

L.5.2

RFD 344

Board of Governors of the Federal Reserve System

Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

June 7, 1960

Recent Shifts in U. S. Foreign Economic
Aid Policy

6 pages

Allan F. Rau

NOT FOR PUBLICATION

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Recent Shifts in U. S. Foreign Economic Aid Policy

Allan F. Rau

Over the past few years there have been three major trends in U. S. foreign economic aid policy. Emphasis has shifted, first, from grant aid to a greater use of loans, and second, from almost complete reliance on bilateral assistance to expanded multilateral aid.

Third, the Administration has now recommended to the Congress that U. S. foreign economic aid be intensive rather than extensive; that U. S. assistance be concentrated more on a few countries rather than widely dispersed, as at present.

Loan and grant aid

During and immediately after the First World War the United States extended its aid in the form of loans; however, during the inter-war period almost all borrowers defaulted on their loan repayments. Consequently, to avoid a repetition of this experience, during the Second World War the United States initiated the Lend-lease Program. Immediately after the war, conditions were not propitious for a shift to loan assistance, and during the early years of the U. S. foreign economic aid program, almost all bilateral aid, as well as aid given through UNRRA, was extended in the form of grants, with the exception of Export-Import Bank loans totaling \$2.9 billion during the period 1946-51 and the special British loan of \$3.75 billion.

The Congress, however, expressed dissatisfaction with grant aid, pointed out various advantages of loan assistance, and in the Mutual Security Act of 1951 provided that "of the assistance provided under the applicable provisions of this Act with funds made available under the authority of the Mutual Security Act of 1951, as great an amount (in no event less than 10 per centum) as possible shall be provided on credit terms" (Section 522). The Mutual Security Act of 1954 stated that "of the funds made available pursuant to this Act and foreign currencies accruing to the United States under section 402, the equivalent of not less than \$200,000,000 shall be available only for the furnishing of assistance on terms of repayment" (Section 505). In more general terms, the Mutual Security Act of 1955 directed that assistance under the Mutual Security Act of 1954 "shall emphasize loans rather than grants wherever possible" (Section 9).

Dissatisfaction with the aid program continued, however, and in 1956 and 1957 both the Executive and Legislative Branches initiated intensive studies of foreign economic aid.

These studies concluded that U. S. foreign economic aid programs had to be devoted to a variety of purposes and that each of these purposes should be pursued by methods specifically suited to it. In the case of economic development, the proper instrument would be an agency to make loans on flexible terms rather than grants for the financing of development programs and individual projects. In line with this conclusion,

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the Congress in 1957 established the Development Loan Fund, and the proportion of loans in the economic assistance portion of the Mutual Security Program grew from 20 per cent in 1957 to 31 per cent in 1959.

In order further to accelerate progress toward reducing grant assistance, the Mutual Security Act of 1959 states that "the President shall include in his recommendations to the Congress for the fiscal year 1961 programs under this Act a specific plan for each country receiving bilateral grant assistance in the categories of defense support or special assistance whereby, wherever practicable, such grant assistance shall be progressively reduced and terminated" (Section 401). However, no time limit was set for the elimination of grant assistance.

What the Congress hoped to achieve was stated in the Report of the Senate Committee on Foreign Relations on the Mutual Security Act of 1959: "Grant programs . . . have demonstrated a tendency to perpetuate themselves. They would be much more tolerable if presented as part of a specific plan, the fulfillment of which would in itself lead to their elimination. This was the technique of the Marshall Plan; and although the experience of the Marshall plan cannot easily or totally be transferred to Asia or Africa, the committee feels that there has been absent in these areas the kind of imaginative planning which is necessary if long-range objectives are to be accomplished" (page 34).

In March 1960, the Administration presented to the Congress the required plan 1/ of the Executive Branch for progressively reducing and terminating, wherever practicable, bilateral grants of economic assistance in the Defense Support and Special Assistance categories. The Administration's general summary report points out that the objectives of Special Assistance programs usually neither meet the criteria for loans nor fit the procedures of established lending institutions. Thus, the Administration does not believe that much can be done in the near future toward reducing grants under Special Assistance. The report states, however, that grants under Defense Support are expected to decline to \$765 million in the fiscal year 1960, as compared with \$1,196 million in the fiscal year 1957. The report concludes that "there is an evident opportunity to place increasing emphasis on economic development as an objective and it is this opportunity that we expect to seize upon. It offers the way to a progressive reduction of the grant aid part of our total foreign economic aid program" (page 17).

The shift to greater use of loans in the U. S. foreign economic aid program in recent years is shown in the following table:

1/ A classified report was presented in secret session to the Congress and has been withheld from outside distribution. A general summary report by the Department of State, dated March 4, 1960, entitled Mutual Security Program Report on Grant Economic Assistance Relating to Defense Support and Special Assistance Programs, is unclassified.

U. S. Non-military Foreign Aid Disbursements

(Millions of dollars or equivalent)

	Fiscal years		
	<u>1957</u>	<u>1958</u>	<u>1959</u>
Gross grants	1,783	1,615	1,671
Gross credits	440	1,135	1,277
Of which repayable in local currencies:	<u>1/170</u>	<u>2/290</u>	508
Net credits	-200	616	608
Gross credit disbursements as a percentage of gross total disbursements.	20	41	43

1/ Estimated from total disbursements during the period July 1, 1954 to December 31, 1957.

2/ Estimated from disbursements during second half of the year.

Sources: Department of Commerce, Foreign Grants and Credits, June 1958 and June 1959 quarters: Data except for data on loans repayable in local currencies.

International Cooperation Administration, Report on Country Loans, December 31, 1957, June 30, 1958 and June 30, 1959: Data on loans repayable in local currencies.

