjan, Nairobi and elsewhere: transport, skilled labor, concentrated market etc all combine to create favorable factors. What the economists and planners failed to take into account was that all the people of a country, or at least a very large and broadly based group, need to have the feeling that development is for them. Whatever divisive tendencies there were became exacerbated. ... Nigeria provided an extreme example of traditional rivalries between tribes; it happened that one group had both an instinctive affinity for modern business and mineral resources lying in part under their homeland. The point is that as outsiders we cannot and probably should not try to do anything about these old jealousies. But since it is when a sense of economic inequality is added to this traditional situation that stresses are created, and perhaps may give rise to overt violence, it is certainly reasonable for us to plan our aid in such a way as to counter rather than to strengthen these strains.

6. THE LEVEL OF AID. I have suggested that capital is less important than human development, but I do not want to suggest that it is not an essential to development. Our own national growth was made possible both by an important infusion of European capital and by the tremendous fortuitous capital represented by the relatively open land of the North American continent. (This is no attempt to justify our treatment of the Indians, but simply a development fact.) I firmly believe in a better sharing of the world's resources, and I think that

a far-sighted policy will also be a generous one. Our position as a nation, close to the bottom of the donor country list in proportion to our wealth, is one of which I am ashamed. Money per se is not a criterion of how well we are contributing to development, but it should not be the obstacle to doing the best we can.

7. THE USE OF PRIVATE AID AGENCIES. Here I am admittedly "beating the drum" for the kind of development which my own agency represents. There are a great many activities in developing countries which can be carried on much better by one or a group of private agencies than by employees of AID or any other governmental agency. There is greater flexibility; staff can be recruited more readily. Where there is a sense of commitment and the satisfaction of working directly with the people being benefited, people (expatriates) will often work happily for less money than bi-lateral and multi-lateral agencies are accustomed to paying. One of the most important elements, applicable in many situations, that it is possible to set up a local Board of Directors or other body composed of citizens of the recipient country, and give them the experience of taking over increasing responsibility as they come to gain competence.

If the Government enters into a contract with a private agency under which it is providing all of the funds, there is of course good reason for a careful scrutiny of expenditures. However where a program is supported in substantial part by voluntary private contributions, and meets certain basic standards (non-discrimination, acceptability to the host country, and a few others), might not the U.S. Government pursue a broad matching policy - perhaps \$2 or \$3 for each privately contributed dollar-and rely on an adequate private (CPA) audit plus periodic program inspections to police the grant?

8. DEVELOPMENT OF A U.S. CONSTITUENCY FOR FOREIGN AID, BASED ON INVESTMENT. It is clear that foreign assistance has only the most limited constituency, in terms of citizens with a broad concern based on humanitarian motives. Citizens who wish to invest some of their money in development, unless they have very substantial amounts, are limited almost entirely to buying stock in some major corporation and trusting that some part of it will be used in this way. Currently efforts are being made by a group of private agencies, working with AID and OPIC, to create a capital fund in which investment both by individuals and by churches and other institutions would be feasible. A major advantage of this plan would be to create a group of citizens who have an economic stake in the overall development process and who may be expected to follow it with more than ordinary care. Some indication of Congressional interest in such a move would be very helpful, though it should be said that relations with AID and OPIC officials are very cordial.

9. USE OF MULTI-LATERAL AGENCIES. I favor a healthy mix of bi-lateral and multi-lateral aid. I also think that with some initiative and imagination, more multi-lateral private agency efforts could be launched and encouraged, and that this should be noted as a matter of Congressional policy. With respect to the UNDP and other efforts, I support a greater use of them in principle and in practice. I have, however, seen that an international bureaucracy creates problems of its own, and making a policy-making-body multi-lateral does not free it from all the problems of a single-nation board. There is a

missing element. Friends of the UN spend a good deal of their time defending it against those who are hostile to the whole underlying idea of greater inter-national responsibility. What may be needed is a body of reasonably competent people, perhaps representing or nominated by the NGOs, whose support for internationalism as a concept can be taken for granted, and who can criticise procedures and staff and the like with considerable freedom. In the course of my work I have come across a number of examples where a given agency simply has not functioned effectively, yet I am reluctant to discuss details in public because of a feeling that they would be used to beat the agency over the head and not to improve it. I think there are many in my position.

