THE GROWTH AND DECLINE OF AMERICAN ECONOMIC AID TO LESS DEVELOPED COUNTRIES.

Thesis submitted for the degree of Doctor of Philosophy of the Australian National University by Ronald James Wickes.

This thesis is entirely my own work.

(Ronald James Wickes)
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The principal purpose of this study is to account for changes in the amount of economic aid which the United States has provided to less developed countries. Economic aid is defined broadly to cover direct transfers of resources (money, credits, commodities or services) from the government of the donor nation to the economic sector of the recipient nation. Concessional economic aid refers to grants and credits on terms markedly more liberal than those applying in private commercial markets.

The first chapter of the dissertation notes that the United States provided very little economic aid to less developed countries prior to the New Deal. The American Government sought many of those objectives which later gave rise to the transfer of aid, but it used other instruments (including gunboat diplomacy, the institution of customs receiverships, and measures to deny or facilitate private loans) to achieve its objectives. U.S. relations with Central American countries in the first part of the century illustrate the use of these techniques.

The second chapter covers the emergence of significant programmes of economic aid for less developed countries over 1933–47. It includes detailed case studies on the growth of Eximbank lending and technical assistance in Latin America, and the provision of aid to North Africa, Saudi Arabia and China. The chapter argues that a number of factors explain increased resort to economic aid over this period, including the presence of strong foreign policy and defence motives for providing assistance, increased interest
in developing new outlets and markets for American products, changed attitudes concerning the effectiveness of aid as a foreign policy instrument, diminished use of alternative methods (of the type discussed in Chapter One) for influencing events in less developed countries, improved relations between the United States and some recipient nations, the increased capacity of the United States to provide aid, a humanitarian response to widespread destruction brought about by the Second World War, and a relatively favourable domestic political climate for the transfer of aid.

Chapters Three and Four deal with the expansion of concessional economic aid to less developed countries between 1948 and 1966. The third chapter suggests that the expansion of general programmes of capital and technical assistance over this interval resulted from increased concern with 'communist' influence in less developed countries, the growth of doctrines which were optimistic in their assessment of the way in which large scale capital aid could promote development, increased requirements in a number of less developed countries, improved relations between the United States and some important recipients, a more pessimistic judgment of alternatives to economic aid, and an increase in the capacity of the American Government to provide aid as less funds were required in Europe and revenue from other sources expanded.

Chapter Four considers the special case of PL480 and associated programmes. It takes issue with the view that the introduction of PL480 can be understood simply in terms of the emergence of large agricultural surpluses in the United States. While this was the immediate cause, resort to economic aid to deal with the
problem of surpluses was facilitated by the increased reliance of
less developed countries on imports of wheat and other relevant
commodities, and by the existence of a climate in which the provision
of large quantities of concessional aid was considered more accept­
able than it would have been fifteen years previously. Subsequent
expansion of commodity aid to LDCs is attributed to diminished
willingness to transfer surpluses to Europe and Japan, a positive
interest in providing additional economic aid to less developed
countries, expanded requirements for food imports in these nations,
and improved relations between the United States and other producer
countries.

The fifth chapter shows that there was a decline in the
amount of U.S. concessional economic aid to less countries over
1966-73. This is explained in terms of reduced emphasis on some
of the 'Cold War' objectives previously important in justifying the
transfer of aid, a marked reduction in the level of U.S. agricul­
tural surpluses, greater scepticism concerning the effectiveness
of aid as an instrument of policy, the increasing severity of the
American balance of payments problem, deteriorating relations between
the United States and some important recipients (including India
and Egypt), the manner in which concessional economic aid became
linked with unpopular issues (such as American involvement in Indo­
china), the ability of a number of less developed countries to
expand their foreign exchange earnings rapidly by other means, and
increased concern with domestic problems in the United States.

The concluding chapter states the principal findings of
the dissertation concerning the emergence, growth and decline of
American economic aid to less developed countries. It also attempts some general statements about the factors which have influenced the amount of economic aid transferred.
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INTRODUCTION

This dissertation is concerned with changes in the amount of economic aid which the United States has provided to less developed countries. More precisely, an attempt is made to account for three major changes in the quantity of aid transferred to LDCs. The first section attempts to explain the gradual emergence of significant programmes of economic aid for less developed countries over the period 1933-47. The second part of the dissertation seeks to explain the expansion of concessional economic aid to LDCs over the period 1948-1966, while the third section takes up the question of why there was a substantial decline in the amount of concessional economic aid provided to LDCs between 1966 and 1973.

I

Accounting for changes in the amount of American economic aid transferred to less developed countries is important for three reasons. First, the provision of economic aid to LDCs by the United States involves a significant transfer of resources: concessional aid commitments amounted to more than four billion dollars during 1966. Explanation of major changes in the amount of aid is therefore of value in its own right for those interested in economic aspects of international relations.

Second, the amount of concessional economic aid ('official development assistance') provided by developed countries to less developed areas is itself an issue in international politics. LDCs
have repeatedly raised the question of the volume of aid provided by rich countries during the course of sessions of the U.N. General Assembly, meetings of the United Nations Conference on Trade and Development (UNCTAD), and in other international forums. These states have also used the General Assembly and UNCTAD to define minimum targets for economic aid for less developed areas. In launching the First Development Decade, the General Assembly resolved that developed countries should provide at least 1% of their national income as aid (broadly defined to include private capital flows). Current targets stipulate, in addition, that 0.7% of national income should be provided in the form of 'official development assistance'.

The performance of individual countries as far as the level and quality of aid is concerned is monitored by the UNCTAD Secretariat on behalf of the less developed countries. The performance of many donors, including the United States, is also scrutinised by the Development Assistance Committee of the Organisation for Economic Cooperation and Development. Member nations provide detailed reports on their aid programmes to this organisation, and the reports are then subjected to criticism by other members. The Chairman and staff members of the Development Assistance Committee have periodically issued reports on the aid performance of its member nations. Other organisations, including the World Bank and non-governmental agencies, have also taken an interest in the level of economic aid provided by rich countries to less developed areas. It was the World Bank which established the Pearson Commission to inquire into aid and the performance of developing countries when the level of concessional aid showed signs of stagnation and decline in the second half of the 1960s.

The amount of concessional aid provided by the United States
has assumed particular importance since it is an important determinant of the total flow of concessional aid to less developed countries. Even by 1973, after a long interval during which its contributions had declined relative to those of many other donors, the United States provided almost one third of the concessional economic aid transferred to 'developing countries' and multilateral agencies: in 1963, the United States provided almost two thirds of the total. (Table 1). Any fluctuations in such a substantial share of aid have an immediate and significant impact on the total flow. Further, the willingness of American policy makers to provide aid may affect the amounts transferred by other countries. Thus, where aid is to be provided through multilateral channels such as the International Development Association, contributions from individual countries must first be negotiated. The amount which key donors such as the United States are prepared to support at this stage may have a significant impact on the contributions made by other states.

A third justification for this thesis is that the amount of economic aid received by less developed countries has a significant impact on their rate of economic growth. There are a number of ways in which aid has been held to accelerate economic growth in less developed countries. According to the foreign exchange constraint model, growth rates in LDCs are frequently limited by the problem of financing an adequate volume of imports. Aid makes it possible for the recipient to obtain the imports required for a rapid rate of growth. Some writers who accept this view argue that there is a minimum rate at which imports must grow in order to sustain a given rate of economic growth. In Chenery's view:

In periods of normal development, imports increase somewhat more rapidly
<table>
<thead>
<tr>
<th></th>
<th>1963</th>
<th>1968</th>
<th>1973</th>
</tr>
</thead>
<tbody>
<tr>
<td>Official Development Assistance from the U.S.</td>
<td>3566.6</td>
<td>3242.3</td>
<td>2968.0</td>
</tr>
<tr>
<td>Official Development Assistance from DAC Countries</td>
<td>5772.4</td>
<td>6320.1</td>
<td>9408.0</td>
</tr>
<tr>
<td>Share provided by the United States</td>
<td>62%</td>
<td>51%</td>
<td>32%</td>
</tr>
</tbody>
</table>

than GNP in most countries because the income elasticity of demand for investment and other imported manufactured goods is higher than the average for domestic products. Although this import demand can be temporarily limited by import substitution and demand restrictions, past experience suggests that in the long run a minimum ratio of import growth to GNP of 1.0 to 1.2 is required for sustained development.

If this ratio is used, and estimates are made of the foreign exchange available through exports, borrowing on private capital markets and from other sources, it is possible to compute the amount of aid required to sustain a given rate of economic growth for particular countries, or for less developed countries as a group.

Another argument (the savings constraint model) holds that economic growth in LDCs is frequently limited by insufficient savings: aid is held to promote growth by lifting the level of investment above that which could be financed by savings from domestic and other foreign sources. A further view suggests that aid can promote growth by overcoming shortages of skilled personnel in crucial areas. Again, those administering aid have often argued that it can be used to influence the policies of recipient governments in ways likely to accelerate economic growth. Finally, aid is sometimes held to promote growth by changing general attitudes, introducing new practices and generating a more 'modern' outlook on the part of the recipient population.

In this writer's view, the principal justification for a high level of economic aid to less developed countries is to be found in its role in overcoming foreign exchange shortages. This is not to say that there is a direct quantitative relationship between the rate of growth of GNP and expansion of imports of the kind suggested by Chenery: only that foreign exchange shortages frequently limit economic growth.
in LDCs, and that in helping to supplement other sources of foreign exchange, aid often makes a useful contribution to higher growth rates. Nor is it suggested that the other arguments sketched above are unimportant. Any thorough discussion of the impact of aid on economic growth would require a detailed discussion of these arguments and the various objections to them⁹: here, however, discussion will be limited to a brief review of the exchange constraint model.

There are several objections to the notion that aid may make a useful contribution to higher growth rates in LDCs by overcoming foreign exchange shortages. It can be argued that aid increases the foreign exchange problems of LDCs in the long run by building up indebtedness.¹⁰ And indeed, it is true that much aid is provided in the form of loans, and that payments of interest and principal ultimately absorb a significant amount of foreign exchange if borrowing is continued for some time. However, there are two considerations which weaken the force of this objection. In the first place, LDCs which are unable to obtain concessional aid have frequently sought to finance the imports they require by recourse to finance on much more onerous terms. Whether these sources are funds from private capital markets, or loans of the kind provided by government export promotion agencies, the interest rates are higher and maturities shorter than those applying to funds available through programmes of concessional economic aid. The net result has often been that indebtedness has built up more rapidly in the absence of concessional economic aid than when it is available in substantial amounts.¹¹ One function of concessional aid in some cases has been to enable recipients to overcome problems of indebtedness arising from excessive recourse to loans on onerous terms from the sources mentioned. Thus one
function of early loans under the Alliance for Progress was to refinance debts built up by Latin American countries in the preceding period by recourse to loans on onerous terms. The other point is that borrowing is frequently justified if there is a reasonable prospect that the funds will be used productively. If the loans directly or indirectly generate a substantial expansion of exports or substitute for imports, then earnings or savings in foreign exchange may well exceed the amount to be repaid.

A different objection to the exchange constraint model proceeds by arguing that foreign exchange shortages promote economic growth in the long run by forcing the country concerned into more self reliant and viable forms of economic development. Galtung and Jenkins tend to adopt this position, arguing that boycotts and economic sanctions are among the most effective techniques in generating viable forms of economic development. This argument is at least partly valid. Foreign exchange shortages during the Great Depression and difficulties in obtaining imports during the Second World War made an important contribution to industrialisation in Latin America, for it was possible for domestic firms to move into the production of commodities formerly supplied from abroad. To cite a further example, a sharp decline in export earnings after 1952 and consequent foreign exchange shortages contributed to rapid industrialisation in Pakistan: it is at least arguable that this was of benefit to its long run prospects for economic growth. Nevertheless, prolonged constraints on imports are likely to lead to inefficiencies in the country concerned and to lower rates of growth than would otherwise have been obtainable.

A further objection may concede that aid contributes to
economic growth in the ways described, but holds that the kind of
growth occurring in many LDCs is highly inequitable and may well be
unviable in the long run. The barrier to a satisfactory form of eco-
nomic growth - one in which the benefits are distributed to a broad
section of the population, and which is capable of sustaining itself
over a long period - lies, in this view, in the basic economic, poli-
tical and social structure of most less developed countries. Providing
aid to deal with foreign exchange shortages, modify particular
government policies, raise the level of investment, or overcome short-
ages of skilled personnel, fails to tackle the root of the problem.
More than this, it may strengthen the position of those classes and
interests which seek to maintain the status quo, thereby helping to
prevent the kind of radical change which is required if real economic
development is to occur. 16

The distribution of income in less developed countries outside
the socialist system is indeed highly unequal. According to Ahluwalia,
the average income share for the poorest 40% of the population in
these countries amounts to approximately 12.5% (though there is a
good deal of variation around this average). By contrast, the average
income share of the bottom 40% amounts to about 16% in developed mar-
et economies and 25% for countries in the socialist system. 17 However,
it does not follow that measures to accelerate economic growth in
the less developed capitalist countries should be abandoned for this
reason. There appears to be little relationship between growth rates
and the degree of inequality at a given point of time, or the trend
of income inequality over time. 18 In some countries, high rates of
growth have been accompanied by a greater share of income for the low-
est 40%. In other instances, the share of income obtained by this
section of the population has diminished, but income in absolute terms has risen appreciably. According to Ahluwalia's data, Mexico and Brazil fall into this category, with the income of the lowest 40% rising by about 6% per annum over the period reviewed even though their share of total income declined.\(^{19}\) This data is subject to substantial error and other observers have reached quite different conclusions. But there does appear to be little by way of solid empirical foundation for the doctrine that minority elite groups have been the only beneficiaries of economic growth in most less developed countries. Even where relative inequality has deteriorated, it is possible that future redistributive measures will spread more of the benefits of economic growth to a broader section of the population. It is assumed here that continued economic growth is possible in less developed countries, and that it will not be arrested (though it may be slowed) by energy shortages, scarcities of basic raw materials, environmental considerations, shortages of foreign exchange or savings or other problems.\(^{20}\)

There is much to be said for the view that radical changes in the economic, social and political structure of many LDCs would provide a basis for more rapid and more equitable economic growth than is at present possible. However, such changes are difficult to bring about in practice. Analysis of cases where radical change has occurred in the past - for example, China, Cuba and Indochina - suggests that they are based on special circumstances and not upon factors general to less developed countries.\(^{21}\) This is not to say that socialist revolutions are impossible in other less developed countries. But the prospects are not as favourable as is sometimes assumed, and it is accordingly unreasonable to abandon more moderate measures on
the premise that radical solutions will be successful. It is not clear that the provision of economic aid will, in normal circumstances, prevent the momentum for radical change gathering if the conditions for it exist. Indeed, there is a strong case for the view that rapid economic growth, increased levels of literacy and the like contribute to political instability.  

The above arguments provide some grounds for study of changes in the amount of American economic aid transferred to LDCs. However, in view of the substantial volume of published and unpublished material on American economic aid, it could still be objected that further study in this area is difficult to justify, and that the existing literature provides answers to the questions considered here. There are several replies to this objection. First, there is no overall study of the emergence, growth and decline of American economic aid. The existing literature consists of studies which focus on particular programmes of aid, on limited periods, on aid to particular regions or countries, or on recommendations or criticisms pertaining to aid policy. The task of bringing the substantial volume of material together in one history of American aid is itself a major one, and would alone justify this study. Moreover, there are gaps in the existing literature. The decline of aid, for example, has been reviewed briefly in some general works on aid and has been discussed in some articles, but the causes of its decline have not been investigated in detail as far as this writer is aware. Again, the question, taken up in the first chapter of this dissertation, as to why policy makers employed alternative instruments in preference to economic aid in the first third of this century, has not been discussed at any length. Finally, even where this dissertation tackles questions which have
been examined elsewhere, it has been possible to deal with the subject in a substantially different form from that in existing works. Thus, the emergence and expansion of the PL480 programme has been discussed in a number of works, but as Chapter Four indicates, the received explanations are far from adequate. In other instances, examination of the existing literature reveals significant disagreement as to the causes of changes in aid levels: this dissertation attempts to critically examine the arguments and evidence favouring the different explanations.

II

Having provided some justification for a study of the kind outlined, the problem of defining terms such as 'economic assistance', 'concessional economic aid', 'level of economic aid', and 'less developed countries' can be tackled. It is generally agreed that the 'economic assistance' provided by a country covers certain transfers of resources (money, credits, commodities or services) from that nation to those outside it. There is, however, a lack of consensus as to which transfers should be excluded. Resources may be provided as a result of action by a variety of sources including central government institutions, private enterprise, trade unions and philanthropic organisations. Different writers are in disagreement over the question of which of these are to be counted as aid. If, as is the case in this dissertation, attention is restricted to resources provided as a result of central government policies, a second question arises: namely whether indirect as well as direct transfers should be included. Direct transfers are made where the funds, services
or commodities are provided from the stocks or account of the govern-
ment agency concerned. Indirect flows take place when the government
pursues policies, such as special tariff concessions for products
from less developed countries, which increase the quantity of resources
transferred from other sections of society. A number of government
decisions, including those which affect the overall level of economic
activity or the rate of company taxation may add to the indirect flow
of resources. In this dissertation, only direct transfers are includ-
ed as aid. This is understood to include cases where the government
provides funds to organisations such as the World Bank or United
Nations Development Programme for subsequent use in connection with
other countries.

A further area of disagreement arises from the problem of
distinguishing aid from normal commercial transactions. Thus writers
differ on the question of whether loans made on onerous terms, such
as those provided by the United States Export-Import Bank, should be
counted as assistance. Even if a country receives a grant, it may
incur certain obligations to the 'donor' such as the provision of
military base facilities, and it could be argued that the funds provid-
ed should not be included as aid. One procedure for making the dis-
tinction required is to judge the transaction against rates prevailing
in the commercial market, and to classify it as aid if the recipient
would have obtained worse terms, or the donor better ones, by dealing
with private commercial institutions. However, this rule is not
entirely satisfactory since: (1) rates in the private market are
influenced by the fact that governments provide loans and grants.
Thus the interest rate on overseas loans from commercial institutions
would presumably be higher if some of the demand for such loans were
not catered for by government action. Hence, under this criterion, government loans provided at current commercial rates might become aid if less of them were made available. (2) the services which the recipient is required to perform may, as in the case of the provision of military base facilities, be impossible to value by the standards of commercial markets. In practice, it is difficult to formulate any simple but adequate rule for making a sharp distinction between aid and normal commercial transactions: while many cases fall clearly into one category or the other, there remains an area of ambiguity. In this dissertation, economic assistance is defined broadly, and is understood to include Eximbank loans and other credits made on relatively onerous terms. However, concesional economic aid is defined more narrowly, and covers only grants and credits provided on terms markedly more liberal than those applying in private commercial markets. Eximbank loans are not included in concessional economic aid.

Finally, there is the question of which transfers can be labelled economic assistance as distinct from, say, military aid. There are several ways in which such a distinction may be made. The procedure followed here is to classify aid on the basis of the purpose for which resources are ostensibly allocated in the recipient. Where they are used for the expansion of investment, the improvement of educational institutions, support for the government's general budget or similar purposes, the transfer will be included as economic aid. Only where they are employed directly to alter the size or technical efficiency of the armed forces will they be classified as military aid. Of course, to promote many of the aims referred to above as 'economic' would also serve to enhance the capability of military
forces. Thus the expansion of industrial capacity might significantly enhance the capability of the country to wage war; improving communications might, apart from promoting commerce, assist the military in counterinsurgency operations; and contributing to general prosperity might well enhance troop morale. Similarly, increasing the efficiency of the armed forces might well have a favourable economic impact in the short term by, for example, promoting business confidence. Despite these points, this dissertation will distinguish between military and economic assistance by the method outlined above.

As noted, there are other ways of separating military from economic aid: these do not yield the same results as the one adopted here. Thus the basis for classifying the two types of assistance may be:

(1) the actual impact of the aid. This will be different from the use to which the resources are directly allocated if the recipient would have undertaken the project even in the absence of aid. It has often been argued that the provision of agricultural commodity assistance to Sukarno's Indonesia merely enabled the government to divert foreign exchange which would have been used to buy food toward other ends, notably the purchase of additional quantities of arms.

(2) the reasons for which policy makers in the donor country provided the aid. Again, this may give different results from the preceding two criteria: moreover, there are cases which cannot readily be classified as either military or economic aid, as when funds are provided to influence the recipient's foreign policy.

(3) the agency administering the assistance. According to this criterion, civilian relief programmes administered by the U.S. Army during and after World War Two would be classed as military aid,
whereas they are here counted as economic assistance.

(4) the type of resource transferred. Under this rule, military aid would consist of shipments of arms and the transfer of military advisers. Using the definition adopted in this dissertation, military assistance might also include items such as machinery for army work shops, vehicles and the like.

Having indicated what transfers of resources will be considered as economic assistance and concessional economic aid, the problem of comparing the 'level' of aid at different times can be discussed. It is extremely difficult to arrive at any simple measure of the amount of aid provided, and even more troublesome to compare levels at different times precisely. To begin with, there are problems which arise from the diversity of flows which go to make up aid. Loans and grants can be added together to give a total, but the resulting figure is highly misleading. On the other hand, the procedure of reducing loans to a 'grant equivalent' is somewhat tedious. Where the assistance is provided in the form of commodities, it is possible to value them according to a number of different principles - their cost to the donor, the value they would realise if sold in commercial markets, the amount the recipient would have to pay to obtain goods of equivalent value, and so on. Still further difficulties arise where some of the assistance is tied to procurement in the donor, or where the recipient provides services or commodities in return which are difficult to value precisely. Even if these questions are resolved, there is the choice of measuring actual flows of resources or the obligations and commitments entered into to make them available. Trends in aid levels measured on the former basis typically lag some two years behind those calculated on the second principle. There is
also a choice between measuring new transfers from the donor on the one hand, and new transfers net of repayments of principal and interest on past loans on the other. Further, one may measure the absolute level of assistance, or its value relative to some other indicator such as national income or gross national product. Finally, special problems, such as the need to make allowances for inflation, arise when aid levels are compared at different times.

This dissertation is concerned with the problem of explaining general trends in the level of aid rather than with that of measuring the amount of aid precisely. For the purpose of this study, it has only been necessary to establish the general trend in aid levels over the period in question. In practice, Chapter Three, dealing with the growth of concessional economic aid (excluding that provided under PL480) over 1948-66; and Chapter Five, on the decline of concessional aid over 1966-73, are the only two points where the task of establishing trends in aid levels requires detailed discussion, including reference to the type of problems mentioned in the preceding paragraph. Elsewhere changes in aid levels are reasonably clear. Chapter Two, dealing with the gradual emergence of programmes providing economic aid to countries now classed as less developed, does not provide aggregate measures of the level of aid, for the change under discussion is quite clear without this. (There is, however, a description of the various programmes and of the type of aid which they provided.) In Chapter Four, dealing with the emergence and expansion of PL480 assistance, the trend is again quite clear on the basis of gross figures on the value of agricultural commodities supplied. The figures used represent the export market value of commodities estimated by the U.S. Department of Agriculture, but other measures,
such as outlays made by the Commodity Credit Corporation to obtain and ship the commodities, would yield similar conclusions concerning the trend in the amount of aid provided.

In Chapters Three and Five, the starting point for examining movements in the volume of assistance is provided by data from the U.S. Agency for International Development in *U.S. Overseas Loans and Grants: Obligations and Loan Authorizations, July 1, 1945 - June 30, 1974.* The figures given represent gross commitments under those programmes considered by A.I.D. to constitute concessional economic aid or official development assistance. Unfortunately, information on gross commitments for 1948-65 is only available for multiyear intervals, but this does not affect the study significantly. With this as a starting point, allowance is then made for other factors which might alter the value of aid to the recipient, and which might accordingly alter the conclusions reached by studying the figures on gross commitments. First, allowance is made for the impact of price changes. Second, changes in the proportion of aid provided as loans, and in the financial terms on which loans are made available are examined. A higher proportion of loans, or a significant hardening of terms reduces the value of aid to the recipient even if gross commitments remain the same. Third, various forms of tying are considered, since measures which increasingly tie aid to procurement in the donor country, or to projects in the recipient, reduce the value of aid to the recipient.

Alternative measures of the level of aid are sometimes used. The Development Assistance Committee of O.E.C.D. provides information on flows of official development assistance (or concessional economic aid) to developing countries and multilateral agencies, and reference is occasionally made to this. These data differ considerably from
the figures provided by U.S. A.I.D. in *U.S. Overseas Loans and Grants*. Development Assistance Committee figures refer to disbursements of aid rather than commitments, and the disbursements are net of repayments on previous loans. As noted below, the definition of 'developing countries' differs from that employed here for less developed countries. Again, DAC definitions of official development assistance do not necessarily coincide with those of the U.S. Agency for International Development. Finally, DAC data refers to calendar years, while U.S. A.I.D. figures are based on aid provided over the fiscal year (ending June 30). Differences of this kind are not of major importance for this study in practice, since they do not materially alter conclusions about general shifts in the level of aid of the kind under discussion.

The term 'less developed countries' here refers to those countries of Africa, Asia, Oceania and Latin and Central America in which major sections of the population have long been poor in comparison with consumption patterns and living standards prevailing in the United States, Australia, the United Kingdom, the Soviet Union, and other rich nations. In practice, the term covers almost all countries in the regions mentioned: Japan, Australia and New Zealand are excluded. These countries are also referred to as Third World countries, developing countries, underdeveloped countries, or simply as LDCs. During the period covered by the first chapter of this dissertation - that prior to the New Deal - they would normally have been termed 'backward countries', but because of its pejorative implications, this expression is not used here. Grouping countries together as less developed does not, of course, imply that they are similar in other respects. In terms of per capita income, literacy
level, degree of urbanisation, political alignment and other criteria, the countries vary widely.

In some tables in the dissertation, totals for less developed countries include amounts provided to some other countries. Where information from the Development Assistance Committee is employed, the totals refer to aid provided to 'developing countries and multilateral agencies': developing countries, as defined by DAC, include relatively poor countries in Southern Europe such as Spain, Greece and Cyprus. This does not materially affect conclusions about general trends in the level of aid.

Explanation proceeds in this dissertation by examining a number of possible causes of the change in aid levels under discussion. An attempt has been made to identify both proximate and underlying causes. The dissertation does not employ any of the various analytic frameworks which other writers have used for the study of foreign policy. One such framework, developed by Rosenau, classifies the factors shaping foreign policy under five headings: namely systemic, societal, governmental, role and idiosyncratic variables. Models of this kind are useful in suggesting the determinants of foreign policy, but it has not been found fruitful in practice to employ them in the present study.

This is not to say that possible causes have been selected for investigation in an unsystematic fashion. In approaching the task of accounting for changes in aid levels, this writer has proceeded with a checklist of factors which include:

1. changes affecting the scope or importance of the various foreign policy and military objectives which have given rise to the transfer
of economic aid. Such aims include those of promoting political
stability, influencing the foreign policies of recipient governments,
promoting a more favourable image of the United States in the eyes
of foreign populations, contributing to the capacity of other govern-
ments to deal with external military threats, obtaining military bases
in the recipient, and expanding the production of raw materials re-
quired for military purposes by the United States.

2. changes altering the importance or scope of the various economic
objectives which have contributed to the provision of aid. Such
objectives include the expansion of trade, disposing of surplus agri-
cultural commodities, and similar objectives.33

3. changes in the weight accorded to humanitarian justification
for aid. Increased support for the view that aid should be provided
to alleviate poverty in other countries as an end in its own right
might well be expected to contribute to the growth of aid. Some
writers have seen changes of this kind as the principal cause of the
expansion of aid.

4. changes bearing upon the capacity of the United States to pro-
vide aid. Pressure on government revenue from other sources, the
growth of government revenues and the American balance of payments
position fall under this heading.

5. changes affecting relations between the United States and less
developed countries. Strained relations between the United States
and other governments not infrequently leads to aid being reduced or
completely cut off: accordingly, one might suppose that general
shifts of this kind, or changes in relations with large recipients,
might well be a factor altering the amount of aid provided.

