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US Foreign Aid Trends: A Reassessment

by George J. Viksnins, Washington *

Two years ago an article of this author appeared in these pages¹, showing that US economic assistance was rapidly declining and outlining rather a bleak future. Foreign aid was being subjected to a great deal of criticism from both sides of the political spectrum², and a foreign assistance bill had actually been defeated in the US Senate by an "unholy alliance of Old Guard conservatives and 'dovish' liberals." But now the author is inclined to believe that together with greater realism and more reliance on multilateral rather than bilateral aid a modest improvement has taken place during the past couple of years.

As noted by the author two years ago, motives for giving and receiving aid were poorly defined, and at times contradictory; isolationism in the United States was on the rise, and in the so-called North-South confrontation, the US was emerging as the principal villain of the piece. Perhaps the pessimism about future prospects in this field was excessive — the industrialized countries had just been hit by the enormous 1973–74 increase in commodity prices and the formation of the OPEC cartel, the American polity was then suffering from the twin traumas of Vietnam and Watergate, and the world-wide "food crisis" was making headline news. Thus, while ample reasons can probably be given as explanation, a reassessment appears to be in order.

Aid as Instrument of Power Politics

To recapitulate briefly the arguments that were then made, most donor countries have viewed foreign aid as an instrument of power politics, and economic development and/or humanitarian considerations have been a distant second. As Griffin and Enos put it quite succinctly: "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."³ The 1974

OECD survey of development cooperation identified some 39 recipient countries which had a "special relationship" with one of the DAC members — this list covered, for example, members of the British Commonwealth, former French colonies, and countries recently involved in military conflict (e.g., Israel, Vietnam, Laos, and Jordan). These "special countries" accounted for only about 3 p.c. of the population of the "Third World", but they received nearly 30 p.c. of official development assistance. To put it slightly differently, the aid commitment to the above-mentioned countries averaged \$ 37.60 per capita in 1974, with the rest of the developing world receiving \$ 2.60 per capita.

From the point of view of the recipient country, aid funds were often treated as "free resources", to be readily accepted in whatever amounts offered — lest they go to some other country. Such an attitude often led to a short-run aid maximization strategy by the recipient country, with many "development boards" producing, viewing their own development plans as little more than shopping lists for potential foreign donors. Only more recently has it become recognized that acceptance of foreign aid had significant consequences in shaping the "host country's" infrastructure, in emphasizing capital-intensive industrial projects, and in using local resources — both men and money — for ends ultimately determined by the donor; last, but certainly not least, the aid often came in the form of a loan, and loans eventually have to be repaid, no matter how low the interest rate and attractive the "grace period".

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¹ George J. Viksnins, *The Decline and Fall of US Foreign Aid*, in: *INTERECONOMICS*, No. 7 (July), 1975, pp. 214-216.

² See, for example, P. T. Bauer, *Dissent on Development* (London: Weidenfeld and Nicolson, 1971) for some conservative views, and the general arguments in William and Elizabeth Paddock, *We Don't Know How* (Ames, Iowa: Iowa State University Press, 1973); Marxist-type critiques include Teresa Hayter, *Aid as Imperialism* (Baltimore, Md.: Penguin Books, Inc., 1971) and C. R. Hensman, *Rich Against Poor: The Reality of Aid* (Cambridge, Mass.: Schenkman Publishing Co., 1971).

³ K. B. Griffin and J. L. Enos, *Foreign Assistance: Objectives and Consequences*, in: *Economic Development and Cultural Change*, April 1970, pp. 313-327.