10. CONGRESSIONAL RESPONSIBILITY FOR POOR PLANNING AND USE OF FUNDS. I think Congress has to accept a major share of responsibility for whatever degree international development planning falls short of what it could and should be. I consider, as a citizen, that the present situation is disgraceful, when appropriations for the current year are not made until the year is well along. I realize that honest differences of opinion need to be fully debated. But I do not believe that any program would be treated this way by Congress if more of their own constituents were involved. Whatever the difficulties, foreign aid should be given the best and not the worst possible chance of succeeding.

11. INTRODUCING THE ECONOMISTS TO THE "HUMANITARIANS" AND VICE VERSA. Earlier I used the term "social/economic aid". Unfortunately, not just in U.S. programs but abroad and in the multi-lateral agencies as well, it often seems as though the economists and engineers on the one hand, and the educators and social workers on the other, have never met one another. There are of course exceptions. But far too many projects can all too easily be placed in one or another category, instead of being integrated or demonstrating a real understanding of the integrated nature of true development. A major industrial operation can be set up. There can be enough executive talent put in at the top, and the jobs down the line can be cut up into little enough pieces, so as to virtually guarantee a physical output according to quota. There may well be a training program for foreman and supervisors. But how much is really transmitted to the people of the developing country of what is involved in taking responsibility, planning ahead, innovating, etc, which they could in fact apply in any other situation?

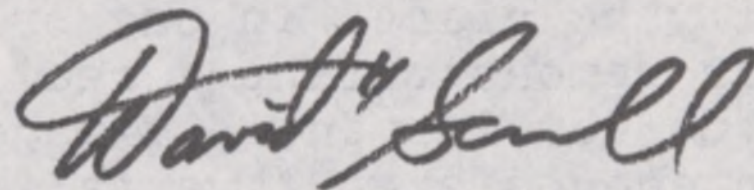
On the other side, how many schools - often with a colonial heritage - keep on turning out students whose qualifications are purely academic, whose only aspiration is a civil service job, and who have no real concept of making a needed contribution to their country's productivity? How many socially-desirable projects are initiated, but which have no relation to an on-going economically viable plan and which disappear, or at least begin to deteriorate, as soon as outside support is withdrawn? As another way to state the proposition I made back in paragraph 1: what we need are many more programs which see their goal as the development of human potential within a sound and viable economic framework.

While I would like to think that some of these suggestions may prove practical, I am under no illusions that any conceivable statement of policy or overall directive for operations could solve the infinitely varied and constantly changing problems of development. How do you respond to the request of a recipient country for an eye-catching but unrealistic "monument"? How do you work with the officials of a nation or of a tribe who feel that they are ready for more responsibility and want the complete say-so on the disposition of funds when you "know" - or do you - that they really haven't yet had the experience to go with that responsibility? What do you do when your "constituents" - at home or abroad - want you to promise results in 3 or at the most 5 years, and you know honestly it is a 15 or 20 year task at best, but if you say so you won't get either the appropriation at home or acceptance abroad?

In this dilemma I can think of two basic principles to try: Strive for the clearest concept of development you can, so as to present in negotiations the most honest answer with the greatest plausibility that you can; and try to gain acceptance for the greatest number of projects which, at least as a by-product, will increase the number of citizens with the capacity to contribute to their country's decision making process in development.

I apologize for the length of this letter. Your invitation gave me the occasion to put these thoughts together. I hope you can use some of them. There are still a few more ideas which I did not put down, and of course all the above have many ramifications. I would be glad to pursue this further in whatever way might possibly be fruitful.

