

THE FOREIGN AID EXPENDITURES OF THE UNITED STATES

Robert E. Asher, the Brookings Institution¹

In determining the level and distribution of foreign aid appropriations, political, strategic, and humanitarian considerations have been more important than purely economic criteria. In fact, it would be naive to think that economic considerations could be governing in this kind of situation. How can one estimate accurately the value to the United States of preserving the independence of country A in the face of Communist aggression? How measure in dollars and cents the importance of helping to satisfy in some measure the revolution of rising expectations that has two-thirds of the world writhing in its grip?

A fresh analysis of the full case for and against foreign aid might be a valuable service, but such analysis is not the function of this article. In this review of foreign aid as an item of Federal expenditure, I propose first to recall certain outstanding features of the aid programs as they have developed over the years. I intend them to examine in turn the impact of foreign aid programs on the American economy, on world trade, and on the economies of recipient countries. In discussing foreign aid and the economies of recipient countries, I do not intend to evaluate aid programs in particular areas, but rather to analyze a few recent developments of economic interest—specifically, the difference to the recipient nation between military aid and economic aid, the problems of relying increasingly on loans as the technique for providing economic aid, and the special problems connected with the extension of loans repayable in local currencies.

EVOLUTION OF AID PROGRAMS

The term "foreign aid" has been used loosely to encompass a variety of military, economic, technical, and humanitarian activities. The mixture has changed as the international environment, or the American appraisal thereof, has changed. The aid programs have been justified at different times and by different groups on different grounds. They have included at least three totally different undertakings: rehabilitating and reconstructing the economies of war-devastated allies, strengthening and subsidizing the military defenses of the free world, and promoting economic growth and political democracy in underdeveloped areas.

Repairing the ravages of war was the purpose of the United Nations Relief and Rehabilitation Administration and of the Marshall plan. By and large, this purpose was successfully achieved during

¹ The views expressed in this paper are those of the author. They do not necessarily reflect the views of other members of the Brookings staff or of the administrative officers of the institution.

the course of the European recovery program initiated in 1948. Before the end of its allotted 4-year period, however, an extensive program of military aid had been undertaken. Military aid is an investment in the mutual security of the United States and the recipient nation. Its duration depends primarily on the duration—and the nature—of the Soviet threat. Aid for the promotion of economic growth along democratic lines in areas that have long been stagnant requires American participation in an extremely complex undertaking. On this delicate task, only a beginning has been made.

At first the job of facilitating economic development was thought of primarily as one for the International Bank, which would make loans for specific development projects, repayable in the currencies borrowed. When it became apparent that the underdeveloped countries were in need not only of power, transportation, and basic facilities but also of information and know-how, the technical assistance program was initiated.² Technical assistance was at first thought of primarily as the provision of scientific know-how, of information concerning hybrid corn, DDT, rinderpest vaccine, simple hand tools, and similar matters. Only gradually did the world begin to realize the extent to which development was hampered also by deep-seated social and institutional barriers. More technical assistance was then devoted to the creation of climates and institutions believed favorable to growth and progress—community development programs, land reform programs, rural credit institutions, and aids to small business.

In addition to technical assistance and so-called hard loans for approved projects, loans repayable in local currencies have been authorized. The authority to make loans on easier terms than those of the International Bank and the Export-Import Bank is being extended and given added importance through the development loan fund provided for in the Mutual Security Act of 1957.

Over the years, much has been learned about both the process of economic growth and the manner in which foreign aid can contribute to such growth. Much still remains unknown, however, and time must elapse before any particular theories will be fully validated by events.

At their peak in 1953, expenditures for foreign assistance (net grants and credits utilized) reached \$6.3 billion. Foreign assistance then fell off to an average of \$4.4 billion for the years 1954-56, inclusive. During this period, military assistance comprised a larger proportion of total assistance, and economic and technical aid a smaller proportion, than during other postwar years. The disposition of agricultural surpluses was pushed with vigor and nonmilitary assistance to friendly countries consisted to a growing degree of surplus commodities and, toward the end of the period, of grants and loans of local currencies received as a result of sales of surplus commodities. Local currencies were accumulated by the United States at a much more rapid rate than they were reloaned or otherwise used, with the result that the United States claims on and holdings of foreign currencies arising from agricultural commodity sales reached the equivalent of \$1.3 billion by March 31, 1957.³

² There were, of course, some small-scale precedents in the field of technical assistance and political as well as economic reasons for giving new emphasis to this form of aid in 1949.

³ U. S. Department of Commerce, Office of Business Economics, *Foreign Grants and Credits by the United States Government*, March 1957 Quarter, p. 4.

During recent years also the Soviet Union stepped up its efforts to penetrate the underdeveloped countries by strategically timed offers of military assistance, trade agreements, gifts, loans, and technical and cultural exchanges.

FOREIGN ASSISTANCE AND THE AMERICAN ECONOMY

In absolute terms, \$58 billion is obviously a substantial sum. It is the approximate amount of foreign assistance provided by the United States during the 11½ years that ended December 31, 1956. Of that total, \$26.3 billion—an average of \$5.3 billion per year—was used during the period July 1, 1945, to June 30, 1950, and \$31.3 billion—an average of \$4.8 billion per year—was granted or loaned in the post-Korean years.⁴ The post-Korean total is about equal to the national income of Pakistan, a nation of more than 80 million people, and exceeds the national incomes of Venezuela or of Denmark, for the period in question. In the perspective of our enviable American economy, however, it has not been a very significant item. It is considerably below the amount received by a single American corporation, the Standard Oil Company of New Jersey, during the corresponding 6½ years, from its sales of crude oil, products, and services.

Foreign aid may be defined in various ways. If a foreign country assumes the risks involved in providing the United States with the site for a major airbase and in a separate transaction obtains an aid grant, has the United States made a gift or has it compensated the foreign nation for risks assumed? If the United States Government makes a dollar loan which is to be repaid in full, should the principal amount of the loan be regarded as foreign aid? The figure \$58 billion given above treats the airbase transaction as a grant and includes loans until they are repaid. It would be considerably smaller if it excluded outstanding loans and considerably larger if the calculation were based on gross grants and credits instead of net grants and credits.

Theoretically "aid may be defined as a transfer of resources, either in goods and services or in money, without a commensurate retransfer either simultaneously or in the future. In the case of loans, the aid component may be considered to be the difference between the actual interest rate charged by the Government and the one which would have to be charged if the loans had to be made through commercial channels."⁵ (But if the loans could not have been obtained through commercial channels, is it not appropriate to consider the principal amount also as aid? What would have been the interest rate on a commercial loan to Italy or to China in 1946?)

"It is the purpose of aid to raise the recipient country's resources so that the total of its consumer, business, and government expenditures can be higher than its total production without such aid."⁶ To this end, the United States in 1946 dedicated 2.6 percent of its annual production of goods and services. In the flourishing economy of the postwar period, the gross national product of the United States has mounted rapidly, with the result that foreign aid dropped in 1956

⁴ See table II. The figures exclude the United States Government investment of \$3.4 billion in the International Bank for Reconstruction and Development, the International Monetary Fund, and the International Finance Corporation.

⁵ Walther Lederer, *Foreign Aid and the United States Balance of Payments*, Social Science, vol. 29, No. 4, October 1954, pp. 231-232.

⁶ *Ibid.*

to only 1 percent of total output. In relation to the expenditures of the Federal Government, expenditures for foreign assistance declined from nearly 17 percent of the total to less than 6.5 percent.⁷

The impact of the foreign aid programs on the domestic economy has been analyzed in a recent report prepared for the Senate Special Committee To Study the Foreign Aid Program. This report, other highlights of which are noted below, points out that

Since on the average about 1.5 percent of United States production has been involved in foreign aid, it is difficult to claim that domestic employment, prices, or consumption as a whole could have been seriously affected, for better or worse, by foreign aid expenditures. The impact on employment varies from one region to another, depending upon the commodity * * * and the effects differ during periods of inflation and recession. On the whole, however, the inflationary or stabilizing effects have been very slight.⁸

Nevertheless, foreign aid programs are not without costs. During a period of inflationary pressures, they contribute to such pressures. At any time, their discontinuance and a corresponding increase in other economic, social, or security programs of the Government could speed the attainment of other desirable objectives. A tax reduction in the amount of the foreign aid program would be widely welcomed.⁹

The report estimates that about 600,000 workers have been employed each year, directly and indirectly, as a result of foreign aid expenditures. Goods and services vitally important to friendly nations have been provided. These in turn have helped to increase the reverse flow of necessary commodities and raw materials to the United States. Our programs may in some cases have aided industries abroad which compete with similar industries in the United States. At the same time, however, they have helped to expand the level of economic activity abroad, thereby increasing overall demand for the goods and services of this country.¹⁰

Government grants and loans are usually tied to specific goods and services. Many man-hours are devoted to firming up these ties and insuring that funds will be expended only for the agreed commodities and services. It is natural to assume that, if the aid funds are used to buy wheat, the result will be to increase our exports of wheat and the recipient country's imports of an essential foodstuff. Because aid funds are rarely the only funds available to a nation, the assumption oversimplifies the relationships.