Partly due to greater realism on the part of decision-makers in recipient countries, and partly because of disillusionment among donors, growth in foreign assistance had slowed considerably in recent years. The United States, which had been the leader in developing international institutions to assist the "Third World" (we sometimes forget that the World Bank was created well before the outbreak of the so-called "Cold War"), experienced a steady decline in its share of official development assistance — from 58 p.c. of the total in 1962 to only 32 p.c. in 1973. As a percentage of GNP, US concessional assistance fell from 0.43 p.c. in 1967 to 0.23 p.c. in 1973 (greatly below the internationally accepted but seldom realized target of 0.7 p.c.). Finally, there has been a very sharp decline in the "real value" of aid; over the 1970–74 period, US official development assistance rose by 12.8 p.c., but after adjusting this for the inflation-induced fall in the purchasing power of the dollar, we find that aid in real terms has fallen by 33.8 p.c.⁴

Table 1
Resource Flows from DAC Countries to the
Developing World and Multilateral Institutions
(net disbursements in \$ bn)

	1970	1971	1972	1973	1974	1975 (P)
Total	15.7	17.8	19.7	24.7	28.0	38.8
As p. c. of GNP	0.78	0.80	0.77	0.79	0.82	1.02
Total private	7.73	8.90	9.61	12.81	14.48	22.57
Official development assistance ¹	6.79	7.69	8.54	9.38	11.32	13.61
ODA/GNP	0.34	0.35	0.33	0.30	0.33	0.36

¹ The total of "resource flows" includes private financial flows (including private voluntary agencies), ODA, and "other official flows" (primarily export finance).

Source: International Bank for Reconstruction and Development, World Bank Annual Report 1976, p. 10.

As we update some of these statistics, we find that a modest improvement has taken place during the past couple of years. Table 1 summarizes the total flow of financial resources from DAC countries to the developing countries and multilateral agencies over the 1970–75 period. First, we can point out that the widely cited target of a 1 p.c. of GNP financial transfer from the donor countries was, in a sense, reached in 1975. However, the framers of that target⁵ had intended 70 p.c. of the transfer total to be in the form of official development assistance and the remainder to be private, but the 1975 totals show precisely the reverse to be the case. Second, the decline in ODA totals appears to have been reversed —

⁴ See Organization for Economic Cooperation and Development, Development Cooperation, 1975 Review (Paris: OECD, Development Assistance Committee, November 1975), p. 100. It can also be noted that aid given by all DAC members expanded by 66.1 p.c. over that same period, but that this represents a 6.8 p.c. decrease, after adjustment for inflation.

⁵ See, for example, Lester B. Pearson, Partners in Development (New York: Praeger Publishers, 1969).

the World Bank reports that ODA rose by 20 p.c. in dollar terms and by an estimated 10 p.c. in real terms in calendar year 1975. In 1974, Sweden became the first DAC country to provide the equivalent of 0.7 p.c. of its GNP in official development assistance, but in 1975 both Sweden and the Netherlands exceeded that percentage⁶. The United States ranks rather poorly in terms of ODA as a percentage of GNP, but in absolute terms it provided more than 40 p.c. of the total net resource flows to the LDCs in 1975, and about 30 p.c. of total ODA; on a percent of GNP basis, the US contribution did rise from 0.24 p.c. in 1974 to 0.27 p.c. in 1975⁷.

Activities of the US Agency for International Development

The fact that this turnaround in official development assistance trends has taken place during 1974–75, the most severe recession in overall economic activity since World War II in most industrial countries, has to be an encouraging observation. It can also be pointed out that, over the past decade or so, the distribution of aid funds has probably changed directions — to emphasize assistance to the very poorest countries and to certain target groups and/or sectors in the recipient countries. The following specific trends in the activity of the US Agency for International Development (AID) can be noted⁸:

□ For fiscal year 1978, about 75 p.c. of AID funding will be devoted to countries with per capita income of \$ 300 or less (a few of the "richer" developing countries, such as Korea, Brazil, and Columbia, have been phased out within the past three years);

Table 2
The Budget of the US Agency for International
Development, by Functional Assistance Categories,
FY 1974–FY 1976

Category	FY '74		FY '75		FY '76 (P)	
	\$ mn	p. c.	\$ mn	p. c.	\$ mn	p. c.
Food and Nutrition	306.3	34.9	500.1	56.4	530.1	61.4
Population and Health	202.7	23.1	181.2	20.4	185.0	21.4
Education and Human Resources	101.2	11.5	93.4	10.5	76.0	8.8
Selected Problems	135.0	15.4	66.4	7.5		
Selected Countries and Organizations	131.9	15.0	45.7	5.2	72.0	8.3

Source: US Agency for International Development, Development Issues: US Actions Affecting the Development of Low-Income Countries (The Second Annual Report of the President, Transmitted to the Congress, May 1976), Table 29, p. 101.