Sincerely



David H. Scull, President
Partnership for Productivity
Foundation/USA, Inc.

Enclosure:

Personal background statement, and brief
summary of PfP program

cc: Sen. Spong, Virginia

PARTNERSHIP for PRODUCTIVITY

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Background notes to accompany letter to
Sen. Fulbright

April 17, 1972

Personal background:

David H. Scull, developer of Partnership for Productivity concept, and President, Partnership for Productivity Foundation/USA, Inc. and of Partnership for Productivity Investments/USA, Inc. With U.S. Dept. of State, 1943-53; last 4 years with Technical Cooperation Administration. Active in consumers cooperative movement, 1934 to present; delegate to several international co-op congresses; Chairman, 1971 mission to develop people-to-people relations with co-operatives in India. Active in international activities of Society of Friends (Quakers). Businessman; presently Chairman of the Board, Graphics 4, Inc. Chairman, Executive Committee, Mutual Real Estate Investment Trust. Gives approximately 3/4 time to PfP.

PfP program: Preliminary planning began in 1966. Pilot project begun in Western Kenya, headquarters at Kakamega. Presently has Management Advisory Team with 6 expatriates (2 American, 4 British) plus African associates. Object: to develop managerial capacity on the part of Africans, both in private enterprise and in co-operative or other types of enterprise. Emphasis on small scale operations within capacity of people who, for the most part, have had a good academic educational background but little experience or understanding of requirements of business operation. The approach is through working directly with the local people in their own small factories, shops, etc: learning to manage through having something to manage, not classroom approach. Technical assistance is provided through non-profit foundation, with Kenya counterpart. Associated effort is to provide capital for sector of developing economy which has not had access to it.

Consideration is being given to additional projects in Kenya, plus possibilities in Tanzania and other countries.

Relation to AID and OPIC: The PfP Service Foundation (Kenya) has received the first quarter of a \$40,000 grant from AID. AID has responsibility for rural development, including small industry, in Vihiga District, a part of the area which PfP is servicing. In this area the PfP and AID objectives overlap, and it was found that PfP could provide services more effectively than through any other means. This grant presently represents less than 1/3 of PfP's total budget, and the proportion is expected to diminish as additional support is developed.

PfP is a member of PACT (Private Agencies Cooperating Together) through which a number of voluntary U S groups are endeavoring to coordinate their efforts, exchange services, sponsor joint projects where appropriate, and generally enhance the private agency role in development. Assistance from AID is being negotiated. For those agencies such as PfP in which capital plays a part, an effort is being made to create a PACT Capital Fund, with AID and OPIC support being negotiated also.

The Honorable J. W. Fulbright
Chairman, Committee on Foreign Relations
United States Senate
Washington, D. C. 20510

Dear Mr. Senator:

I welcome the opportunity to comment on the American foreign aid program. As you may recall, I was involved in assistance matters at the very beginning, being in the State Department and responsible for the pre-Marshall Plan assistance programs, for the development of the Marshall Plan and later liaison with its operators, and for developing and presenting to the Congress the legislation for Point IV. More recently, I have been Chairman of the Development Assistance Committee in Paris (1963-1967), which position gave me an opportunity to examine in depth the aid programs of other countries.

I am sending you under separate cover a copy of a book of mine entitled "The Reality of Foreign Aid" and a reprint of an article from Foreign Affairs, April 1970. Towards the end of the latter, I have suggested some of the reasons why the specialized expert and the legislator do not see eye to eye in this field.

The preface to the book describes the evolution of my own attitude towards foreign aid, and I dare say that it is representative of many people involved in such programs. It has been a learning process. We Americans were all distressingly ignorant about less-developed countries. And most of them had little competence and no experience as to

the obstacles and requirements for economic development. However, I would argue that we - the developed countries - have come a long way in appreciating the difficulties, in thinking in terms of priorities, in appreciating that development is not merely an economic matter but is also social and political, and in recognizing that achievement depends primarily on the recipient country and that an outsider can only give assistance. We still have not fully appreciated that the course of development seldom runs smoothly and many difficulties must be surmounted. The impression that I have is that most critics of foreign aid have expected too much too quickly. They are inclined to make judgments on the basis of earlier years and not appreciate the improvements in policy and practice which have come from experience.