Foreign aid, for example, has played an important role in financing American agricultural exports but probably a less important one than that indicated by the statistics on commodities obtained with aid funds. Government procurement is a complicated, costly, and time-consuming process. Every aid administrator learns quickly that send-

⁷ National Planning Association, *The Foreign Aid Programs and the United States Economy*, a study prepared pursuant to S. Res. 285, 84th Cong., and S. Res. 35, 85th Cong., p. 53.

⁸ *Ibid.*, p. 2.

⁹ *Ibid.*, p. 12.

¹⁰ *Ibid.*, pp. 3, 7. Regarding assistance received by industries competing with similar ones in this country, the report notes that this does not necessarily mean that the foreign producer has obtained a competitive advantage over American producers as a result of American aid. Even when American assistance takes the form of a grant to the foreign government, the foreign businessman pays his government, in the currency of his country, for the equipment he receives (p. 15).

ing a shipload of wheat abroad is easier than spending an equivalent sum for a list of manufactured products having complex specifications. The convenience of everyone except the recipient government appears to be served by using aid funds to procure agricultural commodities in bulk wherever feasible, and requiring the recipient nation to finance other essential imports from its free dollars. At the same time, this minimizes the volume of aid funds utilized for purposes that might be construed as competitive with domestic industry.

When aid funds have the indirect effect of helping other countries to build up their gold and dollar reserves, the effect on the United States economy is not the same as when foreign reserves are being depleted. During the early postwar years, European countries were drawing down their reserves. The aid extended during this period of declining reserves "resulted in an increase in United States exports, although not necessarily of the goods originally financed by the aid and, perhaps, not even to the countries to which the aid was given. Because the recipient country did not have to pay for aid-financed imports, it may have used dollars from its reserves or from current sales for purchases from third countries, which in turn could use these dollars to increase their imports from the United States."¹¹

During the period 1950 to 1953, foreign nations taken together considered it more important to replenish their depleted reserves than to step up the level of imports from the United States by the full amount of aid received from this country, although they also relaxed their restrictions on dollar imports. In the absence of aid, United States exports might have dropped significantly but the presence of aid appears to have resulted in large part in an increase in foreign reserves, although not necessarily in the countries to which the aid was given.

At the present time, foreign countries are again liquidating reserves, and aid may again be regarded as expanding American exports. The effect, however, is less expansive than in 1946-49, not only because there is less aid, but also because our total exports are greater. Aid-financed exports even if they had remained constant, would represent a smaller proportion of total exports.

The greater expansion of American exports than of imports is due to various factors. Rich in resources, immensely diversified, and exceedingly productive, the United States has less need for imports than most countries and superior capacities for meeting export demands. Though its record leaves a good deal to be desired, it has also been more successful than the majority of its trading partners in holding down inflationary pressures. Part of the currently widening gap between exports and imports, however, is due to the fact that the foreign economic policy of the United States—in trade, aid, and investment—is oriented toward, and more successful in, promoting exports than in enlarging imports.

The exports procured with American aid funds during 1948-55 have accounted for as much as 46 percent and as little as 25 percent of total United States merchandise exports. During 1948-50, the average ratio of foreign aid shipments to total commodity exports was 41 percent, while for the period 1951 to 1955 the ratio was 30 percent.¹²

¹¹ Walther Lederer, *loc. cit.*, p. 234.

¹² NPA, *loc. cit.*, p. 13.

Under the European recovery program, large quantities of United States agricultural commodities were purchased with aid funds. During 1948-51, inclusive, more than \$1.8 billion of aid funds were used directly to purchase bread grains and flour from the United States; approximately \$500 million to purchase coarse grains; nearly \$1.5 billion to purchase cotton; and nearly \$450 million to purchase tobacco and tobacco products. In the 3 years 1948-50, more than half of the total exports of bread grains, coarse grains, cotton, and tobacco were foreign-aid shipments.¹³

During the early postwar years, when the world food crisis was at its height, the United States made intensive efforts to increase its production as well as its exports of essential foodstuffs. The United States replaced Manchuria as the major exporter of soybeans and became an important exporter of rice. Prices to wheat farmers rose substantially and output expanded. In other exporting nations, in which government policies made it more difficult for farmers to obtain the immediate benefits of rising demand, comparable increases in wheat output failed to occur. When prices remained high, however, others also expanded their production and surpluses began to accumulate. For several years after 1950 there was no agricultural commodity group in which aid-financed exports exceeded 50 percent of total United States exports.

The purpose of government financing of agricultural exports during the early postwar years was to meet the urgent food requirements of foreign countries. In recent years the major purpose has been to relieve the domestic economy of some burdensome surpluses. As a result of the expansion of surplus disposal programs since 1954, the United States Government has again assumed a major role in financing agricultural exports. Farm exports under government grant credit, and sales programs reached approximately \$1.4 billion in 1956, half again as much as in 1955. Agricultural shipments, moreover, comprised 50 percent of the gross deliveries and cash payments under the nonmilitary programs of the Government, as compared with one-third in 1955.¹⁴ Agricultural surpluses nonetheless continue to present major problems for the domestic economy, which have not been, and cannot be, solved satisfactorily by foreign assistance measures.

Surpluses are no longer mounting rapidly, but some of the heaviest have not been greatly reduced. Despite the fact that wheat is the most widely used commodity in the disposal programs, the wheat surplus remains enormous. The supply of feed grains is sufficient to meet all prospective requirements for domestic use and for exports, and still to leave a large carryover. On the other hand, surpluses of rice, cotton, and dairy products are being reduced.¹⁵

In 1948, there were eight groups of manufactured commodities in which aid-financed exports were greater than those privately financed. By 1955, when foreign aid consisted primarily of military assistance, there were three product groups in which aid shipments accounted for 50 percent or more of total exports: construction, mining, and

¹³ *Ibid.*, p. 41.

¹⁴ U. S. Department of Commerce, Office of Business Economics, *Foreign Grants and Credits by the United States Government*, December 1956 Quarter, p. 5.

¹⁵ National Planning Association, *Agricultural Surplus Disposal and Foreign Aid*, a study prepared pursuant to S. Res. 285, 84th Cong., and S. Res. 35, 85th Cong., pp. 5-6.

conveying equipment; aircraft engines and parts; and ships and other transportation equipment.¹⁶

Although foreign aid expenditures have been significant for certain categories of commodities, the overall effects of the foreign-aid programs on the American economy have, as indicated earlier in this article, been minor and currently involve only about 1 percent of our gross national product. The report on the Foreign Aid Programs and the United States Economy prepared for the Senate Special Committee To Study the Foreign Aid Program concludes not only that the total burden of the aid programs on the American economy has been slight, but also that—

Assuming a gross national production level by 1965 of \$565 billion (in 1955 prices), the United States could double the present size of the foreign aid program by then with little additional impact on the United States economy.¹⁷

FOREIGN ASSISTANCE AND WORLD TRADE

Although foreign assistance is comparatively unimportant to the American economy, it has important effects not only on the level of economic activity in recipient countries and on their imports and exports, but also on the overall volume and direction of international trade. In the first place, it has continued to be a significant factor in the world supply of dollars. Secondly, it affects world trade in particular commodities, most notably agricultural commodities that are also exported in quantity by other friendly nations. In the third place, some of the legal and administrative regulations governing the operation of the aid program insure that it will maximize American exports of goods and services without correspondingly increasing the capacity of other nations to earn the dollars with which to pay for those exports. In this respect, aid policies reinforce trade and loan policies of the United States Government that likewise tend to preserve or to widen the gap between American exports and imports.

Spending by the United States Government has been an essential lubricant of world trade. In addition to the human misery that it has relieved, government spending has helped reduce trade barriers that would otherwise have been raised in efforts to protect the foreign exchange reserves of vulnerable countries. Over the past 9 years, about 25 percent of the dollars available to foreign countries has become so as a result of United States Government spending. Government grant and loan programs (if it is proper to include grants of military supplies and services in the total) are consequently second only to our merchandise imports as a source of dollars for a dollar-hungry world. In this sense, aid programs are more important to the stability of international trade than to the stability of the American economy. The "large fraction of the dollar supply accounted for by Government payments makes the total dollar supply at least as sensitive to political decisions as to minor cyclical fluctuations."¹⁸

¹⁶ National Planning Association, *The Foreign Aid Programs and the United States Economy*, p. 14.