⁶ IBRD, World Bank Annual Report 1976, p. 9.

⁷ US International Economic Report of the President, January 1977, p. 31.

⁸ US Agency for International Development, Fiscal Year 1978 Submission to the Congress, February 1977, p. 3.

□ AID programs are increasingly concentrated in the sectors of agriculture, population, health, and education;

□ Projects are now directed toward "reaching the poor majority" in the developing countries, and major capital projects and commodity loans are rare.

This shift in AID funding emphasis can be seen from the statistics in Table 2. It is quite striking that within a two-year period, the allocations in "Food and Nutrition" (the top priority area) have risen from about 35 p.c. of the total to more than 60 p.c. Thus, in general, US foreign aid is moving away from general foreign policy goals and political considerations toward humanitarian and development-oriented considerations. It can be noted that a partial explanation of the general decline in US foreign aid levels in the recent past may be this re-allocation process, for it is ever so much easier to spend a given amount of dollars on conventional capital-intensive investment projects in established "client countries" (nations already having experience in managing economic assistance funds) than to use that same amount of dollars in the agricultural sectors of the very poorest developing countries.

Greater Reliance on Multilateral Aid

A third major trend in US economic assistance involves greater reliance upon international financial institutions, i.e., multilateral rather than bilateral aid. In quantitative terms, between 1965 and 1974 US official development assistance contributions channeled through multilateral institutions grew from only 2 p.c. of the total to 34 p.c.. Although this trend is likely to continue, this will

probably be at a decreasing rate, since most of the eminently "bankable" projects in the developing world have probably already received financing, and other forms of resource transfer are likely to become more attractive for the recipient countries. Table 3 summarizes the growth of the principal institutions active in multilateral economic assistance during the 1974-76 period.

While the bulk of multilateral aid is still going through the traditional channels of the World Bank and the International Monetary Fund, it should be noted that new institutional arrangements are emerging under Bank-Fund auspices (such as the Bank's "Third Window" facility and the Fund's Trust Fund, financed from the proceeds of IMF gold sales). In addition, new institutions — such as the International Fund for Agricultural Development (IFAD), a \$1-billion-plus facility set up in 1976 — and regional arrangements have recently become quite active.

Emphasis upon Indirect Forms of Aid

A fourth significant development in economic assistance trends involves greater emphasis upon indirect forms of aid — as opposed to direct, project-oriented allocations, be they bilateral or multilateral. It is interesting to note that UNCTAD IV in Nairobi did not focus upon traditional assistance flows at all; the widely-cited 1 p.c. of GNP target — originally intended to be 70 p.c. ODA, but more recently winding up 70 p.c. private investment — was completely ignored. Instead, the Third World countries were advancing their own ideas — a "Common Fund" to index commodity prices and an "Integrated Program" to coordinate such efforts, so as to ensure an equitable distribution of benefits. The concept of the "New International Economic Order" does not plead for an increase in concessional assistance — it insists that foreign aid be automatic, indirect, and totally "without any strings attached". Initially, the response of most donor countries was, predictably, quite negative, but more recently conciliatory attitudes have been developing. Even in the US, it has become widely accepted that other cartel arrangements will probably be developed, and that buffer stocks and production quotas may benefit both producers and consumers of primary products.