In your letter of April 11, you asked several key questions. I can answer them only briefly.

1) There are times and places where the United States may wish to give military assistance to some other country. This stems from quite different considerations from economic assistance, requires different forms, and involves different understandings with the recipient government. I feel that there should be a complete separation between the two.

2) As to what is wrong with current policy, one important element is the present annual procedure. Not only is it time-consuming and exhausting for both the Congress and the executive branch, but I doubt if one could design a

method more damaging to the good-will which the program should engender. Not only is the prospective amount of aid reduced step by step, but the debate encourages public criticism of individual countries, and the ultimate legislation is complicated and restrictive. At present, it tends to be enacted long after the beginning of the fiscal year, thus creating a long period of fiscal and policy uncertainty. In general, the procedure violates one of the established principles of foreign policy, that a public demand by one government for action by another exposes the recipient government to the charge of being subservient and exposes those persons therein who would approve of the requested action as not being patriotic. No other government has legislative requirements such as ours surrounding its aid program, though that does not mean that it may not have operational requirements.

A second difficulty is that foreign aid continues to be a temporary program, under continual threat of termination. Nor has the solution of frequent reorganization proved to be helpful. These threats to life have various unfortunate effects. It is impossible to build a top-level permanent staff. Furthermore, uncertainty tends to emphasize the short-run, both in selection of projects and in carrying on such activity as research. And too much time is spent on the gross issue of "to be or not to be" instead of questions of efficiency and effectiveness. In looking at the past, the

swings of support, both in Congress and the Executive Branch, have been very wide. Programs in other countries appear to have much more stability.

One other weakness is our failure to follow through on the important development which we initiated of increased integration of the various national and international programs. The United States was the outstanding leader in the fifties and early sixties in the development of the Development Assistance Committee, the increased effectiveness of the various U.N. agencies, the creation of IDA and the Inter-American Development Bank, and the consortia and consultative group approach. More recently, we have taken a much less active, almost a reluctant part in the international effort. This, I presume, is a reflection of the uncertainties which presently surround the program.

Finally, it is my hope that, despite the fiscal problems facing the government, the U. S. will substantially increase the volume of governmental aid, including assistance through multilateral agencies. I am ashamed at the comparison of our performance with that of much poorer countries. We have often lost ground because our actions have not lived up to our intentions or our promises, for example, the deterioration of our relationship with Latin America. The answer is not to do nothing, but to find ways and means of recreating the good neighbor image.

3) I would place the interest of the recipient country

as a major consideration in developing an aid program. In many cases, this means that the U. S. must join in its planning with other donors, since it is the impact of the total foreign assistance which is important. I think we have substantially improved our judgment as to how aid can best contribute. The increased emphasis on agriculture, on education, on population, and public administration are all based on the interest of the recipient country. But no matter how wise our judgment, it still can easily happen that some failure in the more important parallel action required in the country itself may interfere with the development process.

4) As to the years ahead, I think I have indicated in the above answers, my line of thought:

Economic aid to be a separate program.

Permanent legislation with the only restrictions those which relate directly to the programs and not to achieving unrelated results.

Increased appropriations.

Strong support for integrated operation with national programs and international agencies.

Fresh emphasis upon the accumulation of experience and support for the learning process.

I feel that foreign aid can make an important contribution to the conduct of foreign affairs. Properly done, it provides continuing contact with the developing world on a

basis of a common interest in the development process. And this part of the world is of growing importance.

Mrs. Thorp joins me in sending you our warm regards.