Part of the recent increase in gross credit disbursements resulted, however, from increased loans repayable in local currencies; these loans are in many ways more like grants than loans repayable in dollars. On the basis of available estimates, disbursements of loans repayable in dollars rose greatly from fiscal year 1957 to fiscal year 1958, but actually declined the following year.

Multilateral and bilateral aid

Until very recently, the United States extended all economic aid on a bilateral basis, with the exception of participation in the International Bank for Reconstruction and Development and contributions used for technical assistance by the United Nations and its specialized organizations.

However, over the past few years there has been a gradual reappraisal of multilateral aid. The United States still opposes SUNFED,^{2/} but agreed in 1958 to the establishment of a more limited Special Fund of the United Nations^{3/} and has increased its contribution to the United Nations Expanded Program of Technical Assistance.^{4/}

Also, the United States agreed in 1958 to the establishment of the Inter-American Development Bank and will provide 45 per cent of the Bank's \$1 billion initial total resources.

Finally, the United States proposed in 1958 the establishment of the International Development Association,^{5/} and the Congress will presumably authorize U. S. participation during this session. In addition to the U. S. subscription, which will amount to \$320 million (out of total resources of \$1 billion), the United States may contribute some amounts of foreign currencies accumulated mainly from sales of surplus agricultural commodities authorized under Title I of P. L. 480^{6/} and Section 402 of the Mutual Security Act of 1954.

- ^{2/} Special United Nations Fund for Economic Development. The proposed United Nations agency would receive and disburse governmental contributions for grants and low-interest, long-term loans to less developed areas.
- ^{3/} The Fund's resources, the voluntary contributions of governments, are wholly devoted to the financing of resource surveys, applied research, and vocational and advanced technical training in less developed areas.
- ^{4/} The United Nations and seven of its specialized agencies participate in this program which is financed by governments' voluntary contributions. These contributions are used to assist the economic development of less developed countries.
- ^{5/} This proposed affiliate of the International Bank for Reconstruction and Development will finance projects in less developed areas on easier terms than are available from the Bank.
- ^{6/} Agricultural Trade Development and Assistance Act of 1954.

However, the shift from bilateral to multilateral aid has been, and will most probably continue to be, very gradual. Most U. S. economic aid almost certainly will continue to be mainly bilateral, although coordinated with assistance of other countries. The precedent for coordinated bilateral aid was the August 1958 and March 1959 meetings of the United States, Canada, Federal Republic of Germany, Japan, and United Kingdom at the International Bank for Reconstruction and Development for the purpose of coordinating aid to India. ^{7/} Most recently, such coordination has been formalized through the establishment of the Development Assistance Group. ^{8/}

Intensive and extensive aid

Caught between the desire to aid all the uncommitted less developed nations on the one hand, and limited Congressional appropriations on the other, the United States has been forced to spread its foreign economic assistance quite thin. The Administration has now announced its intention to change this policy and to place special emphasis upon economic aid to India, Pakistan and Taiwan.

The Administration has also announced a special foreign economic aid program for Africa south of the Sahara, but this program is relatively modest since the Administration hopes that other Western countries, particularly the former colonial powers, will continue their assistance to these countries, and that some kind of combined effort can be directed to the needs of these countries. The combined effort may be bilateral aid coordinated through the U.S.-proposed OECD. ^{9/}

^{7/} U. S. economic aid to India in recent years has been as follows: \$105 million in FY 1956; \$236 million in FY 1957; \$260 million in FY 1958; \$332 million in FY 1959. The amounts include the rupees paid for U. S. agricultural surpluses less those amounts used by the United States.

^{8/} The Group was formed at special economic meetings in Paris in January 1960 on the basis of a resolution noting that certain countries intended to consult concerning their policies of assistance to less developed countries. The Group (United States, Belgium, Canada, Federal Republic of Germany, France, Italy, Portugal, United Kingdom, and the Commission of the European Economic Community) invited Japan to attend the Group's first meeting held in Washington, D. C. in March 1960.

^{9/} Organization for Economic Cooperation and Development. The proposed inter-governmental organization, which is to replace the Organization for European Economic Cooperation, will include the United States, Austria, Belgium, Canada, Denmark, Federal Republic of Germany, France, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, and United Kingdom. One of the aims of the OECD is "to contribute to sound economic growth in areas in the process of economic development, both in Member countries and elsewhere, by appropriate means, including encouragement of the flow of development capital to those areas" (Article 1(b) of draft convention). The DAG will most likely be incorporated in some manner into the OECD.

Various reasons have been given for increasing economic aid to India, Pakistan and Taiwan. The rising strength of Communist China makes the need for an accelerated rate of economic growth in these bordering countries appear particularly urgent; it is believed to be essential that the uncommitted nations of the world be shown the possibility of rapid economic development under democratic institutions. Moreover, in population, India and Pakistan are the largest and the third largest, respectively, of the less developed countries of the free world.

The Administration hopes that the needed capital assistance for India and Pakistan will be provided through the Development Loan Fund, and increased shipments of U. S. agricultural surplus commodities together with the contributions of other nations; the recent sale of U. S. surplus wheat and rice to India for the rupee equivalent of \$1.3 billion was in line with that policy. Pakistan is also to receive further defense support assistance.

In the case of Taiwan, striking economic and social progress has been made in recent years; it is argued that the "take-off point" may now have been reached and a "big push" in the form of greatly increased economic aid over a short period of time may soon allow Taiwan to be able to develop without external aid. The proposed "big push" includes various types of aid as well as increased private investments. Taiwan has recently passed a foreign investment law providing for unrestricted profit remittances; it also plans to enact tax reforms, to continue fiscal and monetary policies to combat inflation, to liberalize foreign exchange controls, and to transfer Government-controlled industries to private ownership, in order to attract private investors.