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Charybdis of too rapid money growth. However, while the wisdom of a Till Eulenspiegel laughing while climbing a mountain and serious while coming down from one is laudable, we should not kill an incipient boom because we might be afraid that it could lead to a more severe recession subsequently.

Obviously, international factors — chiefly political — may have a bearing on the recovery, but it is unlikely that they may turn it into unfavorable directions, unless the accessibility of Mideast oil

again becomes impeded. Certainly, the simultaneous overcoming of the unfavorable business cycle in OECD countries will assist in the American advance, which at the same time, however, is becoming the main hope for a world-wide trade recovery. While President Ford did inherit the American economy in a tailspin, his gradual and imperturbable response seems to be the right medicine presently to move out of it, well-timed with the Bicentennial of America, the beacon of the Free World.

The Decline and Fall of US Foreign Aid

by Professor George J. Viksnins, Washington *

Foreign aid, once hailed as "the most unsordid act in history", is in deep trouble. Despite the exhortations of the Pearson Report¹, the call for sweeping reform by various governmental commissions and the annual plea to Congress of the Agency for International Development (AID), economic assistance is rapidly declining, and the future looks even bleaker.

Western opinion concerning the development process generally has come full circle. The 1950s, and even the early 1960s, can be characterized by the optimism contained in W. W. Rostow's well-known book on economic growth, modestly sub-titled "A Non-Communist Manifesto".² All countries are treated alike by Rostow; rather precise dates are assigned to the "take-off", and Rostow's extrapolation places India and Indonesia a few steps below Mexico and Malaysia on the magic escalator of growth. Just as the 1950s were naively optimistic on the subject of economic development, the 1970s seem destined to become the decade of pessimism, and the 1980s appear to be scheduled to fulfil forecasts of doom. Food shortages and higher oil prices, uncontrolled inflation and the dollar's fall from grace, and increasing disparities between the rich and the poor all seem to validate the dire predictions of the Club of Rome's *Limits to*

*Growth*³, just as Rostow's *Stages* was the book of the late 1950s, so *Limits* seems to epitomize the pessimism of the 1970s.

Aid a Futile Exercise?

Many Americans, as well as Europeans no doubt, have come to regard foreign aid as a futile exercise, if they think about it at all. Critics from both sides of the political spectrum have continued their attacks. The conservatives have argued against it all along — "Keep money at home", "relief of the poor defeats its own purpose", "aid destroys initiative and breeds government planning and socialism", and so on.⁴ More recently, the liberals and the centrist majority have become disenchanted as well. Aid is viewed as a "Cold War relic", "an instrument of American imperialism", and as a method for dumping surplus US goods (and services) on insulated markets. Foreign aid and investment are synonymous with neo-colonialism and exploitation; "revisionists" and

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¹ Lester B. Pearson, *Partners in Development*, Praeger Publishers, New York 1969. This report was commissioned by the World Bank, and recommended a 1 p.c. of GNP aid target to the industrialized countries, to be reached in 1975.

² W. W. Rostow, *The Stages of Economic Growth*, Cambridge University Press, Cambridge 1960. Interestingly, a second edition was published in 1971 — attempting to defend the basic approach.

³ Cf. D. H. Meadows et al, *The Limits to Growth*, Universe Books, New York 1972. See also Dennis L. Meadows and Donella H. Meadows (eds.), *Toward Global Equilibrium*, Wright-Allen Press, Inc., Cambridge, Mass. 1973.

⁴ For an able presentation of some conservative criticisms, see P. T. Bauer, *Dissent on Development*, Weidenfeld and Nicolson, London 1971.

"radicals" argue that the benefits from trade accrue only to the rich country, with perhaps a pittance to the oligarchs of the Third World thrown in.⁵ This argument should not be limited to a criticism of US aid, of course; as one study points out: "It is not richness or poverty that distinguishes China, a lender, from Brazil, a receiver; it is the desire of the country for power. China is intent on influencing, and does influence, events in other countries; Brazil, in general, is not and does not."⁶

Better Planning and Coordination by the "Host Country"

The general theory or overall rationale of foreign aid has never been very clear. What is clear, however, is that the interests and viewpoints of the donor and the recipient country overlap rather infrequently. Ideally, the aid recipient views foreign aid as a supplement to domestic resource mobilization; assuming a rational approach, foreign aid can complement domestic savings, remove or ease a foreign exchange "bottleneck", improve the availability of skills, and be a catalyst for change. In reality, however, the recipient country often treats aid as a windfall of "free resources", and readily accepts whatever is offered, with little or no planning or coordination.

Such a treatment of assistance makes development plans a sham, a "shopping list" for foreign resources that might otherwise go to some other country. A simple maximization of aid levels ignores a number of factors that should be considered by the recipient country's planning agency. First, the treatment of aid funds as "free" will probably bias project decisions toward more capital-intensive methods — which are most improper in a labor-surplus economy. Second, accepting aid will inevitably tie up some local resources that could have been used elsewhere, such as local raw materials and other inputs, but more importantly scarce managerial skills and budget funds. Third, much of aid is given in loan form — and eventually these loans come due, even if a long grace period and a very low interest rate appear attractive at the moment. Today, in the last half of the 1970s, when aid is probably needed more than ever, the most necessary reform in its administration should be better planning and coordination by the "host country" itself.