¹⁷ *Ibid.*, p. 2.

¹⁸ J. J. Polak, *The Repercussions of Economic Fluctuation in the United States on Other Parts of the World*, International Monetary Fund Staff Papers, vol. V, No. 2, August 1956, p. 283.

The decision to embark on a broad program for the disposition of surplus agricultural commodities has increased the United States share in world trade in these commodities. During the past 3 years, the United States share in world wheat exports has risen rapidly. The United States was the biggest contributor to the increase in world exports of rice during 1956. It has raised its share of the world trade in corn, and has recently regained the position it held in the early postwar years as the supplier of nearly half of the international cotton trade.¹⁹ Total agricultural exports from the United States for the fiscal year ending June 30, 1957, reached a record high, estimated at \$4.7 billion, compared with \$3.5 billion in the fiscal year 1956, and less than \$3.2 billion in the fiscal year 1955.²⁰

The Agricultural Trade Development and Assistance Act of 1954 (Public Law 83-480), an important source of foreign assistance, has been a major factor in increasing agricultural exports. Shipments abroad under this law accounted for 13 percent of our total farm exports in the fiscal year 1955, 28 percent in 1956, and 32 percent in 1957. In the most recent fiscal year, they accounted for 57 percent of wheat exports, 43 percent of corn, 81 percent of rice, 30 percent of cotton, and 47 percent of cottonseed and soybean oil.²¹

In this process there may have been some displacement of normal exports of other nations. Their fears that American export programs would drive down international price levels or reduce drastically the actual volume of their exports have not been justified by events to date. What has happened for the most part is that the United States has prevented some price increases that might otherwise have occurred and has obtained a larger share of the growing international market than might otherwise have come to it.

Mutual security appropriations have provided additional assistance for American agricultural exports. Contrary to popular impression, the aid programs of the United States do not generally take the form of dollar checks to recipient governments, which they bank and draw against. Instead, our Government procures commodities produced in this country or, in certain cases, from other producer nations able to supply on a competitive basis. The cost of the commodities is then charged to the aid allotment of the recipient government. The effect is roughly equivalent to that of supplying the foreign treasury with dollars.

Nevertheless, the effect is not identical, and the existing procedure gives the United States Government a greater voice in determining how American producers and exporters will be affected by foreign aid. If foreign governments were in all cases supplied directly with dollars, they might prepare their specifications differently and obtain more of their essential requirements from nations other than the United States, thereby reducing their need for American aid and possibly (but not necessarily) the overall level of American exports. They might also concentrate more heavily on building up domestic production of items exported by the United States, a practice discouraged by aid administrators.

¹⁹ Contracting Parties to the General Agreement on Tariffs and Trade, *International Trade*, 1956, pp. 51-57.

²⁰ Sixth Semiannual Report on Activities Under Public Law 480, 83d Cong., As Amended (85th Cong., 1st sess.), H. Doc. No. 212, p. 4.

²¹ *Ibid.*, p. 4. (The figures include barter transactions under title III of the act.)

The restraints on East-West trade, introduced and maintained for security reasons, have at times likewise appeared to foreign countries to reduce their capacity to earn foreign exchange in international trade and to increase their dependence on the American market for essential imports. Legislative requirements concerning the use of American vessels for the transportation of aid shipments have a similar effect. Like the international competitive bidding procedure, the offshore procurement procedure, under which significant sums from our mutual security appropriations were committed for purchases from European producers in 1952 and 1953, has operated as an offset to aid policies that can be interpreted as promoting American exports.

The United States also provides dollars to the rest of the world by buying its merchandise and its services, by furnishing private capital for investment in foreign lands, and by private donations. Our imports of goods and services have been increasing but so have our exports. In fact, the latter—exclusive of grant-aid shipments of military supplies—have been rising more rapidly than the former and, in 1956, the surplus on goods and services was greater than in any year since 1949. By the last quarter of 1956, transactions with the United States were again resulting in a depletion of the gold and dollar assets of other nations.²²

In these circumstances, it is ironic that our basic trade policy as well as our aid policy is directed toward promoting exports. The Trade Agreements Act adopted by the Congress has only one stated purpose: the expansion of foreign markets for products of the United States. The "concession" we demand in trade negotiations is the opportunity to sell additional American commodities to others; the reciprocal "concession" that we resist is the opportunity for American producers and consumers to buy additional commodities from cheaper sources of supply. Even in a period of inflation, a negotiation that permitted more goods to enter the American market than were expected to be shipped out of it would be regarded as a failure. The Trade Agreements Act has, of course, contributed substantially to the general expansion of international trade, even if it has not contributed to a reduction of our export surplus.²³

Properly speaking, trade—which involves a two-way exchange of resources, cannot replace aid, if aid is defined as a transfer of resources to a foreign country without a commensurate retransfer from the foreign country to the United States. Nevertheless, the slogan

²² See table I.

²³ Commodity trade—World and United States:

	1950	1956	1957 (2d quarter at annual rate)
World exports (in billion dollars, f. o. b.).....	\$56.64	\$93.35	\$101.00
United States exports (in billion dollars, f. o. b.).....	\$10.28	\$19.08	\$21.86
World imports (in billion dollars, c. i. f.).....	\$59.36	\$97.92	\$109.00
United States imports (in billion dollars, c. i. f.).....	\$9.60	\$13.75	\$13.94
United States as percent of world exports.....	18.1	20.4	21.6
United States as percent of world imports.....	16.2	14.0	12.8

Source: International Monetary Fund, International Financial Statistics, vol. X, No. 10 (October 1957), pp. 28-29.

"trade not aid" can be made more meaningful than it has yet been allowed to become. A creditor nation such as the United States, interested in securing a better allocation of resources within the free world, could well afford to take unilateral action to liberalize imports and thus help foreign nations earn a larger proportion of their dollar requirements from commodity sales in the American market. Adjustment assistance could be made available to American workers, communities, enterprises, and industries substantially injured by particular reductions in import barriers. The last few years, however, have seen a mushrooming of protectionist demands and a number of concessions to them. Continued prosperity in the United States will enable our friends and allies to earn more dollars, but may not help them to balance their accounts by earning, through trade, a larger share of their dollar spendings.²⁴

In theory, the Export-Import Bank exists to finance imports as well as exports. In practice, the loans of the bank are export credits. Import financing has played a very minor role in the history of the bank, primarily because of the availability of private credit for this purpose.²⁵ Indirectly, the loans of the Export-Import Bank facilitate capital formation in other lands, but the direct contribution of this institution to the world supply of dollars since 1953 has been negative. Credits utilized amounted to \$716 million during the years 1954-56, inclusive, while principal repayments came to \$920 million and interest collected to nearly \$260 million.

The United States could maintain an export surplus on goods and services without causing balance-of-payments crises for the rest of the world, taken as a whole, if American exports of private capital reached a high enough level. Private foreign investment since the end of the Second World War has accounted for only a very small proportion, usually less than 10 percent, of the annual world supply of dollars. It is an extremely volatile item.²⁶ Fortunately, it increased sharply and encouragingly in 1956. The result was a slight narrowing of the gap between (1) dollars supplied to foreign nations through private investment plus payments for imported goods and services and (2) dollars required by foreign countries to pay for American exports of goods and services, exclusive of military aid shipments. The private investment total for 1956, however, contained several nonrecurrent items and was, as usual, heavily concentrated in a few areas which, for the most part, were already areas of financial strength.

Private investment, like foreign trade and unlike foreign aid, cannot be directed in accordance with the requirements of American foreign policy. So long as foreign policy considerations make it imperative for us to provide resources for the development of nations unable (or, in some cases, unwilling) to compete in the market place

²⁴ "To make matters worse, the fringe skirmishes in the constant war of commercial policy are all going in favor of the protectionists. There is no longer much doubt that oil imports will be cut back, one way or the other; the current 'voluntary' restrictions are so close to Government-imposed quotas, company by company, and area by area, as to be almost indistinguishable. And it has been oil that has provided the greater part of what year-to-year increases American imports have been able to show. The new tariff-quota on foreign woolsens, Japan's 'voluntary' agreement to curb its exports of textiles and of a few other items, the impending, and almost certainly successful, appeal for tariff relief for lead and zinc—all are making their contributions to keeping the total of American imports from showing much energy." *The Economist*, Sept. 14, 1957, p. 844.

