11-6-1969

Bilateral Foreign Aid and Multilateral Foreign Aid

Benjamin I. Cohen

ECONOMIC GROWTH CENTER

YALE UNIVERSITY

Box 1987, Yale Station
New Haven, Connecticut

CENTER DISCUSSION PAPER NO. 78

"BILATERAL FOREIGN AID AND MULTILATERAL FOREIGN AID"

Benjamin I. Cohen

November 6, 1969

November 1969

BILATERAL FOREIGN AID AND MULTILATERAL FOREIGN AID

Benjamin I. Cohen

Yale University

This essay tries to analyze the issues involved in deciding on the appropriate mix for the United States between bilateral foreign economic aid and multilateral foreign aid. It is addressed to an intelligent though relatively uninformed and non-technical audience. The issues discussed here are not necessarily those which other rich countries would face in making a similar decision. This essay does not deal with three other aspects of foreign aid which are probably more fundamental: what are--or should be--the objectives of a U.S. foreign economic aid program; what is the probability that any type of U.S. foreign aid program can achieve these objectives; how large a foreign aid program should the U.S. have in the 1970's.

Rather than give extensive footnotes, I include a select bibliography of items I found especially useful in writing this essay. Several colleagues at Yale--Richard Cooper, Gustav Ranis, and David Trubek--were kind enough to comment in detail on an earlier draft; indirectly this essay reflects conversations with numerous people over the last four years, including the two years I worked at AID. Mark McCormick was an exceptionally able research assistant during the summer of 1969. I am solely responsible for any errors and for the innumerable judgments in this paper.

LIST OF TABLES

LIST OF ABBREVIATIONS

AFDB	African Development Bank
AID	Agency for International Development
ASDB	Asian Development Bank
DAC	Development Assistance Committee
ECOSOC	United Nations Economic and Social Council
EDF	European Development Fund
EEC	European Economic Community
EIB	European Investment Bank
FY	Fiscal Year
IBRD	International Bank for Reconstruction and Development ("World Bank")
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IMF	International Monetary Fund
LDC's	Less Developed Countries
OECD	Organization for Economic Cooperation and Development
UN	United Nations
UNDP	United Nations Development Program

This essay discusses the advantages and disadvantages of bilateral foreign aid and of multilateral foreign aid. For this discussion, foreign aid is defined as a national government's or an international organization's providing of money, people, or non-military commodities to another national government. While such activities have a long history, this essay deals with foreign aid currently received by the countries of Latin America, Africa (excluding the Union of South Africa), Asia (excluding Japan), and some European countries (Greece, Spain, Turkey, Yugoslavia, Malta, and Cyprus), which for convenience I will call the less developed countries (LDC's). The United States, Canada, Western Europe, Japan, Australia, and New Zealand--sometimes called the aid donors--provide other assistance to the LDC's, such as foreign trade concessions, military aid, and inducements to their citizens to invest directly in the LDC's. While these other forms of assistance are undoubtedly significant, they are not considered in this essay. The U.S., Canada, Australia, Japan, and 12 countries of Western Europe[1] comprise the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD).

The provision of foreign aid by one national government to another national government is usually called "bilateral aid." While this term seems to imply that each of the two national governments receives aid from the other one--which may not be correct--I will retain this label rather than use a term such as "unilateral aid." By multilateral foreign aid I mean the provision of foreign aid by an international organization to a national government; as will become clear later on, not all participants in the current debate accept this

[1]Austria, Belgium, Denmark, France, West Germany, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland, and the U.K.

definition. As none of the international organizations has the power of taxation, they receive their funds either from contributions by national governments or from selling bonds. At this point it may be useful to sketch the major international organizations which currently provide foreign aid. Table I indicates the proportion of votes in each organization held by the U.S., by the rest of the DAC countries, by the LDC's, and by other nations, and the approximate amount of foreign aid each organization provided in 1968. In terms of funds provided, the largest international aid agencies, in 1968, are the World Bank and its affiliates, the International Monetary Fund, the Inter-American Development Bank, and various United Nations agencies.

The International Bank for Reconstruction and Development (IBRD), or World Bank, was established at Bretton Woods in 1944 and now has 111 members. It raises funds by selling bonds, which are guaranteed by the member governments,and by subscriptions by member governments. At the end of FY 1968 the Bank had gross funded debt of $3.3 billion, paid in subscriptions of $2.3 billion, and $5.2 billion disbursed on its loans; another $21 billion of government subscriptions are subject to call to meet the Bank's obligations. While it now lends mainly to LDC's,[1] the Bank's early lending activities were concentrated in Western Europe. Interest rates on IBRD loans are now 7.0 percent and maturities range from 10 to 30 years.

The International Finance Corporation (IFC) was founded in 1955 as an affiliate of the IBRD. As it lends money and takes equity position in private enterprises in LDC's and as it does not lend directly to national governments,

---

[1]In FY 1967 the IBRD made loans of $777 million, of which $100 million was to Japan, $20 million to Union of South Africa, and $18 million to Iceland. In FY 1968 none of these countries received loans.

Table I

International Aid Agencies: Allocation of Votes and Volume of Aid, 1968

Agency	Percentage of Votes							Commitments to LDC's $ million
	U.S.	U.K.	Other DAC	Other Donors[1]	LDC's	Other[2]	Total	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
IBRD	24.9	10.3	28.3	2.7	33.9	0	100	1,043
IDA	25.9	10.7	25.3	2.0	36.1	0	100	116
IMF[3]	22.0	10.5	29.0	2.7	35.8	0	100	1,052[4]
IDB	42.3	0	0	0	57.7	0	100	429
Asian Bank	17.1	3.1	40.9	3.5	35.4	0	100	42
African Bank	0	0	0	0	100.0	0	100	3
U.N. Gen'l Assembly	.8	.8	11.4	3.3	75.6	8.1	100	0
UNDP	37.8				51.4	10.8	100	200
ECOSOC	3.7	3.7	14.8	3.7	63.0	11.1	100	129
EDF/EIB	0	0	100	0	0	0	100	172

[1] Finland, Kuwait, New Zealand, Union of South Africa.

[2] Albania, Bulgaria, Byelorussia, Czechoslovakia, East Germany, Hungary, Mongolia, Poland, Romania, Ukraine, U.S.S.R.

[3] Excludes Indonesia and Zambia.

[4] New and Renewed Standbys and Compensatory Drawings, FY 1968.

Sources: UN Yearbook: Handbook and Atlas of World 1968.
Annual Reports of IBRD, IMF, IDB, ASDB, and AFDB.
AID Congressional Presentation.

I will not discuss it in the rest of this essay.

The International Development Association (IDA) was established in 1960 as an affiliate of the IBRD. It receives its funds from contributions by national governments and the IBRD. IDA loans (or "credits") have a "service charge" of 3/4 percent per year and a maturity of 50 years. The IBRD, IFC, and IDA are called the "World Bank Family," or "World Bank Group," and all three have their headquarters in Washington, D.C.

The International Monetary Fund (IMF) was established in 1944 at Bretton Woods. It has 112 members and receives its funds mainly by subscription from members,[1] with occasional borrowings, under the General Arrangements to Borrow, of up to $6 billion from ten nations (Belgium, Canada, France, West Germany, Italy, Japan, Netherlands, Sweden, U.K., and U.S.). Its headquarters is in Washington. While most IMF loans (or "drawings") are to DAC countries, the LDC's also borrow from the IMF. The amount that a country may borrow from the IMF is related legally to the size of its subscription to the IMF. Loans are for up to five years and carry an interest rate ranging from 1/2 percent to 5 1/2 percent, depending on the size and maturity.

The Inter-American Development Bank (IDB) was established in 1958. The U.S. and 21 Latin American countries are members, and it has headquarters in Washington. It lends only to member nations. It secures funds for its ordinary capital both by selling bonds which are guaranteed by the member nations and from subscriptions by members; its Fund for Special Operations receives periodic contributions from governments. IDB loans from its ordinary capital carry an average maturity of 15-20 years and an interest rate of about 7 percent;

[1] For this essay, I ignore consideration of the Special Drawing Rights of the IMF.

IDB loans from the Fund for Special Operations are for 15-30 years maturity and have an interest rate of about 4 percent.

The European Economic Community (EEC) established the European Development Fund (EDF) and European Investment Bank (EIB) to provide foreign aid to countries associated with the EEC. The EIB sells bonds, and the EDF and EIB get contributions from the governments of the six nations belonging to the EEC.

The Asian Development Bank (ASDB) was established in 1967. The U.S., Canada, and 30 other nations are members, of which 19 are from Asia and 11 are from Western Europe. Its headquarters is in Manilla. It sells bonds guaranteed by the member governments and receives contributions from governments. It committed $42 million in 1968.

The African Development Bank (AFDB) was established in 1965, with headquarters in Abidjan. It has 31 African nations as members. Its charter allows it to sell bonds and to receive funds from governments. Through 1968 it had committed $6 million. I give little attention in the rest of this essay to the Asian Development Bank and the African Development Bank because of their limited activities.

In addition to these various lending agencies, there are the various U.N. agencies which provide technical assistance and funds. The U.N. Development Program (UNDP) finances surveys in LDC's to attract foreign capital, provides technical experts, and tries to develop institutions in the LDC's. The specialized U.N. agencies, such as the World Health Organization (WHO), the Food and Agricultural Organization (FAO), and the U.N. Educational Scientific and Cultural Organization (UNESCO) also provide technical advice. Finally, there are U.N. agencies for specific problems, such as the U.N.

Children's Fund (UNICEF) and the World Food Program (WFP).

While the USSR and the Communist nations of Eastern Europe belong to the U.N., they do not belong to any of the Banks described above. These Communist nations provide about $300 million per year in bilateral foreign aid to the LDC's, but their activities (and that of mainland China) are not considered in this paper.