Aid as an Instrument of Power

From a donor country viewpoint, the most recent OECD survey of *Development Co-Operation*⁷ iden-

⁵ Charles K. Wilber (ed.), *The Political Economy of Development and Underdevelopment*, Random House, New York 1973, especially Chs. 9–12.

⁶ K. B. Griffin and J. L. Enos, *Foreign Assistance: Objectives and Consequences*, in: *Economic Development and Cultural Change*, April 1970, pp. 313–327.

tified some 39 countries having a "special relationship" with DAC members. These include

- ☐ recipients constitutionally associated with a donor country,
- ☐ members of the British Commonwealth,
- ☐ former French colonies, and
- ☐ countries whose aid flow is influenced by recent military conflict (such as Israel, Vietnam, Laos, and Jordan).

While these "special countries" account for only 3 p.c. of the population of the developing world, they received nearly 30 p.c. of official development assistance. On a per capita basis, the aid commitment averaged \$ 37.60 versus only \$ 2.60 for the rest of the world. "Even more strikingly, they accounted for 34 p.c. of the *increase* in bilateral commitments between 1969 and 1972 and 50 p.c. of the increase in bilateral disbursements".⁸

After such political clients are satisfied, the OECD reports some correlation between a country's need and its aid receipts. Yet, only \$ 2.60 per capita remains to be divided — hardly significant from any macroeconomic vantage point. Aid is an instrument used for the exercise of power, and humanitarian considerations appear to have come in a distant second best.

Downward Trends in US Aid

Recent trends in aid levels are illustrative. While official development assistance has risen considerably (from \$ 6.6 bn in 1967 to \$ 9.4 bn in 1973), the US share has dropped steadily — from 58 p.c. of the total in 1962, to 53 p.c. in 1967, and to 32 p.c. in 1973. There has even been a decline in the absolute dollar value of US foreign aid over the period; however, in terms of real resources, adjusted for inflation, US aid has fallen very rapidly — from \$ 3.5 bn to only \$ 2.0 bn in 1973 (as measured in 1967 dollars). Since these statistics do not reflect the large 1974 price rise, the trend downward is accelerating. As a percentage of GNP, US concessional assistance has decreased from 0.43 p.c. in 1967 to 0.23 p.c. in 1973 — compared to the rather modest targets set in the Pearson Report, and endorsed by various international agencies, this shortfall in the US contribution is striking evidence that traditional patterns in US foreign policy are shifting rapidly.

Our basic thesis is that these trends will continue, and the US foreign aid program will be phased out nearly entirely by the end of the decade. First, the foreign policy of détente has probably under-

⁷ Maurice J. Williams, Chairman of the Development Assistance Committee, *Development Co-Operation, 1974 Review*, OECD, Paris, November 1974.

⁸ *Ibid.*, p. 167.

mined the most important basis for giving aid in bilateral form, the Cold War argument. A few years ago, an unholy alliance of Old Guard conservatives and liberal "doves" killed the AID bill in the US Senate — each group voting "nay" for a different reason, but the end result was the same. In recent years it has been harder and harder for the administration and the executive branch to secure legislative approval of foreign aid bills. Despite the fact that the levels of the requests have become lower — very much lower in real terms, as noted above — Congress has been very slow to act and has decreased the amount approved by a larger margin. For example, roughly 83 p.c. of the appropriation request was approved, on the average, during the 1960–67 period, but only about 72 p.c. for the FY 1968–74.

Negative Influences of Public Opinion and Recession

A second, but closely related, point is the development of an increasingly negative public reaction to the US role in Asia generally and Southeast Asia particularly. Public opinion is swinging rapidly against an open-ended commitment to faltering regimes of the region, but AID, being a bureaucracy, has been unable to adjust its planning and programming in response to this. Too many officials in that agency have been in Vietnam or worked on Vietnam — indeed, have experienced professional success because of Vietnam — to be able to let go easily. Thus, after Vietnam has fallen (along with Laos and Cambodia), a big chunk of US foreign aid will probably go with it.

Other important considerations include the rapidly spreading recession in the US economy, and the

decrease in budget revenues that has accompanied it. While the AID appropriation is a very small percentage (1.38 p.c. of the FY 1975 proposal) of total government spending, it has sufficient visibility to be pared first. Battles over the aid bill are front-page news, while billions spent on ill-conceived domestic programs are treated as "business as usual".

The crowning blow is provided by the oil situation. Former and indeed present aid recipients in OPEC (the OECD estimates that OPEC countries received nearly 1 bn in official development assistance in 1973), piling up vast hoards of petrodollars as a result of a cartelized market, are saying, in effect: "Every man for himself." International cooperation and rationality in decisionmaking for the longer run are crowded out by such short-run profit maximization. American isolationism, always incipient in the vast territories of Middle America, is awakened and strengthened — and the media point out the absurdity of giving military hardware and rationally in decision making for the longer threatening with tougher action. "Let the Arabs do it", is becoming a standard response in discussions of foreign aid. As America's political and financial hegemony decreases, so will bilateral aid levels — and this trend is accelerating. To be sure, a smaller Agency for International Development will continue to be around for a while — with perhaps a name change and some reorganization — carrying out modest humanitarian-type programs and providing some technical assistance. Capital assistance is already being provided by multi-lateral agencies in relatively increasing amounts; one can only hope that responsibility for peace and political stability will ultimately also be assumed by the community of nations.

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