

SOME NOTES ON FOREIGN ECONOMIC AID

M. Bronfenbrenner, professor of economics, Michigan State University

PRELIMINARY

These thoughts and suggestions refer to the administration of direct Government expenditures for foreign economic aid, mainly but not exclusively in the underdeveloped areas of Africa, Asia, and Latin America. They refer both to grants and to loans; indeed, one suggestion will be the transfer of much of our expenditure to the former from the latter category. They exclude such items as military aid, disaster relief, commodity purchases for stockpiling, and Government guaranties for American private capital abroad. They also assume the line between such categories as military and economic aid, or between disaster relief and reconstruction development, to be more unequivocal than is likely in practice.

The figure concerned is as yet a relatively small one, compared to the total Federal budget. It is currently less, rather than more, than \$2 billion annually, and the question may arise why special attention should be devoted to it here. To this sort of argument, if it in fact arises, there are at least two answers:

1. Expenditures for foreign economic aid generate an uniquely large political multiplier. By the term "political multiplier," which may be original, I mean that each dollar of foreign economic aid generates demand for X dollars (X varying over time, but always substantially greater than unity) of domestic expenditures of all kinds, chiefly economic aid for low-income areas within the continental United States. In particular, it has been found extraordinarily difficult to reduce these latter expenditures, say, in a period of inflation where much fiscal theory would recommend reduction, while maintaining economic assistance to foreigners. So that, while talking directly about \$2 billion of foreign economic aid expenditures, we are talking indirectly about perhaps \$5 billion or \$8 billion of total expenditures. (Please do not ask me to justify these figures, which represent pure armchair speculation.)

2. The element of altruism and human sympathy in our foreign economic aid should not be overlooked, but it remains true that it has been sold politically, mainly as an American weapon in the cold war. And as the cold war of rival military expenditures shifts in emphasis to the competitive coexistence of rival economic ideological salesmanship, we must expect the size of these expenditures to increase for an indefinite period.

Considered in bloodless frigidity, with all elements of altruism and human sympathy drained away, the problem of administration of our foreign economic aid program can be put in economic terms as obtaining maximum cold war or competitive coexistence advantage at a given cost, or as the so-called dual problem of obtaining at minimum

cost a given cold war or competitive coexistence advantage. And here, to run ahead of the main body of this paper, my feeling is that our performance (in Asia at least) leaves much to be desired, in that the U. S. S. R. and mainland China obtain much more competitive coexistence advantage per dollar of foreign-aid expenditures than we.

FOREIGN ECONOMIC AID—AMERICA VERSUS RUSSIA

This section is a political digression. It deals with the initial advantage and disadvantages with which we (and other western nations, especially the United Kingdom and the Commonwealth countries) face in the administration of foreign economic aid as compared with the U. S. S. R. and its allies, especially mainland China. If it should appear, as I believe it does appear on balance, that America starts out under an initial handicap, efficacy equal to the Russian or Chinese will require expenditures greater than theirs.

We have, as I see it, two main advantages vis-a-vis the Russians, in the foreign-aid aspect of the coexistence competition. The most fundamental of these is our greater wealth. We have more to spend for the purpose, and can afford easier terms. Less important, and less unequivocally an advantage, are our democratic institutions. Our expenditures for foreign aid can be presented as from the American people as a whole, not merely from a few leaders spending the people's money without the people's consent. It is questionable, however, whether full use has yet been made of either of these advantages.

We operate, on the other hand, under a number of competitive disadvantages, correlated in most cases with these same advantages. Our greater wealth and income can be exaggerated to imply that, whatever we give, we can afford more, and, however easy our terms, we can afford easier ones. Indeed, if one accepts the underconsumptionist and stagnationist critique of capitalism which is common in intellectual circles, it is easy to argue that our foreign-aid expenditures do not hurt us in any way and are actually beneficial, if not necessary, for us. (The theory implies, as is well known, that our only alternatives to such spending are depression, unemployment, or armaments.)

Furthermore, the less savory aspects of the history of western contacts with the underdeveloped world constitute a handicap difficult to overcome. If, as the Indians and Indonesians claim to believe, the industrial revolution of the Western World was financed by the loot of Bengal and the Spice Islands, any reasonable amount of American aid expenditures in these areas constitutes nothing more than a token payment in vicarious atonement for the sins of earlier generations of British and Dutch. (It should also be remembered that, during the approximate century of British free-trade policy, Americans who "would not play false, and yet would wrongly win" participated along with British subjects in the gains from British "imperialism.") In countries where our aid expenditures are considered only moral reparations, too little and too late into the bargain, there is little reason to expect great effectiveness from them in swaying public opinion in a pro-American direction.