Sincerely yours,

Willard L. Thorp

A Foreign Aid Program for the Seventies

Submitted to Committee on Foreign Relations of the
United States Senate

By Mr. C. M. van Vlierden
Executive Vice President
Bank of America N.T.&S.A.

Development of the poorer countries of the world is an essential element in any long-run U.S. strategy. The process of development--which we now realize encompasses much more than mere economic growth--has in the last few years been studied in substantial depth and breadth by various individuals and specialized task force groups. The Pearson Commission, President Nixon's Task Force on International Development, the reports by Governor Nelson Rockefeller, the Perkins Committee, the National Planning Association, the Committee for Economic Development, and the annual speeches by the President of the World Bank at its yearly meeting, have all added to our understanding of the processes and problems of fostering development in less developed countries.

The task now for the United States Congress appears to be chiefly in sifting the facts and judgments available to it, putting these facts and judgments in proper perspective, and developing a foreign assistance program that is compatible with--indeed an important element of--a global U.S. economic and financial policy. In today's increasingly interrelated world, the United States clearly needs a global economic strategy that is a vital component of our political and security-oriented worldwide policies. Obviously, we cannot in today's world consider the international monetary system or foreign aid expenditures that build up textile or other labor-intensive industries in less developed countries without definite reference

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to the overall competitiveness of U.S. industry and our domestic employment situation. Furthermore, we need sufficient flexibility to adjust these policies to reflect the dramatic technological changes that sweep across our nation and other nations of the world.

PETERSON
REPORT

The report of the President's Task Force on International Development which was issued in March, 1970 offers an excellent foundation on which a new, more dynamic, and politically acceptable U.S. foreign assistance program can be constructed. The following major policy recommendations from that report are particularly worthy of consideration:

- "U.S. international development programs should be independent of U.S. military and economic programs that provide assistance for security purposes. Both types of programs are essential, but each serves a different purpose. Confusing them in concept and connecting them in administration detract from the effectiveness of both."
- "All types of security assistance--military assistance grants, use of surplus military stocks, military credits, economic assistance in support of military and public safety programs, budget support for political purposes, and the Contingency Fund--should be covered in one legislative act. The State Department should exercise firm policy guidance over these programs."
- "Military and related economic assistance programs will strengthen military security only to the degree that they help move countries toward greater self-reliance. These U.S. programs should be geared to the resources that the receiving countries ultimately will be able to provide for their own security. In some cases, reduction of U.S. military forces overseas will require temporary offsetting increases in such assistance. The ultimate goal should be to phase out these grant programs."
- "The United States should help make development a truly international effort. A new environment exists: other industrial countries are now doing more, international organizations can take on greater responsibilities, trade and private investment are more active elements in development, and, most important, the developing countries have gained experience and competence. Recognizing these conditions, the United States should redesign its policies so that:

the developing countries stand at the center of the international development effort, establishing their own priorities and receiving assistance in relation to the efforts they are making on their own behalf;

the international lending institutions become the major channel for development assistance, and U.S. bilateral assistance is provided largely within a framework set by the international organizations."

--"U.S. international development policies should seek to widen the use of private initiative, private skills, and private resources in the developing countries. The experience of industrial countries and of the currently developing nations demonstrates that rapid growth is usually associated with a dynamic private sector.

Development is more than economic growth. Popular participation and the dispersion of the benefits of development among all groups in society are essential to the building of dynamic and healthy nations. U.S. development policies should contribute to this end."

--"To carry out these policies, the Task Force recommends a new focus for U.S. programs, a new emphasis on multilateral organizations, and a new institutional framework consisting of:

A U.S. International Development Bank

A U.S. International Development Institute

The Overseas Private Investment Corporation (OPIC)"/now functioning/

CONTEXT FOR FOREIGN AID

It is important to realize that foreign aid is more than, or certainly should be viewed as more than, flows of funds that can be measured in terms of a certain percentage of a country's GNP. Basically, foreign assistance means transferring resources--financial capital, capital equipment, knowhow, etc.--from the developed to the less developed nations. The United States has three main tools for influencing development in other economies: official aid flows, trade flows, and investment flows. It should utilize these tools in an overall program that makes allowance for consequences on its domestic economy.