²⁵ See Olin S. Pugh, *The Export-Import Bank of Washington*, University of South Carolina, Bureau of Business and Economic Research, *Essays in Economics* No. 5, June 1957.

²⁶ See table I.

for private capital, even a doubling of the current relatively high outflow of private investment funds would not necessarily eliminate the need for foreign aid.

FOREIGN ASSISTANCE AND THE ECONOMIES OF RECIPIENT COUNTRIES

In foreign aid, as in other aspects of foreign policy, urgent short-term considerations often interfere with the realization of long-range objectives, and means and ends become confused.

Among the more frequently cited short-run objectives of assistance programs have been: repairing the ravages of war; preventing families and precipitous declines in levels of living; disposing of agricultural surpluses; shoring up the independence of one-time members of the Soviet bloc; making allies out of neutrals; strengthening the military and economic defenses of our allies; and obtaining bases abroad for the United States. Longer term objectives have included: containing communism; promoting economic growth and democratic institutions in underdeveloped areas of the free world; extending the free enterprise system or paving the way for its extension; developing sources of raw materials, markets for American products, and opportunities for mutually beneficial capital investments; serving broad humanitarian purposes through helping needy members of the international community to overcome poverty, hunger, and disease and enter an era of self-sustaining growth with maximum freedom for their individual citizens.

These and other objectives, explicit and implicit, deserve examination, individually, in relation to each other, and in relation to overall foreign policy. The maintenance of a stronger Military Establishment may prevent economic growth in areas in which the latter is more important than the former. Military aid may be used to maintain a totalitarian government in power instead of to prevent one from assuming power. Economic development is not a universal antidote for communism; Communist movements may become stronger during certain stages of economic development. Newly independent nations may exercise their sovereignty in ways that are harmful to the United States.

A more fundamental dilemma arises out of the fact that foreign aid programs have been justified at home on the ground that they promote the American national interest, defined in fairly immediate and concrete terms. The very grounds on which they are justified at home tend to make them suspect abroad. For why should others be grateful for the incidental benefits of steps that are taken primarily in our own self-interest? Until we agree on a rationale in which our national interest does not appear to conflict unnecessarily with the national interests of others, our programs are bound to encounter resistance abroad.

An analysis of the situation during the last few years would probably show that the necessary rationale is gradually emerging, especially if military aid is handled in a defense rather than an aid context and foreign aid is limited primarily to economic development assistance. Harlan Cleveland, an experienced practitioner and perceptive writer in this field, has recently summarized it this way:

It is in the United States national interest that the new societies of Asia and Africa succeed in meeting the challenge

ahead of them, * * * without coming under the domination of any outside power and without adopting a repressive system of internal regimentation. To promote this interest requires the maintenance of a military shield, and we will have to be reconciled to bearing a disproportionate share of the cost * * * of erecting and maintaining the shield—just as the British did, partly in behalf of our own newly developing Nation, during the 18th and 19th centuries. To promote this national interest of ours will also undoubtedly require the effective use of our great economic strength through trade, aid, and investment. But these are tools, not aims; the aim is a successful India, a successful Indonesia, a successful Egypt * * *—successful in the sense that the constituted authorities are governing effectively and by consent, and are anxious to live with other free nations in freedom and co-operation.²⁷

Others—among them the International Development Advisory Board, the Mansfield Subcommittee on Technical Assistance, and Drs. Hoselitz, Millikan, Rostow, and Staley in their writings—are saying about the same thing.

If the development of a successful India, Indonesia, and so forth, proves acceptable to the American people as a rationale for foreign aid, several questions that have been highly controversial in the past should become less so in the future. These include the question of aid for neutrals, the use of multilateral channels for economic development assistance, and American attitudes toward industrialization in areas heretofore overwhelmingly agricultural. On the other hand, the question of how much aid, how to allocate it geographically and functionally, and many other questions will not be answered merely because ultimate objectives have been clarified. The broad terms in which the long-range goals must be stated will still leave ample room for debate about intermediate action.

In recent years the predominant form of aid has been military. Since 1952, about 60 percent of our total foreign aid expenditure has been for military supplies and equipment provided by the Department of Defense. The bulk of the aid provided by the International Cooperation Administration has also been dedicated to the support of military establishments in nations with which the United States has defense pacts. Emergency relief, economic development assistance, and technical assistance have accounted for only a small share of total assistance rendered since 1952.

Whatever the form in which foreign aid is extended by the United States, it usually has at least one important educational effect in the recipient nation. It forces the country to look more searchingly at its requirements and resources than would otherwise be the case. Plans and cost estimates have to be made, specifications for equipment developed, market prospects analyzed, inflationary or deflationary effects forecast, innumerable forms completed in quintuplicate, and a subsequent stream of inquiries answered. Always time consuming, frequently demanding the services of personnel needed in an underdeveloped country for other equally vital tasks, and sometimes unrec-

²⁷ Harlan Cleveland, *The Theory and Practice of Foreign Aid*, a paper prepared for the special-studies project of the Rockefeller Brothers Fund, November 1, 1956, pp. 31–32.

essarily humiliating, the process nevertheless forces nations to examine every project proposal with meticulous care. Some of this essential discipline carries over into other activities and helps underdeveloped countries train the necessary corps of public administrators and assign economic priorities in more realistic fashion.

From the point of view of the economy of the recipient nation, it makes a great deal of difference whether foreign assistance takes the form of military aid or of economic aid. Under military aid, the foreign country receives a grant—an addition to its resources without an obligation to make repayment—but the grant is employed for economically unproductive purposes. The United States gives the nation planes, tanks, guns, and military hardware that it would not otherwise be able to obtain or would not choose to obtain in preference to existing claims on its budgetary resources. The recipient of military aid is assisted in building up a larger defense force in a better state of readiness. To the extent that this deters aggression and Communist subversion, the security of the United States is enhanced.

American military aid may permit the recipient nation to concentrate more of its own resources on economic development. The aid may incidentally serve to train new leadership in the recipient country, to teach new skills and new patterns of behavior, to interest an important segment of the population in modern ways of doing things, and to increase popular demand for higher standards of living. The purpose of the aid, however, is not to help other nations improve local standards of living, or bridge a gap in their balance of payments, or enlarge their capacity to service foreign loans. The future of military aid as an item of Federal expenditure does not depend, therefore, upon economic considerations as much as upon an assessment of the nature of the Soviet threat and of the points at which armed resistance to foreign aggression or to subversion from within is most important.

Military aid cannot be expected to end merely because the agreed buildup of foreign forces has been achieved. Military equipment becomes obsolete more rapidly than other capital equipment and tends to require replacement with ever more costly equipment. If, during the period of buildup, the United States and the foreign country are sharing the increased expense on a 50-50 basis, it may well be that, after the buildup, the cost of maintaining the larger force unaided would be a greater burden on the foreign country than the cost to that country of its present share of the buildup.

It can be argued that an equivalent American investment in developing the economies of friendly underdeveloped countries would contribute more to the security of the free world than the investment in the buildup of their armed forces is contributing. Some countries, as noted above, are perhaps being saddled with military establishments more costly than those they can be expected to maintain out of their own resources at any time in the foreseeable future. Others, it is feared, may employ their newfangled equipment against their neighbors instead of against the common enemy. This possibility provokes demands from the neighbors for comparable assistance in order to maintain a military balance in the region. Other regions may then feel discriminated against and step up their demands for military assistance, to the detriment of their economic development,

and without significantly increasing the security of the free world as a whole.

For each of these hazards, there are analogous hazards in the field of economic assistance. The risks might nevertheless be better distributed if American foreign aid were not concentrated so heavily on military assistance. In light of the enormous need for help in overcoming poverty, hunger, and disease, a prosperous nation that devotes only a small proportion of its foreign assistance to economic and social programs would appear well advised to reexamine its priorities with a view to upgrading development assistance.

The amount of foreign aid being expended for economic development—i. e., to help build up the capital stock (including the human skills) in underdeveloped countries rather than to equip military forces or meet urgent consumption requirements, is very small. Firm figures are not available, chiefly because of the difficulty of isolating the portion of defense support devoted to activities that clearly strengthen the civilian economies of nations receiving such support. Development assistance in 1956 probably did not exceed \$400 million. The military-aid figures shown in tables I, II, and III, following the text of this article, refer only to military equipment and services supplied to foreign governments through the Department of Defense. Much of the assistance furnished by the International Cooperation Administration is also required for the support of national defense establishments. The major recipients of ICA assistance during the fiscal years 1955 to 1957 are shown in table IV, with assistance to the countries in question classified according to the ICA categories of direct forces support, defense support, development assistance, and technical cooperation. Of the \$4 billion obligated by ICA on behalf of non-European nations during the 3 years, 60 percent went to 5 countries with which the United States has military pacts: Korea, Vietnam, Taiwan, Turkey, and Pakistan. There were relatively few additional countries on behalf of which obligations in excess of \$50 million for all so-called nonmilitary assistance were incurred during the 3-year period.²³

Development assistance could be extended either on a grant or a loan basis. Loans must be repaid, however, and, from an economic point of view, a grant that does not have to be repaid ought to be more valuable to the recipient than a loan that has to be amortized.