6. changes affecting the use of alternative instruments. Alter-
native instruments cover a variety of actions which the United States might take to realise its objectives in place of economic aid. The nature of the alternatives depends on the objectives in question. Where the objective is that of disposing of agricultural surpluses, an alternative to aid may be to enlarge domestic food relief programmes. Where the goal is that of influencing the policies of other governments, alternatives range from providing other benefits (for example military aid) to imposing sanctions or resorting to military intervention. If economic growth in the recipient is required (whether for foreign policy, economic or humanitarian reasons), alternatives to aid may include trade concessions, or efforts to enlarge the flow of private capital.

7. changes affecting policy makers' assessments of the effectiveness of aid in accelerating economic growth, influencing recipient governments and promoting political stability.

8. changes in the requirements of less developed countries for aid. 'Requirements' can be measured in a number of different ways, but the problems involved in the concept need not be discussed here. It can be said that factors which contribute to balance of payments difficulties (such as export shortfalls, increased indebtedness, ambitious programmes of industrialisation requiring imports on a large scale, and declining flows of private capital), food shortages, increasing demand for skilled personnel, and similar changes are among those which add to aid requirements. Greater requirements may lead donors to increase the amount of aid provided in some cases.

9. other changes affecting the political climate for economic aid. Aid may become linked with other political issues in a variety of ways. Thus economic assistance may be affected by issues involving
military aid where funds for both are provided under the same legislation. Aid may also become connected with general foreign policy issues, and with such questions as the proper scope of government intervention in the economy. These may well affect the amount of support for economic aid, and accordingly, the amount transferred.

The above list has served only as a guide to the kind of factors which might be worth investigating as causes of changing aid levels. It has not been employed in a rigid fashion in each chapter. Even in this limited role, the above checklist might be questioned. At first sight, it bears some of the marks of a rational actor model of the kind which has been much criticised in recent studies of American foreign policy. The suggestion is made that shifts in the level of aid may frequently be traced to changes in the importance or scope of various objectives, or to an altered disposition on the part of policy makers to choose aid as against other instruments. Those impressed by the bureaucratic politics model would doubtless wish to include, as key variables for investigation, the nature of the agencies administering aid and their relations. There is, however, room for the investigation of factors of this kind within the framework sketched above. Despite the shorthand reference to government objections, it is not assumed that government is an entity comparable to a single actor. Changes in many of the variables sketched above could result from the altered influence of particular persons or agencies. Thus greater optimism concerning the impact of aid might result from the influx of persons convinced of the effectiveness of aid, or from the increased influence of existing agencies or policy makers who had long considered aid to be particularly useful.
There remains the task of outlining the way in which the remainder of the dissertation is organised. Chapter One is concerned with explaining the use of alternatives to economic aid during the first third of this century. The United States aimed, in this period, to promote a number of the objectives which in subsequent periods have given rise to the transfer of economic aid. But prior to the New Deal, very little economic assistance was provided to countries now classed as less developed. An attempt is made to account for the lack of resort to economic aid.

Chapter Two is concerned with the gradual evolution of programmes providing economic aid to countries now classed as less developed. The chapter covers the period from 1933 to 1947. It begins by describing the various programmes which policy makers used to transfer aid to LDCs, and subsequently moves on to examine the underlying changes contributing to the emergence of economic aid on a significant scale over this interval.

In Chapters Three and Four, the expansion of concessional economic aid over the period 1948–66 is examined. Chapter Four deals with the particular case of the emergence and expansion of agricultural commodity assistance under PL480 and related programmes. Chapter Three is concerned with the remaining programmes of concessional economic aid.

The fifth chapter of the dissertation begins by demonstrating that there was a decline in the amount of concessional economic aid provided by the United States to less developed countries over the period 1966–73. An attempt is then made to identify the causes of
this decline. In the concluding chapter, the causes of the emergence, expansion and decline of American economic aid to less developed countries are summarized. An attempt is also made to make some general statements concerning the factors which have contributed to changes in the level of aid over the period reviewed.
FOOTNOTES

1. Information on the amount of aid in each period is provided in the relevant chapter. For data on the amount of concessional aid provided over 1966-73, see Table 1 of Chapter 5.


6. Chenery's paper attempts to make estimates of this kind. See *ibid.*, pp.5-11. Other estimates are noted in Table 7, Chapter 3, of this dissertation. For further discussion of the exchange constraint model, see R. Mikesell, *The Economics of Foreign Aid*: Weidenfeld and Nicolson, 1968, Chapter 3.

7. For further discussion, see *loc.cit.* For a criticism of the view that aid contributes to significantly higher levels of investment in less developed countries, see K. Griffin, "Pearson and the Political Economy of Aid", in T. Byres (ed.), *Foreign Resources and Economic Development: a Symposium on the Report of the Pearson Commission*: Frank Cass, 1972, pp. 117-134.

8. See the statement of U.S. Secretary of State Dean Rusk to the Senate Committee on Foreign Relations in 1962, cited in H. Feis, *Foreign Aid and Foreign Policy*: Macmillan, 1964, pp. 121-122. Also see G. Ranis and J. Nelson, *Measures to ensure the Effective Use of Aid*: A.I.D. Discussion Paper No.9, p.85, cited in T. Hayter, *Aid as Imperialism*: Pelican Original, 1971, p.88. For a critique of the way in which the U.S. Agency for International Development, the World Bank and the International Monetary Fund have employed the technique of leverage over recipient government policies, see *ibid*.

9. Some of the criticisms of aid have been mentioned in footnotes 7 and 8 above. For other criticisms, see P. Bauer, *Foreign Aid, Forever? Critical Reflections on a Myth of our Time*,
At present, the growth of Eurocurrency lending to less developed countries has given rise to concern that indebtedness may rise to much higher levels. The terms on which Eurocurrency finance is made available have varied markedly since 1970, but at best, this has been a high cost source of funds. A higher level of concessional aid would probably have enabled less developed countries to grapple with the problems of higher energy prices and export shortfalls without incurring the same measure of external indebtedness. For data on Eurocurrency lending, and discussion of the problem of indebtedness, see Report by M. Williams, Chairman of the Development Assistance Committee, Development Cooperation: 1974 Review: O.E.C.D., 1974, pp. 149-162.

This point is noted in the Pearson Commission's Report, Partners in Development: Pall Mall, 1969, p.245.

See the (untitled) discussion paper contributed by J. Galtung in Symposium on a New International Economic Order: p.46.


For works which defend the view that the barrier to a satisfactory form of economic growth lies in the basic economic, social and political structure of most LDCs, see P. Baran, The Political Economy of Growth: Monthly Review Press, 1957; A. Gunder Frank, Capitalism and Underdevelopment in Latin America: Monthly Review Press, 1967. However, the above paragraph does not, in other respects, reflect the view of Baran and Frank.

M. Ahluwalia, "Income Inequality: Some Dimensions of the Problem", in H. Chenery et al., Redistribution with Growth: Oxford University Press, 1974, p.7. The figures given are pretax data and do not take into account progressive taxes and welfare oriented public transfer mechanisms. They are subject to a substantial margin of error.


20. There is a large literature bearing upon each of the problems mentioned. For a general study on the question, see H. Arndt, "Limits to Development?", *Australian Quarterly*, June, 1975, pp. 79-89.


24. Many writers make no attempt to rigorously define the types of transfers which fall into the category of foreign aid. Thus Holsti defines aid as "the transfer of money, goods or technical advice from a donor to a recipient." This definition ignores a number of the problems discussed below. K.J. Holsti, *International Politics*: Prentice Hall, 1st ed., 1967, p.297.


33. The basis for distinguishing 'foreign policy' and 'economic' aims in this dissertation is the objective immediately behind the provision of aid. If aid is transferred to promote political stability, it will be said to be motivated by foreign policy considerations. This would be so, even if the United States sought political stability to protect trading interests, or the investments of private corporations. The aid would be said to be motivated by economic aims if the immediate purpose of the aid was to contribute to exports, or provide financial assistance to private corporations. Even with this rule of classifying objectives on the basis of the immediate aim in question, the distinction between 'foreign policy' and 'economic' objectives is not always clear.


35. On the bureaucratic politics model, see loc.cit.
CHAPTER ONE

ALTERNATIVES TO ECONOMIC AID
PRIOR TO THE NEW DEAL.

Subsequent chapters of this dissertation will show that the United States has provided economic aid to less developed countries for a variety of reasons since 1933. These include promoting political and economic stability in the recipient, increasing American influence over the policies of recipient governments, disposing of 'surplus' production, developing raw material supplies and promoting exports.

It is argued in this chapter that many of these same objectives were present (if in more limited form) prior to the New Deal. However, they did not, as a rule, give rise to significant quantities of economic aid in this period. The chapter attempts to account for this failure to resort to economic aid.

The first part of the chapter undertakes the preliminary task of establishing that the United States provided relatively little economic aid to less developed countries * prior to 1933. Subsequent sections develop the argument mentioned above.

I

The United States provided capital and commodity aid to independent less developed countries only rarely before the New Deal.

* The term 'less developed countries' was not in common usage in the period discussed in this chapter. Policy makers and others did use 'backward countries' to refer to broadly the same areas, but because of its pejorative implications, this term is not used here.
Relief assistance, involving the transfer of fifty thousand dollars' worth of provisions and tender, was provided at Venezuela in 1812 following an earthquake. But this was, according to Merle Curti, the only instance in the nineteenth century where Congress appropriated funds for the purchase of relief supplies (though measures for this purpose were unsuccessfully introduced in 1847 and 1892).

The American government did provide money on several occasions in connection with the transfer of facilities or territory to the United States. Thus Colombia was to obtain a grant of ten million dollars, as well as annual payments of a quarter of a million dollars, under a treaty provisionally concluded with the United States in 1903 and entailing the transfer of the Panama Canal Zone. The Colombian Congress was unwise enough to refuse to ratify the treaty, but the Republic of Panama, formed by the secession of the relevant area from Colombia, entered into an arrangement involving the payment of identical considerations. Colombia itself received twenty five million dollars compensation and certain rights with respect to the Canal Zone under an agreement with the United States which was signed in 1914 and ratified in 1922: in return, Colombia recognised the independence of Panama. Again, Nicaragua obtained three million dollars under a convention, ratified in 1916, whereby the proprietary rights necessary for the construction of an interoceanic canal as well as certain islands and a base site were granted or leased to the United States.

A number of the above transactions - the acquisition of the Panama Canal Zone is a case in point - are more appropriately classified as government purchases than as aid. But in other cases it is doubtful whether American policy makers placed much value on the
facilities which they obtained. In the case of Nicaragua, for example, it was not imprudent for the American Government to obtain the facilities and rights in question, but there is much evidence to suggest that policy makers were primarily interested in providing that country with money to demonstrate their continued support for the existing regime, and to tide it over its financial difficulties. In instances of this type, the funds provided can reasonably be classed as aid.

Loans were made available by the United States on a large scale during and immediately after World War One. Acts of April and September 1917 appropriated $3000 million and $4000 million respectively for the establishment of credits to foreign governments engaged in war with enemies of the United States, while in the post-war period the American Relief Administration and the United States Grain Corporation made substantial loans. Cuba and Liberia were the only recipients among those countries now termed less developed, obtaining credits of $10 million and $26,000 respectively. The nature of the loan to Liberia is not clear. That to Cuba was partly to finance the purchase of coastal defence equipment, but one component of it was for railroad construction and therefore falls into the category of economic aid as defined here.

The above instances aside, the United States Government provided little in the way of direct capital and commodity assistance to less developed countries before 1933. As Secretary of State Hughes explained, it was "not the policy of our Government to make loans to other governments, and the needed capital, if it is to be supplied at all, must be furnished by private organisations." Some American Government activities in the period under
discussion qualify as technical assistance, though the scale of these operations was extremely small by comparison with that after World War Two. On a number of occasions, the United States facilitated the recruitment of skilled personnel by other governments, frequently by lending or referring its own experts and administrators. But as a rule the persons concerned were treated as employees of the foreign government after the transfer or during the period of loan, and they were usually paid (frequently at very high rates) from the same source. In cases where the project was of more direct interest to the United States, government funds were allocated in somewhat larger amounts. Thus Congress appropriated $65,000 for survey work associated with the construction of an inter-American railroad, and in 1923 made available $500,000 so that the American Government might investigate, in association with recipients, the possibility of developing rubber plantations in the Philippines and Latin America.

The United States did take actions which had the effect of increasing the flow of private capital to less developed countries. It was the general policy of the United States Government to support American investors in cases where foreign governments infringed their freedom of entry or their property rights. In the case of Latin America, this support frequently extended to military action or the threat of it: not until the first years of the Franklin Roosevelt Administration did the United States, under the Good Neighbour policy, commit itself to a non-intervention treaty whereby it abandoned the right to intervene directly to preserve property rights. Again, the United States sought to facilitate the entry of American private capital through its 'Open Door' policies in China and the Middle East. Steps were also taken in some instances to seek or encourage
loans from private banks for particular purposes. And in some cases, especially in the Caribbean and Central America, the American Government assumed direct powers over the finances of other governments, and arranged private loans on the security of the recipient's tax receipts or other assets.\textsuperscript{13}

These policies undoubtedly increased the flow of private foreign capital to less developed countries. Moreover, they enabled governments and individuals in some countries under strong American 'protection' to obtain loans on much easier terms than would otherwise have been the case. In Cuba, where the United States had the power to intervene to protect property and to veto government borrowing proposals, it was possible for the government to borrow funds on private capital markets at rates which were a good deal better than those obtainable by France.\textsuperscript{14} Nonetheless, the above policies cannot be counted as aid under the definition given previously, for the American Government did not itself provide funds in association with private capital.

Nor do the various tariff agreements which the United States negotiated with independent less developed countries fall within the category of economic aid. Under the definition adopted in the Introduction, even special preferences for the products of less developed countries (of the kind operating under the Generalised Scheme of Preferences) are not classed as economic aid. In any event, there is little evidence of any concessions similar to this in the period reviewed. Under tariff legislation of 1890 and 1897, the American Government entered into a number of tariff agreements with LDC governments, but they did not involve additional concessions on the part of the United States. Rather, the other governments were induced
to grant tariff reductions on American products as a way of avoiding additional duties on products, many of which had long entered the United States on the free list. A number of other tariff treaties were negotiated outside the authority of the legislation referred to above, and three (with Cuba, Hawaii and Canada) were actually ratified. These were, however, reciprocal treaties in which the United States made some concessions in its own tariffs in return for reductions on duties imposed on American products. It is true that in each of these cases American policy makers were probably more interested in the effect the treaties would have on promoting stability in the other country and cementing political relations with it than in the commercial benefits which were obtained. But they did not on this account set aside the objective of negotiating a treaty which was commercially advantageous to the United States and which granted a number of tariff concessions on imports from the United States.

American colonies seem not to have been the recipients of any substantial measure of economic aid in the period under discussion, unless the transfer of the necessary administrative personnel is included under this heading. Economic development programmes were indeed carried out, but these seem to have been financed from revenue generated in the colony. This was apparently the case in Cuba during the American occupations. In the Philippines, there were a number of unusually liberal procedures associated with American colonial administration, including early acceptance of the concept of trusteeship, the establishment of an elected assembly, and provision for Philippino participation in the execution of government policy. But there seems to have been no programme of economic aid. In this respect, American policy was in conformity with that of Great Britain,
which, minor exceptions aside, did not provide economic assistance to its colonies in the period under discussion.¹⁹

To conclude: there were relatively few instances of economic assistance from the United States to less developed countries in the period prior to the New Deal. Nor, with the exception of loans and supplies to Europe during World War One, was there much assistance, whether military or economic, to any area. In this respect, the United States did not depart from the practice of states in the nineteenth and early twentieth centuries, though subsidies, most typically given in relation to considerations of war or alliance, had played a significant part in the Italian state system of the fifteenth century and in the European system of the eighteenth century.²⁰ The United States did facilitate loans and investment from private sources (though not normally in ways that fell within the category of aid as defined here): again, the practice of other great powers in the period under discussion was similar.

II

This paper now turns to the question of explaining the relative absence of economic aid in the period under discussion. It is argued that the United States had, in this period, many of the objectives which later gave rise to the provision of economic assistance, but that the presence of a number of conditions resulted in the use of other techniques and instruments to realise these aims. Before going on to develop this argument, it is convenient to examine American Government objectives, and the instruments used to advance them, in two cases, commencing with the U.S. response to the Mexican Revolution.
The revolution which began in Mexico in 1910 was the first major social upheaval of the twentieth century, preceding the Bolshevik Revolution by seven years. Under the rule of Diaz, Mexico in the latter part of the nineteenth and early twentieth centuries had developed as the very model of an inegalitarian and neocolonial society, with one percent of the population owning perhaps ninety percent of all land, and with extraordinarily generous concessions to foreign and domestic private enterprise. The revolution began in a comparatively mild fashion in response to the decision of Diaz, who had already occupied the presidency for thirty-four years, to seek to further extend his term of office. Diaz was ousted in 1911 at the hands of a relatively moderate group led by Francisco Madero, himself a wealthy landowner. While Madero's reforms were mild, they proved too sweeping for those - the army-officer class, landowners, domestic entrepreneurs and foreign interests - identified with the old order. In 1913, Madero was overthrown and murdered in a rightist coup led by Victoriana Huerta, giving rise to a prolonged period of civil war, first between Huerta's faction and the opposing "Constitutionalist" forces, and then among the latter.

The United States Government made many attempts to influence the course of the Mexican Revolution, a number of which involved the use of economic instruments not falling into the category of 'aid' as defined here. In the first case to be considered, the Wilson Administration, after an initial period of withholding recognition, actively sought to displace the Huerta regime with some more acceptable alternative. It is not completely clear why this course of action was adopted. The Secretary of State for the outgoing Taft Administration had seemed not indisposed to grant recognition to Huerta,
and some European countries, including the British Government, had granted it recognition by mid-1913. It seems that the Wilson Administration took the view that it was necessary to spell out, not only to Mexico, but to other countries in Central America and the Caribbean, that American recognition would, in future, depend on agreement to observe what was considered by Washington to be 'sound' and constitutional procedures in government.\(^{26}\) In addition, it developed the impression that Huerta's regime was unduly sympathetic to British financial interests, and that American prestige and influence would suffer from belated recognition, though these were evidently not the dominant considerations.\(^{27}\)

Abandoning its initial policy of simply withholding recognition and waiting, the Wilson Administration, in August 1913, dispatched a representative, John Lind, who was to present to Huerta what the United States deemed to be a satisfactory solution – a cessation of fighting and an early election in which Huerta would not be a candidate. When these proposals were not accepted, Lind offered as an additional inducement the promise that "the President will assure the American bankers and their associates that the government of the United States will look with favour on an immediate loan".\(^{28}\) Huerta was indeed in some need of foreign loans: domestic taxation was not, given the circumstances of his government and its basis of support, an effective or expedient means of gaining revenue, and the failure of the United States to grant recognition had closed the American money market to his government. The European capital market, which had been opened to him in May as a result of recognition by European countries, had proved disappointing.\(^{29}\) Nonetheless, the Lind proposals were rejected, and Huerta further consolidated his position in October by
disbanding his Chamber of Deputies and arresting a number of its members. 30

The Wilson Administration now directed its efforts to securing Huerta's replacement by other means. Secretary of State Bryan noted in November that

The present policy of the Government of the United States is to isolate General Huerta entirely; to cut him off from foreign sympathy and aid and from domestic credit, whether moral or material, and to force him out ... If General Huerta does not retire by force of circumstances it will become the duty of the United States to use less peaceful means to put him out. 31

To achieve its objective without resorting to massive military intervention, the Administration utilised a number of instruments. First, it sought to cut the regime off from sources of foreign private loans and other external support, and was successful in having Germany withdraw recognition and England withdraw Ambassador Carden. Second, by lifting the embargo on arms sales to Mexico, it allowed the revolutionary forces to acquire substantial quantities of arms from across the border. Third, it undertook a limited military occupation of Vera Cruz. This last was partly in retaliation for what was perceived to be an 'affront' to the United States by Huerta's government, but it was also seen by Wilson and Bryan as a means of aiding the insurgent forces (though its actual effect was clearly unfavourable to them). Finally, the United States sought the mediation of Argentina, Brazil and Chile, though in the event, Huerta fell to the advancing Constitutionalist forces before this was put into effect. 32

With the defeat of Huerta's forces by the Constitutionalis under the leadership of Carranza, the Wilson Administration made a further effort to influence the course of action taken by the Mexican
Government. Wilson communicated to the new government his concern with three areas in particular, stressing the need for respect for foreign lives and property (including the legitimate financial obligations of Huerta's regime), a generous amnesty for opponents of Carranza's forces, and a tolerant attitude towards the Catholic Church and its ministers. Carranza's reply on these points was considered unsatisfactory, and Secretary of State Bryan reiterated them in a message to the Mexican leader which noted that the failure to follow U.S. advice

... might make it morally impossible for us to recognise a new government. If we do not recognise it, it could obtain no loans and must speedily break down. The existence of war in Europe would clearly make it impossible to obtain assistance anywhere on the other side of the water even if such excesses as we have alluded to did not themselves make it impossible ...

However, Carranza's government remained opposed to American interference, and the Wilson Administration again adopted a stance of withholding recognition, apparently believing that those defecting from Carranza's ranks under the leadership of Villa would be more acceptable to the United States and more receptive to its demands. Mexico was again embroiled in civil war, but the outcome was to confirm Carranza in power: by mid-1915, Villa had been forced to revert to guerrilla warfare in the North, and in October of the same year, the United States granted de facto recognition to Carranza.

A final case which will be considered here concerns the attempt by the United States to repair relations with Mexico in 1917 in order to facilitate its war effort against Germany. De facto recognition of Carranza in October 1915 had not brought Mexico and the United States into a cooperative relationship: indeed they had drifted close
to general war after the United States had undertaken a punitive ex-
pedition into Mexican territory following the execution of a number
of American citizens in one of Villa's raids.\textsuperscript{35} It was important
for the United States to promote better relations with Mexico for
several reasons - Mexico was a source of raw materials needed for the
war effort, most notably petroleum\textsuperscript{36}; and any active hostility on
its part could tie down American troops at a time when they were
required elsewhere. Moreover, there was a danger that Mexico might
cooperate with Germany. Although Carranza sidestepped a proposal from
the German Government in January 1917 which indicated that Germany
would help to recover territory lost to the United States in 1848 if
Mexico joined in the war against the Allies, a number of his public
statements indicated sympathy with the Central Powers.\textsuperscript{37} The Mexican
Government restricted neither the efforts of Germans within Mexico to
distribute anti-American propaganda, nor those of the German Ambas-
sador to organise revolutionists in Honduras, Nicaragua and Guatemala
with the help of supplies provided from Mexico. And it made a
strong effort to promote the idea of a coalition of neutrals which
would suspend commercial relations with the belligerents if they failed
to achieve peace by negotiation, causing the American State Department
to undertake intense diplomatic activity in order to prevent a number
of Latin American nations from joining in.\textsuperscript{38}

The United States made a number of concessions in its efforts
to improve relations. The punitive expedition was withdrawn and
Carranza's Government recognised de jure in the early part of 1917,
while the War Department was urged to avoid further border incidents.\textsuperscript{39}
Licences were issued for a variety of exports to Mexico, including
some which had previously been the subject of embargo. Thus 2.7
million rounds of ammunition which had previously been purchased by
the Mexican Government were finally freed for delivery. \(^{40}\) Further,
the American Government, in August 1917, indicated that it would not
oppose a loan by United States banks for the Mexican Government, and,
when the banks did not move to take up the question, acted to facili-
tate negotiations. In a communication to Wilson proposing that a
conference be held with bankers to induce them to open discussions
with the Mexican Government, the State Department Counsellor, Polk,
argued that this was necessary to demonstrate the desire of the
United States to assist Mexico, and to counter German influence aris­
ing from promises to provide financial aid when the war was over.
It was also suggested that it would relieve Mexico's immediate revenue
requirements and thereby divert attention from taxation on oil
production, which the United States opposed. \(^{41}\)

The examples considered indicate that American policy makers
saw the capacity to facilitate or deny loans from private banks as
an important means of exercising influence over the policies and pro-
cedures of Mexican governments, and as one factor affecting their
prospects of survival. It was not, of course, the only instrument
that they employed, others including direct military intervention,
allowing or denying arms sales to contending factions, diplomatic
activity, and granting or refusing export licences.

The second case study examined here concerns American policy
towards the smaller countries of Central America and the Caribbean
during the Theodore Roosevelt, Taft and Wilson Administrations. \(^{42}\)
Broadly, the United States sought, over this period, to avoid poli-
tical instability in the region, except where, as in Nicaragua in
1909, the existing regime came into strong conflict with American
interests. It also sought to avoid financial instability which might lead to default on loan funds which these countries had borrowed on private capital markets abroad, or to overcome this if it had already occurred. A further objective was that of exercising influence over the policies of the governments concerned on matters of interest to the United States.

Until about 1917, the U.S. interest in the political and financial stability of countries in the area resulted in substantial measure from the need to ensure that European powers did not gain new footholds there. Under the terms of the Monro Doctrine, the United States had long opposed any European attempt to gain colonies in the Americas, but the priority of this general aim was greatly increased in the Caribbean and Central America as a result of the decision to construct the Panama Canal and the consequent need to safeguard its approaches. It was feared that the danger to foreign property, financial claims and lives arising from political and financial instability might become the cause or occasion for intervention by European powers leading to some form of permanent control.43

American Government actions in the region were also justified by policy makers on other grounds, including the desirability of safeguarding U.S. investments in the area, the trading advantages which would follow from prosperity in the countries concerned, and the benefits in terms of prosperity and peace which would result for their peoples. These considerations also seem to have motivated American policy in part, at least in some instances. After World War One, the danger of European intervention was slight, but policies designed to avoid political and financial instability were continued by the Republican Administrations which succeeded Wilson because of these
additional factors, and because of the responsibilities which had been acquired in the previous period.\(^{44}\)

To realise its objectives in the region, the United States made use of four principal instruments. First, on some occasions, as in Cuba between 1898 and 1902 and 1906-1909, and in the Dominican Republic from 1916 to 1922, the United States intervened to assume complete control of the government and administration of the country for a limited period. Second, it acquired by treaty or executive agreement certain powers over some governments in the region without, however, extending its control over all government activities. The most far reaching of these instances was perhaps the Platt Amendment which gave the United States the right to intervene in Cuba "for the preservation of Cuban independence, (and) the maintenance of a government adequate for the protection of life, property, and individual liberty ...", and, in addition, forbade Cuba to enter into arrangements with foreign powers which might tend to impair the independence of the island, to provide military facilities to other powers, and to contract public debts which could not reasonably be discharged from the revenues of the government.\(^{45}\) However, treaties with other countries gave the United States power to collect customs revenue (the principal form of taxation) and to veto government borrowing programmes.

Thirdly, the United States threatened or actually carried out military intervention, without however, assuming complete control over the territory in question. According to Bryce Wood, U.S. marines or soldiers entered the territory of states in the Caribbean area no less than twenty times between 1898 and 1920,\(^{46}\) but there were a number of other occasions where the United States merely made its
presence felt by the dispatch of a naval force. Fourthly, economic instruments were employed: in general, however, these do not qualify as economic assistance under the definition given in this paper. One such instrument was the reciprocal trade treaty negotiated with Cuba, which granted concessions on the admission of Cuban sugar in return for reductions in tariffs on American manufactures. Despite the reciprocal nature of the treaty, American policy makers seemed to view it chiefly as a means of promoting Cuban prosperity, and thereby, in their view, its political stability. More frequently, the United States Government took steps to facilitate loans from banks within the United States, usually securing them on customs revenue collected by an official whose appointment required American approval.