MONETARY
REFORM AND
DEVELOPMENT

As the United States and its major trading partners build on the progress recorded in the Smithsonian Agreement and bring about needed reform in the international monetary and trade system, more options in terms of development assistance will become available to the United States and to the other industrialized nations of the world. It is noteworthy that the less developed nations are included in the group that does the hard bargaining on the issues of international monetary reform. Certainly the international monetary system has an important impact on the economies of less developed nations as well as on global flows of trade and investment.

In the process of reforming the international monetary system, there are two areas where resources could be transferred to the less developed nations in a rather painless fashion. At the present time, Special Drawing Rights (SDRs) are allocated in accordance with the IMF quotas held by participating members. This arrangement has thus far resulted in a large portion of SDRs, about 70 percent, being issued to developed countries. Spokesmen of less developed nations have argued rather convincingly that future allocations could be made that give greater weight to the less developed countries (LDCs) without the role or concept of SDRs being jeopardized. While the International Monetary Fund could continue through its weighted voting system, which provides majority control to the developed nations, to determine how many SDRs are needed each year for international liquidity purposes, there is no reason why distribution of new SDRs has to follow the initial pattern.

Unfortunately, the present system of allocating SDRs has been accepted without question while suggestions to reallocate the issuance of

SDRs have been considered as an aid proposal to benefit the less developed nations. It must be recognized that the present system aids the developed countries in a rather direct substantial way. Partial reallocation would, however, tend to increase the net benefits to the entire community of participating nations. It would increase the financial resources and purchasing power of the nations who need it most. While it is quite unlikely that the less developed countries would use all of their SDRs to increase their imports from developed nations, they would surely use a portion of them for imports. Also, to the extent that additional SDRs would provide greater protection for their international liquidity position, less developed countries might feel confident to reduce their barriers against imports. This would allow for greater reliance on the market mechanism to allocate scarce resources and the market is still the best mechanism known for allocating resources. Poor allocation of resources has been a severe constraint on economic growth.

Once the needed reforms to the international monetary system are in place and more correct alignment of currency rates is achieved, the longer run outlook for the U.S. balance of payments position should improve sharply. For the United States to gain the maximum benefits from these changes, we should begin now to reorient our domestic economy to take full advantage of our strengths and to correct our weaknesses. Fortunately, in doing this we can aid our own development as well as the development of poorer economies. Because the United States is best able to produce in capital-intensive high-technology areas, it pays for us to specialize in these areas and to train labor for the more demanding and higher paying jobs in these fields and to import labor-intensive goods from abroad--goods that can be produced rather easily and cheaply by less developed countries.

To reorient our economy--recognizing the special needs of labor, management, and shareowners of internationally non-competitive industries--will take time and especially the willingness to make some politically difficult decisions. It will also require hard work in less developed countries so that they can assure the required flow and quality of goods demanded on the international markets. To provide opportunities for owners of labor-intensive plants to restructure their assets to assure adequate retraining programs for workers that meet the needs of today, will not be easy tasks, but they are tasks that must be done. And the challenge can be met only if we see these tasks in far broader terms than heretofore.

Heightened mobility of labor and capital on a national and international scale is particularly important. Not only is it important to the international community as a whole, but it is also important as domestic economic policy designed to enhance the standard of living of our citizenry.

There are programs--although they have not proven to be effective--to retrain U.S. workers who lost their jobs because of increased imports. This is, however, only one part of a much larger issue. It is not important that a man has lost his job because of increased foreign competition. What is important is that he is out of work and needs retraining. In a rapidly changing society such as ours retraining, training, and development will necessarily become important facts of life. It makes no sense to ask a middle-aged man or woman who is willing to work and wants to be productive, to accept retirement or menial employment. The challenge, of course, is to retrain workers and move capital into more productive areas.