* * * Obviously if foreign assistance must be repaid, the debtor country will have a correspondingly smaller amount of resources available for further capital formation. It would seem to follow from this that the main factor in the decision as to whether a country should get a loan or a grant depends upon the magnitude of its need for capital. The adequacy of its resources in relation to the rate of capital for-

²³ The direct forces support program, constituting grants and supplies directly and exclusively for the military forces of friendly countries, was transferred to the Department of Defense at the beginning of the 1956 fiscal year. "Defense support" is aid given by the ICA which is not for the direct and exclusive use of the military establishments of allied nations, but is intended to help such nations maintain a level of defense expenditures that would not otherwise be maintained, or to help them undertake defense activities that would not otherwise be undertaken. Defense support includes some aid for economic development purposes, for example, in the fields of transportation, power, and port improvement. "Development assistance," in ICA terminology (as in table IV accompanying this article), normally means assistance in improving the capital stock of nations with which the United States does not have bilateral security pacts. "Technical cooperation" is the program originally known as "technical assistance."

mation that is regarded as desirable seems to be a far more basic test of whether it can repay foreign assistance, and whether it should be asked to repay it, than is its balance of payments position. In particular, its immediate balance of payments position is irrelevant to the question of loans versus grants, since the difference between loans and grants becomes important only over a period of future time. Even a projection of the long-term balance of payment outlook, if based on current trade patterns and resources, is not very relevant to whether a country should be asked to repay. The basic questions are rather how important it is to have the country use for further capital formation the additional resources that would be at its disposal if repayment is not required, and how likely it is that these resources will actually be used for that purpose. In some cases, resources that would be needed to repay loans would be a substantial portion of an underdeveloped country's net capital formation, and the need to repay might significantly slow up the development process.²⁹

At the end of 1956, the United States Government already had the equivalent of more than \$11.7 billion outstanding in credits, exclusive of those extended as a result of the First World War. Since 1954, repayments of principal, largely by European governments, on post-war American loans have each year exceeded new credit utilizations. In addition, substantial interest payments have been made. If collections are made as scheduled, the United States Government will receive in 1957 (in addition to the return of silver lend leased to India and certain other nations) \$458 million in principal repayments and \$269 million in interest, a total of nearly three-quarters of a billion dollars. During the 6-year period ending in 1962, the Government is scheduled to collect more than \$4 billion of principal and interest on the credits outstanding at the close of 1956. Annual principal repayments will range from \$458 million in 1957 to \$374 million in 1962, and interest from \$269 million to \$217 million.³⁰

In the immediate future, development assistance from the United States will be available only in the form of loans. Pressure in this direction had been building up for some time before the establishment of the development loan fund in the Mutual Security Act of 1957, and other recent acts had required that not less than some fixed percentage of nonmilitary aid be extended in the form of loans. The decision to put development assistance entirely on a loan basis was not reached through studies of the debt-servicing capacities of underdeveloped countries or of the rates of development that would best serve the interests of the free world. It was based rather on strong feelings that grants-in-aid should not be allowed to become a normal feature of international economic relations.

Loans may be made repayable either in the currency of the lender or that of the borrower. Loans that are repayable in dollars require the borrower to increase its exports to the United States or otherwise earn

²⁹ Walter S. Salant, *Some Basic Considerations of Public Finance in the Economic Development of Underdeveloped Countries*, a paper presented to the annual meeting of the International Institute of Public Finance, London, September 1951, pp. 11-12 (mimeo). Mr. Salant calls attention in a footnote to the Report to the President on Foreign Economic Policies (the Gray report), 1950, p. 67, where a similar point of view is expressed.

³⁰ U. S. Department of Commerce, Office of Business Economics, *Foreign Grants and Credits by the United States Government*, December 1956 Quarter, p. 9.

the dollars needed to pay off the loan. If this results in too slow a rate of capital formation, the extension of aid on a grant basis may prove to have been preferable. The mutual strains involved in the relationship of donor and recipient could be reduced by several devices, including greater use of multilateral machinery.

In the effort to find a middle ground between outright grants and loans repayable in dollars, the United States developed one of the outstanding innovations of the postwar world of inconvertible currencies, the loan repayable in the currency of the borrower—in rupees, rials, pesos, or other monetary units.

In such cases, the commodities received from the United States by the borrower, whether in the form of agricultural surpluses or industrial goods, constitute an addition to its real resources. The use to which these additional resources are put can be planned jointly with the United States. Corollary exports by the borrower (for example, those resulting from the triangular trade arrangements sometimes made) subtract from its real resources. Payment of local currency into a United States account within the country provides the United States with a cash asset. While the United States account is building up, no real resources are being lost to the borrower, but some of its currency is being sterilized and this may help to combat inflation in the area.

It follows also that there will be no addition to the real resources of the country when the local currency accumulation in the United States account is released to the country as a loan. The occasion nevertheless offers the United States a fresh opportunity to share in planning the most productive uses for the currency being released. If exercised with discretion and skill, American participation in the domestic affairs of countries in different stages of economic development can be an important influence for the common good. It would appear to be sound policy, therefore, for the United States to continue making loans repayable in local currencies and relending the proceeds until such time as the borrower is able to repay in dollars. This is possible under the development loan fund of the latest Mutual Security Act, but not in connection with development loans made under the agricultural surplus disposal legislation. If the authority to relend were broadened, consideration might usefully be given to making the original loans for shorter terms than at present, accumulating local currencies more rapidly, and advancing the date at which joint programming with the borrowing country would again be necessary.

The American motivation for embarking on a large-scale program of loans repayable in local currencies was the desire to dispose of mounting agricultural surpluses. By 1953, the disposal problem had become acute, and the Congress inserted in the Mutual Security Act a provision requiring that, during the fiscal year 1954, not less than \$100 million of the funds appropriated for foreign aid be used to buy surplus agricultural products which could be sold abroad for foreign currencies.³¹ Similar provisions specifying that larger sums be so used have been included in subsequent acts.³² Whereas the counterpart funds generated by grant aid belong, with minor exceptions, to

³¹ Mutual Security Act of 1951, as amended, sec. 550.

³² Mutual Security Act of 1954, as amended, sec. 402.

the foreign government, the local currencies received in payment for surplus commodities belong to the United States, for use pursuant to agreements with the borrowing countries. By March 31, 1957, total foreign currency proceeds received since July 1, 1953, under sections 550 and 402 of the different Mutual Security Acts and available to the International Cooperation Administration amounted to the equivalent of \$1 billion.³³

Paralleling and in many respects dwarfing the surplus-disposal provisions of the mutual security acts have been the provisions of the previously mentioned Agricultural Trade Development and Assistance Act of 1954 (Public Law 83-480). These provisions authorize sales of surplus commodities for foreign currencies, grants for emergency relief purposes, donations to nonprofit voluntary agencies, and barter deals. Although the basic purpose of Public Law 480 is to facilitate the movement of surplus agricultural commodities, it has become a major source of foreign assistance. Under title I of the law, agreements for the sale of agricultural commodities for foreign currencies had by June 30, 1957, been made with 34 countries for commodities worth \$3 billion at Commodity Credit Corporation cost, or \$2.1 billion at export-market value. The larger figure represents the cost of the commodities to the CCC, including investment, processing, handling, and other costs. The export-market value reflects the price at which the commodities are sold by United States exporters under the program.³⁴

The act specifies a number of purposes for which the foreign-currency receipts may be used. By far, the most important of these is "loans to promote multilateral trade and economic development" (sec. 104 (g)). The ICA may make such loans without an equivalent payment to the CCC in appropriated dollars. By June 30, 1957, sales agreements involving the loan of \$1.2 billion in foreign-currency proceeds had been signed.