Such half-truth history of the roots of western wealth has been important in implanting among the intellectual classes of most non-white countries a certain marked anticapitalist and pro-Socialist bias, which is often transformed into an anti-American and pro-Soviet one.

Nor are these classes to be overlooked as mere "eggheads." Their social position is at once higher and stronger than it is in America, despite the wretched poverty in which many of them live. Their control over all agencies of communication, in particular, is almost absolute. Short of totalitarian dictatorship, there is no substitute to winning over at least a substantial minority of the intellectuals if one wishes to influence public opinion. If American foreign policy, both political and economic, has thus far fallen short of expectations in influencing the intellectuals of the underdeveloped countries, the explanation lies rather more in this half-truth history, I should guess, than in any imperfections of our policy itself, or our domestic racial troubles, or the alleged anti-intellectualism of American civilization. But be its causes what they may, the anticapitalist and anti-American slant of the intellectuals of the nonwhite and underdeveloped countries constitutes an additional handicap to be overcome, a handicap often overlooked in cold-war prognostications.

Our democratic political institutions can also involve us in difficulties abroad. Voices are raised freely, in Congress and out, begrudging the aid we give, denouncing its beneficiaries, demanding harsher terms, both political and economic. These voices are easy to quote overseas to counteract the political effects of whatever is spent. And, probably more important, it has been difficult for us as a political democracy to contribute funds in aid of what the beneficiaries often want, because the underdeveloped regions of our domestic economy want the same things. At least one distinguished Senator allegedly abandoned his fight for reelection in the face of opponent's campaign comparing pictures of model schools in India (for which the Senator had led in getting funds appropriated) with pictures of ramshackle structures attended by some of the Senator's own constituents.

We seem, in fact, to have run up against a dilemma in our aid expenditures, as between spending on projects largely "invisible" in the countries concerned, and projects more eminently "visible" there. Spending on such "invisible" projects as seeds, insecticides, the services of experts, the exchange of students and teachers, is relatively easy to finance. On the other hand, its effect on foreign political opinion seems to be negligible, whatever its cumulative economic effect may be. Spending on such highly "visible" projects as steel mills, dams, and technical institutes is more appreciated abroad, but appropriations are more difficult to appropriate because of the opposition from representatives of domestic constituencies which want the same things. Also, but less important thus far, these "visible" projects are intended in some degree for eventual competition with our own exports, both agricultural and industrial. It may be increasingly difficult to persuade the representatives to export constituencies to accede to "subsidizing their own competitors."

In facing this dilemma, we have tended in the main to spend on the "invisible" projects for which Congress would most easily appropriate funds, and which may well be for the greatest long-run economic good of the foreign beneficiaries, but which were not what the beneficiaries themselves most desired. We have left the "visible" projects too largely to our competitors across the Iron Curtain. To use a crude analogy, we have given socks and sweaters for Christmas to a little boy who wants an electric train, and let our in-laws give him the train.

SOME GENERAL SUGGESTIONS

1. Aid should be put almost entirely in the form of grants rather than of loans, for three main reasons. Direct grants are more highly appreciated abroad, particularly as against loans from the U. S. S. R., which is short of capital and has sometimes pressed hard for repayment. In the second place, it is doubtful that the American public expects or counts on the repayment of many "loans" made under the heading of foreign economic aid, so that haggling over repayment schedules, interest rates, and so forth, is not only an irritant but a needless one. (Finlands are few and far between.) In the third place, funds already "lent" may be used by borrowing countries as hostages for "ransom" if sanguine expectations of repayment are built up. By this I mean that further loans or other aid may be extracted against our better judgment as conditions for service on earlier loans. (The Germans used this technique effectively in the early years of the Nazi regime.)

2. Aid should be concentrated on what the beneficiaries actually want, not on what we think they ought to want. What they want may, of course, be general programs involving a large number of small items individually almost invisible—like postwar reconstruction in South Korea. They are more apt to be large visible items like dams, bridges, railroads, and factories—or, as in Afghanistan, the paving of the main streets of the capital. Insofar as possible, projects should be supported which are wanted both by the governments and by the people in the grantee countries. Projects wanted by the people but not the government run too high a chance of being sabotaged in government circles by diversion of funds to other purposes. Projects wanted by the government but not the people will usually be ineffective in influencing public opinion.

3. Once aid has been granted, supervision should be reduced to a minimum, and supplied only at the request of the grantee country. We have been criticized for taking back in payment to unwanted American experts, consultants, supervisors, and construction companies too large a proportion of the grants we make. There are other ways of guarding against misuse of our funds.

PROBLEMS OF ALLOCATION

However generous American taxpayers may become, difficult choices will have to be made between alternative programs and projects. We cannot take on ourselves the financing of the entire economic development of the entire underdeveloped world. Allocation problems will always be with us, and must always be faced.