Having made the above general points, particular instances of American policy under successive administrations can be briefly discussed, commencing with the policies adopted by the Theodore Roosevelt Administration in the Dominican Republic and Cuba. In the former country, internal disorder and excessive overseas borrowing had by 1904 led the regime to bankruptcy, and created a danger of European governments intervening to collect claims owing to their nationals. The United States responded by acting to establish a customs receivership over the Dominican Republic. Under the arrangement finally worked out and established by treaty in 1907, the Dominican Government obtained a loan from New York banks which enabled it to pay off its considerable public debt. The American Government made this loan possible by assuming power over the collection of customs receipts, and obtaining a veto over any proposals the Dominican Government might make for the alteration of customs dues or the enlargement of its public debt. It was agreed that a proportion of the funds collected
by American appointed officials would be turned over to the Dominican Government to meet its immediate budgetary needs. 47

The institution of a customs receivership in the Dominican Republic under U.S control was justified by American policy makers on a number of grounds. It was held that the receivership would promote the interests of the Dominican Republic themselves by contributing to peace and prosperity; that the scheme would benefit the South Atlantic and Gulf states of the United States which traded extensively with the island; that the United States was under a moral obligation to collect debts that the Dominican Republic owed since it was unwilling to allow European countries to do so; and that, if the United States declined to take action, and left the resolution of Dominican indebtedness to others, the latter would be entitled under Hague Court rulings to preferential payment on their claims. 48 However, it is evident that the dominant consideration was the desire to avoid European intervention, which appeared imminent in 1904. 49 Anglo-German attempts to collect claims owing to their nationals by blockading Venezuela in 1902-1903 evidently convinced American policy makers of the danger of intervention. In this case, as Callcott notes,

Germany with poor grace had submitted to the idea of arbitration just a little too late and had accepted the sponsorship of the United States just a bit too reluctantly to offset the growing suspicion in Washington. 50

The view that the United States acted largely to protect its own investments is not plausible in this instance: before the danger of European intervention became evident, the American Government had been reluctant to give strong support to the U.S. based Santo Domingo Improvement Company and other Americans with claims against the
Dominican Government. 51

In Cuba, different methods were used by the United States, though the goals remained, in general, those of avoiding political instability and financial disorder. During the period of American occupation, from 1898 to 1902, the United States sought to create conditions which would be conducive to future stability, introducing reforms designed to establish a 'sound' financial system, effective political and judicial arrangements, and a healthy, literate population: these were, however, financed from revenues collected by the colonial administration in Cuba, and not from funds allocated by the U.S. Government. Particular emphasis was placed on education, consistent with Secretary Root's belief that it was impossible that "any people, three fourths of whom are contented to remain unable to read and write, can for any long period maintain a free government". One quarter of government expenditure during the occupation went towards education. 52

On relinquishing the occupation, the American Government implemented two further measures intended to promote stability, and preserve U.S. influence. The first of these was the Platt amendment which gave the United States extensive powers to intervene in Cuba, and limited the powers of the Cuban Government in important areas. The second was the reciprocal trade treaty, which provided for concessions on tariffs applied to Cuban goods, most notably sugar, in exchange for reductions on the duties levelled on a wide range of American products sold to Cuba. 53 American policy makers argued that the treaty was commercially advantageous, but evidently considered it more important for its impact on political stability and cooperative relations with the United States. Secretary Root noted
that aside from the ordinary considerations of commercial advantage involved in a reciprocity treaty, there are the weightiest reasons of American public policy pointing in the same direction; for the peace of Cuba is necessary for the peace in the United States; the health of Cuba is necessary to the health of the United States. The same considerations which led to the war with Spain now require a commercial agreement under which Cuba can live.  

The measures described above were not sufficient to prevent renewed instability arising from conflict over the conduct of the 1905 election. The United States accordingly intervened, and after making some initial efforts to arrive at some solution acceptable to all factions as well as to itself, assumed complete control of the government and administration. This second occupation was continued until 1909.  

The Taft Administration (1909-1913) adhered to the same basic aims of creating conditions conducive to political and financial stability in Central America and the Caribbean. It was, however, characterised by its emphasis on the use of private foreign capital as an instrument to further these objectives: the Administration itself described its policy as one of 'dollar diplomacy', involving 'the substitution of dollars for bullets'. Encouraged by what was seen as the success of the arrangement which the Roosevelt Administration had concluded with the Dominican Republic, Taft's Administration sought to extend this to Nicaragua and Honduras, and would doubtless have attempted such a policy in other cases had it not been for the opposition to the policy within the United States Senate.

Payments on the debts of the Government of Honduras were, by
1909, considerably in arrears. The U.S. Government accordingly sought to encourage American banking groups to negotiate a loan. An agreement was reached between the Honduran representative and American bankers for the provision of a $10 million loan, on condition that the American and Honduran Governments concluded a treaty broadly similar to that arranged with the Dominican Republic. A treaty of this type was signed by the executives of both countries in 1911, but was almost immediately rejected by the Honduran Congress. A new government, formed through U.S. mediation after a period of internal disorder, proved reluctant to accept the treaty, and in any event, the possibility of it coming into effect was effectively ended when it was not reported by the Senate Foreign Relations Committee in Washington.

In Nicaragua, the Taft Administration, having supported in 1909 the ousting of Zelaya who was considered hostile to American interests, arranged a political settlement in which the new government agreed to 'request' a loan from American banks guaranteed on a proportion of its customs receipts. A treaty broadly similar to that arranged with the Dominican Republic was signed by the two governments in 1911, and New York bankers agreed to extend a $15 million loan. As in the case of Honduras, the United States Senate set aside the treaty, but the State Department was able to arrange a smaller loan of $1.5 million from the banks on the security of customs revenue and railroad stock, but without the treaty guarantee.

The Taft Administration made a strong effort to secure Senate approval for the treaties negotiated with Honduras and Nicaragua. It was argued that the loans provided, and the American Government supervision entailed in the collection of customs revenue, would
contribute to the financial rehabilitation (and therefore the prosperity) of the two countries. The same measures would also promote political stability, both because of a general connection between prosperity and peace, and because revolutionaries would no longer be able to seize customs houses in some ports and use them to finance further operations. It was held that alternative means of promoting stability, such as military intervention in the event of internal disorder, were costly in terms of both lives and money.

It is probable that the Administration saw the reduced likelihood of foreign intervention as the main consideration justifying its efforts to rehabilitate finances and promote political stability in both Honduras and Nicaragua: certainly this was a prominent public justification for the policy. But the proposals were also justified on the grounds that they would help the people of the two countries, and because of the alleged advantages for American commerce. On the latter, Taft argued:

The second advantage to the United States is one affecting chiefly all the southern and Gulf ports and the business and industry of the South. The Republics of Central America and the Caribbean possess great natural wealth. They need only a measure of stability and the means of financial regeneration to enter upon an era of peace and prosperity, bring peace and happiness to themselves and at the same time creating conditions sure to lead to a flourishing interchange of trade with this country.

A somewhat different exercise in 'dollar diplomacy' was carried out by the Taft Administration in the case of Haiti, which was attempting to raise a loan from the former colonial power, France, in connection with the reorganisation of the National Bank of the country. The U.S. Government exerted strong pressure in an effort
to secure the participation of American bankers, and was successful in having 20% of the stock subscribed in this way. Washington was not, in this case, concerned with assisting Haitian finances, for the magnitude and terms of the loan arranged were not significantly altered by virtue of American participation. However, it does not follow that U.S. policy was simply an attempt to secure economic advantages for American interests. It is more likely that the predominant consideration was the belief that American participation was necessary to secure some counter to European influence (not only because of the loan, but because the bank in question discharged important functions for the Haitian Government), and to secure a stronger case for American involvement if action was required against Haiti in the event of it defaulting on foreign loans.

As noted above, the Taft Administration saw its policy as an attempt to 'substitute dollars for bullets' in seeking American objectives in the region. Nonetheless, the Administration continued to resort to direct military action and gunboat diplomacy. In the case of Nicaragua, a revolution of 1912 threatened to restore political power to the Liberals, followers of Zelaya (whose ouster the United States Government had supported in 1909). This would have jeopardised American efforts to establish financial and political stability through a customs receivership, and would in other ways have been contrary to U.S. interests: accordingly, 2700 marines were landed to prevent this from eventuating. Again, warships and troops were dispatched to Cuba in 1912 following renewed instability.

Like its predecessors, the Wilson Administration grappled with the problems of political and financial instability in the Caribbean and Central America. The Administration was immediately confronted with the
problem of Nicaragua. Taft had preserved the existing government by dispatching a contingent of American troops, but there remained the problem of Nicaraguan finances, given the failure of the United States Senate to ratify an arrangement similar to that negotiated with the Dominican Republic. By 1913, the state of Nicaragua's finances was such that, as Munro notes,

> The salaries of many employees were still in arrears, and many other creditors, including native and foreign . . . were clamouring for payment.  

In grappling with this problem, Secretary of State Bryan began by taking up a treaty which the Taft Administration had negotiated (the Chamorro-Weitzel canal option treaty) which gave the United States the option over an isthmian canal in Nicaragua, and the right to establish naval bases in return for $3 million. Although it was not imprudent for the United States to foreclose the possibility of a European Government obtaining canal rights in Nicaragua by the purchase of the option, the chief reason for the Taft Administration rushing the treaty to the Senate was evidently to demonstrate continued support for the existing Nicaraguan Government after the United States Senate had set aside its proposals for a customs receivership and bankers' loan. To this treaty, Bryan added a provision which was broadly similar to the Platt Amendment which had been applied to Cuba: it was his hope that these measures would be adequate to encourage a loan from bankers without the requirement of a customs receivership guaranteed by the United States.

It became clear to Bryan, however, that there was considerable Senate opposition to the inclusion of the 'Platt Amendment' provision. Accordingly, he advanced as a solution a proposal for the provision
of economic aid, not only to Nicaragua, but to any Latin American country in serious financial difficulty. He wrote to Wilson in August, 1913, that:

They [the Latin American Republics] are now compelled to pay a high rate of interest and to sell their bonds at a discount. If the United States offered to lend them its credit to the extent that such a loan is safe, the bonds could be made to draw four and a half per cent, which would be an immediate saving to them in the way of interest, and the difference of a (per) cent and a half between their bonds and ours could go into a sinking fund which would, in a reasonable time, at compound interest, pay off their debts and leave them free. We could, in this way, relieve them of the debts which embarrass them, and enable them to construct such railroads as are imperatively necessary for the development of their countries.

The second advantage would be that the plan would give our country such an increased influence ... that we could prevent revolutions, promote education, and advance stable and just government ...

... We could in the end profit, negatively, by not having to incur expense in guarding our own and other foreign interests there, and, positively, by the increase of trade what would come from development and from the friendship which would follow from conferring of the benefits named.

Wilson rejected Bryan's proposals for the extension of the credit of the United States as an idea that "would strike the whole country .. as a novel and radical proposal" at a time when "so many matters of difficulty and delicacy are pending." Bryan accordingly sought to arrange a private loan to Nicaragua. Under the agreement finally arrived at, the New York bankers who had previously extended loans under the Taft Administration purchased part of the stock of the Nicaraguan Government's Pacific Railroad, provided some capital to the National Bank, provided funds for the extension of the railroad,
and made loans to the Nicaraguan Government (the latter being secured on customs, and the share of the railroad and National Bank still owned by Nicaragua). The amount provided was, however, small in relation to Nicaragua's requirements, and Bryan continued with his efforts to secure ratification of the canal option treaty. The 'Platt Amendment' provision was dropped in 1914, but even so, the amended treaty was not ratified by the United States Senate until 1916. Acceptance of the treaty by no means solved Nicaragua's financial problems, both because the amount provided for the base rights and canal option was small, and because there was a delay in making the funds available owing to a dispute over their allocation. Subsequent efforts to deal with Nicaragua's financial rehabilitation are not, however, discussed here.

There was, apart from the question of finances, the problem of maintaining in power the Conservative regime in Nicaragua. As already noted, the United States maintained a military force in the country for this purpose, but additional steps proved necessary when the question of the selection of a new Conservative leader arose in 1915. The American Government encountered some difficulties initially in attempting to obtain a succession acceptable to itself, but following the dispatch of two warships the Conservative Party united behind a leader of the American Government's choosing, while the Liberal leader withdrew from the election after being informed by the U.S. representative that any Liberal candidate would have to comply with existing arrangements made with the United States, and establish that he had not taken an objectional role in the Zelaya Administration or in any subsequent revolutionary movement.

In Nicaragua, the United States pursued its objectives without
directly assuming responsibility for the government and administration of the country. This was not to be the case in Haiti and the Dominican Republic. In the latter case, renewed instability in 1912 had led the Taft Administration to dispatch marines to force changes in the Cabinet and other reforms. Subsequently, the threat of withholding the Dominican Government's share of the customs revenue collected by the United States was used to depose the existing government, and a new loan from New York bankers was arranged to bolster the country's financial position. Nonetheless, instability persisted, even after American supervision of elections in 1914, and after Wilson's Administration had indicated that it would support the government by force. With renewed disorder, the United States proceeded in 1916 to assume complete control over the government and administration of the country. American occupation lasted until 1924, though a provisional Dominican Government was established in 1922. The U.S. Government maintained a customs receivership even after its withdrawal as security for bonds which had been issued in 1918 and 1922.79

In Haiti, the United States was confronted with the most extreme example of instability in the region. As a Senate Select Committee later pointed out, in the ten years preceding American intervention in 1915

... no less than eight presidents assumed office ... for the nominal constitutional term of seven years each. Three of the eight fled the country; one was blown up in the presidential palace; another died mysteriously, and according to popular belief by poison, while two were murdered. The last Haitian President who held office before the landing of American forces ... was dragged from the French legation by a mob, his head and limbs were torn from his body to be carried aloft on sticks and bayonets, while
his bleeding trunk was dragged through the streets of the capital city. 80

Following occupation, the United States imposed a treaty which provided for an American customs receivership, a Haitian constabulary trained and controlled by the United States, and a provision broadly similar to the Platt Amendment. An American military presence was maintained until 1934. 81

The considerations which prompted concern in Washington with the political and financial stability of the Dominican Republic, Nicaragua and Haiti in the first part of Wilson's term of office were broadly similar to those in earlier Administrations, though determination to secure stability was probably increased by the desire to avoid having to do so subsequently when American troops might be required in the conflict in Europe. 82 Concern with avoiding the possibility of foreign intervention was particularly evident in the case of Haiti. Both France and Germany had sought participation in a customs receivership in Haiti and had resisted unilateral action by the United States Government. Moreover, as Secretary of State Lansing recalled in a submission to the U.S. Senate Select Committee on Haiti and Santo Domingo in 1922, the State Department suspected Germany of seeking to obtain a coaling station in the area, and considered that "a coaling station directly or indirectly controlled by another power would be a menace to the position of the United States in the Caribbean Sea, to the security of the Panama Canal and, consequently, to the peace of the hemisphere." One of the two dominating considerations behind U.S. policy in Haiti, Lansing argued, was the desire to avoid foreign intervention of the above kind, the other being the view that the restoration of stability would enable the people of Haiti to
"enjoy a prosperity and an economic and industrial development to which every people of an American nation are entitled."  

The danger of foreign involvement arising from internal disorder was also a consideration in the Dominican Republic: policy makers apparently considered that the main dissident groups were pro-German. It is not unlikely that this was also a factor in the case of Nicaragua. In all cases, however, it is likely that policy was partly motivated by the desire to protect American property and economic interests, as well as by the belief that it would be in the interest of the peoples concerned.

III

In the period since the Second World War, a considerable proportion of American economic aid has been provided largely for the purpose of preserving political and economic stability in the recipient country, and to exercise influence over the policies of its government. No attempt will be made at this stage to substantiate this point, but it will be amply demonstrated in subsequent chapters of this dissertation.

It has been seen that the American Government sought to promote these same objectives in the period prior to the New Deal, but that it used methods which did not normally involve the provision of economic aid as defined here. Nor were these aims confined to the case studies examined. Preventing internal disorder was a matter of considerable concern to American policy makers in the Philippines, for example; and the United States sought to influence government policies in China and in Latin American countries other than the ones
In these instances too, economic aid was not, as a rule, employed in anything other than a very minor way.

Why did the American Government not employ economic assistance to realise its objectives of stability and influence in the period under discussion? One possible explanation is that these aims were of relatively low priority at this time, and were thus not important enough to induce policy makers to spend American funds to contribute to their realisation, or to make it politically possible for them to do so. The evidence does not, however, support this view. In the case of Central America and the Caribbean, it has been seen that American policy makers were concerned with the region for more than trivial reasons - it was regarded as important for safeguarding the approaches to the Panama Canal, and for ensuring the security of the United States. Moreover, the method of military intervention frequently used by policy makers was recognised as being costly. One of the main justifications which the Taft Administration offered for its policy of 'dollar diplomacy' was that it would reduce the cost in lives and money to the United States entailed by frequent military intervention. Again, Secretary of State Bryan argued for his proposal for the 'extension of the credit of the United States' on the ground that this could prevent revolutions and maintain and increase American influence in the region at less cost to the United States than that involved in military intervention and occupation. The notion that the aims in question were not considered worth the volume of funds which economic assistance would have required must be rejected.

Of course, the areas of the world in which the United States had important interests was more limited than that after World War Two. Even if policy makers had used economic aid for the purpose
of promoting stability and exercising influence (where these aims existed) to the same extent as subsequently, the quantity of aid provided would have been small by the standards of the post-war period.

A second possible explanation for the paucity of economic aid is that circumstances or the beliefs of policy makers were such as to make it seem ineffective as a means of promoting stability and influence. The idea that economic assistance would have been an ineffective means of exercising influence can be obtained by extending one theory which has been used to account for the growth of economic aid. According to this explanation (which this writer finds persuasive), aid levels have increased partly because the governments of less developed countries have given much greater priority to industrialisation and economic development as an objective, and have accordingly been more interested in gaining access to supplies of capital than hitherto. In this situation, it is held, rich countries have found it expedient to provide such capital as a way of exercising influence over governments, maintaining their cooperation, and so on. A possible extension of this argument is that less developed countries were not greatly interested in economic development or in obtaining supplies of foreign capital in the period under discussion, and that economic aid would not therefore have been an effective means of exerting influence.

There are, however, several considerations which suggest that the argument is false in this extended form. To begin with, it is not entirely accurate to suggest that governments of less developed countries were uninterested in economic development in the period under discussion. It has already been noted that the Diaz regime in
Mexico placed a high priority on industrial development, while the Argentine Government at the first Pan-American Conference of 1889-1890 made no secret of its ambition to achieve a level of economic development comparable to that of the United States. Moreover, even where governments were not greatly concerned with long run development, they did seek funds from abroad to build public works and to preserve financial and political stability. These governments would presumably have welcomed economic aid for these purposes: that they did not make strong efforts to seek it is probably largely attributable to the fact that it was not thought that there was any reasonable chance of obtaining it.

Again, American policy makers were well aware of the power which could be exercised by denying or facilitating the flow of private capital, having made use of this technique as a weapon in bargaining from soon after the time when American capital began to seek outlets abroad. It has been seen in the case studies earlier in this chapter that this was one of the principal instruments used by Washington in its efforts to influence the course of the Mexican revolution and Mexican Government policy. The Harding Administration went so far as to establish a number of guidelines as to circumstances in which loans from private banks might be subject to veto, and required bankers to consult with it before making loans. Given this awareness of the influence which could be wielded by placing controls on private loans to foreign governments, it is not plausible to suggest that policy makers would have seen economic aid as an ineffective weapon had it been available to them. Further, it has been noted that Secretary of State Bryan argued for his proposal to 'extend the credit of the United States' to Latin American
countries partly on the ground that it would give the American Government substantial influence. The view that economic assistance would have been seen as ineffective for this purpose during the period under discussion must therefore be rejected.

Nor is it plausible to suppose that policy makers would have seen economic aid as ineffective in promoting economic and political stability. The problem of bringing about financial stability in the period under discussion was comparable to that of achieving economic stabilisation in subsequent periods. Policy makers saw the problem as essentially one of changing the economic and financial policies of the government concerned and providing it with the funds needed to restore balance in the short term. Whereas after World War Two, they sought this objective by providing aid after obtaining agreement on policy changes from the recipients, in the period under discussion they achieved these results by the provision of private capital guaranteed on the customs receipts of the recipient, and by the direct assumption of power over areas relevant to the finances of the government concerned.

As far as the question of political stability is concerned, it has been seen that policy makers in this period considered that it could be promoted by the use of economic instruments. The belief, widespread in the post-war period, that prosperity was conducive to political stability was, as noted in the case studies on the Caribbean and Central America, also accepted at the beginning of the twentieth century. It has been noted that policy makers sought to preserve stability in Cuba by negotiating a reciprocal trade treaty which promised benefits for that country's sugar industry, that they pursued similar policies in the Philippines, and that it was thought that
one of the advantages of establishing customs receiverships in Central America and the Caribbean was that this would, by contributing to financial stability, also promote prosperity and thereby render internal disorder less likely. (Of course, customs receiverships were also thought to promote stability in other ways—by preventing revolutionaries from obtaining finance to further their operations through the seizure of one or more customs houses, for example.)

If the explanation for the relatively small amount of aid provided for purposes of stability and influence does not lie in the low priority of these objectives, or in any judgment by policy makers that economic aid would not have promoted these aims, where is it to be found? It is argued here that three points account for the paucity of economic assistance.

First, it was possible for American policy makers to make extensive and effective use of three other techniques for the purpose of exercising influence and promoting financial and political stability—military intervention and gunboat diplomacy, the direct assumption of powers over other governments, and the use of private foreign investment. These instruments subsequently became less effective, or most costly to employ, thereby encouraging resort to economic assistance.

The frequency with which military intervention, or the threat of military intervention, was used has already been noted. It has been seen that U.S. marines entered the territory of states in the Central America–Caribbean region no less than twenty times between 1898 and 1920. Force was employed or threatened to induce governments to change their policies, to replace one government by another, or to achieve stability under some order preferred by Washington.
American policy makers were gradually brought to the conclusion that the repeated use of force in this way was detrimental to American interests. The principal factor which led to this changed perception was the same as that which led to the demise of the major colonial empires: the growth of nationalism in less developed countries. It gradually became difficult for governments to accede quietly to demands backed by the use or threat of force, and for even the beneficiaries of intervention to lend political support to it. Military intervention of this kind was not only found less easy to carry out effectively: it was also seen to carry the cost of arousing resentment, both in the country subject to it and in other less developed countries.

Of course, the growth of nationalism occurred slowly and unevenly in less developed countries, and it was not the only factor operating to bring about a diminished reliance on the use of force as an instrument of stability and influence. Its impact was heightened by the emergence of rival powers willing to make use of nationalist grievances, by the increased strategic importance of less developed countries arising from changes in the technology of warfare, and by other factors.

In the case of Latin and Central America, the shift away from repeated reliance on coercive instruments of diplomacy occurred in the late twenties and early thirties. The right of the United States to intervene militarily in defence of American property and lives was last strongly defended by President Coolidge's Administration. Under President Hoover (1928-1932), the American Government took a number of steps which signalled a change in policy regarding military intervention, while Roosevelt's first Administration went further
to commit itself to non-intervention as one component of its Good Neighbour policy. The Roosevelt Administration's desire to avoid military intervention in the region was severely tested in the case of Cuba where a regime considered hostile to American interests was in power during the fall and winter of 1933: nonetheless, U.S. troops were not landed, though warships were dispatched to the area. Policy makers did not resort to military intervention in World War Two, despite significant differences with Argentina, which was considered to be sympathetic to the Axis powers: even the proposal to freeze funds held by Argentina in the United States was initially opposed by Cordell Hull on the grounds that it marked a return to 'big stick' methods of diplomacy. It was not until the landing of troops in the Dominican Republic in 1965 that the United States resorted to the kind of massive military intervention which had so often occurred in the first two decades of the twentieth century. ('Covert' operations were launched against Guatemala in 1954 and Cuba in 1961.)

Three factors were important in bringing about this change in policy towards Latin America during the Hoover and Roosevelt Administrations. First, there was a desire to improve relations with Latin American countries, a desire rendered more important by the fact that policy makers already recognised the threat posed by Japan and the new regime in Germany, and by the need for economic cooperation in order to solve the economic problems which the Depression had created. It was realised that repeated intervention in the past had embittered relations in the hemisphere, and that a change in policy was a precondition for their improvement. Second, it was becoming more difficult to use military intervention successfully.
After landing troops in Nicaragua in 1927, for example, the American Government found itself unable to establish order effectively. Guerrilla forces boldly continued to make raids, and their leader Sandino not only proved impossible to capture, but also achieved the status of a Latin American hero. Third, the Hoover and Roosevelt Administrations were attempting to restrain Japan's expansion at the expense of China, and found it difficult to argue against this while the United States employed similar methods in its own neighbourhood.

The direct assumption of powers over other governments by the United States, as in the case of the Platt Amendment and in the establishment of customs receiverships, has been noted previously. As with military intervention (and for broadly the same reasons), this method became increasingly difficult to employ effectively. The first Roosevelt Administration abandoned the practice as far as Latin and Central America was concerned. Thus, the notorious Platt Amendment was abrogated in 1934, and in the same year, the United States handed back to the Haitian Government those powers over the supervision of finances then carried out by American officials. Although the U.S. Government occasionally made agreements with other governments in the post-war period in which they accepted policy changes or the presence of American advisers in return for other advantages, these did not involve the direct assumption of powers over tax collection, finances, and the like.

Finally, the flow of private foreign investment from the United States prior to the Depression was sufficient to enable American policy makers to utilise it to further their objectives. The way in which this was accomplished has already been noted in the...
case studies discussed in the second section of this paper. With the Depression, the flow of private capital abroad slowed to a trickle. Although it recovered substantially after World War Two, American interests had by this stage been greatly extended. Moreover, it was not, by this time, possible to use the methods previously employed to ensure the security of private loans provided to regimes which were unstable or in dire financial straits - assuming direct powers over taxation in the recipient, or providing an effective threat of military action if American property rights were infringed.

A second factor which must be introduced to explain the relative absence of economic assistance prior to the New Deal is that the actions of other powers did not impel the United States to utilise this instrument. Had other great powers employed economic aid as a way of gaining the cooperation of LDC governments, it is likely that the American Government would have been forced to respond in a similar manner. It will be noted subsequently in this dissertation that the United States was forced to make economic concessions in Latin America in the late nineteen thirties partly because Germany began to negotiate trade and barter arrangements highly favourable to the countries in the region: and that one factor contributing to the expansion of assistance in the mid-fifties was the effort of the Soviet Union to woo a number of important less developed countries with trade and economic aid. But in the first part of the twentieth century, as noted in the case material on Central America and the Caribbean, the concern of American policy makers was rather that the zeal with which rival European Governments defended their economic interests would lead them to assume control over countries of
importance to the United States. It is true that Germany did offer concessions to Mexico to gain its cooperation during World War One, but these seem not to have entailed economic aid as defined here. As with the United States, rival powers did not go much beyond facilitating or denying access to their private capital markets as a way of inducing cooperation by economic means.

The above two points do not entirely explain the absence of significant quantities of economic assistance. It has been seen in the case studies that Secretary of State Bryan saw benefits in the initiation of a programme of economic aid for Latin America, but that this was rejected by Wilson as politically unacceptable. Moreover, it has been seen that policy makers sometimes resorted to what appear to have been disguised ways of providing economic aid, such as the purchase of base rights which were not of high priority in terms of U.S. interests. This suggests that the domestic climate for aid was unfavourable. It was not, of course, so unfavourable as to prevent the transfer of assistance to Europe during and after the First World War, but it is likely that larger quantities of economic aid would have been provided to less developed countries had attitudes in the domestic arena offered greater support.

There are several possible explanations for the unfavourable domestic political climate. One hypothesis is that it was simply a product of the two points already discussed: that is, the availability of other methods such as direct military intervention and the use of customs receiverships, along with the fact that other great powers did not utilise economic aid, made the idea that the United States should use it seem novel and unacceptable. It is probable that this does account for the phenomena in substantial measure,
though it will be argued below that it was not the only source of domestic opposition.