Although more than half of the local currency accumulated under title I of Public Law 480 is being lent back for "multilateral trade and economic development," about one-quarter of the total is being used for the payment of United States expenses abroad, a catchall category that includes some local expenses of American embassies, the local travel expenses of congressional committees, and a number of other expenditures authorized by the act. Another one-eighth, the equivalent of \$244 million, is being devoted to military procurement abroad. Under ordinary circumstances, the United States would—

pay for the upkeep of a diplomatic mission or pay troops stationed abroad in dollars. These dollars are paid into the economy of the receiving country, and may be used to purchase any article moving in world trade (or to bolster reserves). The chances are that some of the dollars would be spent for United States goods. When, instead, we pay foreign expenses in local currencies, we lessen our chances of making sales through normal export channels, because no dollar exchange is created. * * * Critics of the title I programs make much of this point, stressing it as a detriment to

³³ International Cooperation Administration, Counterpart Funds and ICA Foreign Currency Accounts, Data as of March 31, 1957, pp. 13-17.

³⁴ Sixth Semiannual Report on Activities Under Public Law 480, 83d Cong., as Amended (85th Cong., 1st sess., H. Doc. 212), p. 2.

normal trade and to United States firms with an interest in foreign markets. * * * The stated purpose of the programs would be better met if more local currencies were assigned for economic development.³⁵

Surplus commodities also provide an important source of grant aid. Deliveries for emergency relief and other assistance abroad under title II of Public Law 480, as of June 30, 1957, totaled \$260 million at CCC cost. Cumulative shipments for foreign relief through nonprofit voluntary agencies and intergovernmental organizations (primarily the United Nations Children's Fund) under title III totaled \$600 million. Whereas the emphasis in title II is on emergency relief in times of flood, famine, and other disasters, the purpose of the donations to voluntary agencies is to permit free distribution to needy individuals. The processing, packaging, and related costs—and, more recently, part of the ocean freight as well—are paid by the United States Government.

Whether in surplus agricultural commodities or in other forms, nonmilitary grant aid is now limited largely to the prevention of starvation, the relief of personal poverty, and the avoidance of political crises. The assistance usually goes directly into consumption, where it serves a critical, short-term need. The long-term requirement of the underdeveloped countries is to increase the level of investment and thus improve the capital stock that will permanently raise standards of living. To achieve the increase, simultaneous action on many fronts is needed:

* * * Too little capital is by no means the only problem facing the leaders of the less developed areas. But it is the one problem that the United States can most readily do something about. * * * The literature on this subject is well supplied with estimates of the appropriate size for a larger program. * * * Any of the figures * * * mentioned would be a great deal better than the actual total today, and none of them would make a noticeable dent on what is available for domestic consumption in the United States or for investment in our own growth.³⁶

PRESENT STATUS OF FOREIGN AID

Until only a few months ago, foreign aid seemed to have established itself as a major feature of American foreign policy. Despite the emergency character of the operation and the absence of authorization legislation for the most important types of assistance, the level of foreign grants and credits had been running between \$4.2 billion and \$6.3 billion per year for more than a decade. In late 1956 and early 1957, the program had been subjected to the most widespread and searching analysis since the inception of the Marshall plan.

Although congressional opposition to a mere continuation of the pre-1957 program had been growing, the initial reception for the new and more imaginative proposals put forward by the administration in the spring of 1957—largely as a result of congressional prodding—was cordial. There seemed to be broad agreement on the desirability

³⁵ National Planning Association, *Agricultural Surplus Disposal and Foreign Aid*, p. 24.

³⁶ Harlan Cleveland, *Theory and Practice of Foreign Aid*, pp. 63-64.

of putting the aid program on a longer term basis, separating military and economic aid, establishing a new loan fund for development assistance, and endowing the fund with sufficient resources to permit the underdeveloped countries of the free world to plan ahead with greater assurance than heretofore. Fulfillment of their aspirations for more rapid economic and social progress admittedly carried certain risks, but the risks involved in American failure to help them realize their legitimate aspirations seemed even greater.

The process of attaining a self-sustaining rate of growth had been compared by W. W. Rostow to the takeoff of an airplane; unless the plane attained a certain momentum, it would never leave the ground. To reach the takeoff speed, most underdeveloped countries needed outside aid and, unless the amounts were sufficient, there would be no takeoff. A number of the recently published investigations and reports, consequently, recommended increases in the current levels of economic and technical assistance.

The task in south Asia was considered especially urgent. India, with the largest population in the free world and one of the poorest, has been trying desperately to meet the comparatively modest goals of its second 5-year plan without resorting to totalitarian means. To the north and east, Communist China has been proceeding by the more ruthless tactics of totalitarianism and at fearful cost in human liberty and dignity, to invest perhaps twice as large a proportion of its gross national product as India. Unless India overcomes its present serious difficulties, the outlook for democracy, according to many experienced observers, will be considerably bleaker.

The Congress, by sharply reducing the amount of new money appropriated for the mutual security program in 1958, has left a clearer field for the Soviet Union and made plain its own reluctance to accept sizable military and economic aid programs as normal, peacetime methods of achieving our foreign-policy objectives. The future of foreign aid, consequently, cannot be forecast with any confidence. A few conclusions can be drawn from the record to date, however.

Foreign aid has not been a great burden on the American economy. The case for assuming the burden has rested on general foreign-policy considerations, political, military, and humanitarian, as well as economic. To concede that it was necessary and desirable for the United States to undertake such programs is not to say that the programs have been brilliantly administered, that the divisions between different forms of aid have been wise, or that the conflicting objectives of the various aid laws can all be realized.

The bulk of the aid furnished by the United States has been spent to equip and support the military forces of friendly nations. In the absence of such expenditures, the domestic defense expenditures of the United States would, almost certainly, have been higher. The decision having been taken to build up the defense establishments of the nations most vulnerable to external aggression, it would seem sensible to insure that the newly erected establishments are maintained until the danger of armed attack subsides. The cost of maintaining such establishments makes it unlikely that the nations in question will be able to bear them unaided. Whether the defense expenditures of the free world can safely be reduced should depend upon a reassessment of the nature and character of the Soviet threat, not upon the weight of the current economic burden.

In theory, the sums invested by the United States in nonmilitary aid could be used to a much greater extent than heretofore to expand American imports. Stockpiles could be established or expanded and other devices employed to provide dollar earnings for countries that the United States wanted to help. In practice, the aid programs of the United States have been oriented in the direction of expanding American exports, and, in this respect, have been in tune with a worldwide desire to solve economic problems by protecting domestic markets while seeking to expand foreign markets.

Much of the economic aid has been devoted to maintaining consumption instead of increasing investment. Relatively little has been allocated to the most important long-range economic and political problem facing the free world as a whole: permanently improving standards of living where the economy has for long been at a bare subsistence level and where, because of the relentless pressure of population, considerable investment is required merely to maintain present standards. Whether in such areas the foreign contribution can be limited to loans is problematical.

When the United States lends to a country that could not have borrowed through commercial channels, and the country erects a powerplant and later repays the loan with interest, both will have gained as a result of the transaction. If the loan is really a loan, however, repayment must be made in real resources. If the total resources available to the borrowing country are likely for some time to come to be inadequate for purposes of capital formation, it may be better to extend grant aid. The lending of local currencies accumulated in payment for previously received agricultural or industrial commodities provides fresh opportunities for joint programing, but such loans neither add to the already available real resources of the borrower nor help it to obtain additional capital equipment from abroad. In cases in which grant aid is deemed necessary, strings that require cooperative planning can be attached without arousing undue resentment.

The most efficient use of our foreign aid resources is that which best achieves the objectives of our foreign policy. To me at least, it seems unlikely that the United States will be able to live in real peace, either with itself or with the rest of the world, until the energies of both are harnessed more firmly to the constructive and challenging task of raising levels of living in areas no longer resigned to grinding poverty and subordinate status.