Table II indicates the amount of foreign aid provided bilaterally by the members of the DAC in 1961 and 1967. The proportion of total foreign aid commitments provided bilaterally rose from 77 percent in 1961 to 78 percent in 1967, as bilateral aid rose by $2,559 million and multilateral aid rose by $539 million.[1] As shown in Table III, the proportion of U.S. foreign aid commitments provided through contributions to international agencies rose from 7 percent in FY 1962 to 13 percent in FY 1969, while the total amount of U.S. foreign aid declined from $4.8 billion to $3.4 billion in this period. The recent Report of the Commission on International Development (Pearson Commission) recommended that by 1975 all donors provide .70 percent of their GNP as foreign economic aid, which for the U.S. is estimated to come to $8.2 billion in 1975; the Commission also recommended that a minimum of 20 percent[2] of foreign aid be provided multilaterally.

With this background, the rest of this essay deals with some of the questions involved in having a larger fraction of the U.S. foreign aid program provided through various international agencies. Some readers may wish to skip directly to the summary and conclusions at the end of the paper.

---

[1]If one does not count IMF loans, then multilateral aid rose from $1,220 million in 1961 to $1,545 million in 1967, and the bilateral share of total aid rose from 83 percent in 1961 to 85 percent in 1967.

[2]Without explanation, the Commission omits IMF loans from its analysis even though it includes as economic aid such items as Export-Import Bank loans.

Table II

Foreign Aid Commitments
by DAC Countries

	1961		1967	
	amount \$ Million (1)	percent of total (2)	amount \$ Million (3)	percent of total (4)
Bilateral	6,128	77	8,687	78
Multilateral[1]	1,871	23	2,410	22
Total	7,999	100	11,097	100

[1]IMF, IBRD/IDA, IDB, EDF, EIB, and U.N.

Sources: Annual Reports (IMF)
Annual Review (DAC)

Table III

U.S. Foreign Aid,[4] FY 1962 and FY 1969

$ Million

Multilateral	FY 1962	FY 1969
Inter-American Development Bank[1]	110	300
Asian Bank[1]	0	10
African Bank	0	0
Contributions to U.N. agencies[2]	170	138
International Development Association	62	0
Total multilateral	342	448
Bilateral		
AID		
Supporting Assistance	425	363
Technical Assistance	284	248
Development Loans	1,113	555
Other	346	78
Total	2,168	1,244
PL480	1,726	1,037
Export-Import Bank Credits	531	581[3]
Peace Corps	30	103
Total bilateral	4,455	2,965
GRAND TOTAL	4,797	3,413

[1]Excludes increases in U.S. contributions to callable capital of the Banks, which serves as a guarantee fund for bonds sold by the Bank.

[2]This item is included in AID's budget when presented to the Congress.

[3]FY 1968.

[4]Excludes military aid of $1,577 million in FY 1962 and $503 million in FY 1969.

Source: The Budget of the United States Government.
Annual Reports of the Export-Import Bank.

II

1. What parts of the United States foreign aid program could reasonably be handled by various international agencies? The U.S. foreign aid program has many components. Table III shows the funds appropriated[1] by the U.S. Congress in FY 1962 and FY 1969 for each of the major parts of the U.S. foreign economic aid program. The major bilateral components involve the Agency for International Development (AID), Public Law 480, Export-Import Bank, and the Peace Corps. The major multilateral components in FY 1969 were the U.S. contributions to the Inter-American Development Bank (IDB), to the Asian Development Bank, and to the U.N. agencies. In FY 1970 the U.S. Congress authorized a contribution of $480 million over three years to the International Development Association (IDA).

The rather large number of agencies involved in the U.S. foreign aid program probably has two major causes. First, some people have argued that in the late 1950's and early 1960's the creation of new aid programs led the U.S. Congress to vote larger amounts of U.S. foreign aid than if it had all been administered by a single agency. A second reason, related to the first, is that the U.S., like other countries, gives foreign aid for many reasons. These diverse reasons lead one to conceive of a continuum along which lie the probabilities of transferring various U.S. foreign aid programs to international agencies. At one extreme would be the Export-Import Bank's operations, as it is difficult to imagine an international agency trying to promote U.S. export sales. Nor is it likely that in the near future an international

[1]These data are for "new obligational authority" and so exclude relending of interest and principal repaid on past loans, whichin FY 1969 were estimated at $68 million for AID's Development Loans. Export-Import commitments are not subject to annual Congressional approval.

organization will give emergency assistance to governments whose political stability is threatened; this role is presently assumed by AID's Supporting Assistance, which in FY 1968 allocated $470 million to Vietnam, $111 million to other East Asian countries, and $45 million in the rest of the world.

While an objective of the PL480 program is to raise the incomes of U.S. farmers, one can conceive of a new international agency--or perhaps the World Food Program--assuming this responsibility and thereby also taking over the administration of the foreign aid supplied in the form of U.S. agricultural commodities. However, the experience of the EEC suggests that moving agricultural policy beyond the control of national governments would require major changes in the total international political scene. It seems doubtful to me that in the next 5-10 years the foreign aid functions of PL480 could be transferred to an international organization.

The activities of the Peace Corps might well be handled by a new international organization. The other major parts of the U.S. foreign aid program that might be handled internationally are AID's Development Loans[1] and AID's Technical Assistance, whose primary objective is to promote the economic development of various LDC's. In the last three years Congress has made large reductions in appropriations for Development Loans and Technical Assistance, as shown below:

	FY 1962	FY 1966	FY 1967	FY 1968	FY 1969
			million dollars		
AID Development Loans	1,113	1,053	920	824	555
AID Technical Assistance	284	276	288	260	248
Peace Corps	30	102	110	108	103
Total	1,427	1,431	1,318	1,192	906

[1]Throughout this essay, Development Loans, unless otherwise stated, include Alliance for Progress Development Loans.

In conclusion, of the total U.S. bilateral foreign aid program of about $3.0-4.5 billion per year, about one-third might be handled by existing international agencies. The rest of this essay concentrates on the issues raised by such a transfer.

2. Would the international agencies allocate funds to the same countries as AID? While long-term economic development of the LDC's is the primary objective of both AID's Development Loans and the international aid agencies, the record suggests that the allocation by AID differs from that of the IBRD and IDA. Table IV reveals that in FY 1967[1] IBRD/IDA had 29 percent of its loans in Latin America, as compared to 40 percent of AID's Development Loans; IBRD/IDA had 32 percent of its loans in Africa and East Asia (excluding Vietnam), while AID had 16 percent of its Development Loans in these two parts of the world. While 12 percent of AID's Development Loans went to Turkey, IBRD/IDA allocated 3 percent of its loans to Turkey. On the other hand, 30 percent of AID's loans went to India and Pakistan, as compared to 31 percent of IBRD/IDA loans.

Within Latin America, the distribution of AID differs from that of the IDB. In FY 1967 AID made 79 percent of its Latin American loans in Brazil, Colombia, and Central America, as compared to 31 percent of IDB loans going to these countries.

While these different geographic allocations may reflect different judgments about the productivity of foreign aid in various LDC's, they also reflect the fact that AID's allocation of Development Loans reflects the geographic priorities of U.S. foreign policy. There is no particular reason to suppose that the IBRD/IDB, or any other international organization would allocate funds in the same way as AID. Indeed, one might expect a different allocation. As the Pearson Commission said, "Since some bilateral donors will

[1]Because IDA ran out of funds in FY 1968, a comparison of IBRD/IDA activity with AID's activity in FY 1968 would be misleading.

TABLE IV

Loan Commitments by Region and Country by AID, IBRD/IDA, IDA, and IMF, FY 1967
($ million)

	Amount (1)	Percentage (2)	Amount (3)	Percentage (4)	Amount (5)	Percentage (6)
	IBRD		IDA		IBRD/IDA	
Latin America	282	45	2	1	284	29
Brazil	101	16	0	0	101	10
Chile	60	10	0	0	60	6
Colombia	25	4	0	0	25	3
Peru	10	2	0	0	10	1
Central America	33	5	0	0	33	3
Other	53	8	2	1	55	6
Near East and South Asia	126	20	261	74	387	39
India	30	5	215	61	245	25
Pakistan	35	6	28	8	63	6
Turkey	10	2	15	4	25	3
Other	51	8	3	1	54	5
East Asia	134	21	0	0	134	14
Indonesia	0	0	0	0	0	0
Korea	0	0	0	0	0	0
Other	134	21	0	0	134	14
Africa	87	14	91	26	178	18
East Africa[3]	13	2	26	7	39	4
Ghana	0	0	0	0	0	0
Nigeria	0	0	0	0	0	0
Tunisia	12	2	19	5	31	3
Other	62	10	46	13	108	11
Total LDC's	629	100	354	100*	983	100

TABLE IV (cont'd) ($ million)

	Amount (7)	Percentage (8)	Amount (9)	Percentage (10)	Amount (11)	Percentage (12)
	IMF[1]		IDB		AID[2]	
Latin America	168	37	496	100*	439	40
Brazil	30	7	111	22	198	18
Chile	0	0	41	8	13	1
Colombia	60	13	28	6	100	9
Peru	0	0	24	5	17	2
Central America	13	3	17	3	49	4
Other	65	14	275	55	62	6
Near East and South Asia	60	13	0	0	501	45
India	0	0	0	0	203	18
Pakistan	0	0	0	0	130	12
Turkey	27	6	0	0	135	12
Other	33	7	0	0	33	3
East Asia	73	16	0	0	71	6*
Indonesia	0	0	0	0	0	0
Korea	18	4	0	0	61	6
Other	55	12	0	0	10	1
Africa	151	33	0	0	98	9*
East Africa[3]	0	0	0	0	6	1
Ghana	36	8	0	0	22	2
Nigeria	0	0	0	0	6	1
Tunisia	10	2	0	0	23	2
Other	105	23	0	0	41	4
Total LDC's	452	100*	496	100	1109	100

* Does not add due to rounding.