A second possibility which must be considered is that the unfavourable domestic political climate was the result of the political power of the private banks, and of resistance by them to any action which would have entailed government involvement in the making of overseas loans. The idea that the banks wielded substantial political power in this period was widespread. Critics of the Taft Administration's policy of dollar diplomacy frequently saw it as nothing more than an effort to benefit the private banks, while the theories of Hobson, Hilferding and Lenin attributed the banks with considerable influence over the foreign policy of advanced capitalist societies. And in the view of the Nye Committee of the U.S. Senate, a combination of bankers and munitions manufacturers was largely responsible for the entry of the United States into the First World War. However, the evidence does not support the idea that American policy makers acted at the behest of private banks in making their decisions during the period under discussion: rather, they sought to use the banks for the realisation of broader objectives. It has already been noted that policy makers frequently restricted the lending of private banks in order to promote American foreign policy objectives.

The above explanation is more reasonable if it is presented in modified terms, deleting the emphasis on the political power of the private banks, but retaining the thesis that part of the domestic opposition to economic aid stemmed from the belief that governments should not involve themselves in the provision of loans for economic purposes. Seidel has noted of men such as Elihu Root, Herbert Hoover, and Charles Hughes (the 'progressive Pan Americans' in his
It was not until the New Deal that men more attracted to the use of government enterprises became influential in American Government. Even after the New Deal, there was still resistance to economic aid on the grounds that it represented government interference in areas thought to be the proper preserve of private enterprise. Baldwin, referring to the period after 1943, notes that there was still "some question as to whether lending money was the proper function of any government." It is therefore probable that some part of the domestic opposition to economic aid in the period under discussion stemmed from this source.

A fourth possibility which must be examined is that it was difficult to provide economic aid for the purposes of influence and stability in this period because its use was not supported by other considerations such as guilt over the gap in living standards between advanced capitalist countries and less developed countries, humanitarian concern with poverty, or the belief that economic progress in the recipient would contribute to the prosperity of the donor.

It has been seen, however, that an important argument used by policy makers to justify their actions in the Caribbean was that they would improve the living conditions of the peoples in those countries. Statements by Knox and Taft justifying dollar diplomacy, for example, made reference to the desire to improve living standards in the recipients. In urging ratification of the financial agreement with Honduras, Secretary Knox made detailed reference to the
famished and discouraged state of its population. \textsuperscript{113} Again, according to the testimony of Secretary Lansing (given in 1922), one of the two dominating considerations behind American policy in Haiti was the desire that its inhabitants should "enjoy a prosperity and an economic and industrial development to which every people of an American nation are entitled". \textsuperscript{114} Even the idea of the United States as an affluent society with an obligation to utilise its excessive wealth for the benefit of other nations is not absent in the period being discussed: President McKinley, at an election rally in 1901, "called for an increase in the merchant marine to spread the fruits of American prosperity - which he found so great as to be 'almost appalling' - to less favoured lands." \textsuperscript{115}

Again, it has been noted in the second part of this paper that policy makers frequently used the argument that actions to promote prosperity and stability in Central America and the Caribbean would also result in expanded trade for the United States, especially in the Southern and Atlantic Gulf States. It does not, therefore, seem reasonable to attribute the unfavourable domestic political climate towards foreign aid to the absence of these considerations.

It has been argued above that the relative absence of economic assistance in the period under review was the result of three factors: the ready availability and effectiveness of alternative instruments of stability and influence; the absence of any substantial economic aid effort by rival powers; and domestic impediments to the provision of aid, arising partly from the foregoing points and partly from reluctance to expand the functions of government in areas thought to be the preserve of private enterprise. There is a further question which can be asked of this explanation as an additional
When Franklin Roosevelt assumed the Presidency at the beginning of 1933, two of the above three factors were no longer present to the same degree. The new Administration was, as we have seen, determined to avoid further military intervention in Latin America if possible, and it did not wish to undertake any new action which would impair the sovereignty of countries in the region. Indeed, its aim was to terminate existing situations of this type as soon as practicable. Again, the flow of private capital abroad had plunged to virtually negligible proportions, and the Administration was not unwilling to expand the functions of government into areas previously left to private enterprise.

The altered circumstances did give rise to the first institutionalised programme providing significant quantities of economic aid to Third World countries. The Export-Import Bank was created in 1934 primarily to deal with the problem of instability in Cuba. But Eximbank initially operated on only a small scale. Its loans for the period 1934-1938 were only of the order of $61 million, not all of which went to less developed countries, and much of which was provided for purposes other than promoting stability and influence.

The question arises as to whether the small amount of aid provided for these objectives in this interval is in conflict with the explanation outlined previously in this section. Given that the Administration no longer had recourse to the type of instruments
which have long been used, and given that the domestic resistance to economic assistance had been weakened, should not one have expected more aid, and assistance for many more countries?

Several points can be made in reply to this objection. Firstly, and perhaps most important, American policy makers had, by this time, developed new objections to the provision of economic aid to other governments. These objections were based on reactions to the earlier repayment on loans made to European governments during and after the First World War, and other factors. It was believed that providing aid to governments was more likely to damage relations than improve them. Evidence of this attitude is provided in the second chapter of this dissertation. It will be seen that it was an important factor in the rejection of proposals for economic aid to Latin American governments in the mid-1930s. By the late 1930s, many policy makers had reverted to the view that aid could serve as an effective instrument of foreign policy.

Second, American interest in promoting stability and exercising influence at this particular time, while considerable, was not quite of the same priority as it had been at an earlier stage. Thus, under the Administrations of Theodore Roosevelt, Taft and Wilson, there was a danger that internal disorder would give rise to European intervention, but as already noted, this was not a serious possibility after World War One. American interest in the region did increase substantially towards the end of the thirties when the activities of the Axis powers again gave rise to concern on the part of U.S. policy makers as to the possibility of hostile European involvement in the area. Third, there was still no significant pressure to give aid from other powers. It was not until the latter part of
the thirties that the Axis powers began to use economic instruments in a way which forced the United States to respond in a similar fashion. Perhaps the first instance of the United States providing economic assistance to counter the similar inducements of other powers occurred with the provision of a $5.5 million credit to Haiti in 1938: it was widely believed that this was made in order to forestall a loan from Germany. These points, then, account for the relatively small amount of economic assistance provided in the first years of Roosevelt's period as President. By the end of the nineteen thirties, the amount of assistance provided was, as will be seen in the following chapter, increasing rapidly.

IV

The preceding section has provided an explanation of why the United States used comparatively little economic assistance to promote its objectives of influence and stability prior to the Administrations of Franklin Roosevelt. However, economic assistance has been provided for purposes other than these two. The question arises as to why these other objectives did not give rise to the provision of significant quantities of economic assistance in the period under discussion.

Some assistance provided during and after World War Two has had the objective of developing new sources of raw materials (especially those of strategic significance) where the existing supply has been considered inadequate or insecure. Thus, during World War Two, the American Government's Rubber Development Corporation carried out programmes and provided finance for the expansion of production of that commodity in Latin America, Japan having cut off a considerable
proportion of the existing supply through its occupation of South East Asia. Again, an important reason for expanding Eximbank's lending authority in 1951 by one billion dollars was the desire to develop secure supplies of raw materials abroad. According to information given in Senate hearings, approximately half of the total was to be used in this way, mainly in less developed countries.

The use of economic assistance for this purpose was not absent prior to the New Deal. It has already been noted that the U.S. Congress made $½ billion available in 1923 so that the American Government might investigate, in association with other governments, the possibility of developing rubber plantations in the Philippines and Latin America. But the amount of aid provided was very small.

Of course, the dependence of the United States on external supplies of raw materials was much less in this period than it was to become later. Whereas the United States was a net earner in trade in minerals and commodities at the beginning of the century, it was by 1956 relying on imports for over fifty percent of its supply of necessary commodities, and for over ten percent of its requirements for a further 20.21 Moreover, the level of industrial production which had to be maintained to successfully wage war against a great power had increased markedly over the period, thereby increasing the strategic significance of securing adequate supplies of raw materials. But it should not be concluded from this that raw material supplies were matters of small priority before 1932, or that this was the main reason for the relatively small amount of aid provided for this purpose. There were cases where policymakers were concerned about the adequacy and security of supplies of important materials, but for the most part they were able to leave the task of developing new sources
to private capital (backed, where necessary, by diplomatic efforts
by the American Government).

This was, for example, the case with oil. Writing of the
eyear twenties, Williams notes that

The sense of the enormous importance of
oil, combined with a dread of the coming
scarcity and the belief that the door
abroad was closed against the United
States, produced a frame of mind among
public officials, certain congressmen,
officers of oil companies, some journalists
and a part of the general public which was
almost akin to hysteria. The United States
was, they believed, in a position of a
strong man deprived of his rights and shut
in by potential enemies. 122

The response of the U.S. Government was not, however, to provide
economic assistance as a means of developing supplies elsewhere:
rather it sought an entry of American private capital to fields from
which the action of European powers, or of LDC governments
subject to their pressure, had excluded it. 123 Again, in the case
of rubber, the government investigation referred to was intended only
to identify suitable areas which American private capital might
develop, not to assist in that task itself. There was, as it turned
out, no real reluctance on the part of private firms (such as that
owned by Firestone) to move abroad to develop the needed supplies. 124

In the case of manganese, tin and nickel, on which the United States
was almost wholly dependent on external sources for supplies, the
expansion and diversification of production was apparently again left
to private capital. (With manganese, a tariff was maintained on
imports, presumably in an effort to develop domestic production.) 125

Foreign aid had also been provided as a means of disposing
of commodities produced in larger quantities than could be sold at
'reasonable' prices within the United States or abroad. The most notable example of aid provided for this purpose was the PL480 programme, which was initiated in 1954 largely as a way of reducing the embarrassingly large government stockpiles of agricultural commodities. These had accumulated under schemes whereby the government's Commodity Credit Corporation acted as a buyer of last resort in order to maintain price levels for a number of agricultural products.126

The desire to dispose of surpluses was not absent from proposals for private philanthropy prior to the new Deal,127 or from arguments for the provision of relief aid to Europe following the First World War, but the first significant instance known to this writer of the American Government providing a substantial amount of aid with this as the main motive occurred in 1933, when problems of excess production, leading to falling prices, caused the United States to make available a $50 million credit to China for the purchase of wheat and cotton.128 It would seem that an important reason for the relative absence of aid of this category prior to the New Deal was that American policy makers did not see it as part of the function of government to provide this type of price support by the public purchase of surpluses. Moreover, it would have been more difficult to provide aid for this reason when its use as an instrument of foreign policy had not been established. There was, of course, concern with the problem of finding outlets for American production prior to the New Deal, as, for example, in the latter part of the nineteenth century when the production of American manufactured goods began to outrun home demand. However, this led, not to attempts to dispose of the commodities through economic aid, but rather to a
vigorous effort to open new trade outlets. 129

A further aim of American economic assistance has been to finance the export of American products. This was first undertaken in a significant way by the Export-Import Bank. The explanation for the absence of this category of economic assistance previously does not lie in any absence of concern with promoting exports, which was, as already noted, a preoccupation of American policy makers in much earlier periods. Rather, as Chapter Two indicates, it resulted from:

* the adequacy of private sources of finance prior to the Depression.

* the fact that other governments provided only limited amounts of public finance for the purpose of promoting exports.

* the reluctance, already noted, of policy makers to extend the scope of government operations in ways which would interfere with existing private institutions.

Again, small quantities of economic assistance have been provided in the post-war period for what seems to have been partly a humanitarian concern for the alleviation of severe distress caused by famine, earthquakes, and other natural disasters. (Of course, other motives, such as the desire to influence attitudes in the recipient by demonstrating concern for its problems, have frequently also been present.) In the period under review, however, policy makers seemed to regard this as a task more appropriate, in most cases, to private philanthropy. In some instances, as in the case of the Nicaraguan famine of 1912, the American Government requested private philanthropic organisations (in this instance the Red Cross)
to provide supplies, and offered to help with their distribution, without, however, itself providing relief.\textsuperscript{131}

\textbf{V}

To conclude: the reasons for which assistance was given during and after World War Two - promoting stability and American influence, developing raw material supplies, disposing of surplus production, promoting exports, and providing humanitarian relief - were also present prior to the New Deal. But they did not, as a rule, give rise to significant quantities of economic aid in this period. Three principal factors account for this. First, it was possible to employ alternative methods to achieve these aims, as a result of the adequate flow of private capital abroad, and of the ability of the U.S. Government to repeatedly use force and to directly assume powers over LDC governments. Second, rival powers provided little economic aid, and thus did not exert pressure on the United States to respond with its own programme, either as a way of containing their influence or maintaining its markets. Thirdly, attitudes within the United States were unfavourable to the utilisation of economic assistance. This was, in part, a product of the foregoing two factors, but it was also derived from preference for a more limited role of government in such areas as providing credits, giving price support to commodities by the public purchase of surpluses, and using public funds for humanitarian relief purposes.
FOOTNOTES


4. The case of Nicaragua is examined later in this chapter.


9. The railroad project was agreed upon at the First International Conference of the American States held in 1889 and 1890. Initial survey work was carried out in Central America, but the project itself was never carried out. See T. Terrill, *The Tariff, Politics and American Foreign Policy: 1874-1901*: Greenwood Press, 1973, pp. 156-157 & 265.

10. M. Curti and K. Birr, *op.cit.*, p.143. As Curti and Birr point out, the war made United States policy makers aware of the importance of raw materials not available in the United States, and this, along with Hoover's aggressive trade policy, accounted for surveys of this kind.


13. These cases are discussed in detail subsequently in this chapter.

15. See *ibid.*, pp. 269-272.


17. The case of Cuba is discussed in greater detail below. On Hawaii, see *ibid.*, p.282.


23. Many of the points in the above paragraph are taken from C. Cumberland, *op.cit.*, Chapter One and the introduction by David Bailey.

24. On American policy prior to this, see P. Calvert, *op.cit.*, Chapters 1-4.

26. In an interview with Tyrrell, Woodrow Wilson argued that the opening of the Panama Canal and the expansion of American and European enterprise in the region made good government necessary in order to avoid such incidents as the Venezuelan affair (where Great Britain, Italy and Germany had blockaded Venezuela's ports to secure claims concerning injury to foreign property). Accordingly, he was anxious to teach those countries a lesson by securing the removal of Huerta who had exceeded the limits of what was permissible. See P. Calvert, *op.cit.*, pp.269-270. It will be noted below that a pre-occupation of American policy makers from the turn of the century to World War One was the danger of European powers establishing a position in the region as a result of the internal chaos there.

27. See P. Calvert, *op.cit.*, pp.173-177, 182-183, 254-255. Also Benjamin Williams, *op.cit.*, p.77. The position of Wilson's Government on Huerta has often been explained as the result of a moral opposition to the way the latter had come to power. Again, it has been suggested that an additional factor was the part played by Henry Lane Wilson the American Ambassador under Madero's Administration, in the coup. See loc.cit.; and C. Cumberland, *op.cit.*, pp.85-87. However, it is unlikely that these were major considerations.

28. On the Lind mission, see C. Cumberland, *op.cit.*, pp.97-99. The quote is from a translation of one of Lind's notes to the Mexican Secretary for External Relations, and is given on p.99. By a loan, Lind meant a loan from the private banks. Also see P. Calvert, *op.cit.*, Chapter 6, on the Lind mission.


30. On this and the American Government reaction, see *ibid.*, pp. 231-233.


35. Although Villa's actions served as the occasion for the raid, it is more likely that the differences between the United
States and Mexican governments, and the strong climate of opinion within the United States favouring massive military intervention in order to 'clean up' Mexico were the factors responsible for the raid.

36. On the significance of petroleum for the allied war effort, see C. Cumberland, *op. cit.*, pp. 391-392.

37. See *ibid.*, pp. 395-396. Some public statements were made which were conciliatory to the United States.


39. See *ibid.*, pp. 441-442; and Jean-Baptiste Duroselle, *op. cit.*, p.64. Discussions had been held with a view to withdrawing the expedition in the latter part of 1916 without resulting in agreement. The United States sought to use the presence of the mission as a device to exert leverage over Mexican Government policies on such issues as attitudes to foreign investors in the oil industry.


41. See W. Callcott, *op. cit.*, p.442. American Ambassador Fletcher also took up the last point in a communication to the Secretary of State in July, indicating his belief that "petroleum and mining taxation bearing largely on foreigners seems popular perhaps because of Mexico's inability to secure foreign financial assistance." (Meaning loans from foreign private banks.) Cited in C.Cumberland, *op. cit.*, p.393.

42. Many of the points in this and the following four paragraphs are not documented, but they will be substantiated in the case studies on particular countries which follow.

43. The canal was not actually opened until 1914, but policy makers began to think about the strategic problems arising from the decision to construct it at a much earlier date. The increased importance of the region for the United States was pointed out in 1897 by the prominent naval theorist, Alfred Mahan, who noted that the opening of the isthmian canal would give all great powers a strategic interest in the region, and that America's position was endangered by the fact that many locations of great strategic importance were in the hands of unstable Caribbean governments. See D. Munro, *op. cit.*, p.5.


45. For the text of the treaty containing the Platt Amendment, see J. Gantenbein (ed.), *op. cit.*, pp. 488-491.


47. Under the original agreement negotiated by the United States,
it had been planned that the American Government would provide
the Dominican Government with at least 45% of the revenue
collected for its immediate domestic requirements and distrib­
ute the remainder on a pro rata basis among the Republic's
creditors. There was, however, some opposition within the
United States Senate to the assumption of this degree of
formal responsibility for the adjustment and repayment of the
Dominican Republic's debts: hence the alternative method of
a loan from American banks secured by an American customs
receivership was adopted. On the original and final arrange­
ments adopted, see D. Munro, op.cit., pp. 100-106, 118-121.

48. See, for example, "Message from President Theodore Roosevelt
to the United States Senate, February 15, 1905", in J.

49. See D. Munro, op.cit., p.78.

50. See W. Callcott, op.cit., p.132.

51. See Samuel F. Bemis, The Latin American Policy of the United

52. See Merle Curti and K. Birr, op.cit., pp. 82-84, 87-92.
And W. Callcott, op.cit., pp. 174, 177-178. Root is cited
from the latter source.

53. On the details of the treaty, see D. Munro, op.cit., p.31;

54. Cited in D. Munro, op.cit., p.30. Also see W. Callcott,
op.cit., p.184 on Theodore Roosevelt's arguments to Congress.

55. See D. Munro, op.cit., pp. 125-140.
In his annual message to Congress, Roosevelt argued that "if
steps were not immediately taken by this Government to restore
order, the representatives of various European nations in the
island would apply to their respective governments for armed
protection to protect the lives and property of their citizens."
J. Gantenbein (ed.), op.cit., p.491. Munro is, however, some­
what skeptical that there was a danger of armed intervention

56. See W. Callcott, op.cit., p.263. Also David Green, The

57. See "Statement by Philander C. Knox, Secretary of State,
before the Committee on Foreign Relations of the United States
Senate, Regarding a Convention between the United States and
Honduras, May 24, 1911", in J. Gantenbein (ed.) op.cit.,
pp. 76-77; and D. Munro, op.cit., p.162, on attitudes to the
Dominican experiment.

58. See ibid., pp. 220-221.

59. See ibid., Chapter 6, on the details of the Honduras case.

61. For the arguments used by the Administration, see especially "Statement by Philander C. Knox, Secretary of State, before the Committee on Foreign Relations of the United States Senate, Regarding a Convention between the United States and Honduras, May 24, 1911", in J. Gantenbein (ed.), *op.cit.*, pp. 73-81; "Address by Philander C. Knox, Secretary of State, at Managua, Nicaragua, March 6, 1912", in *ibid.*, pp. 81-85. "Annual Message of President William H. Taft to the United States Congress, December 3, 1912", in *ibid.*, pp. 85-93; "Message from President William H. Taft to the United States Senate, Transmitting a Loan Convention with Nicaragua, June 7, 1911", in *ibid.*, pp. 607-609. The above statements are hereafter cited as Knox (1911), Knox (1912), Taft (1912), and Taft (1911).

62. Thus Knox argued "We are especially interested in the prosperity of all the people of Nicaragua. Their prosperity means contentment and contentment means repose." Knox (1912), p.83.

63. Knox (1911), p.77, stated "The revolutions in Central America are in most cases unprincipled, the main - in fact the only - object being to gain control of the collection of customs duties. The removal of such a possibility from the revolutionary horizon would go far toward an effective dampening of the aspirations of adventurers."

64. See Knox (1911), p.77; and Taft (1912), pp.87-88.

65. See Taft (1912), pp. 86-87.

66. *loc.cit.*

67. Contrast W. Callcott, *op.cit.*, p.278. "Clearly the Caribbean was considered to be the U.S. barnyard, and if the geese therein were to be plucked ... the dollar diplomats were determined that a substantial part of the feathers should be acquired for Yankee feather beds."

68. On the terms of the loan and the American share, see *ibid.*, pp. 277-278. Also see B. Williams, *op.cit.*, p.55.

69. See S. Bemis, *op.cit.*, pp. 163-164. As it turned out, the American military presence was maintained until 1933, with the exception of a two year interval beginning in 1925. Withdrawal of the troops in that year gave rise to renewed disorder, and seemed likely to result in the displacement of the Conservatives by the Liberals until American forces were reintroduced in 1927. See H. Herring, *op.cit.*, pp. 442-444.

70. See Taft (1912), p.92.


74. Cited in S. Bemis, *op.cit.*, p.186. Emphasis inserted by Bemis, but not in the original, has been omitted.


76. On the foregoing points, see D. Munro, *op.cit.*, pp. 392-397, 399-401.

77. But see *ibid.*, pp. 405-406, 413-416.

78. See D. Munro, *op.cit.*, pp. 406-413. The Admiral in charge of the warships noted, following his arrival, that "the political leaders are again giving the usual weight to the Minister's words and are less inclined to fractiousness". Cited in *ibid.*, p.413.


81. See S. Bemis, *op.cit.*, p.192. Also see the report cited in the previous footnote, p.650. It might be noted that the treaty also gave the United States power to appoint directors of public works and sanitation.

82. Secretary of State Lansing interpreted the work of German agents in the region partly as an attempt to prevent the United States from entering the war by stirring up trouble. See D. Munro, *op.cit.*, p.270.

83. See *ibid.*, pp. 326-327, 335-336, 339-340; and "Robert Lansing, Formerly Secretary of State, to Senator Medill McCormick, Chairman of the United States Select Committee on Haiti and Santo Domingo, May 4, 1922", in J. Gantenbein (ed.), *op.cit.*, pp. 633-645. The quotes are from pp. 636, 645 respectively.

84. See D. Munro, *op.cit.*, p.270.

85. *loc.cit.*

86. On the Philippines, see D. Boone Schirmer, *art.cit.* For an example concerning China, see B. Williams, *op.cit.*, p.38.

87. Material to which reference has been made in the case studies will not as a rule, be documented again in this section.


90. B. Williams, *op.cit.*, p. 84.

91. See *ibid.*, p.87. Also H. Feis, *op.cit.*, pp.7-9 especially.


93. As noted subsequently, the level of industrial production required to successfully wage war against a great power increased markedly, thereby increasing the demand for secure raw material supplies: this increased the strategic significance of Third World countries.


96. See E. Guerrant, *op.cit.*, pp. 6-7.


100. Assistant Secretary of State Welles noted that the "effect of these interventions was to arouse widespread and bitter resentment against the United States." E. Guerrant, *op.cit.*, p.3. Also C. Hull, *op.cit.*, Vol.1, p.309.


103. See *ibid.*, pp. 342-346 on both Cuba and Haiti. Under the agreement with Haiti, the National City Bank of New York was induced to sell the National Bank of Haiti back to the Haitian Government. The Bank then took over the powers carried out by American officials.

104. For the period 1922-1930 inclusive, foreign governments raised over $600 million/year on average on the American private capital market: for 1931-1939, the average was less than $100 million/year. See *Statistical Abstract of the United States*, U.S. Government Printing Office, No.62, 1940, p. 308.

105. As with the acquisition of base rights and the canal option in Nicaragua discussed above.

106. The views of these critics are noted in D. Munro, *op.cit.*, pp. 162-163.


111. According to Dell, the fear that a government institution might interfere with private banking was one reason why attempts to revive the idea of a governmental inter-American banking institution failed repeatedly. The original proposal (backed by the Harrison Administration) was evidently rejected by Congress chiefly because of the monopoly aspects of the institution rather than because the government was intervening in an area thought to be the preserve of private capital: indeed, the scheme seemed to have widespread support from business and banking groups. See S. Dell, *The Inter-American Development Bank: a Study in Development Financing*: Praeger, 1972, p.4; and T. Terrill, *op.cit.*, pp. 264-265.

113. Knox (1911), pp. 73-74.

114. See footnote 83 above.


116. Actually the second Export-Import Bank. The first was created in the same year to finance trade with the Soviet Union which the United States had just recognised. It was not actually used for this purpose. See E. Guerrant, op.cit., pp. 99-100. The fact that Eximbank was created largely with Cuba in mind has frequently been overlooked (though it is noted that this was the case in loc.cit.). Cordell Hull notes that "a new political relationship was not enough to bring Cuba to the surface of normality. Economic assistance was needed as well. As one means to help, the President created the Second Export-Import Bank in March to finance exports to Cuba." op.cit., Vol.1, p. 344. The background to this decision will be discussed in greater detail in the following chapter.

117. E. Guerrant, op.cit., p. 102.

118. See E. Guerrant, op.cit., pp. 102-103.

119. See ibid., pp. 197-200.


121. Ibid., pp. 50-51.


123. See ibid., Chapter 4.

124. See ibid., p. 22.

125. See ibid., pp. 363-366.

126. The PL480 programme is discussed in some detail subsequently in this dissertation.

127. See, for example, M. Curti, op.cit., Chapter 5.

128. On this, see J. Blum, From the Morgenthau Diaries: Years of Crisis 1928-1938: Houghton Mifflin, 1959, pp. 52-54. And A. Young, China's Nation Building Effort, 1927-1937: the
Financial and Economic Record: Hoover Institution Press, 1971, pp. 382-385. The credit was not entirely utilised, mainly because the Japanese mills, following government directions, refused to buy the cotton.

129. See B. Williams, *op.cit.*, p. 287 especially. Also see T. Terrill, *op.cit.*

130. The virtual cessation of private credit and the activities of other governments in giving credits are noted by Hull in a comment on the need for Eximbank. See "Secretary of State to Jesse Jones, Chairman of the Reconstruction Finance Corporation, February 20, 1939", in *Documents on American Foreign Relations*, Vol.1, 1938-1939, pp. 432-433.

131. See *Foreign Relations of the United States*, 1912, pp. 1127-1132.
CHAPTER TWO.

THE EMERGENCE OF ECONOMIC AID TO
LESS DEVELOPED COUNTRIES, 1933-1947.

Over the period 1933-1947, American policy makers established a number of programmes which had, as part of their purpose, the provision of economic aid to countries which are now classed as less developed. The aim of this chapter is to account for extensive recourse to economic aid for less developed countries in this interval. The first section of the chapter undertakes the preliminary task of describing the various programmes through which aid was transferred to LDCs. In the second section, an attempt is made to identify the factors which explain extensive resort to economic aid. The third part contains some case studies which are referred to in the main argument, but which, for reasons of space, are examined in detail separately.

