

FEDERAL EXPENDITURES FOR FOREIGN AID

THE RELATIONSHIP OF THE FEDERAL GOVERNMENT'S FOREIGN AID PROGRAMS AND EXPENDITURES TO THE PROCESSES OF ECONOMIC GROWTH IN THE PRIVATE SECTORS OF THE ECONOMY; THE USEFULNESS OR LIMITATIONS OF SUCH PROGRAMS FOR PURPOSES OF STABILIZATION; AND THE STANDARDS EMPLOYED BY THE DEPARTMENT OF STATE IN DETERMINING THE KIND AND SIZE OF SUCH PROGRAMS REQUESTED

DEPARTMENT OF STATE

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With reference to the first point, while the Department of State does not claim special competence in the evaluation of domestic economic developments, it recognizes that there may be varying types of relationship, e. g., long term and short term as described below, between foreign aid programs and expenditures and the state of the domestic economy and it appreciates the importance to our foreign policy itself of maintaining a healthy and growing domestic economy. In connection with this topic, your attention has probably already been drawn to the study prepared by the National Planning Association for the Senate Special Committee To Study the Foreign Aid Program, which was printed under the title "The Foreign Aid Programs and the United States Economy."

The general conclusions of this study seem to be well supported by the evidence. In brief, its analysis indicates that foreign-aid programs (military and economic combined) are currently absorbing slightly in excess of 1 percent of the gross national product and that since 1948 they have absorbed an average of 1.7 percent of the gross national product. The study concludes that, in the light of these relative magnitudes, "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 study does point out, however, that foreign-aid programs have been of somewhat greater significance to certain industries and certain sectors of the economy.

It should be noted in this connection that the study covers the effects of both military and economic foreign-aid programs, but that it excludes from consideration programs under the Agricultural Trade Development and Assistance Act, which it treats as "not foreign aid

but * * * in the nature of a sale of United States farm surpluses for foreign currencies."

Finally, the study makes no attempt to measure the indirect effects of foreign-aid programs, but points out that the economic growth and stability abroad which they have helped produce "has created an increasing demand for goods and services produced in the United States, which these countries were better able to purchase with their foreign exchange earnings"; and that in the absence of foreign-aid programs "it is likely * * * that larger domestic defense expenditures would have been necessary."

The Department, while not necessarily endorsing all statements or conclusions appearing in this study, believes that it gives a careful and well-balanced assessment of the domestic impact of the foreign-aid programs. The study might well have given more attention to some of the longer term effects of the aid program on the United States economy. By assisting countries to maintain their independence as a part of the free world, they remain a part of the trading system of the free world with mutual benefits resulting from the profitable exchange of resources. By assisting countries in their economic development or reconstruction, the level of world trade can be expected to increase with obvious benefits to all countries. This has already been dramatically demonstrated in the case of reconstruction aid to Europe, as well as by the historical record of increasing international trade as countries become more developed.

The summary of the study referred to follows:

THE FOREIGN AID PROGRAMS AND THE UNITED STATES ECONOMY

SECTION I. SUMMARY

During the period 1948-55, the United States provided approximately \$43 billion of economic and military aid to numerous countries throughout the world. In recent years, approximately one-half of foreign aid has been for military assistance, one-third for defense support assistance, 7 percent for development assistance, 5 percent for technical cooperation, and the remaining 4 to 5 percent for various other uses, including the President's contingency fund. The purpose of this report is to indicate the impact of these aid programs on the economy of the United States.

Before summarizing these effects, it should be emphasized that the beneficial and adverse impact of the foreign aid programs on the United States economy should be viewed in the light of their effectiveness in helping to attain the objectives of the United States foreign economic policy. The objectives of the foreign aid programs have been the restoration and reconstruction of war ravaged areas, helping underdeveloped areas to help themselves, and strengthening the defenses of the free world. It is not the purpose of this report to appraise the extent to which these objectives have been achieved. No Government program is without cost. However, in evaluating the cost of the foreign aid programs, their major objectives should be kept in mind.

The major conclusion of this report is that the costs of the foreign aid programs seen in the perspective of the economy as a whole have been relatively small. Since 1948, the average share of our gross national product which has gone for foreign aid has been 1.7 percent. In 1956, this share has dropped to around 1.1 percent. During this latter year, the United States per capita cost of foreign aid programs, after deducting repayments from foreign countries, has been \$23.07. Foreign aid, in 1956, accounted for about 6.4 percent of total United States Government expenditures. The average for the period 1948-55 has been 9.4 percent of total United States Government expenditures.