[1] New and Renewed Standbys

[2] Development and Alliance Loans

[3] Kenya, Tanzania, Uganda

Sources: Annual Reports of IBRD/IDA, IMF and IDB
AID Operations Report (June 30, 1967)

continue to give high priority to political, humanitarian, and cultural considerations, distribution of additional aid primarily according to performance can be ensured only if multilateral agencies try to fill gaps left by bilateral preferences..."[1]

---

[1] Partners in Development (Praeger: New York 1969), p. 134.

3. <u>To what extent does the existence of AID's Development Loans help in the achievement of U.S. foreign policy objectives other than the economic development of the LDC's</u>? One can discern at least four points of view on this question. One view is that AID's Development Loans are sometimes useful in securing specific U.S. diplomatic objectives, such as acquiring for the U.S. base rights or having a developing country postpone the acquisition of nuclear weapons. A second view is that even though explicit political conditions are not connected with Development Loans, the existence of the U.S. bilateral foreign aid program improves the "diplomatic atmosphere"--by demonstrating that the U.S. cares about one of the country's major domestic problems--economic development. A third view is that the U.S. Ambassador might have to use a different approach in the short-run if there were no Development Loans but that the long-range effects would help U.S. diplomatic efforts in the LDC's. The final view is that the provision of Development Loans actually impairs the attainment of other U.S. foreign policy objectives. Proponents of this last view argue that the negotiations over the economic conditions associated with Development Loans--such as devaluation or tax reform--are so related to politics within the LDC that the LDC government is led to adopt other, non-economic, policies adverse to U.S. interests in order to maintain domestic political support. Pakistan's closer relations with mainland China in the last few years and Colombia's establishment of diplomatic relations with Yugoslavia, Bulgaria, Czechoslovakia, Poland, and the U.S.S.R. between November 1966 and January 1968 could be cited as illustrations of the hypothesis that the frictions generated by the bilateral negotiations over appropriate economic development policies adversely affect other U.S. foreign policy objectives.

4. <u>How would the transfer of AID's Development Loans and Technical Assistance to international agencies affect the probability that the U.S. would become militarily involved in the less developed countries?</u> Some people argue that the U.S. military involvement in Vietnam in the 1960's and in the Dominican Republic in April 1965 was, to a large extent, the result of U.S. foreign aid programs in these countries. AID (and its predecessor agencies) committed $1.9 million in the Dominican Republic between 1953 and 1961 and $108 million from FY 1962 through FY 1965. However, only $10 million of this amount was Development Loans. In Vietnam, AID (and its predecessor agencies) committed $1.3 billion between 1953 and 1960 and another $750 million between 1961 and 1965; none of these funds, however, were Development Loans. AID has made Development Loans in many other areas where wars have occurred and where the U.S. has not become directly involved--India and Pakistan, Israel and the Arab nations, Nigeria, El Salvador and Honduras. This evidence suggests that Development Loans--whose objective is promoting economic development--do not lead to U.S. military involvement; Supporting Assistance aid may be connected with such involvement (either preceding it or following it), but it is unlikely, as argued earlier, that any international organization would be prepared to take over AID's Supporting Assistance program.

5. <u>How does AID's administration of Development Loans and Technical Assistance differ from the administration by international agencies?</u> AID's present operations differ from those of the international agencies in three major ways: (1) AID has large groups of people--Field Missions--residing permanently in the LDC, while the international agencies have almost no Field Missions, (ii) about half of AID's Development Loans are "program loans," which can be used by the LDC to import a wide range of commodities; except for the IMF, the international agencies rely almost exclusively on loans for specific projects,[1] and (iii) AID coordinates both technical assistance and capital loans in a LDC; the U.N. agencies supply technical experts, and the IBRD/IDA and IDB supply mainly money for capital projects, though the IBRD/IDA and IDB finance technical assistance as part of their project loans and the IMF supplies technical assistance in the area of domestic financial institutions.

AID's Field Missions perform six functions: (i) to collect and analyze information about the LDC for use by AID (and by other aid agencies). This activity could probably be performed by a staff of 5-10 people, and the IBRD/IDA now has such a group in both India and Indonesia; (ii) to "develop" projects in the LDC's for possible loans; the IBRD/IDA now has such groups in East Africa and West Africa; (iii) to coordinate technical assistance activities in the LDC with each other and with capital loans; (iv) to audit and supervise loans; the international agencies--which do not labor under the many restrictions the U.S. Congress has imposed on AID--rely on local firms and occasional visits from Washington to perform this task; (v) to provide

[1] To the extent that a project loan covers some of the "local currency" costs of the project, e.g., wages, it provides foreign exchange to import commodities not directly associated with the project.

advice and "persuasion" on economic matters, at the civil servant level, to LDC governments on a continuous basis; and (vi) to provide advice and "persuasion" on a continuous basis to the leaders of the LDC government. These last two functions of Field Missions are probably the most controversial. While most AID officials feel that the most effective way to influence economic policies in the LDC's is through the continuous presence of U.S. officials, the IMF and IBRD/IDA rely on visits by their Washington staff. Some people argue that the economic policies urged by the aid donors are frequently wrong and, even when correct, are an unjustified intrusion by foreigners into the political processes of the LDC.[1] Those supporting such "persuasion" argue that it strengthens the hand of those groups in the LDC who seek economic reform.[2] Some people claim that AID's advice must reflect U.S. domestic objectives as well as interest in the economic growth of the LDC[3] and so argue such advice should come only from international agencies. Others claim that "objective" advice on economic policy--from any source--cannot exist; while

[1]For example, it is alleged that during the bad monsoons in India a few years ago the U.S. government deliberately refused to enter into a 12 month contract to supply PL480 wheat to India because the U.S. wanted to increase the pressure on the Indian government to adopt policies which would increase the future production of food; it ~~is also alleged that many Indians died~~ of starvation during this period because of interruptions in the shipments of U.S. wheat to India under successive three month contracts. If these allegations are true, they raise the moral question of whether any non-Indian politician (or "expert") had the right to decide how many Indians should die in 1967 so that Indian food production would be greater in the 1970's.

[2]"...although many of the policy changes had been under discussion in India for some time and there was at least a small influential group which agreed with the need for early action, action would probably not have been taken without the involvement of the aid providers."Partners in Development, Report of the Commission on International Development (Praeger, 1969), p. 300.

[3]For example, U.S. advice to a particular LDC not to expand production of cotton may reflect an interest in maintaining incomes of U.S. cotton farmers.

social scientists can perhaps objectively analyze the implications of alternative policies, they cannot objectively choose among them.

The "dialogue" on economic policies is closely associated with the "program loans" of AID and the "stand-bys" of the IMF. About half of AID's Development Loan funds are program loans, which are long-term loans (2 percent interest during the first 10 years and 3 percent during the last 30 years and 40 year maturity) for the importation of a wide range of commodities from the U.S., sometimes in return for fairly specific changes in economic policy in the LDC. IMF "stand-bys" are short-term loans (5 year maturity and interest ranging from 1/2 percent to 5 1/2 percent) that can be used to import any commodity from any country and are also linked to specific changes in economic policy in the recipient country. The IMF tends to look at broad, short-term economic policies, such as the rate of growth of the money supply, size of the government deficit, and changes in the exchange rate. AID looks at these items but may also look at fairly detailed policies, such as the amount of the government budget allocated to agriculture. The IBRD/IDA and IDB will negotiate about policies relating to a specific project loan, e.g., railroad fares as part of a loan for railroads, but tend not to get as involved as AID and the IMF in questions of broad economic policy. This generalization has numerous exceptions; for example, in Colombia the IMF, IBRD/IDA, and AID had a common set of policy changes to ask of the Colombian government in 1966 and 1967 in return for foreign loans. It is argued that program loans are superior to project loans in bringing about policy changes because it is psychologically difficult for the aid donor not to complete a project once it is begun; it is also frequently difficult to increase rapidly the flow of project loans to "reward" a LDC government that has made significant policy changes. In theory the size of program loans can be more easily changed, though in practice AID has rarely significantly reduced program loans in cases of bad performance and infrequently has enough funds significantly to increase the program loan a LDC receives for good performance. While most AID officials see program loans as being extremely useful in promoting economic development, I have heard economists in both the U.S. and the LDC's argue that these loans--because they provide foreign exchange that can be used for a wide variety of imports and because the local currency the government acquires by selling the foreign exchange can be used to meet government deficits--allow the governments of LDC's to postpone the changes in economic policy--especially in the areas of foreign trade and taxes--that are essential if the country is to develop. Except for a $215 million IDA loan to India in 1966/67 and a $125 million loan to India in 1968/69 to finance imports at industrial products, the IBRD/IDA has not made program loans in the past, and many of the staff and Executive Directors apparently support a continuation of this policy. The IBRD is, however, apparently prepared to offer "debt relief" to developing countries; the IBRD, for example, is India's largest creditor. While there is a legal distinction between making a new "program loan" and postponing amortization payments on old loans, there is no economic difference if the IBRD insists on policy changes as a condition of debt relief.