1. The Emergence of Aid: Description of Programmes

It is convenient to identify three stages in the emergence of economic aid over the period reviewed in this chapter. Until 1938 very little economic aid was provided. Agreement was reached in May, 1933, for a credit of $50 million to enable China to purchase wheat and cotton from the United States. However the terms on which the loan was made were quite onerous, and only 17.1 million dollars was actually utilised by China, partly because of opposition to the loan from Japan, and partly because China was itself faced with a bumper crop. The Second Export-Import Bank, created in March, 1934, made
some loans to less developed countries, but its operations were on a very limited scale prior to 1938.²

During the second stage, extending over 1938–1943, there was a considerable expansion in the amount of economic aid provided to less developed countries by the United States. It will be seen subsequently that much of the increase was prompted by conflict with the Axis powers. Economic assistance was provided through several channels. To begin with, the activity of Eximbank in less developed countries was increased. This was particularly noticeable in the case of Latin America, though the Bank's operations also expanded in other areas, such as China. The Table below gives some indication of the increase in Eximbank lending to Latin America, though the figure for 1942 is somewhat misleading. By that time, commodities and the shipping space required to transport them abroad were in short supply, and were allocated with the material requirements of the American war effort very much in mind. As a consequence, Eximbank credits could not always be utilised by the recipient, or if utilised, were expended in some cases on items relatively low on the list of priorities of the government.³ Partly for this reason, new Eximbank credits were cut back substantially by 1943, though they remained well above the levels prevailing prior to 1938.⁴

<table>
<thead>
<tr>
<th>Year</th>
<th>Eximbank Loans (in millions of U.S. dollars)</th>
</tr>
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<tbody>
<tr>
<td>1938</td>
<td>5.5</td>
</tr>
<tr>
<td>1939</td>
<td>22.3</td>
</tr>
<tr>
<td>1940</td>
<td>65.1</td>
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<td>1941</td>
<td>95.2</td>
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<td>1942</td>
<td>185.4</td>
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<tr>
<td>1943</td>
<td>30.2</td>
</tr>
<tr>
<td>1944</td>
<td>34</td>
</tr>
</tbody>
</table>

Lend-Lease provided some assistance to less developed countries which would qualify as economic aid under the definition adopted in this dissertation. While the Lend-Lease Act (officially An Act to Promote the Defence of the United States) authorised the provision of 'defence articles' and 'defence information', this was understood broadly to cover all items, services and credits contributing to the war effort. From the data available, it is difficult to ascertain how much lend-lease assistance fell into the category of economic aid as defined here, but some instances can be mentioned in order to illustrate the point. Following the invasion of North Africa, the United States made available relief supplies and items required for the expansion of agricultural production under the lend-lease programme. Again, silver was lent to other countries for industrial and coinage purposes from 1943 onwards: India received silver to the value of more than $150 million under lend-lease, while smaller loans were made to Ethiopia and Saudi Arabia. Even before the silver loan, India received a substantial amount of lend-lease aid which would qualify as economic assistance under the definition given here. A report to Congress noted that, "emphasis is being placed in lend-lease operations on the development of India's own natural resources, her factories and her arsenals, and her transportation system", in order that the Burma-China-Indian war front might be supplied more effectively. To give a final example, in Liberia the construction of port together with the necessary facilities and access roads was financed by a lend-lease credit, this being according to Hull one component of a "long range policy ... designed to lift the standard of living in this traditional godchild of the United States and to strengthen our economic and political ties". The credit was to be repaid from harbor
A variety of other channels provided capital and commodity aid to less developed countries in the interval under discussion. Thus some economic aid, including a $50 million loan to China, was provided by the U.S. Treasury's Stabilisation fund. Again, a special joint resolution of Congress in 1942 resulted in the authorisation and appropriation of $500 million for financial aid to China, though not all of this was utilised during the war period. The Reconstruction Finance Corporation and its subsidiaries also provided some economic aid to less developed countries: thus the Rubber Development Corporation, a subsidiary of the R.F.C., provided financial and technical aid for the expansion of rubber production in Latin America during the Second World War. Relief and other economic aid to areas where battle was in progress, or where the population had recently been 'liberated' by Allied forces was made available through channels other than lend-lease: and some part of this went to less developed countries. One such source of relief was the 'civilian supply' programme administered by the armed forces of the United States: another, though of less significance, was the funds Congress appropriated for distribution through the Red Cross.

The interval under discussion also saw the introduction of the first significant programmes of technical assistance for underdeveloped countries. In the case of Latin America, the main recipient of this aid, the programmes may be divided into two groups. The first set was carried out under arrangements made immediately prior to the outbreak of war in Europe. Under Acts of June, 1938 and May, 1939, the Administration obtained authority to lend officials and experts to governments in Latin America (as well as the Philippines and Liberia) which
requested their services. This was used to make available a number of officials for advisory services in such areas as engineering and transportation, customs and immigration procedure, agriculture, library organisation, and taxation and monetary problems. The United States continued to pay the salaries of the experts transferred, though in many cases the recipient governments reimbursed the American Government for a significant proportion of the costs under separate arrangements. 14

Again, under legislation of August 9, 1939, titled "An Act to Authorise the President to Render Closer and More Effective the Relationships between the American Republics", the executive was given authority to carry out the undertakings made at the inter-American conferences of Buenos Aires (1936) and Lima (1938) in such fields as health, education and cultural relations. A number of departments and agencies, including Agriculture, the Office of Education, Commerce, the Library of Congress, and State, participated in this programme. Funds required for the programme were provided by appropriations to the State Department beginning in fiscal year 1940. 15 Responsibility for distributing the funds among the various departments and welding the projects into a coherent programme was vested in the Interdepartmental Committee on Co-operation with the American Republics. 16 This body had been established in May, 1938, and was comprised of the various agencies (initially 13) with an interest in relations with Latin America. 17 It might be noted that many of the activities carried out under this act were concerned with promoting general cultural relations and with disseminating propaganda rather than with economic assistance. This was, in particular, true of the State Department's contribution, which included distributing documentaries dealing with
the United States, sponsoring radio programmes, contributing finance for the exchange of academics, artists and other professionals between the United States and Latin America, and similar activities. Other aspects of its work, such as equipping libraries and providing scholarships and grants to Latin American students could more reasonably be classed as economic aid, though even here, many involved exchanges with the Latin American countries rather than contributions by the United States alone.¹⁸

The other major technical assistance programme dealing with Latin America was carried out by the Office of the Co-ordinator of Inter-American Affairs, with funds appropriated by Congress to the Office of Emergency Management of the President.¹⁹ Established under a slightly different name in August, 1940, and directed by Nelson Rockefeller,²⁰ the technical assistance activities of this agency included projects and training in the area of public health and sanitation, agriculture, and education. Like the State Department, it also carried out projects concerned with promoting general cultural relations and distributing propaganda, in addition to its other responsibilities of co-ordinating and reviewing those activities of the government (particularly in the field of cultural and commercial relations) relevant to hemispheric defence.²¹

Some technical assistance activities were carried out beyond Latin America. Thus in the case of China, a programme was initiated by the State Department in January, 1942, with a grant from the President's Emergency Fund. According to Under Secretary of State Stettinius, this covered "the provision of technical and educational leaders to China; the extension of aid to Chinese students in the United States thus augmenting China's supply of skilled technicians;
and the furnishing of certain urgently needed scholarly and scientific articles and books, and documentary and educational motion pictures.\textsuperscript{22}

The emergency Fund was also used in 1943 to commence a programme in the Near East and Africa covering public health, education, engineering and agriculture.\textsuperscript{23}

Estimating the value of the projects described above is somewhat difficult because of the difficulty of drawing a clear distinction between technical assistance and other programmes designed to promote cultural relations and distribute 'information' of a very general nature. A Department of Commerce study, including only "technical and scientific activities" in its definition, places the value of economic aid from the Co-ordinator of Inter-American Affairs at $50 million over the period of fiscal years 1941-45, while the amount made available under the other programmes for cooperation with the American republics is estimated at $5 million for the same period.\textsuperscript{24} No data is available on the level of technical aid outside Latin America.

In the third stage identified, extending from 1943 to 1943, a number of new programmes, many of them designed with America's post-war objectives in mind, were added. Among the most important of these were two multilateral institutions created at the Bretton Woods Conference in 1944 - the International Monetary Fund and the World Bank.\textsuperscript{25} Neither the Bank nor the Fund was extensively involved in transferring aid to less developed countries before 1948. The Bank did not commence any major programmes to LDCs before this date, though it subsequently devoted increasing attention to this task. (From fiscal years 1949-52 inclusive, Bank lending to less developed countries in Africa, Asia, the Near East and Latin America totalled over $600 million,\textsuperscript{26} Again, the volume of funds which the IMF loaned to less developed countries
in the first years of its operation - not counting instances where members simply withdrew their 'gold tranche' (the twenty-five percent of their quote which they had paid in gold or dollars) - was very small. In 1947, for example, the Fund made two advances to countries in the region of Latin America: one of $22.5 million to Mexico, and another of $8.8 million to Chile. In both cases, however, the amounts were within the gold tranche and cannot therefore be classed as aid. In subsequent years, the Fund did provide extensive balance of payments support, in amounts in excess of the gold tranche, to a number of less developed countries. Despite the fact that significant lending operations in LDCs did not begin until after the end of 1947, it is convenient to consider the two institutions in this chapter, for they were established, and payment of American contributions was authorised, during the period under review. The United States provided $635 million in paid-in capital to the World Bank, while its quota for the Fund was fixed at $2750 million.

A further set of programmes which operated over 1943-47 were concerned with relief in war-devastated countries. The United Nations Relief and Rehabilitation Administration, instituted in November 1943, provided a significant amount of aid to less developed countries, though the bulk of its assistance went to South and Eastern Europe. China obtained $518 million over 1945-57. Since the United States provided 72% of UNRRA funds, it is possible to regard the U.S. 'share' of this as $373 million. Small amounts were provided to Korea and the Philippines. There were three other bilateral programmes of importance concerned with relief. The Civilian Supply Programme of the War Department provided extensive aid to Korea. Aid under the Philippine Rehabilitation Act of 1946 functioned as the equivalent
of relief aid, though its ostensible purpose was to compensate for
damage to Philippine property incurred during the Second World War.
A third programme, initiated under the Relief Assistance Act of 1947,
was designed to replace UNRRA, which had fallen from favour among
American policy makers by that date. Under these three programmes,
China, Korea and the Philippines received almost $900 million, though
not all of this was allocated prior to the fall of 1947.

Other programmes introduced included small multilateral schemes
such as the Food and Agriculture Organisation. There were also
special loans to less developed countries, such as a Reconstruction
Finance Corporation credit, arranged for the Philippines under special
Congressional authorisation.

Some of the programmes discussed previously were continued in
this interval. This was the case with the technical assistance pro-
grammes described above. Those under the Co-ordinator's Office were
transferred to the Institute of Inter-American Affairs within the
State Department in the post-war period. Programmes subject to the
co-ordination of the Inter-Departmental Committee on Scientific and
Cultural Co-operation continued on an expanded scale until transferred
to the Technical Co-operation Administration in 1950. Eximbank
also continued its operations: from July 1, 1945 to the fall of 1947,
it authorised credits for Latin America totalling $222 million, while
in the less developed countries of Asia and the Near East, loans of
approximately half that amount were approved.

11. The Emergence of Aid : Explanation

A number of factors account for the emergence of programmes
providing significant amounts of aid to less developed countries.
First, for at least part of the period under review, there were strong reasons for providing aid as a means of developing markets and outlets for American products. This concern was, to a large extent, a consequence of the Depression and of fears of a new depression following the Second World War. It was largely the problem of falling commodity prices and inadequate demand brought about by the Depression which prompted the Roosevelt Administration to undertake its first major initiative in the field of economic aid - the agreement of May, 1933, providing for a credit of $50 million to enable China to purchase wheat and cotton from the United States. Cotton prices, which had been 16c/pound or better over 1927-29, plummeted to approximately 6c/pound in 1931-32, with only a mild recovery to 10c/pound in 1933. Similarly, wheat prices, which averaged well over 100c/bushel in the period 1927-1929, dropped to under 40c/bushel in 1931 and 1932, and were still under 75c/bushel in 1933. In these circumstances, American policy makers adopted a number of measures designed to restore price levels. The Morgenthau diaries provide direct evidence that the China loan was largely seen in these terms. According to the diaries, Morgenthau, then Director of the Farm Credits Administration, supported the credit on two principal grounds. First, he believed that the credit, even if never repaid, would substantially boost domestic prices, raising the value of cotton stocks by up to $100 million. Second, he considered that it would help undermine Secretary of Agriculture Wallace's strategy of emphasising acreage and crop reduction as a way of restoring prices. The credit finally gained Roosevelt's approval, evidently on the first ground.

Concern with markets abroad was also behind most of the loans which the Second Export-Import Bank made in LDCs before 1938.
Although the Bank was established in March, 1934, with the problem of political instability in Cuba largely in mind, foreign policy considerations were not of great importance in its other operations in less developed countries prior to 1938. Indeed, as will be seen subsequently, many U.S. officials were reluctant to allow the Bank to lend to governments at all, especially in Latin America, for it was believed that this would damage relations with the countries concerned. Cuba apart, such loans as the Bank made to LDCs in its first years were essentially the result of a desire to promote exports. Assistance in financing exports was, by this time, attractive on two counts. There was first the problem, already mentioned, of finding outlets for American agricultural products. It was in this field that the Bank's first President, Peek, saw its primary role. Eximbank did make a number of loans in its first years for the purpose of financing agricultural exports, but for the most part they were extended to European countries, and they are not therefore of principal concern to this dissertation. The other problem was that of financing the export of capital goods such as heavy machinery and railway equipment. Such exports frequently required long term credit arrangements, but with the Depression, as the Executive Vice President of the Bank noted, private sources of credit on this basis had become far more difficult to obtain. In the twenties, a considerable volume of long term credit had been provided by the successive extension of ninety day bank loans, but this source was greatly curtailed with the recall of a considerable quantity of short term money under the impact of the Depression. Another source of long term finance - the foreign bond market - had likewise ceased to generate an adequate volume of funds. The problem was rendered more difficult for American exporters, since
their competitors in Great Britain, Italy, France and Japan could draw on governmental institutions which those countries had established to promote exports in the period since the end of the First World War. Eximbank therefore took on the function of providing relatively long term export credits (1-5 years) to finance the export of durable manufactured goods. For the most part, they financed sales to Latin America and the Far East, which were the chief markets for American products of this type.

As conflict with the Axis powers intensified, the immediate problem of expanding markets for American products became less pressing. Supplies to allies and the American war effort itself increasingly absorbed U.S. agricultural and industrial production. But as policy makers turned their attention to post-war problems, the question of outlets for American products again came to the forefront of attention. With the experience of the Depression and its aftermath in mind, and aware of the vast increase in industrial and agricultural production which had occurred under wartime mobilisation, policy makers were apprehensive over the problem of maintaining prosperity in the post-war world. The thirties, as Under Secretary of State Welles noted, in a statement typical of those made in 1943 and 1944, had:

seen our export industries all but destroyed, our surpluses backed up on the domestic market with ruinous effects on prices. Our export industries were sick and the buying power of the large and important interests dependent on foreign trade was rapidly shrinking. We saw that sickness spread throughout our economy. The decline of our foreign trade had contributed materially to creating the worst depression in our history.

An expansion of international trade was necessary, in part, because:

when the war is over we will be faced with domestic problems of the utmost difficulty.
We have enormously expanded our productive facilities in many lines of industry and agriculture. We shall be faced with the problem of maintaining the present level of employment and at the same time re-absorbing millions of demobilised soldiers.  

The Under Secretary of Commerce noted in May, 1943:

The United States will emerge from the War with an enormously expanded industrial and agricultural capacity and will be confronted with grave difficulties of readjustment to peacetime conditions. ... A healthy and continuing foreign demand for American goods will greatly facilitate these adjustments, minimize the dangers of economic collapse and unemployment, and generally assist in the maintenance of production and national income at high levels.

In the understanding of many U.S. policy makers, the problem of obtaining markets for American products in the post-war period could be handled, within the framework of capitalism, by a series of measures designed to achieve a restoration of economic growth in other countries, an international economy in which nations were relatively open to trade and investment from abroad, and an increasing volume of international commerce. For the sake of brevity, this objective will be described as that of an expanding, liberal world economy. The various aspects of this objective were understood to be mutually reinforcing. Thus, prosperity abroad would create a greater demand for goods and services from the United States and other economies, and weaken those forces seeking to shelter the overseas economies from increased international trade. And an expanding international commerce would promote growth in the United States and abroad by adding to domestic demand, and through the advantages of international specialisation. Markets for American products were not the only sources of impetus for a strategy of the kind described. As noted below,
it was also considered that economic expansion and increasing international trade would contribute towards peace and stability in the post-war world.

There were several conditions for the establishment of an expanding liberal international economy as American policy makers conceived it. First, a theme particularly dear to Cordell Hull, but by no means confined to him, it was thought necessary to liberalise trade and to begin to dismantle the special tariffs and import quotas which had been imposed to an increasing extent from the end of the First World War and raised to new heights in the thirties. Further, a need was seen for some stability in the exchange rates of currencies, as well as provisions ensuring, as far as possible, against the imposition of restrictions on the convertibility of currencies. The experience of competitive currency devaluations and exchange controls of the thirties had convinced American policy makers that such measures were entirely inimical to the expanding volume of international commerce which they wished to encourage in the post-war world. 50

It was also thought necessary to restore the flow of productive investment from the United States to other countries. As noted previously, the flow of private investment from the United States had declined abruptly with the onset of the Depression. 51 Special arrangements were deemed necessary, both to restore it and to ensure that, unlike many of the loans which went to Latin America in the twenties, it was channeled into projects which would directly or indirectly contribute to generating the foreign exchange necessary for repayment. 52 As policy makers in the Administration saw it, this flow of foreign investment would be advantageous, not only to the recipients, but also to the United States, for it would, among other benefits,
provide foreign countries with the dollars needed to purchase American goods, and promote that prosperity and growth which would provide for increased markets and trade in the future. Private and public investment by the United States in less developed countries was seen as an important component of the total flow, though there was disagreement as to the amount required, and the emphasis which would have to be placed on public channels. One report, warmly received by Roosevelt, indicated that the United States should be ready to invest up to $3.5 billion over a decade in Latin America, of which three quarters might have to be under government auspices. But whatever the amount and form thought desirable, there was widespread agreement that the flow would dovetail with the general strategy described above, and contribute to the objective of American prosperity. A Department of Commerce study noted that:

The great task of economic development throughout the world in general and especially in areas which have hitherto enjoyed few of the benefits of progress ... will entail procurement of American goods in heavy volume. They will immediately require machinery and equipment of types in the manufacture of which American industry excels. In the long run, moreover, the increase in industrialisation and living standards abroad should provide a strong and enduring demand for our producer's goods and also for ... American manufactured consumers' goods so attractive to people with rising incomes.

Finally, it was understood within the Administration that special measures for immediate relief and reconstruction of devastated economies would be necessary if the goal of an expanding liberal world economy was to be achieved. The Director of the Office of Foreign Relief and Rehabilitation Operations noted in June, 1943, that:

Unless the United States, in concert with
the other United Nations, extends a helping hand ... we can anticipate with certainty that the liberated areas for decades will suffer from disrupted economies, crushing burdens of unemployment, shattering inflations, and the internal turmoil which adds up to chaos ... if America is to have any hope of lasting peace and a stable world economy it must help to see to it that the liberated peoples of the world are restored as rapidly as possible to a self-sustaining basis ... International trade cannot flourish or sound economic expansion take place in a world tormented by expectations of the violence that is born of suffering and misery. And the United States, in the period after this war, will need the outlets of a total world market unless our economy is to face a terrific contraction in a shattering post-war depression.

A number of the programmes of economic aid established either by the United States or under its leadership were designed with the aim of an expanding liberal world economy largely or partly in mind. This was the case with the International Monetary Fund and the World Bank. The importance of the Fund, as American officials saw it, was that it would promote stability of exchange rates (avoiding, in particular, competitive currency devaluations of the type which had characterised the thirties), and inhibit resort to special exchange controls and restrictions hampering the expansion of international trade and investment. The Fund would perform this task in several ways. The articles of Agreement themselves imposed certain obligations on members in these respects. As Acheson noted:

A member of the Fund agrees upon four principles: First, to define its money in terms of gold; second, to keep its money within 1 percent of its defined value; third, not to restrict current transactions in its currency; and fourth, to consult with the Fund whenever a problem comes up which it feels makes a change in the value of its currency necessary.

Again, the Fund provided an alternate means of dealing with immediate
balance of payments difficulties, since it could provide countries with resources from subscriptions paid in by other members. Finally, the Fund could attempt to influence the policies of countries experiencing balance of payments difficulties in ways considered conducive to restoring equilibrium and contributing to the realisation of the Fund's other objectives. The idea of attaching conditions of this type to drawings on the Fund's resources had been an important aspect of early plans drafted by Harry Dexter White, and while the British had raised certain objections to this, it remained possible for the I.M.F. to impose such conditions under the articles agreed upon at Bretton Woods. 59

The purpose of the World Bank as American policy makers saw it, was to promote the flow of capital abroad for both post-war reconstruction and development. The Bank was to stimulate private foreign investment by participating in, or guaranteeing, loans from private investors, and was,

when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it, and its other resources. 60

The function of the Bank as a guarantor of private capital was evidently seen as more important, and direct lending less significant, than was actually to be the case when the Bank commenced operations. 61

There was some difference of opinion among American policy makers and others at the Bretton Woods Conference as to the relative priority which the Bank should accord to reconstruction of war torn areas as opposed to the claims of less developed areas. 62

The objective of an expanding liberal world economy was also
part of the justification for American participation in the United Nations Relief and Rehabilitation Administration and other relief programmes, as the statement by Lehman cited earlier indicates. However, these programmes were also justified on humanitarian grounds, on the basis of the contribution they were thought to make to immediate political stability, and on the ground that relief efforts would shorten the war, both by expanding the quality and quantity of manpower and resources available from liberated countries, and by strengthening the spirit of resistance among those still subject to pro-Axis governments. 63

A second factor accounting for the emergence of significant programmes of economic aid for LDCs over 1932-47 was the presence of strong foreign policy and defence motives for providing aid, arising principally from the conflict with the Axis powers and from the nature of American post-war objectives. Foreign policy considerations were important even earlier in contributing to the creation of the Second Export-Import Bank in 1934. Having succeeded in displacing the radical government of Grau San Martin in Cuba, policy makers evidently established the Bank as one of a series of measures designed to stabilise the situation and strengthen the position of the Mendieta regime. 64 However, this case aside, foreign policy considerations were not particularly important in promoting the transfer of economic aid up to 1937. The United States was interested in promoting co-operation with many LDCs in this interval, but economic aid was not, in general, considered a suitable instrument for this purpose. Thus although aiming to promote better relations with Latin American countries under the terms of the Good Neighbour policy, American decision makers tended to reject proposals which involved the transfer of economic aid to
these countries: indeed, as already noted, the United States was reluctant to lend money to governments at all, even where the purpose was essentially commercial.65

It will be noted subsequently that this attitude had changed by 1938. Accordingly, the way was cleared for American policy makers to provide increasing amounts of aid as an instrument of foreign and defence policy as the conflict with the Axis powers intensified. From 1938 through the war period, aid was used to increase influence over other governments or deny it to hostile powers, to create good will for the United States and its cause, to strengthen the capacity of recipients to resist the Axis powers, to contribute to political stability where this was considered important to the effort against the opposing powers, and to add to the production of resources needed for the war effort. The importance of these considerations in contributing to the expansion of economic aid over 1938–43 is illustrated in four case studies in the third section of this chapter.

America's post-war foreign policy objectives contributed to the introduction of new programmes of economic aid, and to the continuation of these established earlier. A principal objective of U.S. policy was that of promoting the conditions for a more peaceful and stable post-war world. In the understanding of policy makers, this required action to promote a return to prosperity abroad, and to ensure liberal trading and financial arrangements among countries. As they saw it, increasing protection, competitive currency devaluations, and other failures in the international economic system had played an important part in the rise of totalitarian militarist states in the thirties and in the drift towards war. Action to promote the goal described earlier - that of an expanding liberal world economy - was
therefore important, not only because it would contribute to American prosperity, but also because it would promote the conditions for a stable, peaceful post-war world. It has already been seen that the objective of an expanding liberal world economy led policy makers to support new programmes of economic aid, most notably the World Bank and the International Monetary Fund.

Apart from this general objective, the United States had more specific goals in particular regions and countries. In many cases, interests in influencing the character or policies of other governments, maintaining or promoting stability, or similar objectives, encouraged new commitments of aid, or the continuation of programmes which owed their origins to other circumstances. Three examples can be mentioned briefly here: they are taken up in greater detail in the case material in the third section of the chapter. In Latin America, the United States remained interested in promoting more cordial relations with the Latin American republics. This was an important factor in the continuation of technical assistance programmes in the region. In Saudi Arabia, interest in the stability of King Ibn Saud's regime, and in access to Saudi oil reserves led to the provision of economic assistance during and after the Second World War. In China, the attempt to build a stable political accord between the communist forces and the Kuomintang was partly responsible for a decision to earmark $500 million in Eximbank credits for that country in 1946. However, in this case, the aid was not actually provided for relations between the two forces quickly deteriorated.

A third factor encouraging the emergence of economic aid for LDCs was a change in attitudes on the part of American policy makers concerning the effectiveness of aid as a foreign policy instrument.
As noted earlier, policy makers tended to reject the idea of providing aid to other governments during the thirties, even if its purpose was essentially commercial. In their understanding, the provision of economic aid was likely to damage relations with other governments. If the aid was provided as credits, it was thought that the problem of obtaining repayment might well lead to tension between the United States and the recipient. Examples of this problem were not difficult to find. The United States had itself found problems of this kind after providing loans to European countries during and after the First World War. Again, it was considered that the provisions of loans to one government could lead to problems in relations with other governments not so favoured. It was also thought that the transfer of economic aid might well give rise to suspicion of American motives. In Latin America, in particular, the Good Neighbour policy was only of recent origin: past experience of American 'dollar diplomacy' of the kind outlined in Chapter One, and the record of American intervention in the region, had given rise to considerable suspicion of American objectives.67

While these beliefs did not completely rule out aid to other governments, they did make policy makers reluctant to provide it. There were a number of instances where the attitudes described were important factors in the rejection of proposals to transfer economic aid to less developed countries. In 1933, for instance, Roosevelt suggested to Cordell Hull, then at the Montevideo Conference, that the United States offer to provide $5 million to finance a corporation for the purpose of improving civil aviation facilities in Latin America. Hull notes in his memoirs that:

I was forced to cable in reply that the reaction to any offer of money was
unfavourable. 'One reaction', I said, 'is that of inquiring at once what the United States is after now. This warped state of mind, which seems to be widespread just now, does not look with favor even on benefactions or accommodation loans or advances to these people, especially by our Government.' In other words, no dollar diplomacy whatever. 68

Again, State Department opposition, stemming partly from the considerations described above, seems to have been an important factor in the rejection of a number of proposals for Eximbank loans to Latin American governments. 69 Thus the State Department opposed proposals for loans to Nicaragua and Brazil when asked to comment by the Export Import Bank. The governments of these countries, like a number of others in Latin America, had imposed foreign exchange rationing with the onset of the Depression. American exporters to the two nations were generally provided with notes from government controlled banks, but the notes were not immediately convertible into dollars. The exporters therefore requested, first, the Eximbank purchase these notes, and second, that the Bank should bear the risk of the notes not ultimately being convertible into dollars. With respect to Nicaragua, the Department argued that the Bank should not become a creditor to a Central American government in this way, since it would mark a return to 'dollar diplomacy', with the result that "instead of being a good neighbour, we should again be regarded as an international Shylock". 70 In the case of Brazil, the Department held that it would damage relations with other countries if the United States dealt with the obligations of some countries and not those of others. It was also argued in this instance that the loan would be inconsistent with American trade policy, and that the government would be accused of providing funds for corporations which could well carry on without aid.
The State Department also opposed proposals for Eximbank loans to Costa Rica, Venezuela and Peru, either because the Bank would have become a creditor of the governments concerned, or become involved in the foreign exchange situation of those countries. In a further case involving Brazil in 1936, the State Department did approve the purchase of up to $27 million in notes issued by the Bank of Brazil, but it successfully sought as a condition that American exporters incur the risk of the notes not ultimately being exchangeable for convertible currency, presumably calculating that, under these conditions, relations with Brazil would not be unduly strained if that country defaulted. The Department also agreed, in 1935, to some dealings with agencies of Mexico's federal and provincial governments - over the opposition of Welles who referred to an earlier policy decision that:

It would be decidedly prejudicial to our present policy on this Continent if the United States Government through the Export-Import Bank were at any time forced into the position of becoming the creditor of the government of an American republic or of any provincial or municipal government of one of the American republics. 71

The reason for this exception is not entirely clear.