Foreign aid has taken about 1.5 percent of this country's total industrial, agricultural, and mining production during the last 9 years. In the absence of foreign aid, production in these sectors of the economy would not necessarily have diminished by this amount. Tax reductions in the amount needed to support the foreign aid programs, or other Government programs which might have been increased, especially in defense, could well have offset any drop in the demand for United States commodities resulting from abandonment of foreign aid. It is fair to say, however, that during a period of inflation, such as mid-1950 to mid-1951, the increase in foreign aid programs tended to aggravate, though very slightly, the inflationary situation. In contrast, during periods of recession, such as 1948 and 1954, the maintenance of foreign aid purchases tended to act as a stabilizing force. Once again, however, the importance of foreign aid as a factor of stability should not be exaggerated.

In the early years of the foreign aid program, agricultural commodities were quite important in that more than 5 percent of total United States production of certain types of farm goods were shipped as foreign aid. Such commodities included bread grains, coarse grains, rice, cotton, and tobacco. In recent years of the foreign aid program, agricultural commodities tended to diminish in relative importance and manufactured items came to the fore. Some of these manufactured items were also of importance during the earlier years of the program. The foreign aid items which account for a relatively important share of their industry's total production are tractors; conveying, mining, and construction equipment; machine tools; and engines and turbines. Since 1952, the foreign aid shipments of aircraft, engines, and parts have been of great importance, quite probably as a result of increasing military aid shipments. There are, however, many more items shown in the body of the report, with respect to which 2 to 5 percent of total United States production was shipped as foreign aid.

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. The commodities most likely to be affected by such an increased level of foreign aid would be primarily agricultural.

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, as shown in the body of this report, and the effects differ during periods of inflation and recession. On the whole, however, the inflationary or stabilizing effects have been very slight.

The data found in the appended tables indicate that the foreign-aid programs have not been used generally to aid distressed industries. Indeed, in some instances foreign-aid expenditures for certain commodities have decreased during periods of recession or of distress for those industries.

For agricultural products, the inclusion of these items served the dual purpose of providing foreign aid and helping to support domestic industries.

In the case of the United States shipping industry, preference legislation—calling for the shipping of a minimum of 50 percent of foreign aid commodities in United States ships—has been of some help. The basic ills of this industry remain, however, and tramp ships are being lost at a rapid rate to foreign registry. Only fuller utilization of existing subsidy legislation would be capable of maintaining an adequate United States merchant marine.

In addition to the direct effects of foreign aid, there are also indirect effects which enter into an analysis of the costs and benefits of these programs to the United States. Those industries which produce items for foreign aid utilize the products and services of other industries in order to make their finished goods. Moving the aid from this country to its destination in turn utilizes the services and products of still other industries. It is estimated that approximately 600,000 workers have been employed each year in the United States directly and indirectly as a result of foreign-aid expenditures.

Foreign aid, both in terms of goods and services, has helped to increase the flow of necessary commodities and raw materials to the United States. Some of these items are critical to our stockpile and defense needs. Others tend to raise standards of living and cut costs of consumer goods. At the same time, foreign aid has in some cases aided in the reconstruction or modernization of industries abroad which compete with similar industries in the United States. However, foreign aid has also brought about the development of industries and of stabilized economies abroad. Thereby, it has created an increasing demand for goods and services produced in the United States, which these countries were better able to purchase with their own foreign-exchange earnings. (Such indirect effects on the United States economy and on United States foreign trade of the aid program have not been analyzed in this report.)

With reference to your second point, the Department believes that foreign-aid programs should be designed primarily to achieve the foreign-policy objectives of the United States, and must respond primarily to our foreign-policy and security needs. This is particularly true since, as pointed out above, the short-range impact of foreign aid on the domestic economy as a whole is probably of marginal significance. Therefore, while such program might have some effects for better or worse on certain sectors of the domestic economy, a serious and consistent attempt to use the foreign-aid programs to provide offsetting or stimulating effects on the domestic economy would not, if in conflict with foreign-policy objectives, appear justified; to do so would reduce our effectiveness in dealing with foreign-policy problems and might very likely compound these problems. The size of foreign-aid programs must, of course, in view of the importance of the free world as well as to ourselves of a strong United States economy, be related to the capacity of our economy to finance them; the Department believes, however, that within the historical range of magnitude of past and present programs they have been (as the National Planning Association study indicates) well within this limit.

In regard to such effect as foreign-aid expenditures may have in connection with stabilization of the United States economy, expenditures for the foreign aid would be similar to any other expenditures for the same commodities when procurement is done in this country. In cases where procurement is outside the United States, however, the impact on the United States economy would be somewhat later and could not be identified with any particular commodity. In these cases, the dollar receipts of other countries arising from the procurement would be merged with dollars earned from trade or by other means and thus lose any separate identity.