The complexity of the problem is tremendous. An eight-or ten-week or even one-year program to retrain a worker will not be sufficient. In

short, there will have to be substantial modifications of some of our social and economic institutions and policies. Arrangements will be required to encourage more public and private programs for retraining and continuing education. The recommendations of a recent report issued by the Carnegie Commission on Higher Education spell out the benefits that would be derived from opening up continuing educational opportunities for all adult citizens. In addition, the universities and colleges would be substantial beneficiaries as their student bodies would represent a wider age spectrum and encompass a deeper and more multifaceted complex of experiences and talents.

Obviously there is a problem. The demands for goods and services, especially services, are growing at a faster rate than our economy can produce. There is a major unused resource, however, that could be tapped. This unused resource is workers in areas that are no longer competitive. If these people could be retrained so that they could find meaningful, worthwhile employment within the service sector or other growing segments of the economy, everyone would be better off. And in the long run, this improvement in the mobility and resiliency in the U.S. economy would justify a sizeable cash expenditure at the present time.

Legislation has been passed by the U.S. Congress to help ease the inevitable adjustments that must be made by labor and management as shifts occur among sectors of the economy. These acts are the Trade Expansion Act of 1962, the Manpower Development and Training Act of 1962, and the Automotive Products Trade Act of 1965.

The purpose of the Trade Expansion Act was to enter into agreements to reduce trade barriers by up to 50 percent of the rate existing on

July 1, 1962. The Automotive Products Trade Act made possible a reciprocal agreement between the United States and Canada for expanding trade in automotive products by reducing or eliminating tariffs. Both the Trade Expansion Act and the Automotive Products Trade Act are administered by the Tariff Commission. The Manpower Development and Training Program administered by the Labor Department was enacted to retrain persons with skills that had become obsolete because of dislocations of the economy arising from technological developments, foreign competition, relocation of industry and shifts in market demand.

These three acts have similarities of purpose and method. Basically, the Trade Expansion Act and the Automotive Products Trade Act were enacted to give technical, financial and tax assistance to industries or firms who could prove that increased imports were the major cause for being seriously injured. The Trade Expansion Act, the Manpower Development and Training Act, and the Automotive Products Trade Act also provided assistance to workers. Under the Trade Expansion Act and the Automotive Products Trade Act, however, workers had to prove that increased imports were the major cause for injury. Assistance to workers consisted of retraining programs, trade readjustment allowances and in some instances relocation allowances.

Annual reports of the Tariff Commission show that no industry, firm or group of workers qualified for adjustment assistance from 1962 through 1969 and only six were given any assistance as of June, 1970. Equally worthy of note is the performance record of the Manpower Development and Training Program. Between 1963 and 1970 about 1,600,000 training opportunities were authorized and a total of \$2 billion spent under the Manpower Development and Training Act. In March of 1970, for example,

we had 3.6 million people unemployed and 560,000 job openings as reported in the 1970 Statistical Abstract. If we could have matched the unemployed with job openings the unemployment rate would have dropped from 5.1 percent to 4.3 percent. None of these laws have been utilized to the extent necessary.

There is also the problem of social values. In some instances American society has not placed a very high premium on certain skills--skills which have been very much in demand. It is not hard to understand why many young people would prefer to seek employment in a factory or office rather than take employment in an individual's home. We simply have not given these positions status and dignity. The value placed on certain types of jobs needs to be re-examined.

There is concern that on a global basis capital will be available at rates which in historical perspective are considered high. Everyone worries about the unwillingness of Congress and the American citizenry to pass substantial foreign aid bills. Many people wonder how to help improve the position and minimize the income gap between the less developed and the developing countries. One way, of course, would be to get the owners of capital and technology from the United States and other developed areas to shift, perhaps through tax incentives or other devices, their older less-productive labor-intensive facilities from the developed countries and move them into the developing world. This would be beneficial to the developed countries as well as the developing.