By the late thirties, reluctance to provide aid to other governments had largely given way to the view that economic assistance could serve as a useful means of enlisting co-operation and promoting other foreign policy objectives. The case material in the third section of this chapter notes that Eximbank made sizeable loans to governments in 1938 and 1939, and that loans from this date were frequently made with a view to promoting more favourable relations with other governments.
Several factors seem to have been important in contributing to, and confirming, the changed assessment of the effectiveness of aid as a foreign policy instrument. The Axis powers made extensive use of economic instruments as a means of extending their influence. As the case material in section three indicates, American policy makers were alarmed at the way in which the Axis powers, especially Germany, employed these instruments in Latin America. The successful use of these measures by other governments doubtless contributed to a change in American attitudes. The urgency of wartime requirements was also important. Not only did this contribute to a reappraisal of existing policy: it also focused attention on the immediate advantages of credits rather than on the long term problems which might arise from attempts to secure repayment. Moreover, by the late thirties, there was somewhat closer accord, and rather less suspicion of the United States in Latin America than had been the case a decade earlier. It is likely that this, too, made the climate for extending loans more favourable. Experience with aid programmes seems to have frequently confirmed the view that they were effective instruments of foreign policy. In recommending the continuation of technical assistance programmes in Latin America in 1944, Under Secretary of State Stettinius was able to argue that they had been effective in their purpose of establishing closer relations with the American republics. Similarly, Secretary of State Marshall argued in 1947, when supporting the extension of similar programmes, that an exhaustive review of the effectiveness of the programmes by the State Department had concluded that they had made an important contribution to relations with Latin American countries. Finally, less developed countries themselves made strong efforts to obtain economic assistance from the United States.
or its rivals over the period reviewed. The existence of aid pro-
grammes, new opportunities to exact aid from the United States as the
price of wartime co-operation, and increased requirements for aid in
less developed countries, were probably responsible for this. Liberia's
efforts to involve the United States in construction of a harbour,
and Brazil's attempts to obtain finance for the Volta Redonda steel
mill, both discussed in the case material in section three, provide
examples of this. The importance which less developed countries
attached to aid doubtless served to confirm to American policy makers
that it was a useful source of influence.

It must be added that the change in attitudes regarding the
effectiveness of aid as a foreign policy instrument opened the way for
all types of loans and grants to other governments, even those not
made with foreign policy purposes in mind. Concern over the foreign
relations problems likely to arise from the provision of aid had tended
to prevent even export credits to other governments during the thirties,
as the previous case studies have made clear. By the end of the Second
World War, Eximbank had largely reverted, in Latin America, to the
role of financing exports by reference to strict commercial criteria.
But given the changed attitude, it was not prevented from making large
loans to governments where its criteria regarding repayment and bene-
fits to American industry were satisfied.

A fourth factor contributing to extensive use of economic aid
in less developed areas was the substantial requirements of these
countries for aid in the period reviewed. There were several reasons
for this. To begin with, a number of countries found their economies
disrupted as a result of the Second World War. In some cases, this
was because of damage caused by occupation or armed combat. The United
States frequently provided aid in such cases, both for immediate relief purposes, and to assist in the restoration of production. This was an important function of the various relief agencies to which the United States contributed. But loans for this purpose were also made under other programmes. Thus Eximbank provided a number of small credits to China, totalling over $66 million in the first part of 1946: of this amount, $33 million was to finance the export of raw cotton, while the remainder was for railway, mining and shipping equipment. These were evidently not used as an instrument in the Administration's effort to bring about an accord between the Communist Party and the Kuomintang, but were, as President Truman stated, "Minor credits to the Chinese Government in an effort to meet emergency rehabilitation needs as it was doing for other war devastated countries throughout the world."74

Other countries experienced economic dislocation as a result of the collapse of foreign markets or sources of supply under the impact of war. As the case material in section three of this chapter notes, the Latin American economies faced severe problems following the outbreak of war in Europe in late 1939. Europe as a whole absorbed more than half of Latin America's exports, and a good deal of this, including trade with Germany, and with neutrals subject to Allied embargo, was affected. This loss was not immediately offset by increased purchases from the Allies. As the case material indicates, the severity of Latin America's economic problems was a significant factor in the expansion of Eximbank lending to the region. It also helps to account for the fall off in new Eximbank loans in 1943 and 1944 noted in Table 1. By this time, the Latin American countries had little need for new loans, for they could not effectively utilise the dollars
which they had already acquired. By mid-1941, U.S. imports from Latin America were running at around one billion dollars a year, compared with the $450 million in purchases made in 1938. The increased purchases arising from the war supply effort, together with the shortages and restrictions on exports to Latin America, meant that the unfavourable foreign exchange position of the Latin American republics of 1940 had been reversed by 1943, and substantial reserves were being accumulated. 75

The requirements of less developed countries also increased as a result of the sharp decline in private capital flows from the United States, Great Britain and other creditor countries following the onset of the Depression. 76 Evidence of this decline, for the case of the United States, is given in Table 2. This shows that the United

### Table 2: Net Long Term Private Capital Outflow from The United States, 1925-1939.

(data in millions of U.S. dollars. Negative signs denote net capital inflow.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Outflow (millions of U.S. dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1925</td>
<td>543</td>
</tr>
<tr>
<td>1926</td>
<td>696</td>
</tr>
<tr>
<td>1927</td>
<td>991</td>
</tr>
<tr>
<td>1928</td>
<td>798</td>
</tr>
<tr>
<td>1929</td>
<td>240</td>
</tr>
<tr>
<td>1930</td>
<td>221</td>
</tr>
<tr>
<td>1931</td>
<td>-194</td>
</tr>
<tr>
<td>1932</td>
<td>-225</td>
</tr>
<tr>
<td>1933</td>
<td>-77</td>
</tr>
<tr>
<td>1934</td>
<td>-200</td>
</tr>
<tr>
<td>1935</td>
<td>-436</td>
</tr>
<tr>
<td>1936</td>
<td>-777</td>
</tr>
<tr>
<td>1937</td>
<td>-521</td>
</tr>
<tr>
<td>1938</td>
<td>-97</td>
</tr>
<tr>
<td>1939</td>
<td>-27</td>
</tr>
</tbody>
</table>

States changed from being a significant source of private long term capital in the nineteen twenties to a position where it was a net importer in the nineteen thirties. There was a small outflow of private long term capital during and after the Second World War, but it was not until 1956 that this reached, in real terms, the peak obtained in the late nineteen twenties. Great Britain also became a capital importer in the thirties.

Loans from private banks and capital markets of rich countries had been an important source of funds for less developed countries prior to the Depression. Had private lending of this type continued to expand over the period reviewed, it is likely that there would have been less recourse to special government sources of finance. Eximbank lending would presumably have been at much lower levels, for it has already been seen that an important factor in the initial extension of Eximbank credits to less developed countries was the curtailment of private sources of finance following the Depression. Again, a central purpose of the World Bank, as it was conceived by those at Bretton Woods, was that of restoring the flow of capital to less developed countries which had been disrupted from the onset of the Depression.

Finally, there were important changes occurring in many less developed countries over the period under review - changes which tended to increase their requirements for aid. Whether these changes are discussed under the heading of 'the revolution of rising expectations', 'economic nationalism', or some other label, their import was that governments of LDCs tended to place a higher priority than hitherto on achieving high rates of economic growth, particularly the growth of industrial production; and that political movements within them were increasingly determined to overcome a situation in which their
economies were subject to the domination of foreign interests, and functioned largely as suppliers of agricultural products and raw materials for industrialised countries. Industrialisation and a greater role for governments in promoting economic development tended to add to the requirements for economic aid. Brazil's efforts to obtain finance for a major steel industry of its own, discussed in section three of this chapter, provides one example of this.

Fifth, the emergence of economic aid was encouraged by a shift away from alternative methods of influencing events in less developed countries. These alternatives included direct military intervention, the use of customs receiverships, gunboat diplomacy, and measures to facilitate or deny loans from private sources. The use of these techniques in Latin American in the first part of the century has been examined in Chapter One. As noted in that chapter, recourse to these instruments became less feasible during the nineteen thirties. In Latin America, the Roosevelt Administration committed itself to non-intervention as one component of its Good Neighbour policy. And with the marked decline in private capital flows, the technique of facilitating loans from private sources, or denying access to them, became less viable.

Two examples may be taken to illustrate the way in which reluctance to use the techniques discussed above contributed to the use of economic assistance. In 1933 and early 1934, U.S. officials were evidently concerned with the political situation in Cuba - characterised by unrest and the emergence of a radical regime under Grau San Martin. The American Government had encountered broadly similar circumstances in the region on a number of occasions. In the past, it had frequently responded with military intervention, and
action to arrange loans from private sources, usually with customs receipts as security. By the early thirties, however, such measures were considered unacceptable. Though the American Ambassador Welles recommended military intervention following the assumption of power by Grau, the Administration was determined to avoid landing troops, and accordingly sought more indirect methods of influencing the course of events. These measures included the offer of economic advantages in order to encourage the displacement of Grau, and the creation of Eximbank to stabilize the situation once a regime acceptable to the United States had emerged.

Argentina offers a second example. The government of this country was a source of some difficulty for the United States during the course of the Second World War, for it often failed to line up with other Latin American countries in support of American policy: indeed, many American policy makers considered it to be sympathetic to the Axis powers. An important objective of American policy during this period was that of inducing Argentina to adopt a stance which involved closer alignment with the United States. However, policy makers did not resort to military action, and for some time, rejected sanctions of any kind. Thus Hull was initially opposed to a proposal to freeze funds held by Argentina in the United States on the ground that this marked a return to 'big stick' diplomacy. In place of such methods, aid and other economic instruments were employed. Approval was given in late 1940 for a $60 million Eximbank credit and a $50 million loan from the Treasury's Stabilisation Fund, apparently as one means of containing Axis influence. (The credit was not, however, utilised, since the Argentine Congress failed to enact the necessary legislation.) Subsequently, in 1941, the United States
concluded a new trade agreement, apparently designed to some extent to ease Argentina's economic position, and according to Hull made possible in part by the "growing realisation by Americans that good trade relations with other American republics, notably Argentina, were essential to effective hemispheric co-operation." These measures failed to bring Argentina into line. Thus at the Rio Conference of American states in January, 1942, Argentina was the chief obstacle to U.S. efforts to obtain a joint declaration severing diplomatic relations with the Axis powers. As the price of maintaining hemispheric unity, the American delegation under Welles was forced to accept a milder resolution which merely recommended suspension of diplomatic relations in accordance with the procedures and circumstances of each country. Welles subsequently wired Hull that,

> Although he was not going to put direct pressure on Argentina, he had let it be known that the United States could not aid those countries which did not co-operate fully as much as it could those who did so wholeheartedly.

Later, the United States approved a major loan to Uruguay designed, according to the U.S. Ambassador to that country, to show "that Uruguay appears to achieve substantially better treatment than Argentina."

A sixth factor in the emergence of aid was a relatively favourable political climate arising from increased acceptance of government intervention in the economy, and the way in which economic aid was linked with other issues with broad support. It has been suggested in the first chapter that reluctance to accept wider government involvement in the economy was a factor discouraging resort to aid in the first part of the century. Between 1933 and 1947, this was much less significant as a constraint on economic aid, though more conservative
members of Congress still raised objections to some proposals seen as attempts to extend New Deal measures into international economic relations.  

There would doubtless have been increasing acceptance of government intervention in the normal course of events, for there was a persistent tendency in this direction in the first two thirds of the present century. But several factors accelerated the change over the period reviewed. First, the Depression gave rise to demands for much broader intervention in the economy and was responsible for the extension of government activity in a number of areas including assistance to business, regulation of economic activity and welfare measures. Again, as a result of the Second World War, the Federal Government assumed much broader control of the economy, with extensive regulation of production, distribution and exchange. Finally, the election of the New Deal Administration, and its continuance in office over the period reviewed, tended to encourage the extension of government activity.

While the general change in attitudes described probably encouraged resort to economic aid, and helped to make possible measures of the kind proposed at Bretton Woods, there were also instances where specific government powers acquired to deal with depression and war proved helpful in introducing programmes of economic aid. Thus, it was under the broad powers granted to the government to enable it to deal with the Depression that the China credit was made, and the Export Import Bank first established by executive order. Again, funds appropriated to the office of Emergency management of the President to deal with wartime contingencies were used to finance technical assistance programmes in Latin America, China, the Near East and
Africa in 1942 and 1943.\textsuperscript{92}

A number of aid programmes introduced during the period under review were not confined to less developed countries, but covered aid to European countries or were part of more general proposals. This probably contributed to the expansion of aid in less developed countries where there was widespread support for the broader programmes. Thus aid to construct a harbour in Liberia could be financed from funds available under the much broader programme of Lend-Lease.\textsuperscript{93} Again, Congress approved a massive increase in Eximbank's lending authority in July, 1945, from $700 million to $3500 million. Testimony reported to the Senate Committee on Banking and Currency had indicated that Eximbank's position in mid-1945 was such that only $150 million in new loans could be made before the limit of its lending authority was reached.\textsuperscript{94} The increase was voted by Congress with the requirements of European reconstruction, and American trading interests in Europe largely in mind. The World Bank, intended as the main vehicle for reconstruction lending, was at the same time preparing itself for operations, while the other possible channel of assistance, Lend-Lease, had been precipitously terminated.\textsuperscript{95} The fact that the increase was aimed at Europe made it possible for the measure to obtain a high level of support in Congress. Thus the House Committee on Banking and Currency reported the measure 18-2, while the Senate approved it unanimously. By contrast, the extension of Eximbank operations in Latin American had been controversial in the past. Supporters of the 1945 legislation include those, such as Taft, who had long opposed the expansion of the Bank's operations in Latin America, but who favoured the increase under consideration as a temporary measure for the purpose of assisting European reconstruction.
Even so, the increase made possible increased lending to Latin America, as well as to Europe.  

Seventh: there were some senses in which a growth in the capacity of the United States to provide aid encouraged use of it. The United States emerged from the Second World War with a Gross National Product which was, in real terms, substantially above pre-war or pre-Depression levels. Government revenue and the American trade surplus had also increased significantly. Tables 3 and 4 provide evidence on these points. Had these changes not occurred, production shortages, budgetary problems, or foreign exchange difficulties might have kept aid to less developed countries at lower levels during and after the Second World War. As it was, shortages during the Second World War imposed constraints on economic aid. It has already been noted that Eximbank credits could not always be utilised by recipients: even if used, they were expended in some cases on items relatively low on the recipient's list of priorities. Agreements for the provision of Eximbank loans typically made note of the point that commodities were in short supply and that they would be allocated with the requirements of the American war effort in mind. Thus in a letter of April, 1942, to the Peruvian Minister of Finance and Commerce on a $25 million loan to finance public works and agricultural, mining and industrial projects, Secretary of State Hull noted that:

The United States cannot undertake to furnish machinery and equipment in short supply due to the exigencies of war, and ... priorities necessary to acquire such items will be granted only after careful study and determination that the establishment of the industry for which they are needed will contribute directly in important measure to the war effort of the United States and the security of the Hemisphere.
**Table 3:** United States: Gross National Product, Government Receipts, 1929-1947.

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross National Product in 1958 dollars.</th>
<th>Federal Budget Receipts, Current dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929</td>
<td>203.6 billion</td>
<td>3862 million</td>
</tr>
<tr>
<td>1933</td>
<td>141.5 &quot;</td>
<td>1997 &quot;</td>
</tr>
<tr>
<td>1939</td>
<td>209.4 &quot;</td>
<td>4979 &quot;</td>
</tr>
<tr>
<td>1940</td>
<td>227.2 &quot;</td>
<td>6879 &quot;</td>
</tr>
<tr>
<td>1941</td>
<td>263.7 &quot;</td>
<td>9202 &quot;</td>
</tr>
<tr>
<td>1942</td>
<td>297.8 &quot;</td>
<td>15104 &quot;</td>
</tr>
<tr>
<td>1943</td>
<td>337.1 &quot;</td>
<td>25097 &quot;</td>
</tr>
<tr>
<td>1944</td>
<td>361.3 &quot;</td>
<td>47818 &quot;</td>
</tr>
<tr>
<td>1945</td>
<td>355.2 &quot;</td>
<td>50162 &quot;</td>
</tr>
<tr>
<td>1946</td>
<td>312.6 &quot;</td>
<td>43537 &quot;</td>
</tr>
<tr>
<td>1947</td>
<td>309.9 &quot;</td>
<td>43531 &quot;</td>
</tr>
</tbody>
</table>

**Source:** Economic Report of the President, Transmitted to the Congress, January, 1973, together with the Annual Report of the Council of Economic Advisers:

(data in millions of current dollars.)

<table>
<thead>
<tr>
<th></th>
<th>Exports (merchandise)</th>
<th>Imports (merchandise)</th>
<th>Excess of Exports over Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1926</td>
<td>4809</td>
<td>4431</td>
<td>378</td>
</tr>
<tr>
<td>1927</td>
<td>4865</td>
<td>4185</td>
<td>681</td>
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<tr>
<td>1928</td>
<td>5128</td>
<td>4091</td>
<td>1037</td>
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<td>5241</td>
<td>4399</td>
<td>842</td>
</tr>
<tr>
<td>1930</td>
<td>3843</td>
<td>3061</td>
<td>782</td>
</tr>
<tr>
<td>1931</td>
<td>2424</td>
<td>2091</td>
<td>334</td>
</tr>
<tr>
<td>1932</td>
<td>1611</td>
<td>1323</td>
<td>288</td>
</tr>
<tr>
<td>1933</td>
<td>1675</td>
<td>1450</td>
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<td>1934</td>
<td>2133</td>
<td>1655</td>
<td>478</td>
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<td>1935</td>
<td>2283</td>
<td>2047</td>
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<tr>
<td>1936</td>
<td>2456</td>
<td>2423</td>
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<tr>
<td>1937</td>
<td>3349</td>
<td>3084</td>
<td>265</td>
</tr>
<tr>
<td>1938</td>
<td>3094</td>
<td>1960</td>
<td>1134</td>
</tr>
<tr>
<td>1939</td>
<td>3177</td>
<td>2318</td>
<td>859</td>
</tr>
<tr>
<td>1940</td>
<td>4021</td>
<td>2625</td>
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<td>1941</td>
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<td>5659</td>
</tr>
<tr>
<td>1946</td>
<td>9739</td>
<td>4909</td>
<td>4831</td>
</tr>
<tr>
<td>1947</td>
<td>14456</td>
<td>5733</td>
<td>8724</td>
</tr>
</tbody>
</table>


Because of rounding, the data in columns 2 and 3 may not add precisely to that in column 1.
Eighth: improved relations between the United States and less developed countries facilitated the extension of economic aid in some cases. This was a factor in Latin America, where a number of countries had defaulted on loans made by American banks or other private sources. As conflict with the Axis powers intensified, the U.S. Administration sought to reach agreement on the question of repayment. In many instances, it was successful (though this may have been partly because the urgency of securing the co-operation of the Latin American republics led it to settle for lower amounts than would previously have been considered acceptable). This improved the climate for large scale lending by Eximbank. Again, Mexico's nationalisation of British and American petroleum holdings in 1938 strained relations between that country and the United States. Although Treasury Secretary Morgenthau was willing to use the instruments at his disposal to provide assistance to Mexico, the State Department opposed loans or other aid to Mexico while the issue of compensation remained unresolved. Eximbank was therefore prevented from providing credits until the two countries reached agreement.

Some observers have suggested a further factor in the growth of economic aid - the development among some sections of the public of concern for the position of poor people in other nations. The emergence of this internationalist humanitarian sentiment is variously attributed to work highlighting the problem of world hunger, to a reaction from the barbarism of war, and to increased interaction with poorer nations.

The widespread destruction brought about by the Second World War probably did give rise to some support for relief measures based
on essentially humanitarian considerations. But this was only one of several motives for providing immediate relief aid to affected areas. There is evidence of a growth of concern, over the period reviewed, on issues such as world hunger and over the long term problem of raising living standards in poor nations. But the influence of this seems to have been relatively weak. The principal justification for programmes such as the World Bank was the contribution which an expanding liberal world economy would make to peace and American prosperity. Even in the case of the Food and Agriculture Organisation, other considerations seem to have been predominant. In approaching the organisation of a United Nations Conference on Food and Agriculture, three considerations seem to have guided American policy makers. One was that the conference would be a forum where the United States could raise the problems of expanding food consumption, dealing with food surpluses, and relating these issues to the broader questions of international trading and financial arrangements in the post-war period. Another consideration, supported by comments in Hull's memoirs, is that it would be relatively easy to reach satisfactory agreement on questions such as food and agriculture, for they were relatively uncontroversial and fairly concrete issues were involved. It would therefore be a useful place to start post-war planning, and a testing ground to ascertain the measure of co-operation which could be expected on subsequent questions. There was also the view that it would assist in prosecution of the war if it was known that the United States and its allies were taking action to deal with economic problems in the post-war world. The idea of establishing an agency to provide assistance for agriculture in poor nations was not therefore the only, or even the main ground for holding the conference.
Indeed, at the Hot Springs Conference in 1943, and at subsequent meetings of the Interim Commission set up by the Conference, there was some difference of opinions as to the functions of the proposed food and agriculture organisation. According to one viewpoint, the agency should itself take action to foster economic expansion, while a second strand of opinion considered that its role should be largely confined to gathering information and tendering advice. The outcome was something of a compromise, with the Food and Agriculture Organisation being given some functions in the field of technical assistance. Its annual budget was planned for five million dollars of which the United States was to contribute one quarter.

111. Case Material

The third section of this chapter contains a number of detailed studies, already mentioned in the main argument, but separated from it for reasons of space. The first four studies deal with the expansion of American economic assistance over 1938-43. The studies are mentioned at a number of points in the main argument, but their primary purpose is to support the view, advanced in section two, that foreign policy and military objectives arising from the struggle with the Axis powers were dominant motives for the expansion of economic aid in this interval.

The Expansion of Eximbank lending in Latin America

It is convenient to commence with the case of Eximbank lending in Latin America, and to discuss its operations in two periods, with the first extending from the beginning of 1938 to the outbreak of war in Europe in September, 1939. In this interval, the chief
consideration prompting the executive to increase Eximbank lending was its concern with the extent to which the Axis powers, and Germany in particular, were increasing their trading and other economic links with the region. Over the period 1934–37, Germany's share of commodities imported by Brazil, Mexico, and Chile had jumped by 10, 10.7, and 15.8 percent respectively. Germany's activity had intensified in 1938, while that of Japan and Italy was also not negligible. Policy makers were disturbed at this trend, not only because it was not to the economic advantage of the United States, but because it threatened, in their view, a substantial measure of Axis political influence in a region judged to be of vital significance to the security of the United States.

Evidence of the concern described above is not difficult to discover in the writings and statements of senior U.S. officials. As early as 1936, Hull noted that the Latin America which he had just visited for the Buenos Aires Conference,

differed from the Latin America I saw just three years before, because Axis penetration had made rapid, alarming headway under various guises. For many months we had received reports from our representatives in the countries to the south of us, which, added together, created a picture of threatening colours. Nazi Germany, in particular, was making intensive efforts to gain ascendancy among our neighbours, but Italy and Japan were working feverishly as well.

After referring to the activities of German minorities in Latin America, and to Nazi propaganda and espionage activities, Hull goes on to note in his memoirs,

The Germany of Hitler and Schacht was straining every tendon to undermine United States trade relations with Latin America. In September, 1935,
Schacht launched an ambitious plan for barter trade with Latin America on a large scale ... Germany's percentage of the total trade of Latin America began to rise perceptibly. 109

The Secretary to the Treasury, Morgenthau, was similarly concerned over Axis penetration of Latin America, and by 1937 was using the instruments at his disposal in Treasury in an effort to counter this. His concern increased after Munich, and in a memo sent to Roosevelt in October, 1938, it was argued that the Latin American countries needed capital to develop their resources, and that,

Unless we assist them, they will become a helpless field for political and economic exploitation by the aggressor nations. Already some inroads have been made in that direction. Now, after the Munich agreement, we may expect that Germany, Italy and Japan will become bolder and more effective in their attempts to establish areas of economic and political support to the south of us. 110

Again, Pierson, the President of Eximbank, recommended to Hull in February, 1938, that the bank increase its functions throughout Latin America, and warned that aggressive European nations, especially Germany, were in danger of replacing the United States in Latin American markets. 111

Cases of loans approved in 1938 and 1939 provide evidence that the considerations mentioned above were important in causing policymakers to expand the operations of the Bank in 1938 and 1939. In 1938, the Bank abandoned its previous policy of not becoming a creditor to Latin American governments when it provided a $5 million loan to Haiti to cover the construction of public works. It had been learnt that the firms dealing with the project for the Haitian Government had planned to employ a German enterprise to handle the work, and the
American loan was arranged to prevent this. A vice-president of the Bank, W. Whittemore, noted that the financial risks of the project were considerable, but that the overriding consideration was that it "would not be in the best interests of the United States to have another European power acquire a political and economic (if not military) base right in our front yard."\textsuperscript{112} Again, in 1929, rather than risk increased European influence (mainly German influence) and loss of trade, the Export-Import Bank approved a $19 million loan to Brazil, thereby reversing decisions of 1938 and 1936 that no loan of the type in question should be made.\textsuperscript{113}

There were other factors which encouraged increased Eximbank lending in this period. During 1937-38, the United States suffered a sharp recession, with industrial production declining by a third between September 1937 and June 1938.\textsuperscript{114} To some extent, policy makers may have seen expanded Eximbank activity as a way of overcoming the domestic difficulties induced by the recession, but considerations of this type seem to have been wholly secondary to concern with the loss of trade to the Axis powers. It is also possible that the replacement of Peek by Pierson as director of the Bank tended to encourage its operations in Latin America, for Peek had shown a lack of enthusiasm for the bank's operations in this area.\textsuperscript{115} But again, this factor was only of marginal significance when compared with the concern over Latin American ties with the Axis powers.

Continued lending by Eximbank was made possible by Congressional action, in early 1939, to extend the life of the Bank. Nevertheless, Congress was unwilling to endorse extensive use of the Bank as an instrument of foreign policy at this stage. There was criticism, particularly from Republican leaders, of the loan to Haiti, and of
the way the Roosevelt Administration was using the Bank to extend American political influence in Latin America and elsewhere. Reflecting this concern, Congress imposed a limit of $100 million on the value of loans which Eximbank could have outstanding at any one time. This ceiling was to act as a brake on the further expansion of Eximbank lending in the latter part of 1939.116

Even prior to the outbreak of war in Europe, the Administration made an attempt to rid itself of the constraint which the Congress had placed on its capacity to extend loans. In mid-1939, Roosevelt made a general proposal for an additional $500 million in authority for loans to foreign governments.117 Needless to say, the proposed increase represented a massive expansion of lending authority, and it is unlikely that the executive had any immediate intention of disbursing more than a small fraction of the amount requested. It is probable that the concern of the Administration was rather to provide itself with the authority to deal with more threatening possibilities which it envisaged. In April, two months before making the request, Roosevelt had noted in a press conference that his advisers forecast a 50-50 chance of war in Europe, with an equal probability that war would be followed by German victory. The latter outcome would, Roosevelt argued, lead to a German attempt to bring Latin America under its control, and in this effort economic instruments would play an important part. Argentina would be particularly vulnerable because of the importance of European markets for its cattle, wheat and corn, but in the case of Brazil, and even Mexico as well, totalitarian control of Europe could well mean the end of any possibility of independence.118 Again, on April 4, 1949, Roosevelt informed the Pan American union that,
Should the method of attack be that of economic pressure, I pledge that my own country will also give support, so that no American nation need surrender any fraction of its sovereign freedom to maintain its economic welfare.\textsuperscript{119}

It was presumably with these contingencies in mind that the Administration sought the additional lending authority. Congress, however, refused to agree to the proposal, and even a smaller request for a $100 million increase in Eximbank's lending authority had not been passed by the time Congress adjourned for the year.\textsuperscript{120}

In the period from late 1939, there were two developments which underlined the need for additional economic aid to Latin America. The first of these was the outbreak of war in Europe, and the consequent dislocation of much of Latin America's trade. Europe as a whole absorbed more than half of Latin America's exports, and a good deal of this, including trade with Germany and with neutrals subject to Allied embargoes was affected. In contrast to World War One, this loss was not mitigated to any marked degree by additional purchases from the belligerents, Britain preferring to hold down domestic consumption and rely as far as possible on the resources of the Empire.\textsuperscript{121}

The effect of this situation was twofold. First, there was an immediate impact on the stability of the Latin American economies. As Hull noted, the result of the war was that,

Some export markets, sources of supply, and shipping services were cut off or curtailed, prices were fluctuating, and currencies were endangered.\textsuperscript{122}

Second, there began to accumulate large surpluses of commodities which could not be sold abroad: this was particularly serious in the case of countries such as Chile, Uruguay, and Argentina which relied heavily
on trade with Europe and produced commodities which were competitive with those of the United States.