With reference to your third point, the Department reaches its judgment with respect to the kind and size of such programs requested in full consultation with other concerned departments; it is determined by a careful weighing of foreign policy and national security needs. Many factors pertaining to both domestic and foreign considerations go into this judgment. Further, what is done in any one country, although based on a careful analysis of the relative needs from the pertinent military, economic, and political points of view, must be affected by competing requirements, similarly determined, of other countries.

With respect to military aid, among other factors entering into the judgment are, of course, the geographic location of recipient countries, their political, economic, and strategic importance, their relationships with the United States, and their requirements for maintaining an adequate defense. The economic component of military aid (otherwise known as defense support) is determined by the amount considered necessary to support the military effort.

Financial assistance under the aid program for the economic development of other countries will henceforth be made available under the development loan fund authorized by the Mutual Security Act of 1957. Loans will be made for specific projects or programs in less-developed countries where financing cannot be obtained elsewhere on reasonable terms and where the projects are technically sound and will contribute to economic growth. The amount of \$500 million requested by the executive branch for the first year's capital for the fund

was determined on the basis of experience under previous programs and was intended to provide for a modest increase in United States assistance for economic development to reflect the greater relative emphasis desired for this type of aid.

The actual process of formulating foreign aid programs and budget requests to finance them is a very complex one difficult to describe in terms of any simple criteria other than the relationship of foreign policy and national security needs to the availability of our real and budgetary resources to meet them. The subject was touched on by Secretary Dulles, Deputy Secretary of Defense Robertson, and Mr. Hollister in their testimony on April 8 and 10, 1957, before the Senate Special Committee to Study the Foreign Aid Program, and by Mr. Hollister in his testimony before the subcommittee of the House Appropriations Committee on April 3, 1957. The following extracts from some of this testimony may be useful in this regard:

TESTIMONY OF SECRETARY DULLES BEFORE SENATE SPECIAL COMMITTEE TO STUDY THE FOREIGN AID PROGRAM, APRIL 8, 1957

(Replying to a question from Senator Mansfield on policy guidance on military aid)

Secretary DULLES. The basic policy problems come up for discussion in the National Security Council. The questions of what our policy shall be in relation to this country or that, how large a Military Establishment would be appropriate, how it would be fitted into our overall common defense, are discussed usually at the National Security Council. They are reviewed first and prepared for the National Security Council by the Planning Board of the National Security Council where the different agencies are all represented, and in those considerations the Secretary of State takes a very leading and active part.

Now when the basic decisions are reached as to the kind and size and so forth of Military Establishment which we would support, and roughly the figure at which it would be supported, then a good deal of the detail work is passed on to Defense and ICA.

TESTIMONY OF DEPUTY SECRETARY OF DEFENSE ROBERTSON BEFORE SENATE SPECIAL COMMITTEE TO STUDY THE FOREIGN AID PROGRAM, APRIL 8, 1957

(On the subject of long-range planning)

Mr. ROBERTSON. This relates to long-range planning * * *. What is our present practice with respect to long-range planning? In fact, of course, we necessarily engage in a substantial amount of planning which looks a number of years to the future. The process of planning is twofold. It involves, first, the determination of aid requirements in terms of long-term United States security interests and, second, programing to fill these requirements.

In support of any decision as to whether to give aid to a country and as to the general nature of a country program, there occurs within the National Security Council mechanism the most careful study and planning in terms of our national security situations. With NSC guidance, the Joint Chiefs of Staff develop, for each country to receive military aid, a force goal—that is, the level of forces which that country should attain in order for it to perform effectively its mission in the free-world defense system. These force goals are carefully worked out on the basis of the country's strategic location and its optimum military potential, and they are revised from time to time to reflect the latest developments. Full consultation with the country concerned is undertaken on a continuing basis to insure common understanding and unity of purpose. These processes which I have described are basic to the development of our aid requirements. They are, in my judgment, characterized by careful and imaginative long-range planning within the limits of the realities of fund availability, the rapid pace of weapons systems development, and the evolution of concepts of warfare.

Our planning and programing to fill these requirements must also take into consideration needs and availabilities several years hence. For example, we are now in the process of preparing our fiscal year 1959 program. This program will result in deliveries in 1960 and 1961 and will be the basis for military capabilities in the first half of the 1960's. In part, this sort of long-term thinking is necessitated by the long production lead time on many of the items of equipment we provide. We must also phase our deliveries with strategic requirements dictated by a changing world situation and with the ability of the recipients to receive, use, and take care of the equipment. I believe that it is in this area particularly—planning for the fulfillment of well-conceived future requirements—that some improvement can be made.