In FY 1968 AID spent $224 million on technical assistance activities (excluding Vietnam) and the U.N. agencies spent about $300 million. On June 30, 1968 there were 4,978 U.S. technicians overseas (outside of Vietnam), of which 2,157 were directly employed by AID, 812 were employees of other

U.S. government agencies, and 2,009 were employees of contractors receiving AID funds. Of the 2,969 U.S. government employees, 33 percent were working in food and agriculture, education, and health and sanitation. Having the same agency administer both technical assistance and capital loans is said to promote economic development by having both types of activity concentrate on the same objectives. For example, when the Turkish government agreed to concentrate on growing more wheat, AID was able quickly to bring in U.S. experts and to supply seeds, fertilizer, and machinery. Such an integrated operation would have been more difficult and slower if handled by the present international organization: the U.N. agencies would have had to recruit technicians, and the IBRD/IDA would have had to process a loan for seeds, a loan for fertilizer, and a loan for machinery. On the other hand, one can conceive of LDC's where AID's technicians are working in areas that have little to do with the current emphases of the AID loan program. A former AID employee concluded that by 1967 "...capital project assistance remains poorly integrated with other AID activities."[1]

In an attempt to get some quantative notion of the average amount of coordination between technical assistance and Development Loans, I examined the proportion of Technical Assistance Funds[2] and of project (and sector) loans in each of the three areas on which AID now places great emphasis: agriculture, education, and health. Table V shows, for example, that in FY 1968 Central America had 33 percent of its U.S. Technical Assistance in agriculture, education, and health as compared to 80 percent of its $67

[1]Joan M. Nelson, Aid, Influence, and Foreign Policy (New York: The MacMillan Co., 1968), p. 64.

[2]The conclusions are about the same if one looks at the proportion of U.S. technicial personnel in each area rather than the proportion of funds.

TABLE V

Percentage of AID Commitments in Major Areas FY 1968
(Technical Assistance and Development Loans[1])
($ Millions)

	Agriculture		Health		Education	
	Technical Assistance[2]	Development[1]	Technical Assistance[2]	Development[1]	Technical Assistance[2]	Development[1]
	(percentage)					
	(1)	(2)	(3)	(4)	(5)	(6)
Latin America						
Brazil[6]	31	13	03	24	22	31
Chile[6]	01	57	--	02	18	41
Colombia[6]	25	99	02	01	19	--
Peru	29	--	00[4]	100	10	--
Central America[7]	14	28	01	36	18	16
Other	10	37	04	29	12	25
Near East and South Asia						
India[6]	41	--	06	--	25	--
Pakistan[6]	13	04	07	76	17	--
Turkey[6]	19	11	--	--	20	--
Other	12	--	07	--	19	--
East Asia[3]						
Indonesia[6]	01	--	08	--	63	--
Korea[6]	13	--	--	--	03	09
Other	09	--	18	--	13	--
Africa						
East Africa	33	--	--	--	30	100
Ghana[6]	22	--	09	--	12	--
Nigeria	42	--	--	100	19	--
Tunisia[6]	22	--	10	100	18	--
Other[8]	17	21	19	--	23	04
Total Above	18	23	08	20	18	18

TABLE V (cont'd)

	Other		Total			
	Technical Assistance[2]	Development[1]	Technical Assistance[2]		Development[1]	
	(percent)		%	$	%	$
	(7)	(8)	(9)	(10)	(11)	(12)
Latin America						
Brazil[6]	43	32	100[9]	13	100	105
Chile[6]	80	--	100[9]	3	100	40
Colombia[6]	54	--	100	4	100	15
Peru	61	--	100	5	100	1
Central America[7]	67	20	100	12	100	67
Other	74	10	100	41	100[9]	48
Near East and South Asia						
India[6]	29	100	100[9]	9	100	37
Pakistan[6]	63	20	100	6	100	10
Turkey[6]	62	90	100[9]	4	100[9]	28
Other	62	100	100	16	100	1
East Asia[3]						
Indonesia[6]	28	--	100	3	--	--
Korea[6]	85	91	100[9]	7	100	22
Other	60	100	100	34	100	3
Africa						
East Africa	37	--	100	10	100	1
Ghana[6]	56	--	100[9]	2	--	--
Nigeria	40	--	100[9]	12	100	10
Tunisia[6]	50	--	100	3	100	0[5]
Other[8]	41	76	100	40	100[9]	28
Total Above	56	39	100	224	100	416

Source: AID Operations Report, June 30, 1968.

[1] Development Project and Sector Loans, not Program Loans.

[2] Technical Cooperation and Development Grants.

Footnotes to TABLE V (cont'd.)

[3]Excludes Vietnam.

[4]Aid was given, but less than 0.5%.

[5]Aid was given, but less than $0.5 million.

[6]Country received Program Loan.

[7]Costa Rica received a Program Loan.

[8]Moracco received a Program Loan.

[9]Does not add due to rounding.

million of Development Loans being in these three areas. Brazil had 57 percent of its U.S. Technical Assistance in these three areas as compared to 68 percent of its Development Loans (excluding a $75 million program loan) in these three areas. Looking at the variations among countries, one finds, for example, that 41 percent of AID's Technical Assistance in India was in agriculture, about the same percentage as in Nigeria, while Indonesia and Chile each had only 1 percent of AID's Technical Assistance in agriculture. Without knowing much more about each of the LDC's, one cannot be sure, at this level of aggregation, whether these different patterns reflect a high degree of coordination between Technical Assistance and Development Loans; for example, the technical experts may be in animal husbandry and the capital loans for fertilizer for wheat. It is also possible that technical assistance in an area in one year leads to a project loan in the area in a later year. It would require a major change in policy for the IBRD/IDA and IDB to employ directly a large number of technical experts to go along with their project loans.

The term technical assistance is used to cover everything from a one-week visit by an IMF expert on central banks to a 10-year project to develop a new wheat seed. Thus, one of the difficulties in analyzing technical assistance activities lies in their definition. As already noted, AID reports it spent $224 million on technical assistance. In FY 1968 the IDB authorized $17 million of what it calls technical assistance, which promotes development "...by contributing to the preparation of well-conceived development programs and projects and by helping to train Latin American professional, technical, and administrative personnel in economic development techniques."[1] The bulk of the IBRD/IDA's technical assistance occurs as an integral part of its project loans, but no separate figures are available on which to base an estimate of this amount. The IBRD/IDA also undertakes feasibility studies, sends advisory teams to various LDC's, runs the Economic Development Institute for senior government officials, and undertakes various economic studies. Much of the IMF's technical assistance is provided on a short-term basis to help countries prepare and implement new policies, draft central bank legislation, and development financial statistics. The IMF also tries to find outside experts for LDC's and runs the IMF Institute, which gives courses on financial analysis and policy. As U.S. experts cost substantially more than those of other rich countries, the real value of the difference between AID's technical assistance programs and those of the international agencies is overstated by the differences in financial expenditures.

Besides the coordination of technical assistance with capital projects, there is the problem of coordinating the various technical experts. AID tries to accomplish this with supervisory people in Field Missions. The coordination of technical activities is not, of course, solved simply by having the U.N. administer them. It is both a strength and weakness of the U.N. that it can draw on the talents of persons from many countries. Being able to use citizens of many countries frequently requires the U.N. to use experts from several nations, which (i) slows up the recruiting process and (ii) may lead to an inability of the experts to communicate with each other, let alone to make recommendations to the LDC.

[1] Ninth Annual Report, Inter-American Development Bank/1968, p. 8.

Finally, in judging the developmental impact of transferring some portion of AID's Technical Assistance to the U.N., one should consider the argument that AID is frequently able to "persuade" a LDC--by linking Technical Assistance with a desired Development Loan--to take experts in an area in which some people in the LDC would prefer not to have them. The efficacy of this process is similar to that discussed earlier in relation to program loans.

One should note that in technical assistance there are other possibilities besides either an international agency program or a national government program. U.S. foundations are already heavily involved in this area, and some of the outstanding technical assistance activities have been financed by the foundations. One can conceive of an "international foundation"--funded by national governments, international agencies, and international businesses[1]--which would administer technical assistance in the LDC's. Such a foundation might have more difficulty than AID in temporarily employing experts of other U.S. government agencies--who now account for about one-sixth of AID's overseas experts (outside Vietnam)--but might be viewed by the citizens of the LDC as being more "objective" than AID and less political than the U.N.

---

[1]U.S. firms (and individuals) would presumably be interested in contributing to such a foundation only if the U.S. tax laws were changed so that donations to foreign charitable and philanthropic activities received the same tax treatment as donations to such activities within the U.S.

6. How would the transfer of AID's Development Loans and Technical Assistance affect the economic development of the less developed countries? This question has two aspects: the efficiency of the various foreign aid agencies in performing their usual activities and the extent to which the agencies are innovators.

The IBRD/IDA has some clear advantages over AID in recruiting personnel: (i) its salary scale is somewhat higher than that of AID; (ii) it is less restricted by civil service regulations, (iii) it can recruit from all over the world, and (iv) its senior officials are not subject to testifying before the U.S. Congress. Only the last two of these advantages are inherent in an international organization. AID, unlike the international agencies, is now dependent on annual appropriations and feels it must commit funds at the end of the fiscal year for an occasional marginal project rather than have the funds forever revert to the U.S. Treasury. Despite these relative handicaps, AID can probably process a specific loan more quickly than either the IBRD/IDA or IDB (though less rapidly than the IMF), and the average length of time in processing loans is probably about the same for AID as for the international lending agencies.[1] However, AID presently processes many more loans of less than $5 million than does the IBRD/IDA or IMF. Table VI shows by size of loan the number of loans made by the various aid agencies in FY 1968. AID has more than half its loans in the category of under $5 million--with an average size of slightly more than $1 million--while the IBRD/IDA had only 16 such loans--with an average size of about $3 million--and the IMF had only four such

[1]The disbursements on loans after they are signed may be faster for AID than for the international agencies other than the IMF.