As a first step in the competition for each year's allocations, United States economic staffs stationed abroad, in embassies or in other agencies like the International Cooperation Administration, should list and, if possible, rank projects apparently wanted by both governments and people in the countries where they are stationed. They should prepare, with what local assistance may be obtainable, estimates of probable cost and (if possible) probable benefit, and submit to Washington applications based on these estimates.

It is important that these applications be submitted to the American Government by Americans and not by foreign governments them-

selves. We should not require or expect foreign governments to make formal, mendicant, hat-in-hand applications, and subject themselves to the indignities of possible refusal. Applications should be submitted by Americans to the American Government with the minimum of publicity abroad and the minimum involvement of the prestige of foreign countries or governments. It is not unlikely under such a system that certain foreign governments should deliberately court publicity for their applications and involve their own prestige in these applications as a form of pressure on the United States. Such pressure, however, is easier to resist when no formal international negotiations have begun and the whole matter is strictly intragovernmental.

More applications will undoubtedly be submitted each year than can conceivably be granted. The process of screening then might well be in stages, as is the screening of research and allied applications in the leading educational foundations. The first stage might be in the State Department, International Cooperation Agency, or some joint board representing all agencies concerned. The second stage might be in the Bureau of the Budget, and the third stage in Congress. Each stage of the screening process should be carried on each fiscal year, both with an eye to the total amounts to be approved and to the specific projects which seem most promising.

It is difficult to present in advance anything which could pass for principles to be followed in the screening of applications, and what one says is more likely to be a "counsel of protection" than a "precept for action." A few such general notions may, however, be included:

1. In general, the total volume of new projects approved in the United States should be reduced, other things equal, when the domestic situation in the United States appears to be inflationary, and increased when the domestic situation in the United States appears to be deflationary. The direct contracyclical effects of this policy will hardly be significant. The total volume of expenditures will be small; changes in spending will lag behind changes in commitments and also fluctuate less sharply, since most commitments should probably cover more than a single year. This principle is nevertheless of considerable importance because of the political multiplier mentioned earlier.

2. Competition with other lending agencies, particularly multilateral ones, should be avoided. Projects or programs should be rejected when they are under serious current consideration by the International Bank for Reconstruction and Development, by the Colombo plan, by individual foreign governments, or by private agencies. An exception to this principle should, of course, be made in the case of competition with the U. S. S. R., mainland China, or countries generally hostile to the United States Government.

3. Grants should in general be made contingent on the receiving government's paying for the bulk of the local labor and materials involved, where such a requirement is meaningful. The purpose of this requirement is to give the receiving government a share in the project concerned, and to reduce the easy-come, easy-go attitude toward funds received as free gifts or long-term loans.

4. Insofar as possible, grant policy should not follow the headlines. By this we mean that it should not be concentrated too closely in regions which happen to be in the headlines when grants are being

allocated (the Far East in 1954-55, the Middle East in 1956-57). It should also be as political as possible as between countries, along the lines of Secretary Marshall's original "Marshall plan." It is difficult to imagine a grant being made to (or accepted) by Soviet Union or mainland China in the near future, but grants which help to turn countries from active hostility to being "neutrally against us" or from hostile to friendly neutrality may be the most productive investments possible. (Poland and Yugoslavia are possible illustrations.) At the same time, firm allies should not be overlooked in favor of countries more strategically balanced. The great danger is of too great a concentration for political reasons in countries in the friendly neutral, semially, or wavering ally categories.

5. Again insofar as possible, grant policy should be neutral economically as well. Socialism, welfare statism, inflationism, unfair discrimination against American exports, unfriendly attitude toward American private capital (even to the point of confiscation) should not in themselves bar favorable consideration. (This suggested policy of "turning the other cheek" toward confiscating countries is in no way inconsistent with compensating American investors partially or completely expropriated abroad.)

Conspicuous production, on the other hand, should seldom if ever be supported. By conspicuous production is meant the grandiose and spectacular project which the country itself is likely to abandon as laughably wasteful and uneconomical after a few years. (Steel mills located without reference to adequate iron and coal resources are common cases in point. Likewise fancy tourist hotels and airports in countries unsafe for foreign visitors.)

Corruption and diversion represent major problems in many countries, implying as they do that American grants would be wasted outright, or at the very least applied for purposes other than were intended. The temptation to supervise and police grants in countries of poor repute for corruption and diversion will be difficult to withstand, and also the temptation to apply stricter standards to foreign than to domestic politicians and civil servants in regard to corruption and diversion. My suggestion is that all these temptations be avoided sedulously as good-will measures, but that really bad records of past corruption and diversion be made bases for refusal of grants until housecleaning has taken place. (An analogy here is the problem of censorship of publications. What I am advocating is like the use of postcensorship rather than precensorship for newspapers or magazines, assuming some form of censorship to be required.)