TABLE I.—United States surplus of exports and means of financing calendar years 1948-57

[In billions of dollars]

Line No.	Item	Calendar year									
		1948	1949	1950	1951	1952	1953	1954	1955	1956	1957 (1st qtr.)
(1)	Exports of goods and services, total.....	17.1	16.0	14.4	20.3	20.7	21.3	21.1	22.0	26.1	7.2
(2)	Merchandise exports.....	13.2	12.1	10.1	14.1	13.3	12.3	12.8	14.3	17.3	5.1
(3)	Services.....	3.6	3.7	3.8	4.7	4.7	4.8	5.1	5.6	6.2	1.5
(4)	Military transfers under aid programs (net).....	.3	.2	.5	1.5	2.6	4.3	3.2	2.1	2.6	.6
(5)	Imports of goods and services, total.....	10.3	9.7	12.0	15.1	15.7	16.6	16.1	17.9	19.8	5.0
(6)	Merchandise imports.....	7.6	6.9	9.1	11.2	10.8	11.0	10.4	11.5	12.8	3.3
(7)	Services.....	1.9	2.2	2.4	2.6	2.9	3.1	3.1	3.6	4.1	.9
(8)	Military expenditures ¹.....	.8	.6	.6	1.3	2.0	2.5	2.6	2.8	2.9	.8
(9)	Surplus on goods and services, total.....	6.8	6.3	2.3	5.2	5.0	4.7	5.0	4.1	6.3	2.2
(10)	Surplus on goods and services, exclusive of military transfers.....	6.5	6.2	1.8	3.7	2.4	.4	1.9	2.0	3.7	1.6
(11)	Surplus on merchandise exports.....	5.6	5.2	1.0	2.9	2.5	1.3	2.4	2.8	4.5	1.8
MEANS OF FINANCING SURPLUS ON GOODS AND SERVICES											
(Surplus=line 9=lines 12+16+17+18+19)											
(12)	U. S. Government grants and loans, net total.....	5.2	5.9	4.2	4.7	5.0	6.3	4.7	4.3	4.9	1.2
(13)	Grants of military supplies and services ².....	.3	.2	.5	1.5	2.6	4.3	3.2	2.1	2.6	.6
(14)	Other grants.....	3.9	5.0	3.5	3.0	2.0	1.8	1.6	1.9	1.7	.4
(15)	Long- and short-term loans (net).....	1.0	.7	.2	.2	.4	.2	-.1	.3	.6	.2
(16)	Long- and short-term private capital (net).....	.9	.5	1.3	1.1	1.2	.4	1.6	1.2	3.0	.8
(17)	Private remittances and U. S. Government pensions.....	.6	.6	.5	.5	.6	.6	.6	.6	.6	.2
(18)	Foreign liquidation of gold and dollar assets (minus sign indicates gold and dollar gains by foreign countries).....	1.2	.1	-3.7	-.5	-1.2	-2.3	-1.8	-1.5	-1.5	.3
(19)	Errors and omissions.....	-1.2	-.8	(4)	-.5	-.5	-.3	-.2	-.5	-.7	-.4

¹ Includes personal expenditures of American troops in foreign countries.² The differences between the U. S. Government grant and loan figures shown here and those given in tables II and III are due to differences in accounting procedures and definitions. For example, foreign currencies acquired through the sale of surplus agricultural commodities but still unspent enter into the balance-of-payments accounts as short-term assistance to foreign countries. Such amounts are not incorporated into the foreign grant and (long-term) credit data summarized in tables II and III, however, until the foreign currencies are expended as grants or credits.³ Less than \$50,000,000.

NOTE.—Because of rounding to nearest \$100,000,000, figures may not add up correctly. When figures in each column are fully extended—

Line (1) = (2) + (3) + (4)

Line (5) = (6) + (7) + (8)

Line (9) = (1) - (5) = (12) + (16) + (17) + (18) + (19)

Line (10) = (9) - (4)

Line (11) = (2) - (6)

Line (12) = (13) + (14) + (15)

Line (13) = line (4).

Sources: U. S. Department of Commerce, Office of Business Economics, Balance of Payments, 1919-53, table 1 (for figures pertaining to 1948-52), Survey of Current Business, June 1956, table 3 (for 1953-55), Survey of Current Business, June 1957, table 2 (for 1956-57).

TABLE II.—U. S. Government: Foreign grants and credits, July 1, 1945, to Dec. 31, 1956

[In billions of dollars]

Line No.	Item	5 years: July 1, 1945- June 30, 1950	6½ years: July 1, 1950-Dec. 31, 1956								Total 11½ years
			July 1, 1950-Dec. 31, 1950	1951	1952	1953	1954	1955	1956	Total	
(1)	Net foreign grants and credits, total ¹	26.35	1.99	4.63	5.04	6.35	4.74	4.22	4.34	31.31	57.66
(2)	Grants:										
(3)	Net	18.32	1.94	4.51	4.64	6.12	4.86	4.31	4.37	30.75	49.07
(4)	Gross (new)	19.26	2.01	4.65	4.79	6.28	4.93	4.38	4.45	31.50	50.76
(5)	Military supplies and services ²	1.51	.42	1.49	2.73	4.34	3.21	2.42	2.69	17.30	18.81
(6)	Other ³	17.75	1.59	3.16	2.06	1.94	1.72	1.96	1.76	14.20	31.95
(7)	Less: Reverse grants and returns ⁴	.94	.07	.14	.15	.17	.07	.07	.08	.75	1.69
(8)	Military supplies and services	.07	(5)	.02	.07	.06	.01	.01	.01	.18	.25
(9)	Other	.87	.06	.12	.08	.10	.06	.06	.07	.57	1.44
(10)	Credits utilized:										
(11)	Net	8.03	.05	.12	.40	.23	-.11	-.09	-.03	.56	8.59
(12)	Gross (new)	9.33	.20	.43	.83	.71	.39	.41	.48	3.45	12.78
(13)	Export-Import Bank program	2.65	.08	.20	.48	.65	.28	.21	.23	2.13	4.78
(14)	Mutual security program ⁵	.99	.08	.21	.33	.05	.09	.19	.23	1.19	2.18
(15)	Other	5.69	.04	.02	.01	.01	.02	.01	.02	.13	5.82
(16)	Less: Principal collections	1.30	.16	.31	.43	.48	.50	.50	.51	2.89	4.19
(17)	Export-Import Bank program	.63	.09	.13	.27	.31	.35	.31	.27	1.72	2.36
(18)	Mutual security program ⁵					.01	.01	.01	.02	.06	.06
(19)	Other	.67	.07	.18	.16	.16	.14	.18	.22	1.10	1.77

¹ The differences between U. S. Government grant and credit figures shown here and those shown in table I are due to differences in accounting procedures and definitions. For example, foreign currencies acquired through the sale of surplus agricultural commodities but still unspent enter into the balance-of-payments accounts (table I) as short-term assistance to foreign countries. Such amounts are not incorporated into the foreign grant and (long-term) credit data included above, however, until the foreign currencies are expended as grants or loans.

² Defense Department is operating agency providing most of military aid reported on this line.

³ Provided primarily by International Cooperation Administration (ICA) and its predecessors: Foreign Operations Administration (FOA), Mutual Security Administration (MSA), and Economic Cooperation Administration (ECA). Includes grants for defense support, technical assistance, emergency relief, and contributions to international organizations for Palestine refugees and Korean reconstruction.

⁴ Includes counterpart funds received by U. S. Government.

⁵ Less than \$5,000,000.

⁶ Includes loan activities of ICA, FOA, MSA, and ECA.

NOTE.—Because of rounding to nearest \$10,000,000, figures may not add up correctly. When each figure is fully extended—

Line (1) = (2) + (9)

Line (2) = (3) - (6)

Line (3) = (4) + (5)

Line (6) = (7) + (8)

Line (9) = (10) - (14)

Line (10) = (11) + (12) + (13)

Line (14) = (15) + (16) + (17)

Source: Report of the National Advisory Council on International Monetary and Financial Problems, 85th Cong., 1st sess., H. Doc. 200, table C-4. Data are based upon those published by the Department of Commerce, Office of Business Economics, in the quarterly report Foreign Grants and Credits by the United States Government.

TABLE III.—U. S. Government: Net foreign grants and credits, by area, 1951–56

[In billions of dollars]