TABLE VI

Loan Commitments by Size of Loan by AID, IBRD/IDA, IDB, and IMF, FY 1968 ($ million)

Loan Size	IBRD Number (1)	IBRD Amount (2)	IDA Number (3)	IDA Amt. (4)	IBRD/IDA Number (5)	IBRD/IDA Amt. (6)	IDB Number (7)	IDB Amt. (8)	IMF[2] Number (9)	IMF[2] Amt. (10)	AID[3] Number (11)	AID[3] Amt. (12)
Over $100 mill.	0	0	0	0	0	0	0	0	2	250	2	340
50-100 million	2	145	0	0	2	145	0	0	3	190	2	133
25-49 million	8	233	0	0	8	233	3	106	9	280	4	136
10-24 million	17	287	5	54	22	341	15	201	7	96	19	271
5- 9 million	6	38	4	27	10	65	8	58	5	38	14	99
Total above	33	703	9	81	42	784	26	365	26	853	41	979
Less than 5 mill.	7	24	9	27[1]	16	51	30	70	4	15	51	60[4]
TOTAL	40	724*	18	107*	60	831*	55	431*	30	865*	92	1039

*Does not add because of rounding.

[1] Two loans to Malawi totalling $9.7 million were placed here as $\frac{9.7}{2} = 4.85$, less than $5 million.

[2] New and Renewed Stand-bys.

[3] Development and Alliance Loans.

[4] Included in this figure are 17 grants for population programs totalling $12.9 million.

Sources: Annual Reports of IBRD/IDA, IDB, and IMF.
AID Operations Report (June 30, 1968)

loans. The IDB resembles AID in this respect, as the IDB has more than half its loans in this category, each of these loans averaging about $2 million. Of the loans of at least $5 million, AID had 41 with an average size of $24 million; IBRD/IDA had 42 with an average size of $19 million; the IMF had 25 with an average size of $33 million, and the IDB had 26 with an average size of $14 million. In FY 1962 AID made 59 loans, of which only 16 were of less than $5 million. This increase in small loans is not due to AID's emphasis on Africa (with its many small economies), as Africa accounts for about one-fourth of these small AID loans. If AID's small loans were to be taken over by the IBRD/IDA, it might find it would have to increase substantially its staff. A skeptic might argue that these small loans have only a trivial effect on development (especially in such fairly large countries as Pakistan, Turkey, Brazil, Korea, Philippines, and Nigeria) and that perhaps AID makes them either to satisfy Congressional pressures or in order to avoid returning funds to the U.S. Treasury at the end of the single year appropriation.

Promoting the economic development of the LDC's through the provision of foreign aid is such a new and difficult task that both the aid donors and the LDC's are searching for better approaches. It is argued that the national aid agencies have been more innovative than the international aid agencies. It is said that AID, for example, was the first major aid agency to stress agricultural development, to emphasize family planning,[1] to give "program loans," and to adopt "country programming." On the other hand, the IBRD/IDA developed the concept of lending funds to a national Development Bank, which

[1]While Sweden preceded AID in the family planning area, AID was several years in advance of the U.N. and other international agencies in its attention to family planning in the LDC's.

in turn lends to smaller private borrowers in the LDC; through June 1968 the IBRD had loaned $580 million to Development Banks, out of total cumulative loans to LDC's of about $7.4 billion. In 1963 the IMF introduced compensatory financing of export fluctuations. Under this arrangement, countries automatically receive loans when their export earnings fall below normal levels. In FY 1968, LDC's received $187 million from this arrangement.

As mentioned earlier, AID tries to integrate its technical assistance and capital projects in a particular country so that both are part of the same development strategy. Another aspect of "country programming" is to have the same set of financial terms for all loans to the same country. Since a country's ability to repay foreign loans depends on the country's total balance of payments situation, AID feels a judgment should be made as to the appropriate interest rate, grace period, and maturity for each LDC and then have all loans--but not technical funds, which are grants--to the same country have the same financial terms. The IBRD/IDA and the IDB, on the other hand, give more attention to the specific type of project. For example, in June 1969 the IBRD made a loan of $14.5 million for railways in West Pakistan; this loan is for 26 years at 6 1/2 percent interest; at the same time IDA made a loan of $30 million, at 3/4 percent interest and 50 year maturity, to finance import requirements of Pakistani farmers. Critics of the AID approach might argue that it is extremely difficult to decide on the financial terms appropriate for each LDC and that, in fact, AID takes the far easier route of making almost all its loans at the same financial terms. In 1967 AID made 79 Development Loans--for $912 million--to 39 LDC's, and only eight of these loans were not at the easiest terms AID could legally offer: 2 1/2 percent interest and 40 year maturity. These eight loans were distributed among six LDC's: two to East Africa at 4 percent and 20 years (along with another loan at 2 1/2 percent and 40 years); one to Ethiopia at 2 1/2 percent and 20 years (along with another loan at 2 1/2 percent and 40 years); one to Israel at 3 1/2 percent and 20 years; two to the Philippines, one to Thailand, and one to Ceylon--the last four loans all at 3 1/2 percent and 25 years.

"Program loans"--as discussed earlier--are Development Loans which are not linked to a specific capital project in a LDC. The LDC can import a wide range of commodities with the loan and, in return for the loan, agrees--with varying degrees of specificity--with AID on a set of changes in its economic policies. The IMF was probably the first agency to make such loans--calling them "stand-bys"--but AID modified the IMF concept by (i) increasing the areas in which policy changes are discussed, e.g., going beyond exchange rates and money supply to such things as the support price for wheat or secondary education and (ii) lengthening the maturity of the loans to 40 years from the IMF's five years. As already discussed, program loans are used by AID to try to influence the recipient's economic policies; such loans also provide foreign exchange that can pay for imports not related to a specific project. Such "free foreign exchange" is provided by the IBRD/IDA either when it provides debt relief--as it has for India--or when it makes loans for projects with a small direct import component. Such "local cost" financing occurs as part of a project--such as a power plant--or as an entire project--such as a loan to a local bank for domestic credit, in FY 1968 the IBRD/IDA loaned $173 million to local credit institutions. AID does very little local cost financing because some U.S. officials feel it is more damaging to the U.S. balance of Payments. A rough guess is that the international agencies--through IMF stand-bys, IBRD debt relief, and IBRD/IDA local cost financing--provide as much "free" foreign exchange annually as does AID through its program loans.

In recent years AID (and the U.S. Department of Agriculture) have been very involved in increasing agricultural production in the LDC's. Short-term results are so impressive in several countries--such as India, Pakistan, Philippines, and Turkey--that AID officials now speak of the "Green Revolution." As shown in Table VII, in FY 1968, 9 percent ($97 million) of AID's Development Loans were in agriculture, as compared to 21 percent ($172 million) of IBRD/IDA loans and 17 percent ($75 million) of IDB loans. As shown in Table VIII, in FY 1962, 6 percent ($74 million) of AID's Development Loans were in agriculture, as compared to 1 percent ($8 million) of IBRD/IDA loans and 26 percent ($32 million) of IDB loans. These figures understate AID's current emphasis on agriculture, since they exclude the substantial amounts of fertilizer imported under AID's program loans. Education, another high priority area, received 8 percent ($74 million) of AID's Development Loans in FY 1968, as compared to 3 percent ($25 million) of IBRD/IDA loans and 2 percent ($9 million) of IDB loans. In FY 1962 neither AID, IBRD/IDA, nor IDB made any loans to education.

Both AID and the international agencies find it very difficult to assist directly private groups or local governments in LDC's when the LDC national government opposes such assistance. The international Banks can lend to somebody other than the national government if the loan is guaranteed by the LDC government, thereby requiring a positive act of consent by the LDC government. AID's legislation allows it to lend directly to private groups and local governments, but various treaties restrict the ease with which AID can do so.

Sometimes both AID and the LDC government will take the absence of an explicit rejection of a loan by a LDC national government as consent by the government to an AID loan to a private group or a local government. The international agencies require more than tacit approval. Those who believe that economic development in the LDC's may occasionally require helping those who are viewed with disfavor by the national government of the LDC find AID's flexibility an advantage over that of the international agencies.

TABLE VII

Loan Commitments by Sector by AID, IBRD/IDA, and IDB, FY 1968 ($ million)

	IBRD		IDA		IBRD/IDA		IDB		AID[3]	
	Amt. (1)	Per. (2)	Amt. (3)	Per. (4)	Amt. (5)	Per. (6)	Amt. (7)	Per. (8)	Amt. (9)	Per. (10)
I. Project Loans	724	100	107	100	831	100	431	100	320	31
Agriculture	145	20	27	25	172	21	75	17	44	4
Ind. Dev. Banks	147	20	0	0	147	18	32	7	34	3
Other Ind. & Mining	22	3	0	0	22	3	28	6	50	5
Power	254	35	14	13	268	32	128	30	41	4
Transportation[1]	96	13	51	48	147	18	72[1]	17	25	2
Water & Sewerage	22	3	0	0	22	3	27	6	88	8
Housing	0	0	0	0	0	0	26	6	3	0
Education	11	2	14	13	25	3	9	2	26	3
Others[2]	27	4	1	1	28	3	35	8	9	1
II. Sector Loans	0	0	0	0	0	0	0	0	101	10
Agriculture	0	0	0	0	0	0	0	0	53	5
Education	0	0	0	0	0	0	0	0	48	5
III. Program Loans	0	0	0	0	0	0	0	0	617	59
Total	724	100	107	100	831	100*	431*	100*	1039*	100*

*Doesn't add because of rounding.

[1] Includes port construction project.

[2] Includes telecommunications projects and project pre-investments.

[3] Development and Alliance Loans.