The other development was the rapid success of the German armies in France and the Low Countries in May and June of 1940. As the American Administration saw it, this had two consequences of importance to Latin America. First it increased the danger that Axis powers would seek to bring Latin America under their control in the immediate future. Binning notes that by mid-1940, those in the executive concerned with Latin American security operated on the assumption that Germany would win the struggle for Europe and that its success in this theatre would be followed by a strong economic, and perhaps military, offensive in Latin America. This judgement was endorsed by the U.S. Chiefs of Staff who saw the Nazi threat to South America as the most pressing and immediate threat to national security.

Second, the German victories, together with the impact of the War on Latin America as described previously, was thought to add to the capacity of the Axis powers to draw Latin America into their sphere, since:

(1) German control of a larger section of Europe would increase the leverage which it could apply to Latin American countries, since it would control a larger share of their markets.

(2) the buildup of surpluses would create an additional inducement to countries in South America to accept Axis terms for the restoration of trade.

(3) the victories gave a "tremendous psychological springboard" in Hull's view to the Nazis to intensify their penetration of Latin America, both politically and economically. The conquest of France and
the Low Countries had scarcely begun
when reports from our diplomatic missions
in Latin America started coming to my
desk that the Nazis were preparing to
make Central and South America an economic
appanage of Germany ... The Nazis in
Latin America, officials and private
citizens alike, sedulously spread the
thought that Germany would soon control
the whole economy of Europe and therefore
any country or company in Latin America
wishing to deal with ... Europe had
better negotiate at once with the nearest
German representative. 126

By mid-1940, the Administration was considering the question of
an appropriate response to these developments as a matter of urgency.
Indeed in May, proposals were being studied, not only in the State
Department, but in Commerce, Treasury, Agriculture and a number of
other government agencies and private organisations. 127 From the
welter of suggestions, Roosevelt selected as a basis for Administration
thinking a memo from Nelson Rockefeller which he found particularly
impressive. Titled Hemispheric Economic Policy, this argued at the
outset that:

Regardless of whether the outcome of the
war is a German or Allied victory, the
United States must protect its inter­
national position through the use of
economic measures that are competitively
effective against totalitarian techniques.

If the United States is to maintain
its security and its political and economic
hemisphere position, it must take economic
measures at once to secure economic prosperity
in Central and South America, and to
establish this prosperity in the framework
of hemisphere economic co-operation and
dependence.

The scope and magnitude of the measures
taken must be such as to be decisive with
respect to the object desired. Half
measures would be worse than wasted;
they would subject the United States to
ridicule and contempt.
It went on to detail a number of specific policy measures which the United States should adopt, including the expansion of U.S. Government investment in the region, and the formation of a single agency to receive and dispose of surpluses in the hemisphere. The last point - the notorious 'cartel' proposal - had been suggested in an earlier memo by Berle, and was apparently calculated to prevent a situation in which individual countries might be forced to make substantial concessions to the Axis powers as the price of securing outlets for their surpluses. 128

The Rockefeller memo served as a starting point for a report to Roosevelt by the Secretaries of State, Agriculture, Commerce, and Treasury on June 20, 1940. The Secretaries underlined the need for U.S. action to supplement its military defense in the region by strengthening the Latin and Central American economies. Their report endorsed the idea of an inter-American cartel for joint marketing of the export staples of all of the American republics, and pending the formation of the organisation, recommended action by the Reconstruction Finance Corporation to purchase and dispose of Latin American surpluses. The provision of new credits was also suggested in order to develop new industries and lines of production for which markets could be found. 129

There remained the problem of financing these measures. Earlier in the year the Administration had secured an additional $100 million in lending authority for the Export Import Bank from Congress in a debate focusing almost exclusively on the question of American aid for Finland's defence against the invasion which had just been mounted by the Soviet Union. 130 The amount of this which remained was, however, entirely inadequate for the scale of operations which the
Administration now had in mind. Another possibility was the Treasury's Stabilisation Fund, but Secretary Morgenthau had consistently refused to use it for such purposes except under specific Congressional authorisation, and his position was unchanged when the question was raised in May, 1940. Accordingly, the June 20 report recommended an approach to Congress to secure an additional $1000 million. Roosevelt, however, requested only an additional $500 million in the capital and lending authority of Eximbank, in a message timed to coincide with Cordell Hull's address to the Havana Conference of American Republics on July 22.

A small part of the $500 million requested was not intended for use as economic assistance as defined in this dissertation, since it was to finance the sale of arms to Latin American countries. The bulk of the funds were, however, intended for the purposes identified in the Rockefeller memo, and the June 20 report. Thus part of the funds were to finance the handling and orderly marketing of surpluses: the Administration's plan, as Welles outlined it to the Inter-American Financial and Economic Advisory Committee on July 11, entailed Eximbank financing of the storage of surpluses until they could be sold: in some cases, repayment of the loans might be arranged in commodities. Beyond this, the increased lending power was to be used for the more general purposes of developing production and economic stabilisation. These measures were evidently thought to yield benefits to the United States by:

(1) reducing the likelihood of Latin American Governments being displaced by those less favourable to the United States, partly because of a general connection between economic prosperity and political stability, and partly because there would be less reason for
businessmen and others to support pro-Axis factions because of the economic benefits which closer alignment with Germany might bring.

(2) serving as a direct means of leverage over the policies of existing governments, especially those policies relevant to the conflict between the Allied and Axis powers.

(3) generating good will to the United States on the part of people and governments in South America.

(4) providing the necessary funds to counter new barter and aid agreements offered by the Axis powers.

(5) expanding the production of commodities required in the United States, especially of those commodities and resources demanded for the war effort.

In addition to the above considerations arising from the conflict with the Axis powers, the Administration sometimes made reference to other grounds - for example increased American exports, or the benefits of orderly marketing of Latin American surpluses for those in the United States producing the same commodities. However, these aims were only of secondary significance in bringing about Administration support for increased Eximbank lending, and were evidently presented chiefly with a view to allaying domestic criticism.

The proposed increase in Eximbank lending authority was approved by Congress, with the measure passing the Senate 43-27, and the House 183-144. The amended legislation made it possible for Eximbank to extend an additional $500 million in order to

assist in the development of the resources, the stabilisation of the economies, and the orderly marketing of the products of the countries of the Western Hemisphere.

It also removed a number of restrictions on Bank lending, including
one which had limited to $20 million the value of loans which could be outstanding to any one country.\textsuperscript{139}

It is unlikely that Congressional support for the increase was prompted by renewed concern with such economic considerations as promoting American exports. Of course, supporters of the measure referred to export promotion as one justification for the increase, and it is quite probable that the impact of the increased lending authority on exports was seen as one advantage of it. But considerations of this kind could not reasonably account for the change in Congressional attitudes which had occurred on the question of expanding the Bank's operations. While the Latin American countries faced increased trade problems as a result of the European War, this was not the case with the United States. As a report from the Department of Commerce noted, exports in 1940 were 27 percent above those in 1939, and exceeded $4 billion for the first time since 1929. The increase reflected the expanding role of the United States in supplying materials to Britain and its Empire.\textsuperscript{140} A further indication that concern with promoting exports was not central to the expansion of the bank's lending authority is that the new legislation did not confine its role to financing trade, but included the broader functions described in the preceding paragraph.\textsuperscript{141}

Reference to other economic grounds was made by the Administration in attempts to justify the increase. In his message to Congress, Roosevelt alluded to the economic advantages of orderly marketing to the United States, arguing that,

\begin{quote}

it is in the interest of the producers of our country, as well as in the interest of producers of other American countries, that there shall not be a disorganised or cut-throat market in those commodities
\end{quote}
which we all export.\textsuperscript{142} However, there was strong criticism of this idea from Congress. Some of this was doubtless based on ideological opposition to the extensive government involvement in the process of marketing which had characterised the New Deal within the United States, and which it now proposed to extend into the international arena. But much is based on the fear that assistance to Latin America with financing surpluses of commodities (such as agricultural products) which the United States also produced would be damaging to the economic interests of American suppliers. In an apparent effort to facilitate the passage of the Eximbank legislation, the Administration emphasised that the Bank would not concern itself in any major way with financing agricultural surpluses.\textsuperscript{143} It had already publicly abandoned its ambitious cartel plan on August 9, in response to its own internal differences on the question, as well as to both domestic and Latin American criticism.\textsuperscript{144}

Security considerations were evidently the dominant consideration behind Congressional approval of the increase in lending authority. The majority report of the Senate Banking and Currency Committee thus called for the expansion of Bank operations in order to secure the total defence of the United States.\textsuperscript{145} There was, of course, criticism of the measure on the same grounds, particularly from the 'isolationist' Republican minority typified by Senators Taft and Vandenberg. In these quarters, there was scepticism over the security and political benefits which would accrue to the United States from action to promote prosperity abroad,\textsuperscript{146} and evident concern that the measure would drag the United States closer to war with the Axis powers.\textsuperscript{147}

With the additional lending authority obtained from Congress,
the Administration was able to extend a number of new loans to Latin American countries. As the instances examined below indicate, the considerations which prompted particular loans varied, including all of the five factors mentioned above on different occasions.

In the case of Brazil, Eximbank provided considerable assistance to cover construction of the Volta Redonda steel mill, an initial loan for $20 million being approved for this purpose on September 26 - the same day that the new Bank legislation was signed into law by President Roosevelt. At this stage, American support for the project was evidently based on the belief that Brazil would otherwise negotiate an agreement with German interests covering construction of the mill. The State Department had been concerned at this possibility from early in 1940, and its fears increased in June when it received word that Krupp was offering favourable terms to Brazil, and that the Brazilian president, Vargas, was under some pressure to accept. On August 7, Welles wrote to Jones expressing the view of the State Department that United States' interests should finance the project, and noted that failure to reach an agreement would result in the immediate acceptance by Brazil of a German offer to build the plant, which the Germans are prepared to do on terms which they will allow the Brazilians to write themselves. The agreement was justified by U.S. officials on other grounds as well, including the fact that Britain would give up iron ore holdings as part of the deal; that it would contribute to American exports both because of the immediate demand for plant equipment and because industrial progress would make Brazil a better customer in future; and that it would produce strategic materials required for the war effort. However, these considerations seem to have been wholly secondary to
the desire to avoid an agreement between Brazil and German interests.

Continued support for the Volta Redonda project must be explained on other grounds, for there was subsequently no real prospect of an effective contribution by Germany. Nevertheless, special action was taken in July, 1941, to insure the supply of the required equipment from the United States, and subsequently, additional Eximbank loans were made for this and associated projects. It would seem that support for the project was continued chiefly for the sake of maintaining co-operative relations with Brazil. A State Department release justified the priority rating on the grounds that it would "improve the general standard of living of the country and thereby increase the market for products of the United States", and that its output would "relieve the pressure on American industries in the prosecution of the Brazilian rearmament programme", but neither reason is convincing in the circumstances. As the release itself noted, completion of the mill was not expected for 2½-3 years, during which time it would require materials and equipment subject to wartime shortages.

In the case of Cuba, which received a $30 million credit in 1941 to cover the purchase of surplus sugar and the construction of some public works, a number of considerations were evidently significant in determining American policy. Messersmith, the American Ambassador to Cuba, was the principal advocate of the loan: indeed it was probably only his strong support which resulted in it being approved. As already noted, there had been strong opposition during the debate on the new Eximbank legislation to the idea that the Bank should extend loans against surplus agricultural production. The proposed Cuban credit marked a significant step in this direction, and apparently for this reason, attracted strong criticism within the United States.
Hull made a last minute attempt to delay the final agreement, and Messersmith found it necessary to threaten to resign as a means of pushing the measure through.

The Ambassador justified the credit on four main grounds: the need to maintain a market for American goods in Cuba; the danger that failure to conclude the agreement would result in economic, social and political instability; the desirability of keeping the way open for close co-operation in defence; and its importance as "an act of faith for all Latin America". The last ground presumably referred to the importance of the United States upholding promises to Latin American countries that it would provide assistance in the face of the difficult economic circumstances arising from the European War. It is not clear what priority Messersmith accorded these different reasons, or whether other American policy makers supporting the measure would have accepted all of them. 152

A $25 million Eximbank loan to Peru in 1942 illustrates the use of the Bank to promote increased production of commodities - in this case rubber - required for the American war effort. 153 Ninety percent of the existing supply of natural rubber had been cut off by the Japanese occupation of the Malay States and the Netherlands East Indies in late 1941, leaving the United States unprepared. 154 As Secretary of the Interior Ickes noted in a letter to Baruch:

One of the worst results of Pearl Harbour was the discovery that Jesse Jones hadn't built up a stockpile of rubber that he had been instructed to build up ... He had even slept peacefully on the synthetic rubber programme. So we were hit in a vital spot. 155

The loan to Peru represented one step which the United States took to
gain access to additional supplies of rubber: others included special agreements with rubber producing countries in Latin America concerning U.S. purchase of the entire export surplus, and special programmes by the Rubber Development Corporation (a subsidiary of the Reconstruction Finance Corporation) to increase production in Brazil, Haiti and elsewhere. 156

The Growth of Technical Assistance in Latin America

The growth of technical assistance to Latin America will be taken as a second case study on the reasons for the expansion of economic aid after 1938. In the case of the first group of programmes identified earlier in this chapter, the public statements of policy makers provided justifications in terms of the contribution which could be made to such goals as understanding between the United States and the recipient, mutual good will, closer relations, greater co-operation, peace, friendship, and like considerations. 157 In one sense the programmes of technical co-operation and educational exchange were a logical extension of the Good Neighbour policy, and they may well have found some support among American policy makers on this ground. The timing of the introduction of these measures suggests, however, that they were initiated with the specific requirement in mind of maintaining hemispheric solidarity in the face of penetration by the Axis powers. Reference to this more specific concern was indeed implied in some statements. Thus Stettinius, commenting on the programme under the Act "To Authorise the President to Render Closer and More Effective the Relationship Between the American Republics", argued:

That progress has been made toward the establishment of closer and more effective relationships among the American Republics
is indicated by their unity of thought and action at the conferences of Foreign Ministers of the American Republics at Havana in July, 1940, and again at Rio de Janeiro in January of 1942; and by the general support of hemispheric solidarity by the people of the twenty one nations.138

In the case of the second programme, operated by the Co-ordinator of Inter-American Affairs, the interest in maintaining hemispheric solidarity against the Axis powers, and in other ways contributing to the defence of the United States was more clearly indicated. The agency was set up in August, 1940, as a subordinate body of the Council of National Defence at a time when - as noted already - American policy makers considered the hemisphere highly vulnerable to the Axis powers. The executive order establishing the agency noted its purposes as including review and co-ordination of

the activities of the Government with respect to hemisphere defence, with particular reference to the commercial and cultural aspects of the problem,

and assisting in carrying out Congressional resolutions regarding the expansion of the military and naval establishments of the American Republics, and

the execution of a programme in co-operation with the State Department which, by effective use of Governmental and private facilities in such fields as the arts and sciences, education and travel, the radio, the press, and the cinema, will further the national defense and strengthen the bonds between the nations of the Western Hemisphere.139

The subsequent executive order of July, 1941, which renamed the agency, and established it as an independent body within the Office of Emergency Management of the President, and added a separate provision charging it with formulating and executing
programmes in the commercial and economic fields which by the effective use of governmental and private facilities will further the commercial well-being of the Western Hemisphere, was declared to be made to provide for the development of commercial and cultural relations between the American republics thereby increasing the solidarity of this Hemisphere and furthering the spirit of co-operation between the Americas in the interest of Hemisphere defense ... 160

Again initial appropriations legislation allocating funds to the agency for grants and assistance noted that they were made available for the purpose of furthering the national defense and strengthening the bonds between the United States and other American Republics. 161

U.S. Officials and Congressmen apparently saw the various technical assistance and training programmes in the above programmes contributing to hemispheric solidarity and U.S. defence in a number of ways, including: (1) the development of general attitudes of friendship and good will, believed to result from increased contact between officials and peoples of the American Republics and the United States; (2) by contributing to the general programme of helping to promote the prosperity of the Latin American republics - it has already been seen that policy makers saw this programme as yielding benefits in terms of security and co-operation; and (3) by making direct contributions to certain defence interests. This last applied even in the case of technical assistance in health and sanitation, for it was to some extent in the interest of the United States to improve health services where its own troops or those of other American republics were located, or where poor conditions impeded the production of
strategic materials. 162

The Growth of Economic Aid to China

In a third case to be considered — that of China — the growth of American economic aid arose almost entirely from increased U.S. efforts to strengthen the resistance of the Nationalist regime to Japanese encroachment. The United States had, of course, opposed Japan's attempts to extend its influence in China well before 1938. Thus it had joined in condemning Japan's occupation of Manchuria, had refused to recognise the Manchukuo regime established by Japan, and had protested at the Amau declaration of 1934 under which Japan claimed a special relationship with China.* 163 However, the objective of limiting Japan's encroachment on China was accorded relatively low priority at this stage, and American protests were not supplement by stronger action involving the use of economic or military instruments.

Indeed, in 1934, the Administration allowed domestic consider‐
ations to outweigh its interest in assisting China by engaging in a policy of buying silver in the world market at rising prices. As Hull noted,

China, which was on the silver standard, found herself in the throes of a disastrous flight of silver ... [and] in November, 1935, ... was forced to go off the silver standard, call in all silver currency, and replace it with paper. It was not until May, 1936, when the Chinese Government reached an agreement with the Treasury for the purchase of gold with silver, that the confusion in China began to be resolved.164

* Specifically, the Amau doctrine held that China should progress by her own efforts, and opposed joint or individual action by other powers to provide financial and technical aid. It was held that such aid should come from Japan if at all.
In the face of reports that the American silver policy was creating anti-American feeling in China, undermining stability, and playing into the hands of Japan, there was discussion within the Administration during 1934 and 1935 of the possibility of moderating the silver purchasing policy, or of providing a credit and extending other cooperation to China to compensate for the damage caused by American actions and facilitate currency reorganisation. However, the first course of action proved politically impossible, and the second was ruled out by State Department opposition to any attempt to confront Japan flatly on the Amau doctrine. It was believed that the United States could become deeply involved in China's affairs, and that this might well lead to direct confrontation with Japan, for which little public support could be expected in the isolationist climate of opinion prevailing in the United States in the mid-thirties. In any event, the conflict between U.S. silver policy and its desire to assist China was removed after China left the silver standard, since silver purchases from China were then to that country's immediate advantage.

There was continued unwillingness to provide strong support for China, even after the outbreak of active hostilities between China and Japan in mid-1937. A proposed Eximbank credit was cancelled in August of that year in view of the worsening situation. The United States did support a declaration, at the Brussels Conference of November, 1937, which reaffirmed the Nine Power Treaty of 1922, but it was careful to steer clear of proposals for sanctions against Japan, or for joint action on the question with Britain and France. In January, 1938, a request by China for assistance was rejected, and subsequent discussions on the question of a credit for China did not give rise to

* One of the provisions of this treaty pledged respect for China's independence and integrity.
any immediate action. The Treasury continued its policy of purchasing silver from China, and it is evident that an important motive for this by now was the desire to strengthen the position of the Nationalist regime. However, it is difficult to class these purchases as economic assistance as the term is used in this dissertation.

Proposals for a loan to China were made on several occasions in the latter part of 1938. Morgenthau was strongly in favour of the move as a way of strengthening Chinese resistance, supporting efforts to organise credits in June and September. After Munich, he became even more anxious to extend economic support, arguing in a memo to Roosevelt that,

Sanguine as I desire to be, I am forced to the view that without substantial aid given promptly the Chinese resistance may soon disintegrate. By risking little more than the cost of one battleship we can give renewed vitality and effectiveness to the Chinese. We can do more than that. By our action we can further the struggle of democracy against aggression everywhere.

Morgenthau added that

All my efforts to secure immediate substantial aid to China have proved to no avail against the adamant foreign policy of doing nothing which could possibly be objected to by an aggressor nation.

Secretary of State Hull remained opposed to the credit. In his view, it would be understood as a measure specifically directed against Japan, and might well lead to a weakening of moderate elements in the Japanese Cabinet. The climate of opinion in the United States was, as Hull saw it, still too much influenced by isolationist attitudes to lend support to a stronger policy, and would need time to perceive the issues involved. Percipitate action might well strengthen
Approval of a loan was continually delayed in response to doubts such as those expressed by Hull, but in December, 1938, Roosevelt agreed to a $25 million Eximbank credit despite the Secretary of State's opposition. Repayment of the credit was to be made over five years from the proceeds of sales of tung oil to the United States. It is not entirely clear what caused Hull and others opposing the loan to be overruled at this particular stage, but a more threatening international situation may have been one factor. In November, the Japanese Government had openly announced its intention of setting up a new order in Asia, and had called upon the United States and other interested powers to adapt to the new conditions in Asia. Moreover, such hopes as had been entertained by the Munich agreement had been largely dispelled by this time. It is also quite possible that Roosevelt detected signs of domestic support for a firmer policy, though there is no direct evidence of this.

The Administration's opposition to Japan's activities in China and other Asian countries hardened appreciably in 1939 and 1940. In April, 1939, the U.S. fleet was transferred to the Pacific and on July 26, Washington gave Japan the required six months' notice of its desire to terminate the 1911 Treaty of Commerce between the two countries, thus keeping open the possibility of economic sanctions after the expiration of that interval. It is likely that additional economic aid would have been provided to China in 1939, but as noted in the case study on Latin America, Eximbank's available funds were extremely limited at this stage. On March 7, 1940, following passage of legislation increasing Eximbank's lending authority, a $20 million credit (the maximum possible under the new measure) was approved. The credit was to be repaid in tin. A proposal for additional aid from Treasury's
Stabilisation Fund was made by the chief adviser on Far Eastern Affairs in the State Department, apparently with Hull's reluctant approval, but Morgenthau was no more willing to use the Fund for this purpose in China than in Latin America at this stage. From September, 1940, the Administration was able to make additional credits to China, the new Eximbank legislation having gained Congressional approval, and Treasury Secretary Morgenthau having altered to some extent his previous opposition to use of the Stabilisation Fund. On September, 25, 1940, one day before the new Eximbank legislation was signed into law by Roosevelt, a further Bank credit of $25 million for China was announced. The timing of the announcement was apparently influenced by a declaration from the Vichy Government of the previous day, falsely stating that the United States had given its approval to an agreement between France and Japan of August 30. Under the terms of this, France recognised Japan's predominant interest in the Far East, as well as making other concessions.

American policy makers still desired to avoid open struggle with Japan in order that they might concentrate on supplying Britain and rearming: to this end, the President and Hull agreed that the United States should "continue our economic pressure and aid China, but not push Japan to the point where her military elements would demand war". Nevertheless, in November, the Administration hardened its position still further. Controls already existing on exports to Japan were extended, and the establishment of a puppet government at Nanking on November 30 resulted in the announcement of a $50 million Eximbank credit to Nationalist China on the same day, with an equal sum being foreshadowed from the Treasury Stabilisation Fund at a later date.
During 1941, the American Government continued to hope that it could avoid, or at least delay, armed confrontation with Japan in the Far East, and for this reason entered into a series of discussions with Japan beginning early in the year. These continued, not without interruption, until just before the attack on Pearl Harbour, though it was clear to policy makers by November that war was imminent. Following the outbreak of war, the Administration moved quickly to make available substantially increased economic assistance to the Nationalist Government. On February 3, 1942, an appeal by Hull for $500 million in economic aid for China was read to the House Foreign Affairs Committee: the speech emphasised the importance of China in the struggle against the Axis powers. A joint resolution of February 7 authorised this request, noting as grounds that

China has for more than four years valiantly resisted the forces of Japanese aggression; and financial and economic aid to China will increase her ability to oppose the forces of aggression; and the defense of China is of the greatest possible importance.

Earlier, in January, the United States commenced a programme of technical assistance to China. This had apparently been requested by Hull as a matter of urgency in November, 1941, on the ground that a programme of this type would strengthen Chinese national resistance and build closer 'understanding' between China and the United States.

The Expansion of Economic Aid in Africa

The growth of economic aid to Africa will be taken as a further case study on the reasons for the expansion of aid to less developed countries after 1938. For reasons of space, only two programmes in this region will be discussed: one involving the
provision of economic aid to Liberia, and the other the transfer of relief to areas occupied by the American and Allied forces.

The United States had, of course, been closely involved in Liberian affairs on a number of occasions since the founding of that Republic in 1847, and had, at different times granted the country a gunboat (1867), participated in a joint customs receivership with the British and French (1912), dispatched commissions of inquiry to report on its circumstances, and provided a credit of $26,000 under the Liberty Loans Act of 1917. However, the United States did not provide any substantial quantity of economic aid to Liberia before 1941.\footnote{183} The basis for some technical assistance was established in 1938, when Liberia was belatedly included with the American Republics and the Philippines as a country to which the United States might lend officials and experts. But this does not seem to have resulted in any immediate provision of technical aid.\footnote{184}

The importance of Liberia to the United States increased substantially in 1941. American policy makers were, by June, extremely interested in the construction of airport facilities in that country, with a view to providing an alternate landing point to Bathurst and Freetown in ferrying aircraft to the British forces in the Near East. The idea of a formal military base was passed over at this stage, but in the latter part of 1941 the Administration proceeded with a proposal whereby Pan American constructed an airport under arrangement with the War Department. The United States was to approach Liberia subsequently if the airport was needed for military aircraft.\footnote{185} A second factor enhancing the strategic significance of Liberia was the importance, after Pearl Harbour, of the rubber produced in that country
by the American based Firestone Company. 186

By January, 1942, it had been determined that an approach should be made to the Liberian Government regarding use of the Pam Am airport by military aircraft, further work on airport facilities, and other matters. The American Government was unwilling to accede to a request from Liberia that the United States undertake in return to defend Liberian territory, 187 but it did agree to make available $1 million in Lend Lease or other aid, partly as a concession to Liberia, and partly to improve the operations of facilities which it wished to use. 188 The aid was primarily for the purpose of road construction, but it is not clear how much of it could be reasonably regarded as economic aid as defined in this dissertation. State Department records indicate that President Barclay of Liberia subsequently expressed considerable disappointment that:

United States Army engineers were building roads which suited them, without reference to the needs of the country and of no practical help to Liberia after the war .... He desired to open up the interior of the country and did not see how this was to be done under the present apportionment and use of the funds by the Army. 189

A subsequent agreement concerning the extension of Lend Lease aid to Liberia falls more clearly within the category of economic aid. By September, 1943, the U.S. Administration had agreed to provide a credit to finance the construction of a port and related facilities. The cost of the facility was estimated at over $8 million, and repayment was to be made from harbour revenues. 190

It is probably that one reason for the Administration's decision to go ahead with the project was the desire to maintain
satisfactory political relations with the Liberian Government.

President Barclay had pressed strongly for American aid to cover construction of a port during his visit to the United States in mid-1943, indicating that it was the uppermost issue in his mind. In a letter to Harry Hopkins (Roosevelt's Special Assistant), Barclay noted that

In placing the resources and territorial facilities of the Republic at the disposal of the Government of the United States so readily and fully to serve its war objectives, Liberia had expected that comparable consideration would be given to her basic requirements for economic development.