Although quite a few economists argue that private market arrangements to stabilize commodity prices are likely to develop in the absence of governmental and/or supra-governmental intervention, direct activist policies appear to be gathering considerable support. In the short run at least, costs to US consumers are likely to be fairly small; and consumers as a group are probably less likely to object to costs of such indirect

Table 3
Official Multilateral Financing Sources,
Gross Disbursements

(\$ mn)

	1974	1975	1976
IMF (total)	2,865	4,000	4,800
Regular facilities	934	1,200	2,300
Compensatory financing	250	300	
Oil facility	1,681	2,500	2,400
Trust fund	—	—	600
World Bank group	2,407	3,345	3,977
IBRD	1,533	1,955	2,500
IDA	711	1,206	1,241
IFC	163	184	236
IBD	673	687	815
ADB	187	287	315
OPEC (fund)	315	500	500
Other (African funds, IFAD, STABEX, etc.)	25	—	190
Total	6,472	8,639	10,597

Source: US Agency for International Development, Development Issues, op. cit., Table 16, p. 53.

assistance arrangements than taxpayers (or their Congressmen) to the expenditures made under a direct foreign aid program. In the longer run, of course, the inefficiency of such indirect arrangements is probably more costly, but the electorate appears to have a fairly short planning horizon.

Probable Future Developments

To summarize and conclude, the steady decline in foreign assistance appears to have been halted; the fact that this took place during a period of very slow growth in the US and other industrial economies is rather remarkable. Over the last few years, in fact, Congressional foreign aid authorization levels have consistently exceeded budget requests of the Agency for International Development. This increase in aid levels is rather modest in real terms (after correcting for the impact of inflation), and may be difficult to maintain. This would particularly be the case as increasing emphasis is placed upon aiding the very poorest of the "Third World" countries — which the Congress apparently strongly desires — and if the

US eliminates all recipients guilty of "human rights" violations (which the Administration has been emphasizing). Moreover, aid officials have become increasingly sensitive to the charges that inappropriate "Western technology" is being transferred to the developing countries and that labor-intensive rather than capital-using techniques should be developed. These constraints are likely to slow down the growth in ODA levels, although the political willingness to increase foreign aid may have become strengthened in recent years. Finally, the trend toward multilateral and indirect forms of aid will probably become stronger, largely as a result of the views held by the developing countries themselves. Trade preference systems (the GSP and STABEX), balance of payments loans (the CFS and the Trust Fund of the IMF), and commodity price stabilization schemes (buffer stocks, producer-consumer agreements, and the like) are likely to grow in importance in the near future. Whether it will be possible to preserve the fundamental dynamism of the free-market system alongside of such arrangements is, of course, a very serious problem.

Some Considerations on the External Public Debt of LDCs

by Udo E. Simonis, Berlin *

The Federal Republic of Germany, together with the United States of America, is one of the most determined opponents to the developing countries' demand for a general debt moratorium (and also the UNCTAD integrated programme on commodities). However, the outcome of recent international conferences will not be without consequences for the actual relationship between Germany and the developing countries. At least the necessity of reconsidering possible arrangements has become clear, if a further isolation of the Federal Republic of Germany in the North-South dialogue is to be prevented.

One of the areas asking for reconsideration and needing new ideas is the mounting debt burden of most of the developing countries. It is even probable that here we find a crucial part of the North-South problems, inasmuch as the increasing amounts of loans and their hardening terms¹ have in many cases led to debt servicing problems of alarming magnitudes, what in turn threatens the smooth development of the international trade relations.

¹ On the Eurodollar market, in the second half of 1976, for the developing countries the interest added to LIBOR was 1.84 p.c. while that for the industrialized countries was 1.51 p.c.

Economic interdependence definitely has reached a point where the problems of one country or a group of countries have strong repercussions on the other countries. This became very clear after the so-called oil crisis as well as with the last economic recession. Besides of primarily economic interdependencies political interdependencies are strengthening; interdependency is manifesting itself not only in the field of trade and direct investment but also in the growing political participation of the developing countries.

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