Sources: Annual Report of World Bank 1968; Annual Report of IDB, 1968; AID Operations Report (June 30, 1968).

TABLE VIII

Loan Commitments by Sector by AID, IBRD/IDA, and IDB, FY 1962

($ million)

	IBRD Amt. (1)	IBRD Per. (2)	IDA[1] Amt. (3)	IDA[1] Per. (4)	IBRD/IDA Amt. (5)	IBRD/IDA Per. (6)	IDB Amt. (7)	IDB Per. (8)	AID[3] Amt. (9)	AID[3] Per. (10)
I. Project Loans	685*	100*	0	0	685*	100*	125*	100*	596	50
Agriculture	8	1			8	1	32[2]	26[2]	74	6
Ind. Dev. Banks	22	3			22	3	10[2]	8[2]	85	7
Other Ind. & Mining	83	12			83	12	34	27	114	10
Power	380	55			380	55	18	14	190	16
Transportation	191	28			191	28	4	3	108	9
Water & Sewerage	0	0			0	0	23	13	11	1
Housing	0	0			0	0	0	0	0	0
Education	0	0			0	0	0	0	0	0
Others	3	0			3	0	5	4	14	1
II. Sector Loans	0	0	0	0	0	0	0	0	0	0
Agriculture										
Education										
III. Program Loans	0	0	0	0	0	0	0	0	602[4]	50
Total	685	100	0	0	685	100	125	100	1197*	100

*Does not add because of rounding.

[1] IDA was not operative yet in 1962.

[2] One IDB loan totalling $6 million divided evenly between Agriculture and Industrial Development Bank due to lack of information as to proper allocation.

[3] Development and Program for Reconstruction and Rehabilitation.

[4] Includes loan of $100 million to Chile for Reconstruction & Rehabilitation.

Sources for Table VIII

Annual Report of IDB, 1962.
Annual Report of World Bank and IDA, 1961/1962.
AID Operations Report (June 30, 1962).

7. What would be the short-run effects on the U.S. balance of payments of increasing the proportion of U.S. foreign aid handled by international agencies? In recent years an increasingly large proportion of AID's funds has been spent by the LDC's for U.S. goods and services as a condition of receiving U.S. foreign aid. In FY 1968 about 96 percent of AID's commodity expenditures were made in the U.S. It is, of course, quite possible that some of these U.S. commodities would have been bought by the LDC in the absence of U.S. foreign aid, so that the "true" short-run balance of payments cost of AID's program may be in excess of 4 percent.

Through FY 1969 most AID purchases outside the U.S. were in South East Asia and were related to the U.S. program in Vietnam. In October 1969 President Nixon announced that all AID loans to Latin America ($255 million in FY 1969) could be spent anywhere in Latin America.

Export-Import Bank loans and PL480 loans are, of course, restricted to purchase of U.S. goods. In order to reduce the impact on the LDC's of having to buy higher priced goods from countries giving export credits, the IBRD has developed a technique whereby a group of national export credit agencies agree to finance any contracts their firms win under competitive bidding, with the IBRD financing the remaining contracts. For example, in 1968, 11 countries agreed to finance $22 million of a power project in Mexico, with the IBRD supplying another $90 million.

The present situation varies among the different international agencies. U.N. agencies spend funds for technical experts anywhere in the world. IMF funds can be spent anywhere. Loans from the Fund for Special Operations of the IDB can only be spent in member nations, and the U.S. is the only DAC country that is a member of the IDB. IBRD/IDA loans can be spent anywhere. In recent years about 20 percent of IDA funds have been spent in the U.S., which is less than the U.S. share of IBRD procurement. This difference is probably due to U.S. firms' being more competitive in those areas (Latin America) and projects (transport and power) that in the past received more emphasis from the IBRD than from IDA. As IDA increases the proportion of its funds allocated to Latin America and reduces the proportion allocated to India and Pakistan, it is possible that U.S. firms will win more of the contracts, though not necessarily the 40 percent which the U.S. contributes to IDA.

8. <u>How would the IBRD/IDA's relationship to the U.S. be affected if the U.S. substantially increased its IDA contribution</u>? The U.S. now contributes 40 percent of IDA's funds, as compared to about 52 percent of total DAC foreign economic aid.[1] Some people argue that the total amount of foreign aid given by the DAC countries would increase if the U.S. shifted its funds from bilateral aid to multilateral aid. Other people claim that the other large donors are less interested in multilateral aid than is the U.S., that these donors would not increase their contributions to IDA even if the U.S. did, and that, therefore, the character of the IBRD/IDA would be changed by a large U.S. contribution.

The most recent test of these hypotheses is the negotiations over the last IDA replenishment. In June 1966 George Woods, President of the IBRD/IDA, said the LDC's could use another $3-4 billion per year in foreign aid, and in October 1967 it was reported that Mr. Woods sought IDA contributions of $1 billion per year, as compared to the $250 million per year in the previous replenishment. The U.S. proposed a gradually increasing amount that would reach $1 billion in the third year and would total $2.4 billion over these years. The U.S. proposal was apparently supported by Canada, Denmark, Sweden, and Finland. The U.K., Norway, and Netherlands suggested $500 million per year for three years, or $1.5 billion. In December 1967 the six EEC countries suggested $400 million per year for three years, or $1.2 billion, and this figure was the one finally agreed to by all the donor governments in 1968.

There are several factors which indicate that while this experience is

---

[1] The U.S. accounts for about 53 percent of the combined GNP of the DAC countries.

suggestive of the outcome of future IDA replenishments, it is not conclusive. First, the U.S. government made clear that any U.S. contribution to IDA was contingent on "appropriate safeguards" for the U.S. balance of payments, which had not been part of any previous IDA replenishment. One cannot know how several governments--which in the past had received short-run support for their own balance of payments by having their firms win large IDA orders--would have acted if the U.S. had not insisted on balance of payments protection. Furthermore, in the past, IDA, as shown in Table IX, has concentrated its loans in India and Pakistan, while the EEC countries--who contribute 26 percent of IDA's funds--have stressed Africa in their bilateral aid programs. In 1967 81 percent of IDA's net disbursements went to India and Pakistan, while these two countries received only 9 percent of the bilateral aid of the six EEC countries. Algeria and the French Franc Area in Africa received 38 percent of the bilateral aid of the EEC countries and 1 percent of IDA's aid. IDA has recently set a ceiling of 52.5 percent of its new lending to India and Pakistan. If the IDA were to give more attention to some parts of Africa, then the EEC might be prepared in the future to support a larger IDA replenishment. Finally, there are new heads of government in France, Italy, West Germany, and Belgium, who might make different policy decisions about IDA than did their predecessors.

One might note that, contrary to some views held in the U.S., most DAC countries already give a larger fraction of their foreign aid to international agencies than does the U.S. As shown in Table X, only France gave a smaller share of its total aid multilaterally than did the U.S. in 1967. The U.S. would have had to contribute another $162 million to bring its multilateral

TABLE IX

Geographic Allocation of Net Official Flows[1] by IDA and by EEC, 1967

	IDA		EEC Bilateral		EEC Institutions[2]	
	amount $ mill.	percent	amount $ mill.	percent	amount $ mill.	percent
	1	2	3	4	5	6
Latin America	23	6	78	6	7	5
Argentina	-	-	14	1	-	-
Chile	5	1	30	2	-	-
Netherlands Antilles	-	-	12	1	3	3
Peru	-	-	15	1	-	-
Paraguay	6	2	4	0	-	-
Surinam	-	-	-	-	4	3
Other	12	3	1	0	-	-
Near East & South Asia	315	86	283	23	34	25
India	227	62	72	6	-	-
Israel	2	1	41	3	-	-
Pakistan	71	19	36	3	-	-
Turkey	16	4	39	3	22	16
U.A.R.	-	-	28	2	-	-
Greece	-	-	5	0	12	9
Others	-1	0	61	5	-	-
East Asia	-	-	149	12	-	-
Indonesia	-	-	93	7	-	-
Korea	-	-	12	1	-	-
Others	-	-	44	3	-	-
Africa	28	8	747	59	97	70
Algeria	-	-	93	7	3	2
French Franc Area	4	1	392	31	85	61
East Africa	11	3	18	1	-	-
Nigeria	6	2	22	2	-	-
Congo (Kinshasa)	-	-	56	4	5	3
Tunisia	2	0	49	4	-	-
Others	6	2	118	9	5	3
Total	367	100	1,256	100	139	100

[1] Gross disbursements minus repayments.

[2] European Development Fund and European Investment Bank

Source: DAC

TABLE X

Types of Foreign Aid, 1967

	Total official net aid	Contributions to multilateral agencies	Administered multilaterally	Consortia and consultative groups	Other aid	Multilateral as per cent of total aid (2)+(3) / (1)	Consortia and Consultative groups as per cent of total (4)/(1)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	$ million						
U.S.A.	3,723	310	86	1,666	1,661	11	45
France	831	59	0	16	756	7	2
Germany	547	66	4	148	329	13	27
U. K.	498	53	7	140	298	12	28
Japan	391	45	0	125	221	12	32
Italy	203	34	0	66	103	17	33
Canada	213	46	3	130	34	23	61
Other DAC	571	152	12	91	316	29	16
Total	6,977	765	112	2,382	3,718	13	34

Source: DAC

share up to the 15 percent average of the other DAC countries. In 1968 the U.S. Congress authorized the transfer of up to 10 percent of Development Loan funds (up to $30 million) and up to 15 percent of Alliance Loans (up to $38 million) to the international agencies, but the President made no such transfer, perhaps because some key members of Congress objected.