Line No.	Item	Calendar year						Total			Line No.
		1951	1952	1953	1954	1955	1956	1951–53	1954–56	1951–56	
(1)	All areas (net grants and credits utilized). ¹	4.63	5.04	6.35	4.74	4.22	4.34	16.02	13.30	29.32	(1)
(2)	Grants (net total).....	4.51	4.64	6.12	4.86	4.31	4.37	15.27	13.53	28.81	(2)
(3)	Military supplies and services.	1.48	2.66	4.28	3.20	2.41	2.67	8.42	8.28	16.71	(3)
(4)	Other ²	3.04	1.98	1.84	1.66	1.90	1.69	6.85	5.25	12.10	(4)
(5)	Credits (net).....	.12	.40	.23	-.11	-.09	-.03	.75	-.23	.51	(5)
(6)	Europe (total) ³	3.37	3.75	4.41	3.12	2.41	2.21	11.53	7.74	19.27	(6)
(7)	Grants.....	3.49	3.63	4.58	3.36	2.59	2.41	11.70	8.35	20.06	(7)
(8)	Military supplies and services.	1.08	2.18	3.44	2.35	1.78	1.94	6.71	6.07	12.78	(8)
(9)	Other.....	2.41	1.45	1.13	1.01	.81	.47	4.99	2.29	7.28	(9)
(10)	Credits.....	-.12	.11	-.17	-.23	-.18	-.20	-.17	-.62	-.79	(10)
(11)	Asia (total) ³.....	.99	1.00	1.40	1.37	1.54	1.81	3.40	4.72	8.12	(11)
(12)	Grants.....	.85	.83	1.39	1.32	1.47	1.63	3.06	4.42	7.48	(12)
(13)	Military supplies and services.	.29	.38	.77	.79	.58	.65	1.45	2.02	3.46	(13)
(14)	Other.....	.56	.44	.61	.53	.89	.98	1.62	2.40	4.02	(14)
(15)	Credits.....	.15	.17	.02	.05	.06	.18	.34	.29	.63	(15)
(16)	Latin America (total).....	.16	.13	.49	.13	.10	.11	.70	.34	1.03	(16)
(17)	Grants.....	.08	.08	.06	.09	.10	.14	.22	.32	.55	(17)
(18)	Military supplies and services.	.06	.06	.03	.05	.03	.06	.16	.13	.29	(18)
(19)	Other.....	.01	.02	.03	.04	.07	.08	.07	.19	.25	(19)
(20)	Credits.....	.08	.05	.34	.04	(*)	-.03	.47	.02	.49	(20)
(21)	Africa (total nonmilitary) ³.....	.01	.06	.04	.05	.09	.07	.11	.20	.31	(21)
(22)	Grants (other than military). ⁴	(*)	.01	.01	.01	.05	.05	.02	.11	.13	(22)
(23)	Credits.....	(*)	.05	.03	.04	.03	.02	.09	.09	.18	(23)
(24)	Other ⁵.....	.10	.10	.08	.08	.09	.14	.29	.30	.59	(24)
(25)	Grants.....	.09	.09	.08	.08	.09	.14	.27	.32	.59	(25)
(26)	Military supplies and services.	.04	.04	.03	.02	.02	.02	.11	.07	.17	(26)
(27)	Other.....	.05	.06	.05	.06	.07	.11	.16	.25	.41	(27)
(28)	Credits.....	.01	.01	(*)	(*)	-.01	(*)	.03	-.02	.01	(28)

¹ The differences between U. S. Government grant and credit figures shown here and those shown in table I are due to differences in accounting procedures and definitions. For example, foreign currencies acquired through the sale of surplus agricultural commodities but still unspent enter into the balance-of-payments accounts (table I) as short-term assistance to foreign countries. Such amounts are not incorporated into the foreign grant and (long-term) credit data included above, however, until the foreign currencies are expended as grants or loans.

² Includes grants for defense support.

³ European totals include assistance to certain European dependents in Asia and Africa. Amounts for Asia and Africa are correspondingly understated.

⁴ Equals less than \$5,000,000.

⁵ Includes Canada, Australia, New Zealand, and certain international organizations.

Source: Report of the National Advisory Council on International Monetary and Financial Problems, 85th Cong., 1st sess., H. Doc. No. 200, tables C-1, C-2, and C-3. Data are based upon those published by the Department of Commerce, Office of Business Economics, in the quarterly report Foreign Grants and Credits by the U. S. Government. Because of rounding to nearest \$10,000,000, figures may not add up correctly. When each figure is fully extended:

Line (1) = (2) + (5) = (6) + (11) + (16) + (21) + (24).

Line (2) = (3) + (4) = (7) + (12) + (17) + (22) + (25).

Line (3) = (8) + (13) + (18) + (26).

Line (4) = (9) + (14) + (19) + (22) + (27).

Line (5) = (10) + (15) + (20) + (23) + (28).

TABLE IV.—ICA aid to selected areas for fiscal years 1955-57, by type of assistance¹[Obligations, in millions of dollars]²

Region and country	Fiscal year			
	1955	1956	1957	1955-57
Total, excluding Europe.....	\$1,422	\$1,251	\$1,361	\$4,035
Direct forces support ³	81	4-3	-----	78
Defense support ³	985	992	1,045	3,022
Development assistance.....	236	148	201	586
Technical cooperation.....	115	113	115	342
Other.....	3	3	-----	6
Far East (total).....	912	739	811	2,462
Direct forces support.....	56	4-3	-----	53
Defense support.....	833	706	770	2,309
Development assistance.....	1	4	5	9
Technical cooperation.....	20	31	36	88
Other.....	2	1	-----	3
Cambodia (total).....	38	45	34	117
Defense support.....	38	43	32	114
Technical cooperation.....	-----	2	2	4
Laos.....	41	48	44	134
Defense support.....	41	47	43	131
Technical cooperation.....	-----	1	1	2
Vietnam.....	324	202	260	785
Direct forces support.....	20	-----	-----	20
Defense support.....	304	199	255	757
Technical cooperation.....	-----	3	4	8
Indochina (undistributed).....	60	4-22	-----	38
Defense support.....	60	-22	-----	38
China (Taiwan).....	132	70	84	285
Direct forces support.....	29	4-1	-----	28
Defense support.....	99	68	80	247
Technical cooperation.....	3	3	4	10
Korea.....	237	324	306	867
Defense support.....	235	317	300	853
Technical cooperation.....	(^b) 1	5	5	11
Other.....	2	1	-----	3
Philippines.....	28	28	34	90
Defense support.....	21	22	29	73
Technical cooperation.....	7	6	5	18
South Asia (total).....	152	190	192	535
Defense support.....	57	97	93	246
Development assistance.....	72	69	82	223
Technical cooperation.....	23	24	18	64
Other.....	1	1	-----	2
India.....	86	59	69	214
Development assistance.....	72	47	63	182
Technical cooperation.....	13	13	6	32
Pakistan.....	63	106	99	267
Defense support.....	57	97	93	246
Technical cooperation.....	5	8	6	19
Other.....	1	1	-----	2

See footnotes at end of table.

TABLE IV.—ICA aid to selected areas for fiscal years 1955-57, by type of assistance¹—Continued[Obligations, in millions of dollars]²

Region and country	Fiscal year			
	1955	1956	1957	1955-57
Near East (total).....	299	239	218	756
Direct forces support.....	25			25
Defense support.....	96	189	127	412
Development assistance.....	144	27	69	240
Technical cooperation.....	34	23	22	79
Greece.....	34	27	26	86
Defense support.....	33	26	25	84
Technical cooperation.....	1	(^b)	1	2
Iran.....	73	65	51	189
Defense support.....		58	45	102
Development assistance.....	54			53
Technical cooperation.....	19	8	6	34
Israel.....	41	24	27	92
Development assistance.....	40	22	25	87
Technical cooperation.....	1	1	2	5
Turkey.....	90	107	59	256
Direct forces support.....	25			25
Defense support.....	64	105	56	225
Technical cooperation.....	2	2	3	7
Latin America (total).....	45	71	79	194
Defense support.....			49	49
Development assistance.....	16	44		60
Technical cooperation.....	28	27	29	84
Other.....	1	(^b)		1
Bolivia.....	13	25	23	61
Defense support.....			20	20
Development assistance.....	10	23		32
Technical cooperation.....	3	2	3	8
Other.....	(^b)	(^b)		1
Africa (total).....	13	13	62	88
Defense support.....			7	7
Development assistance.....	3	5	46	54
Technical cooperation.....	10	8	9	27

¹ Countries selected are those outside ICA European region, on behalf of which obligations in excess of \$50 million were accumulated during the period June 30, 1955 to June 30, 1957. ICA includes Greece and Turkey in Near East region. European figures, which are not yet available, would add Spain, Yugoslavia, and possibly Germany (Berlin and East German relief) to the list.

² Figures are preliminary. Obligations precede expenditures and provide a useful measure of current trends. Because of rounding to the nearest million, columns and lines may not add correctly.

³ Both direct forces support and defense support are designed to make possible the creation or maintenance of a certain level of military forces. Direct forces support does so by providing, or paying for, goods or services that physically reach or benefit the forces involved. Defense support contributes to this objective more indirectly through providing resources which either enable the recipient country to maintain a level of defense expenditures or undertake defense activities that would not otherwise be possible. The program of direct forces support (e. g., clothing, rations, petroleum, medical supplies, etc. used directly and exclusively by the military forces) was transferred to the Department of Defense at the beginning of the 1956 fiscal year. Defense support includes some assistance (e. g., in transportation, electric power, or port improvement) which might also be classified as aid for economic development. It has its specific military impact as a country's economy is rendered capable of sustaining the desired enlargement of its defense burden.

⁴ Negative figure means deobligations exceeded obligations of new funds or reobligations of old funds.

^b Less than \$500,000.

Source: International Cooperation Administration, Office of Statistics and Reports.