To some extent this improvement can be, and is being, generated within the executive branch under existing legislative authority. Our planning and programing procedures have undergone revision in the last year. We think these changes represent substantial improvement, but experience with the fiscal year 1958 and 1959 programs will indicate whether we are finally right. Revised planning procedures initiated in fiscal year 1957 provide for the maintenance in Washington of relatively long-range plans within which annual programs are detailed and fully justified. Provision has been made for the continuous review and revision of these plans in light of changing military, political, and economic conditions. Requirements are so arranged that highest priority needs can be isolated in any desired magnitude and made applicable to any given area. While our procedures for administering military aid have in many cases been time-consuming, we are now developing steps to greatly simplify some of the administrative processing. Our MAAG's at the country level, and unified commands at the regional level, are experienced in

evaluating requirements and effectiveness. Despite differences between the evaluation process in NATO (called the annual review) and the procedure employed in the Pacific and Caribbean Command areas, I believe we are now gaining accuracy in evaluating the effectiveness of our programs. However, we are aware that we must make even greater efforts in this direction.

TESTIMONY OF MR. HOLLISTER BEFORE SUBCOMMITTEE OF THE
COMMITTEE ON APPROPRIATIONS, HOUSE OF REPRESENTA-
TIVES, APRIL 2, 1957

(Replying to a question from Mr. Gary regarding the sum total approved by ICA, State and Defense, and requested of the Bureau of the Budget prior to establishment of the \$4.4 billion figure)

Mr. HOLLISTER. Let me give a little explanation of how we arrive at these figures.

We send out, as you know, our guidelines for the programs; this was in the record yesterday, so I will just summarize it quickly today, which, in turn, are followed by the missions.

The figures come in. They are looked over by the people in the various desks and areas in my shop. State Department, of course, does the same thing. A long series of meetings are held between State and us, in which Treasury, Budget, and Agriculture participate.

We have all the people who might be concerned. I thought Agriculture might come in because of the Public Law 480 activities and little by little those are refined out, so that each country, each area, reaches some tentative conclusions, which are then reviewed by me and reviewed in State, and then we sit down and try to reach some kind of an agreement.

All the way through that activity there are Budget representatives sitting with us. Our people sit and discuss these various things with Budget, so Budget sees the formation of the whole picture.

When the whole matter is concluded, a letter goes to the Bureau of the Budget indicating what we have finally concluded should be the program for the coming year.

TESTIMONY OF MR. HOLLISTER BEFORE SUBCOMMITTEE OF THE
COMMITTEE ON APPROPRIATIONS, HOUSE OF REPRESENTATIVES,
JUNE 19, 1957

(From Mr. Hollister's general statement)

DEVELOPMENT LOAN FUND

Mr. HOLLISTER. * * *

Now, I would like to take up the question of why the particular amounts which we have requested are required.

We are now providing development assistance of over \$400 million annually, including that part of defense support

which goes to development purposes. Most of the studies of development assistance, which have now been conducted for the Congress for the executive branch and by competent private groups, have concluded that substantially more United States development financing could be used effectively.

These conclusions are supported by information presently available. After reviewing known development plans and proposals for projects, my staff has estimated tentatively that worthwhile applications for fund financing might amount, in obligational requirements for the fiscal year 1958, to about \$1 billion, and for each of the following 2 fiscal years between \$1.1 billion and \$1.3 billion. These possible project proposals cover a wide variety of fields—basic transportation, power facilities, agriculture, private industry, and health and education. I am submitting with this statement a separate memorandum on the question of the fund's magnitude, which discusses briefly possibilities in each of these fields.

As part of its study of these possibilities, my staff has had informal talks with the staff of an existing public lending agency. We have concluded that there are a number of projects and programs which are economically sound and technically feasible, but which existing public lending agencies have not felt able to finance alone because of the foreign-exchange problem, and which the fund might be able to finance in conjunction with these agencies.

A further fact, which may help to explain why the anticipated applications for fund financing exceed the present level of development assistance, is that we expect the fund to engage in several new activities.

I have particularly in mind here activities directly designed to encourage growth of private enterprise. For example: loans to private entities, purchase of their income debentures for possible eventual resale to private investors, and financing of private-public or quasi-public development banks in less-developed countries which would help finance private businesses.

The requirement for fund financing is thus not unlimited, but it is somewhat greater than could be met from present levels of development assistance. What will happen if we do not meet this requirement—if we provide the fund with less resources than could be used effectively?