Even if the large DAC contributors--U.K., Germany, France, Japan, and Italy--were not prepared to match additional U.S. contributions to the international agencies, the smaller DAC contributors might match the U.S.. These smaller countries--Australia, Austria, Belgium, Canada, Denmark, Netherlands, Norway, and Sweden--already contribute over 20 percent of their foreign aid multilaterally, and their governments have indicated they will increase the total amount of aid and also consider giving a larger share multilaterally. In 1967 these eight nations had total economic aid of $737 million, of which $213 million was multilateral. These eight nations will provide $1.8 billion in economic aid in 1975 if they meet the targets set by the Pearson Commission. If they provided all their economic aid multilaterally and if it were decided the U.S. should not contribute more than 40 percent of additional multilateral funds, then the U.S. could contribute another $1.1 billion multilaterally; by coincidence, this sum is about equal to AID's Development Loans and technical assistance in FY 1968.

Even if it were true that in the future that none of the other DAC countries would match a larger U.S. contribution to IDA, some people would argue that the character of the IBRD/IDA would not change much because it is already dominated by the U.S. While the U.S. has only 25.5 percent of the votes on the Executive Board, every President of the IBRD/IDA has been from the

U.S.[1] The IBRD must receive permission from a government to sell bonds in the country; as about two-thirds of the IBRD's bonds have been sold in New York, the U.S. Treasury could influence Bank operations by more than is suggested by the U.S. voting strength. Finally, 31 percent of the IBRD/IDA professional staff of 878 and 45 percent of its senior staff of 197 are U.S. citizens.[2] Some Europeans and some citizens of the LDC's claim the IBRD/IDA is an "Anglo-Saxon" agency, as 68 percent of its senior staff are citizens of the U.S., U.K, Canada, Australia, and New Zealand, although these five countries have only 42.1 percent of the votes on the Executive Board. While some people have suggested that the multilateral character of the IBRD/IDA would be enhanced by having its next President not be an American, others have argued that it would be more difficult to sell IBRD bonds--at least in New York--if an American were not President.

---

[1] By contrast, none of the IMF Presidents has been an American.

[2] These data are for April 1969. I define Senior staff as those with after-tax salary of at least $20,000 per year.

9. Would the criticism now directed at AID be shifted to the international agencies if a smaller portion of U.S. aid were given through AID? In addition to the balance of payments restrictions imposed on U.S. bilateral programs, the Foreign Assistance Act, as amended in 1968, contains 21 prohibitions on AID's activities. Some of these restrictions might be considered as being Congressional judgments on sound development policies by the LDC's, e.g., U.S. foreign aid shall be terminated when the President determines that a recipient country "...is diverting its own resources to unnecessary military expenditures, to a degree which materially interferes with its development." Other restrictions seem linked to specific aspects of U.S. foreign policy and not necessarily related to the prospects for economic development of the prospective recipient; for example, no U.S. foreign aid shall be furnished to Cuba or to Communist nations; no foreign aid shall be furnished for a project when more than 20 percent of its output will be exported to the U.S. during the life of the loan; no foreign aid shall be used in a manner which promotes the foreign aid projects of "Communist-bloc nations"; no U.S. foreign aid shall be given to a country that trades with North Vietnam. Some people argue that the U.S. Congress and the U.S. Executive have an almost irresistible urge to express such views in foreign aid legislation and that these prohibitions would be imposed upon the international aid agencies if AID were not in existence. Others claim that neither Congress nor the Executive would impose such restrictions on the international agencies because they would conclude that other nations would imitate such U.S. action and thus destroy the effectiveness of the international agencies. In fact, the U.S. Congress has already sought to impose some of the restrictions of the bilateral program

upon the multilateral agencies. Section 301 (b) of the Foreign Assistance Act says "the President shall seek to assure that no contribution to the United Nations Development Program...shall be used for projects for economic or technical assistance to the Government of Cuba, so long as Cuba is governed by the Castro regime." The legislation authorizing U.S. contributions to the IDB says (section 16c) "the voting power of the United States shall be exercised for the purpose of disapproving any loan which might assist the recipient country directly or indirectly to acquire sophisticated or heavy military equipment."

It is sometimes argued that the IMF, IBRD/IDA, and IDB can maintain their "international objectivity" because AID is prepared to negotiate with LDC governments on the "tough" economic policy issues. Does AID's existence allow the President of the IDB or IBRD/IDA to escape the public reactions recently experienced by Governor Rockefeller in Latin America? AID frequently tries to get the international agencies to accept public responsibility for requiring unpopular measures, e.g., the IMF is frequently associated with currency devaluation. In other cases--especially in Latin America--the IMF, IBRD/IDA, and AID establish a joint negotiating position and as a team discuss policy changes with the LDC government. Some people say that a LDC government feels it is better able to maintain its independence by bargaining separately with half a dozen bilateral aid donors and several international agencies than with only one or two international agencies, though this benefit has the associated cost of having the LDC's officials continuously involved in the laborious job of negotiating for foreign aid.[1]

[1] "Thailand has sometimes seemed to profit from rivalries between donors, though it must on occasion weigh the advantages of donor-competition against its own administrative inconvenience." Partners in Development, Report of the Commission on Economic Development (Praeger, 1969), p. 336.

10. Are there other approaches which gain some of the benefits of multilateral aid without having the U.S. give up all control over its foreign aid funds? There is now a considerable amount of consultation and coordination among aid donors. The DAC is the principal forum in which bilateral aid donors discuss such matters as the total amount of their aid, the average financial terms of their aid, and balance of payments restrictions on aid.

Coordination groups now exist for 20 LDC's, which, as shown in Table XI, in FY 1968 received 64 percent of AID's Development Loans of $1,031 million. These coordination groups include every country outside Latin America that received more than $10 million in Development Loans in FY 1968; 95 percent of Development Loans outside Latin America went to countries having a coordination group. These groups range from consortia--where the aid donors assess LDC performance and plans and pledge assistance--to consultative groups--which assess LDC performance and plans but involve no formal pledges of aid--to ad hoc groups for specific problems (such as debt rescheduling in Ghana and Indonesia). The 17 LDC's involved in either the consortia or the consultative groups received 34 percent of all DAC foreign aid in 1967; as shown in Table X, the U.S. and Canada are the two major aid donors which rely most heavily on these arrangements.

The Inter-American Committee for the Alliance for Progress (CIAP) reviews performance and plans of the Latin American countries, but the review involves no formal pledges of assistance. CIAP reviews differ, at least in principle, from the coordination groups in that LDC's review each other's performance.

The Pearson Commission recommends that these coordination groups be

TABLE XI

Coordination Groups, 1968

Country	Chairman of Group	AID Development Loans in FY 1968
		$ million
(1)	(2)	(3)
Consortia		
India	IBRD	285.0
Pakistan	IBRD	125.2
Greece	OECD	0
Turkey	OECD	68.0
Consultative Group		
Colombia	IBRD	73.0
East Africa	IBRD	.6
Ecuador	IDB	.0
Korea	IBRD	32.0
Malaysia	IBRD	0
Morocco	IBRD	13.0
Nigeria	IBRD	9.7
Peru	IBRD	.1
Sudan	IBRD	0
Thailand	IBRD	0
Tunisia	IBRD	10.8
Coordination Group		
Ceylon	IBRD	0
Ghana	IMF	17.5
Indonesia	Netherlands	20.0
	Total above:	654.9

Source: AID Congressional Presentation and Operations Report.

extended to other developing countries, mainly along the CIAP formula. The Commission says there are many LDC's "...whose governments are inexperienced or inefficient in economic management and who particularly benefit from frank and knowledgeable advice. This would often be difficult and irritating in a purely bilateral context. It is still difficult but not so irritating or fraught with suspicion when done in a multilateral context... . Foreign aid becomes a matter of mutual cooperation between many partners, and not, as it has sometimes been, an awkward political relationship between two countries."[1]

As already noted, this recommendation appears to have little significance for U.S. foreign aid, since all major Development Loans already go to countries having either a CIAP review or a coordination group. Perhaps the Commission was directing this recommendation mainly to other DAC countries. The issue for the U.S. is why, as the Commission notes, CIAP reviews appear "...to have made only a limited impact on the aid decisions of donors."[2] The Commission gives the answer a few pages later:"We have indicated our view that increased allocation of aid should be primarily related to performance. This is the majority view of those who now administer aid, whether bilateral or multilateral. Nevertheless, much bilateral aid is still determined mainly by other considerations, with the result that the current distribution between developing countries bears no relationship to performance."[3] In other words, how can the views of those who administer aid become the views of those who determine the total amount of aid and its allocation?

In 1961 the Charter of Punta del Este called for the appointment of a

---

[1]Partners in Development, op. cit., pp. 129-130.

[2]Ibid, p. 129

[3]Ibid, p. 133.

"...panel of nine high-level experts, exclusively on the basis of their experience, technical ability, and competence in the various aspects of economic and social development." The Charter says the recommendation of these experts--later called the nine wise men--"...will be of great importance in determining the distribution of public funds under the Alliance for Progress... ." The experts eventually resigned in 1966 because their recommendations were not, in their view, influential in determining aid allocations.

In 1963 CIAP was established. In 1966, several U.S. government officials testified before the Senate Committee on Foreign Relations. David Bell, Administrator of AID, said, "The Inter-American Committee for the Alliance for Progress (CIAP) is an increasingly vigorous multilateral coordination arrangement tailored to the specific circumstances of Latin America. The annual review process of CIAP provides a frank and comprehensive evaluation of development progress and problems in each Latin American Republic."[1] Lincoln Gordon, Assistant Secretary for Inter-American Affairs, told the Committee, "As Mr. Bell has already told this Committee, the Inter-American Committee for the Alliance for Progress (CIAP) has become an increasingly vigorous organization for multilateral leadership and coordination. CIAP's annual review of each country's program and progress is a checkpoint that provides perspective on progress to aid recipients and suppliers alike. Pledges of performance to CIAP by Latin American nations weigh heavily in U.S. determination to make assistance available."[2]

---

[1] Hearings Before the Committee on Foreign Relations, United States Senate, 89th Congress, 2nd Session (Washington: U.S. Government Printing Office, 1966), p. 7.