The effectiveness of owners, managers, and employers of older, less internationally-competitive U.S. industries in their efforts to restrict free trade proposals cannot be ignored. It is not really possible to tell them not to worry, to tell them that the market will work out their difficulties in 20 or 30 years. It is necessary to work out a program to help

them with their problems in order to gain the benefits that would be derived from a more efficient allocation of capital and labor.

The market is, as mentioned before, the most efficient allocator of resources. More efficient allocation of resources would assist the United States and other nations resist the strong inflationary pressures that have been so troublesome in recent years. And this would be beneficial to all nations concerned.

ROLE OF
FOREIGN
INVESTMENT

One of the most significant hindrances to increased private investment has been the hostility to it by many less developed countries. To improve this climate, it is important that the developed and developing countries--through mutual negotiations--establish some mechanism or overall insurance scheme to encourage investment in the less developed world.

As A. W. Clausen, the President of Bank of America, said on June 27, 1972 in London, "a promising long-range solution might be an international code regulating the relations between foreign investors and their host countries, a code fair to both parties--buttressed by a multinational agency to indemnify firms for losses due to violations of the code. At the same time, of course, the agency would be empowered to arbitrate disputes involving any corporate violations of the code and would provide impartial assistance in determining damages done or setting the fair value of facilities which the host country might seek to buy out."

The International Bank for Reconstruction and Development has from time to time considered a proposal for a multilateral investment insurance program. Basically, such a program could entail an international organization with membership drawn from both capital-importing and capital-exporting countries which would insure private foreign investments in less

developed countries against certain risks. Protection would not be available against normal business risks or any risks for which insurance coverage could be purchased from private sources. Only new investments would be insured. The risks covered would be political risks such as risk of loss through government action, transfer risk such as risk of loss through restrictions on the ability to repatriate profit or capital, and calamity risk such as risk of loss by reason of armed conflict or civil unrest. The Overseas Private Investment Corporation (OPIC) and the International Center for Settlement of Investment Disputes, an autonomous member of the World Bank Group, could offer some insights in setting up a comprehensive multilateral program.

There are several important advantages of a multilateral investment insurance program over a unilateral program that are important to consider. A multilateral program bolsters investor confidence, simplifies administration, spreads risks, encourages investments by international groups, and facilitates efforts to work out an international investment protection code.

There are many problems involved in considering a multilateral investment insurance program; it will be hard for all nations to agree on terms and conditions. In spite of these problems such a program would help bring in more investment to less developed countries. We should not be so much concerned at this time with how much investment a multilateral insurance scheme will bring to less developed countries, but rather that a sounder foundation for increased investments to less developed countries be established. I am also confident that along with such a program you will see the development of an investment protection code which alone will be a more attractive inducement for foreign capital to invest in less developed countries. Multilateral investment insurance cannot hurt. It will, however,

be a first step toward helping to provide a better climate for much needed foreign investment in less developed countries. The United States should promote this idea within the World Bank.

SUMMARY

In summary, the United States should expand its present foreign policy to include a carefully developed global economic and financial policy which includes measures to foster growth in less developed countries through a combination of traditional aid assistance, changes in trade policy, and encouragement of private investment. At the same time, U.S. policy-makers must also create more meaningful programs to retrain labor. The reform of the monetary system represents a useful occasion for making the international monetary system more responsive to the needs of economic development. Finally, President Nixon's Task Force on International Development provides the basis for far-reaching improvements in our traditional foreign assistance programs.

Because the world is changing so rapidly, it is imperative to develop programs that assist--not retard--change. Unless the United States wants to live with an uncomfortably high level of inflation, perpetually high transitional unemployment, and often underutilization of our labor force, we must move out of industries that are not vital for national security purposes and that are for us internationally non-competitive and into more competitive areas. We, as a nation, will find our self-interest within the common interest of the community of nations.

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