A lesser problem: some governments are willing to inform beneficiaries of American aid where the aid comes from; other governments do everything possible to keep the beneficiaries of American aid from realizing their indebtedness to this country. Since foreign aid is a weapon of competitive coexistence, it seems to follow that governments of the first type should be favored over governments of the second type in the allocation of grants. Here again, supervision should be avoided in favor of judgment based on the past record of the government concerned.

6. Another aspect of economic neutralism is that aid be not confined to governments or public agencies. Private projects may often be expected to win out over public ones, especially in countries with

corrupt, inefficient, or visionary governments. Particular companies whose projects are assisted should however be unmistakably native in ownership, top management, and financial control. Funds should be channeled to these companies through public agencies, much as foundation grants to scientists in this country are usually channeled through universities and research institutes. To reduce the competitive advantage of the recipient companies, they should be required to repay both principal and interest to their home governments, even though further payment by the home governments to the United States Government has been waived. (It would seem natural to require eventual repayment to the United States in these cases, but such a requirement would almost certainly bias the selection process in favor of private projects. In addition, home governments require mollification where private projects have been preferred over projects of their own; eventual receipt of both principal and interest should mollify them.)

PUBLICITY AND PUBLIC OPINION

Questions naturally arise as to the political feasibility of such a plan as has been outlined above. Two areas where adverse political reactions may be expected are the less developed regions of the United States, and foreign countries disappointed in the allocation of grants.

Trouble in neither of these areas is avoided under the existing system of foreign aid administration, but these proposals would in all probability increase their severity. The attempt is presently made to minimize adverse reaction by a policy of secrecy regarding the details of the apportionment of aid expenditures, both by countries and by types of program. It is not impossible that declassification of this information would help rather than hinder the success of the entire foreign aid program—whether the present one or one reformulated in the direction of the present suggestions.

An almost certain advantage of declassification and increased publicity would be to prevent occasional inevitable instances of corruption, diversion, or maladministration from being advertised as typical, since the great volume of contrary evidence would become available.¹ Another advantage would be to permit rural Congressmen and Senators (and their constituents) to compare amounts spent for specific types of aid in specific foreign countries with the large amounts the Federal Government will undoubtedly spend for similar aid to States and localities at home. Here specific breakdowns (educational aids, highway aids, electrification aids, flood control aids, etc.) will be as useful as overall figures, since domestic concern seems to rest on specific types of expenditure as well as on overall totals.

As between foreign countries, the present secrecy policy leaves most or all countries feeling discriminated against vis-a-vis some or all of their neighbors and rivals. (Small countries are concerned with totals, larger ones with per capita figures.) Their feelings are probably exacerbated by the substitution of fantastic rumors for adequate

¹ The "great volume of contrary evidence" must of course include the honest mistakes and the mice born of mountains along with the spectacular successes. As my colleague Prof. John M. Hunter has put it to me in criticizing an earlier draft of these notes, the U. S. Government should regard foreign aid much as business concerns regard their research programs. Neither can be policed very carefully; it is seldom that even half the individual projects "pay off" in either case; but sometimes even the negative results are contributions to practical knowledge, and the aggregate benefits at least equal the aggregate costs.

evidence regarding the distribution of American aid. A policy of publicity should permit a frank admission to any particular country that it was left out in any particular year, together with the admonition that the equity of the program as a whole must be judged over a longer period.

SUNFED AND SIMILAR PROJECTS

These proposals imply continued American control over the details of American aid appropriations. To that extent they are unilateral, and run counter to schemes for transferring control to multilateral international organizations and concealing the identities of individual grantor countries. At present the most ambitious of these internationalist proposals would establish a Special United Nations Fund for Economic Development (SUNFED) administered by the United Nations. If the SUNFED proposal or any similar plan is adopted, with large-scale American financial participation, the foregoing paragraphs of course become irrelevant.

A main attraction of the multilateral and international proposals is that it transfers the unpleasant and often fruitless task of dunning debtor countries from individual creditor countries to an international organization such as the United Nations or one of its subsidiary agencies. If loans are replaced by grants, there need be no dunning of debtors by creditors in any case, and this advantage disappears.

In a competitive coexistence context, an important purpose of foreign aid is vitiated if grants or loans come indirectly through international organizations rather than directly from the United States, the United Kingdom, or the Soviet Union. If the Soviet Union and its allies are willing to put their foreign economic aid into a common pot, to be allocated by United Nations agencies in which there is no veto, it may of course be in the American interest to follow suit and lessen the acerbity of the coexistence competition. But barring a change of heart in the Kremlin, there is more to be lost than gained by America's merging its aid funds with those of other developed countries, while the Soviet Union garners all the competitive advantages of going it alone and having its aid clearly identified.