[2] Ibid, p. 544.

President Nixon, in his speech in October 1969 to the Inter-American Press Association, said "I propose that a multilateral Inter-American agency be given an increasing share of responsibility for developing assistance decisions. CIAP--the Inter-American Committee for the Alliance for Progress--could be given this function. Or an entirely new agency could be created. Whatever the form, the objective would be to evolve an effective multilateral framework for bilateral assistance, to provide the agency with an expert international staff, and, over time, to give it major operational and decision-making responsibilities." Some may recall the speech by the President of the U.S. to the Congress a little more than eight years ago; he said that a decade of development "...is in our grasp if, and only if, the other industrialized nations now join us in developing with the recipients a set of commonly agreed criteria, a set of long-range goals, and a common undertaking to meet those goals in which each nation's contribution is related to the contributions of others and to the precise needs of each less developed nation. Our job, in its largest sense, is to create a new partnership between the northern and southern halves of the world..."

The Foreign Assistance Act already contains language [Section 251(h)] relating AID's Alliance for Progress Loans to CIAP: "Loans may be made under authority of this title only for social and economic development projects and programs which are consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities." Given this record of past verbal commitment to CIAP and the record of past impact on AID of CIAP and the Wise Men, a skeptic may doubt that the language in President's Nixon's recent speech heralds a new era.

A signal stronger than a Presidential speech may be needed now. One possible way for President Nixon's argument to be persuasive would be to establish a record of AID's making loans to countries whose economic performance is judged good even though its other relations with the U.S. are judged bad, e.g., a country that expropriates a U.S. firm in the context of a sound development policy. A quicker signal to the rest of the world would be for the U.S. Congress--at the President's request--to repeal all the prohibitions now contained in the Foreign Assistance Act (see question 9), leaving the injunction about CIAP as the sole criterion for allocating AID funds. A third possibility would be for the President to recruit, at the top levels of the AID program in Latin America, men who are publicly known to be committed to the objective enunciated in his speech; many such men, who worked in the Alliance in the early 1960's, are no longer in the U.S. government.

Another possible signal would be for the U.S. to ask CIAP, or some other international organization, to act as a trustee, or administrator, for U.S. funds. The IBRD now administers the Indus Basin Fund, to which the U.S. and other DAC countries contribute, and in the early 1960's the IDB administered the Social Progress Trust Fund, to which the U.S. contributed. It has been suggested that in the future the U.S. could ask the IBRD/IDA, or one of the regional banks, to act as trustee for sums designated over several years for specific LDC's--which would allow the U.S. to indicate its interest in specific countries. For example, the U.S. could ask the IBRD/IDA to handle over four years--in addition to its normal activity--$500 million for Pakistan, $1.2 billion for India, $300 million for Chile, and if the Bank could not fruitfully lend these funds, they would be returned to the U.S. government at the end of the four years. Such a trustee arrangement would involve a change in IBRD/IDA policy. Unlike CIAP reviews or coordination groups, such a trustee arrangement would preclude the U.S. government from attempting to use economic aid as a short-run diplomatic instrument and would, therefore, be opposed by some U.S. supporters of the U.S. aid program. By varying the amounts in each four year period, the U.S. could, however, indicate changes in its "medium-term" support for various governments.

Even if the U.S. were willing, not everyone will agree with the Pearson Commission's belief that "...with improved assessment and reporting procedures, meaningful judgments with respect to the development performance of aid recipients are feasible."[1] President Nixon said "...experience...has taught us that economic and social development is not an achievement of one nation's foreign policy, but something deeply rooted in each nation's own traditions. It has taught us that each nation, and each region, must be true to its own tradition." This thought may suggest that a nation's development objectives, and its strategy for attaining them, cannot be "mutually agreed upon"; they are the perogatives of the particular developing nation. The conclusion that a developing country's domestic objectives and policies are not capable of being assessed "objectively" by any group of foreigners does not necessarily imply that an international group cannot allocate aid. In the U.S., for example, allocation of government funds is continuously done through the political process with only a small attention to "objective judgments" about performance. A similar political process could allocate aid funds among the LDC's. While some would charge that such a political process would lead to a "waste" of resources, it is not obvious, to some people, that the "waste"

[1] Partners in Development, op. cit., p. 133.

would be any larger than in the various levels of government in the U.S. Others have said the Latin Americans do not want CIAP to make the allocation of aid. Secretary of State Rusk said, in 1966, "...in the case of CIAP in the Latin American system, they make plans, they help improve them but, when the time comes to make the decisions as to which country is to get which kind of help from the outside, I think you will find that the Latin American countries themselves would be very hesitant to make those decisions among themselves because of the political issues that would be raised."[1] Even if Secretary Rusk's assessment was valid in 1966, President Nixon's recent speech suggests it may have less validity now.

[1] Hearings Before the Committee on Foreign Relations, United States Senate, *op. cit.*, p. 106.

III

Summary and Conclusions

The reader may wish for a summary of the pro's and con's of bilateral foreign aid and of multilateral foreign aid. I suspect, however, that a neat listing is impossible because the proponents of each see the world from such different perspectives; what a U.S. Ambassador sees as an advantage of a bilateral U.S. aid program, Senator Fulbright, for example, might see as a disadvantage. Based on the preceding discussion, I will try to give the main advantages of each type of foreign aid as seen by its advocates.

The proponents of a key role for AID would argue:

(i) a bilateral aid program helps the U.S. achieve various foreign policy objectives;

(ii) even if a bilateral aid program does not help in achieving U.S. foreign policy objectives, many people believe it does and so the U.S. government will provide more funds for a bilateral program than for a multilateral aid program;

(iii) a bilateral foreign aid program has a less adverse impact on the U.S. balance of payments than a multilateral program;

(iv) AID serves as a "lightening rod" to attract criticism--both from Americans and from foreigners--that would otherwise be directed at the international aid agencies;

(v) AID better promotes the economic development of the LDC's because it is more innovative, is more willing to use "persuasion," provides "unencumbered" foreign exchange through program loans, coordinates technical assistance and capital loans in a country, and has Field Missions;

(vi) the other large aid donors--U.K., Germany, France, Japan--will not increase the amount of aid they provide multilaterally, and so a large increase in U.S. multilatateral aid would lead to the U.S. domination of the international agencies;

(vii) the existence of many bilateral aid programs allows the LDC's to maintain more "independence" from foreigners by playing off one donor against another.

The principal arguments of the proponents of more U.S. economic aid being provided directly through the multilateral agencies are:

(i) a bilateral aid program impairs the achievement of U.S. foreign policy objectives;

(ii) the international agencies can better promote the economic development of the LDC's because their advice and "persuasion" will be more objective; because their aid is not entangled with restrictions imposed by the U.S. Congress; because AID has lost its innovating spirit and best personnel in the last few years; because multilateral funds can be used to buy goods from the cheapest sources; because international agencies provide "unencumbered" foreign exchange through IMF stand-bys, debt relief, and financing of local costs; and because the international agencies have established the tradition of multi-year funding from national governments (which AID has never been able to obtain) and so can take a longer view of their relation with the LDC's;

(iii) many aid donors--especially the smaller ones--are prepared to increase substantially the amount of aid they give multilaterally if the U.S. would increase its multilateral aid;

(iv) if there were no bilateral aid program the U.S. would be less likely to become militarily involved in the LDC's and to become committed to supporting a particular government;

(v) Congress no longer will support a large bilateral aid program other than PL480 and Export-Import Bank;

(vi) as much U.S. foreign aid--such as PL480 and Export-Import Bank--will inevitably be bilateral and have primary objectives other than the development of the LDC's, the international agencies should have more funds to smooth out the "distortions" caused by bilateral aid.

It is no doubt inevitable that diplomats and politicians, when faced with two rather extreme sets of arguments, will look for a compromise solution. The solution in the foreign aid field has many labels: "bilateral aid in a multilateral framework," "a new partnership for development," "multilateral coordination of aid." Novelty is not necessarily a virtue in affairs of government. Perhaps the compromise will invigorate foreign aid in the U.S. in the 1970's. Perhaps the compromise will serve to confirm Edward Banfield's observation, in the early 1960's, that "foreign aid is for the present decade what the United Nations was for the last one and what arbitration and the World Court were for the 1920's."[1]

---

[1]Edward C. Banfield, "American Foreign Aid Doctrines," Why Foreign Aid (Chicago: Rand McNally & Co., 1962), p. 29.

Select Bibliography

1. Edward C. Banfield, "American Foreign Aid Doctrines," Why Foreign Aid (Chicago: Rand McNally & Co., 1962).

2. Colombia--A Case History of U.S. Aid, A Study Prepared at the Request of the Subcommittee on American Republics Affairs by the Staff of the Committee on Foreign Relations, U.S. Senate (February 1969).

3. "The Global Partnership: International Agencies and Economic Development," International Organization, XXII, No. 1 (Winter 1968).

4. Albert O. Hirschman and Richard M. Bird, "Foreign Aid--A Critique and a Proposal," Essays on International Finance, No. 69 (Princeton University, July 1968).

5. I.M.D. Little and J.M. Clifford, International Aid (Chicago: Aldine Publishing Co., 1966).

6. Joan M. Nelson, Aid, Influence, and Foreign Policy (New York: MacMillan Co., 1968).

7. Partners in Development, Report of the Commission on International Development (New York: Praeger Publishers, 1969).