A more important consideration, however, seems to have been the military significance of the facility, arising from its proximity to the strategic points of Ascension Island and Dakar, and its potential value in safeguarding the east coast of the South American continent from attack. In a communication to Hull concerning the proposed port, Roosevelt noted that

The Secretary of the Navy desires that provision be made in the port for establishment of an outlying base for submarines and patrols. The interest of the Navy is associated with the security of South America, particularly Brazil, but the value of a port in Liberia is largely dependent upon continued use by the United States of Ascension Island and Dakar and the airfields at those places.

The military value of the facility was presumably not understood to apply to the immediate struggle against the Axis powers, for the port and associated works would take some time to complete (as it turned out, Liberia was still receiving funds for the project in 1950), and it was directed that construction should proceed through private contracting arrangements so as not to impede prosecution of the war.
Other economic aid was provided by the United States in this period as technical assistance under the legislation discussed previously. Thus, in 1943, in response to a request from Liberia, the American Government dispatched several experts to survey iron ore deposits. This was presumably regarded as a way of promoting co-operative relations with the Liberian Government. The cost of this and other technical assistance projects is not clear. The Liberian Government defrayed a percentage of the cost in the case mentioned.

It would appear then, that there were two main reasons for the expansion of economic aid to Liberia in this period. First, aid was provided to secure Liberia's co-operation, primarily of importance because of the strategic significance of that country in the conflict with the Axis powers. Second, provision of economic assistance tied in with American interests in military facilities. In the case of the harbour project, this interest was not of immediate relevance to the war against the Axis powers, though the Lend Lease legislation under which the funds were provided had been passed by Congress with the immediate war effort largely in mind.

The final case to be considered concerns the provision of supplies to North Africa following the invasion and occupation of that region by Allied forces in late 1942 and early 1943. The commodities and equipment distributed in this case were designed both to make immediate provision for the essential consumption needs of the civilian population, and to restore and expand production. It was emphasised by U.S. officials that the effort was undertaken, not merely for humanitarian reasons, but also on important political and military grounds. First, it was held that the supplies would promote the production of
food and raw materials of value to the war effort, both by providing
the necessary resources (seeds, capital equipment, etc.) and maintain-
ing the strength and health of the work force.\textsuperscript{198} Second, as
Roosevelt noted,

\[\text{food supplied to liberated peoples}\]
\[\ldots\text{is a potent psychological and}\]
\[\text{morale weapon for those starving}\]
\[\text{people whose countries are still}\]
\[\text{overrun by the Axis. While starvation}\]
\[\text{has been the weapon used by the Axis}\]
\[\text{resulting in disease, misery, and}\]
\[\text{death, the United Nations are using}\]
\[\text{food as one of their most potent}\]
\[\text{weapons to shorten the war ...}\] \textsuperscript{199}

A further ground for the relief programme, though it seems not to have been publicly and explicitly stated, was that it would contribute to
stability in areas subject to occupation.\textsuperscript{200} Unlike a number of other
American relief efforts, the programme does not appear to have derived
any substantial measure of support from the desire to dispose of
domestic food surpluses: indeed, as the statements of policy makers
noted, supplies in the United States were under some pressure at the
time, and the value of the programme lay partly in the contribution
the occupied territories could make in adding to food production avail-
able to the Allied forces.\textsuperscript{201}

**Aid as a Foreign Policy Instrument in the Post-War Period.**

A final group of case studies are designed to illustrate the
way in which foreign policy objectives in particular regions and
countries throughout the world in the post-war period continued to
encourage resort to aid. Three cases are considered - Latin America,
Saudi Arabia, and China.

In *Latin America*, the United States remained interested in
promoting co-operative relations in the post-war period. This was evidently an important consideration in the decision to continue those technical assistance programmes which had been introduced immediately prior to, and during, the Second World War. The programmes were, of course, compatible with the general interest of policy makers in promoting the expansion of economies in less developed countries, and they presumably attracted some support on this ground. But statements suggest that such objectives as maintaining friendly relations and promoting a favourable image of the United States in Latin America remained important. According to Secretary of State Marshall, in a statement recommending continuation of the programmes under the Institute of Inter-American Affairs, a thorough review of their effectiveness by the State Department had concluded that they "had made a highly important contribution to our relations with the other American republics". In his opinion, the programmes were tangible and effective demonstrations of the objectives of American democracy. As such they constitute strong support for our hemisphere and world-wide foreign policy, and should be continued. In an earlier statement in 1944, dealing with those programmes under the Inter-Departmental Committee on Scientific and Cultural Co-operation, Under Secretary of State Stettinius suggested that such efforts would have to be continued and even enlarged in the post-war period. He noted that they were conducive to mutual understanding and that they could form the support of co-operative efforts of a broader nature.

Eximbank lending in the post-war period was apparently governed by strict commercial criteria in Latin America. Relatively few loans appear to have been made simply on foreign policy grounds: rather, U.S. officials appear to have been more interested in the contributions of proposed loans to American exports, the recipient's capacity to
repay the loan, and similar criteria. One piece of evidence for this view is provided by the distribution of Eximbank loans: as Binning notes, the smaller Central American and Caribbean countries received relatively few loans, as might have been expected from a return to the commercial principles mentioned. Further evidence can be found by examining instances of loans considered by Eximbank. Thus an application for a credit of only one million dollars for Paraguay was rejected in 1946, despite strong representations by the American Ambassador to that country, and by officials of the Government of Paraguay. The main grounds for rejecting the proposal were that Paraguay's economic prospects were considered to be poor, and that its capacity to service increased debt was doubtful. It was explained to the Charge d'Affairs of Paraguay that the Bank was making an effort
to reorientate its activities along the original concept of granting credits only for purchases in the United States or for the stimulation of trade that would develop foreign exchange with which the credits might be repaid.

Of course, there were some instances where foreign policy considerations seem to have made the difference between an application failing and being approved. A decision to provide a $50 million credit to Brazil provides one example. According to the Director of the Office of Financial and Development Policy,

Consideration in the Staff Committee showed sharp differences of opinion, with Federal Reserve and Treasury being opposed to a Brazilian credit. State continued to support the credit largely on political grounds. Eximbank strongly favours the credit and Commerce has also supported it.

The National Advisory Council on Financial and Monetary Problems, which had been set up under the terms of the Bretton Woods legislation to
co-ordinate overseas lending, subsequently approved the credit on August 13, 1946, by a 3-1 vote, with the Federal Reserve Board opposing the loan and Treasury abstaining. The support of the State Department thus provided the necessary majority on NAC in this case, and while it is unlikely that State was solely motivated by political considerations, it was a significant factor in its attitude if the memorandum cited can be accepted as accurate.

The provision of economic aid to Saudi Arabia in the post-war period represented a continuation of a policy commenced in the course of the Second World War. During this period, American policy makers came to view Saudi Arabia as a country of particular importance to the United States; first, because it occupied an important position in military supply lines; second, because stability in other parts of the Near East and North Africa was assumed to be connected with stability in Saudi Arabia; and third, as a result of American interests in Saudi oil reserves. The last interest did not arise merely from a concern with the position of the two American companies, Standard Oil and the Texas Company, which had acquired extensive exploration and development rights through a subsidiary, the Arabian American Oil Company. During 1943, the Government had received reports that demands for oil in the post-war period would be greatly enlarged, and that the United States could well be faced in the future with difficulty in securing supplies to meet its economic and military requirements. Policy makers were accordingly keen to secure definite access to Saudi reserves, even if this involved direct operations by the U.S. Government. The Joint Chiefs of Staff recommended on one occasion that the American Government should negotiate its own oil concessions in Saudi Arabia, and attempts were made by the Government to purchase the
stock of the Arabian American Oil Company. 212

The above interest gave rise to two specific objectives. First, the American Government sought to promote close relations with the Saudi Government, and to increase its own influence over that Government. Second, it sought to preserve the stability of the regime of King Ibn Saud. Since the outbreak of war had led to severe financial difficulties in Saudi Arabia, 213 and since the British Government exercised considerable political influence in Saudi Arabia, these aims led the United States into rivalry with Britain, and to involvement in subsidising the Saudi Government's budget.

Technical assistance and a silver loan were provided to Saudi Arabia by the United States in 1942 and 1943, but a larger programme was commenced in 1944, primarily through Lend-Lease. Hull notes in his memoirs that in April of that year:

I outlined the situation to the President ... stating our belief that we should extend additional financial and economic assistance to Saudi Arabia so as to safeguard our national interest in her petroleum resources ... I informed the President that we had now ascertained that the British Government proposed in 1944 to subsidise Saudi Arabia to the extent of nearly $12,000,000, which was approximately six times the value of Lend-Lease aid our Government contemplated extending in 1944.

After citing the activities of the British in the region, Hull noted that

If Saudi Arabia is permitted to lean too heavily upon the British, there is always the danger that the British will request a quid pro quo in oil. To obviate this danger, it is recommended that this Government share the subsidy on an over-all equal basis with the British.

This proposal was approved by Roosevelt, and the British Government
agreed to investigate the possibility of a joint subsidy for Saudi Arabia, assuring the American Government that they had not intended to prejudice U.S. oil rights. A joint supply programme was arranged in July, 1944, though there was no agreement on the separate question of a joint economic and financial mission, since neither Washington nor London was prepared to allow the other party the right to lead it. A joint British-U.S. subsidy programme was continued in 1945, though the British were reluctant to provide aid on the same scale as previously, and accordingly the United States provided a considerable quantity of supplementary assistance in addition to its share of the combined aid programme.

The problem of continuing aid to Saudi Arabia arose in 1945 as a result of doubts as to the future availability of Lend-Lease aid. Eximbank loans were one means then canvassed whereby the United States might continue to subsidise the Saudi budget. Discussion on this question involved both policy makers within the Administration, and selected Senators and Representatives, the latter presumably being consulted in view of the possibility that special legislation might be necessary to make a continued subsidy possible. Summarising the results of one such discussion in a memorandum of May 17, 1945, Acheson noted that:

The Senators agreed that the United States had a vital interest in Saudi Arabia, both in order to prevent internal disturbance and foreign intervention and to protect American national interests in the oil reserves of that country.

They also agreed that some action was necessary to meet the budget deficits of the Saudi Government, but did not want a gift or unsecured loan. This left the alternatives of purchasing oil in the ground,
or providing an Eximbank loan. 216

A decision to extend a $25 million line of credit to Saudi Arabia was made by the Board of Directors of Eximbank at a meeting on January 3, 1946: this followed termination of Lend-Lease as a source of funds from December 31, 1945. Five million dollars of this amount represented a credit for public works and other development projects, and had been promised to the Saudi Government in August, 1945, during the course of a visit to the United States by Prince Faisal. The remainder was connected with the programme designed to subsidise the Saudi Government's budget until oil revenues made the country self sufficient. It was intended that $11 million of the latter amount would advanced in calendar 1946, with smaller quantities in subsequent years as requirements lessened. In determining these amounts, American officials proceeded on the assumption that Britain would not be involved as a major donor. 217

The decision to make available an Eximbank loan was evidently not based on strict commercial criteria. Indeed, some difficulty was anticipated in obtaining repayment of the loan, since the immediate market for Saudi Arabian oil was thought to be limited to countries whose currency might not be readily convertible into dollars. In making this observation, the Director of the Office of Financial and Development Policy noted that "straight dollar loans to Saudi Arabia seemed to be outside the realm of sound banking practice." 218 American objectives in deciding to extend Eximbank aid were, rather, those already identified. Thus the statement mentioned above noted that:

there is general agreement that the national interest in the American oil concessions in Saudi Arabia requires that financial assistance be provided
As it turned out, only $10 million in Eximbank credits were provided, arrangements for the remaining $15 million not being finalised. 220

In China, The United States sought, in 1945 and 1946, to bring about a political accord between the Kuomintang and the Communist Party, apparently concluding that this was the best outcome that could be achieved given the weakness of the former. To this end, a special mission was dispatched to China under General Marshall. The Administration employed promises of economic aid as one means of adding negotiating leverage to General Marshall's mission. Truman, in a letter of December 18, 1945, indicated to a number of departments and agencies that:

all conversations with Chinese officials regarding extension of American economic and financial aid to China [should] be suspended, and ... for the time being no member of your staff [should] engage in conversations with Chinese officials which might encourage the Chinese to hope that this government is contemplating the extension of any type of assistance to China except in accord with the recommendations of General Marshall. 221

A few days earlier, the President had indicated publicly that:

it is in the most vital interest of the United States and all the United Nations that the people of China overlook no opportunity to adjust their internal differences promptly by methods of peaceful negotiation ... [The] United States strongly advocates that ... representatives of major political elements in the country agree upon arrangements which would give those elements a fair and effective representation in the Chinese National Government ... As China moves toward peace and unity along the lines described above, the United States would be prepared to assist the National Government in every
reasonable way to rehabilitate
the country, [and] improve the
agrarian and industrial economy ...

Some small Eximbank credits were provided after Marshall had indicated that he did not wish to use them for bargaining purposes. The much larger amount of $500 million was earmarked for China by Eximbank in March, 1946, following a favourable report of the state of negotiations between the Kuomintang and the Communist Party. Needless to say, the apparent accord of early 1946 did not long continue, and the $500 million was not actually made available. In a statement of December 18, 1946, President Truman noted that

Agreement to extend actual credits for such projects would obviously have to be based upon this Government's policy as announced December 15, 1945. So far this $500 million remains earmarked, but unexpended.

IV. CONCLUSIONS

To conclude: a number of factors account for the provision of significant amounts of economic aid to less developed countries over the period under review. For at least part of the period discussed, there were strong reasons for providing aid as a means of developing markets and outlets for American products. This concern was, to a large extent, a consequence of the Depression and of fears of a new depression following the Second World War. There were also strong foreign policy and defence motives for providing aid, arising principally from the conflict with the Axis powers and the broad nature of American post-war objectives. Third, there was a change in attitudes on the part of American policy makers concerning the effectiveness of aid as a foreign policy instrument. Aid to governments was
thought of, at the outset if the period reviewed, as likely to damage relations rather than improve them in most cases. This attitude had changed by the late thirties. Fourth, the requirements of less developed countries for aid was quite considerable in the period under discussion. This was a consequence of the disruption of economies arising from the Second World War, the sharp decline in private capital flows following the onset of the Depression, and greater interest in industrialisation and economic development in LDCs. Resort to economic aid was encouraged by a shift away from alternative techniques of influencing events in less developed countries. Alternatives no longer favoured included military intervention, the use of customs receiverships, gunboat diplomacy, and measures to facilitate or deny loans from private sources. Again, there was a relatively favourable political climate for the emergence of aid: this resulted from increased acceptance of government intervention in the economy, and the way in which economic aid was linked with other issues with broad support. Other trends, for example, increased production and expanded government revenues, increased the capacity of the United States to provide economic aid. In some instances, improved relations between the United States and other less developed countries facilitated the extension of economic aid. Finally, the widespread destruction brought about by the Second World War appears to have given rise to some support for relief measures based on essentially humanitarian considerations.
FOOTNOTES


2. Two Export-Import Banks were established, though they were in fact controlled and staffed by the same persons, and were to be merged in 1936. The First Export-Import Bank was set up in February, 1934, to finance trade with the Soviet Union, which the United States had only recently recognised. However, negotiations between the two countries over a trade agreement broke down, and no loans were made for this purpose. The Second Export-Import Bank was established in March, 1934, to deal with Cuba, its sphere of operations being extended at the end of June to cover all other countries but Russia. See Charles Whittlesay, "Five Years of the Export-Import Bank", *American Economic Review*, Vol. XXIX, 1939, pp.487-489. For details of the lending operations of the Second Export-Import Bank, see *ibid.*, pp. 493-495.

3. Agreements for the provision of Eximbank loans typically noted that the United States could not undertake to supply machinery and equipment in short supply because of wartime requirements. For an example, see the letter of April, 1942, to the Peruvian Minister of Finance and Commerce concerning a $25 million Eximbank loan to finance public works and agricultural, mining and industrial projects. "Secretary of State Hull to the Peruvian Minister of Finance and Commerce (Dasso)", *Documents on American Foreign Relations*, Vol.4, 1941-42, p.372. For a general statement of American policy on the question of restrictions on commodities available to Latin America, see "Export Licensing and Priorities Control. Statement of the Under Secretary of State (Welles) to the Inter-American Financial and Economic Advisory Committee, December 5, 1941", *ibid.*, pp. 386-389.

4. See W. Binning, *The Role of the Export-Import Bank in Inter-American Affairs*: Ph.D. dissertation, University of Notre Dame, 1970, pp.88-89. There was little need for new loans by this time, since the Latin American countries could not effectively utilise the dollars which they had already acquired. Increased purchases arising from the war supply effort, together with the shortages and restrictions on exports to Latin America, meant that the unfavourable foreign exchange position of the South American republics in 1940 had been reversed by 1943, and substantial reserves were accumulating. See R. Hodge, *Lining up Latin America: the United States Attempts to bring about Hemispheric Solidarity: 1939-1941*: Ph.D. dissertation, Michigan State University, 1968, pp. 409-410.

6. See 'Relief in Liberated Areas. Seventh Report of the President to Congress on Lend-Lease operations, December 11, 1942 (excerpt)' *ibid.*, Vol.5, 1942-1943, pp. 264-265. Much of the lend-lease shipments to French North Africa was actually paid for, but this does not affect the point being made here.


9. For details of the credit, see U.S. Department of Commerce, *op.cit.*, pp. 32,37. The quotation is from C. Hull, *op.cit.*, p. 1186. The reasons for the provision of this loan are discussed subsequently.

10. For the announcement of this loan, see *Documents on American Foreign Relations*, Vol.3, 1940-41, pp. 243-244.


13. On civilian supply, see U.S Department of Commerce, *op.cit.*, pp. 38-40. See *ibid.*, p.46, on the Red Cross programme. The United Nations Relief and Rehabilitation Administration will be discussed subsequently.


16. See 'Report to the President from the Under Secretary of State (Stettinius), February 21, 1944', *Documents on American Foreign Relations*, Vol.6, 1943-44, p.483.


18. On the State Department's work under the Act, see the statement of Stettinius cited in footnote 16, pp.483-484. It might be noted that the involvement of the Department in cultural relations was itself of very recent origin, and arose from the same considerations.
which resulted in the provision of technical assistance. The Cultural Relations Division of the State Department was established only in 1938.

19. For details of these appropriations, see *Digest of Appropriations for the Support of the Government of the United States*, 1942, pp. 50-51; 1943, pp.91-92; 1944, pp.72-73; 1945, pp. 76-77.

20. The agency was initially established as the Office for the Coordination of Commercial and Cultural Relations Between the American Republics, as a subordinate body to the Council of National Defense. For the relevant executive order, see *Documents on American Foreign Relations*, Vol.3, 1940-1941, pp. 109-110. For the executive order which replaced the above body by the Office of the Co-ordinator of Inter-American Affairs, see *Department of State Bulletin*, August 2, 1941, pp. 94-95. In March, 1945, the agency was again renamed, becoming the office of Inter-American Affairs. See E. Guerrant, *op.cit.*, p.118.


23. *ibid.*, pp. 481-482.


28. Technically the Fund does not provide a loan, but buys the currency of a member experiencing balance of payments difficulties for a period, providing gold or another currency in exchange. However, the transaction can be regarded as a loan by the I.M.F. to the country concerned.
29. In the case of the World Bank, members were required to pay two percent of the subscription allocated to them in gold or American dollars and eighteen percent in their own currency when required: the remaining eighty percent was not to be paid in, but was to be subject to call if needed to meet defaults or uphold commitments. The total subscription of the United States was fixed at $3175 million, and 635 million dollars was paid in. See Article 2, section 7, and Schedule A of the Articles of Agreement of the World Bank. On the amount paid, see U.S. Overseas Loans and Grants ...: p.166.

In the case of the International Monetary Fund, members were allocated quotas and were to pay 25% of the amount (or 10% of their reserves if this was less) in gold or U.S. dollars, with the balance in their own currency. See Article 3, section 3 of the Articles of Agreement of the International Monetary Fund. On the U.S. quota, see Schedule A of the Articles of Agreement.


31. On the three programmes described below, see ibid., Chapter 2.

32. See D. Acheson, Present at the Creation : p.201.

33. C. Wolf, op.cit., p.16.


36. The above data has been calculated from "Statements of Credits Authorised by the Export-Import Bank from July 1, 1945 to December 31, 1946", and "Statements of Credits from January 1, 1945, to December 31, 1947", in Documents on American Foreign Relations, Vol.8, 1945-46, pp. 640-642; and Vol.9, 1947, pp.438-440. A $100 million credit for the Netherlands Indies, and a further $15 million credit for Saudi Arabia were never formalised, though they appear in the tables mentioned above. Accordingly they have been excluded from the totals given. See Keesing's Contemporary Archives, 1946-48, Vol.6, p. 8914.

37. The prices referred to are farm prices, not wholesale values. See Statistical Abstract of the United States, 1935, Table 651, p.652. While a mild recovery commenced as early as April, 1933, farm cash incomes did not immediately benefit, inasmuch as relatively little grain and cotton was sold at that time. See U.S. Department of Commerce, Bureau of Foreign and Domestic Commerce, Survey of Current Business, Vol.13, 1933, May, No.5, p.5; and July, No.7, p.5.
38. These steps included measures to encourage restriction of production and acreage reduction. For details, see *Keesing's Contemporary Archives*, Vol.1, 1931-34, pp. 680, 694, 926, 915.


40. Undermining Wallace's strategy was evidently not part of the President's design, for he had indicated sympathy with it in discussions early in May. *Ibid.*, p.51.

   In his memoirs, after referring to the Japanese invasion of Manchuria in 1931, and the request of the League of Nations in 1933 that the United States join in specific steps to demonstrate non-recognition of Manchukuo, the then Secretary of State Cordell Hull comments that the "League members were joining together to aid China and the United States kept pace by agreeing to extend $50,000,000 ...". But foreign policy grounds of this kind do not seem to have been important motives for the credit. In a subsequent meeting with the Japanese Ambassador, Hull explained that the United States had "made the credit to aid our price situation at home and had no purposes in mind to affect adversely Japan's affairs", thereby undermining much of the impact the measure might have had as a device for signalling opposition to Japan. It is possible that Hull saw some value in the credit as a device for indicating that the United States was 'keeping pace' with other League members, but this does not seem to have led him to support the measure. According to Blum's rendering of the Morgenthau diaries, the State Department opposed the loan, partly because China was not proceeding to its satisfaction in repaying debts owed to private American citizens, and partly because it was concerned to avoid offending Japan. C. Hull, *op.cit.*, p.274; and J. Blum, *op.cit.*, p.53.

41. Evidence on these points is given subsequently in this chapter.


47. "Address by the Under Secretary of State (Welles) before the Chamber of Commerce of the State of New York, New York City, April 1, 1943" (excerpts), in *Documents on American Foreign Relations*, Vol.5, 1942-43, esp. pp. 610-612.


50. On the need for the above points, see, for example, "Statement of the Secretary of State (Hull), May 19, 1944", p.328. Also "Address by the Under Secretary of State ..., April 1, 1943", p.611-612. D. Acheson, *Morning and Noon*: Houghton Mifflin, 1965, p.274. The latter includes the text of an address which Acheson gave in November, 1939.

51. Table 2 below provides further evidence on this point.

52. On the need to restore foreign investment, see, in particular, the Department of Commerce study cited in footnote 48, pp. 19-20.

53. See D. Green, *op.cit.*, pp. 123-124. Roosevelt did not actually endorse the proposed total, but declared himself satisfied with another major conclusion of the report: namely that the flow of capital would be economically beneficial both to the United States and the recipient.


55. "Address of the Director of the Office of Foreign Relief and Rehabilitation Operations (Lehman) before the Foreign Policy Association, New York City, June 17, 1943", *Documents on American Foreign Relations*, Vol.5, 1942-43, pp. 275-276. Of course, there were a number of other justifications for relief measures.


58. "Statement of Assistant Secretary of State Acheson before the House Committee on Banking and Currency, March 8, 1945" p.527. For details see the relevant section of the Articles of Agreement of the International Monetary Fund, in *Documents on American Foreign Relations*, Vol.6, 1943-44, pp. 338-373. Articles 1, 4 and 8 are of particular relevance. It was understood that a number of members would find it difficult to relinquish exchange controls immediately after the war, and use of such measures was therefore sanctioned in a transition period from the end of World War Two until 1952. See article 14 for details.

59. See Article 5, sections 3 and 5; and other articles such as 15, section 2a. Article 5, section 5 noted that:

> Whenever the Fund is of the opinion that any member is using the resources of the Fund in a manner contrary to the purposes of the Fund, it shall present to the member a report setting forth the views of the Fund and prescribing a suitable time or reply. After presenting such a report to a member, the Fund may limit the use of its resources by the member.

On the subsequent use of policies of leverage adopted by the Fund in its dealings with less developed countries, see Teresa Hayter, *op.cit.*; and Cheryl Payer, "The I.M.F. and the Third World", in S. Weissman, *et al.* (eds.), *op.cit.*, pp.61-72.


61. See "Statement of Assistant Secretary of State Acheson before the House Committee on Banking and Currency, March 8, 1945", pp.527-528.

62. Dean Acheson, *Present at the Creation*: p.84, noted that:

> Keynes and I favoured equitable consideration of both, the criteria being the need for and efficacy of the project rather than the cause of it. White disagreed. The solid weight of the Latin American delegations threw the decision our way.

This decision was embodied in Article 3, section 1a, which referred to use of the resources of the Bank "with equitable consideration to projects for development and projects for reconstruction alike". Equitable consideration in this sense, did not, of course, mean that the volume of funds going to less developed areas would be equivalent to those going to countries subject to devastation during the Second World War.

63. On these justifications, see "Address by the Director of the Office of Relief and Rehabilitation Operations (Lehman) before the Foreign Policy Association, New York City, June 17, 1943", pp. 271-277. For other statements, see "Message of the President to Congress on United States Participation, November 15, 1943", *ibid.*, Vol.6, 1943-44, pp. 294-295; "Letter of Secretary of State (Hull) to the Chairman of the House Foreign Affairs Committee (Bloom), December 7, 1943", *ibid.*, pp.295-296; "Report from the Senate Committee on
Foreign Relations to Accompany H.J. Resolution 192, February 14, 1944" (excerpts), ibid., pp. 296-302. Also see C. Wolf, op.cit., p.15.

64. Useful studies on the involvement of the United States in Cuba in the early thirties are to be found in Bryce Wood, op.cit., Chapter Two; L. Gardner, op.cit., pp. 53-57; David Green, op.cit., pp.13-18. In his memoirs, Hull notes that, a new political relationship was not enough to bring Cuba up to the surface of normality. Economic assistance was needed as well. As one means to help, the President created the Second Export Import Bank to finance exports to Cuba. In May he reduced the tariff rate on Cuban sugar 25 percent ..."

65. Evidence on this point is given below.

66. Cordell Hull had long argued that trade liberalisation and measures to promote prosperity abroad would reduce the risk of war and of political instability. See C. Hull, op.cit., pp. 81, 235, 364-365. See also the text of an address which Dean Acheson gave in November 1939, included in his Morning and Noon: pp.267-275. In his address, Acheson argues that the rise of totalitarian militarist states in Asia and Europe resulted from "the failure of some of the vital mechanisms of the Nineteenth Century World Economy", and advocated certain changes, such as trade liberalisation and international monetary reform as means of avoiding the deteriorating conditions which had been a potent breeder of war in the past.

67. The cases noted below provide evidence on the existence of these beliefs.

68. C. Hull, op.cit., p.332.

69. Examples in the following two paragraphs are drawn heavily from F. Adams, op.cit., Chapter 5.

70. Ibid., pp. 119-120. On Nicaragua and Brazil, see ibid., pp.118-121.

71. Welles is cited in ibid., p.122. On the cases of Brazil in 1936, and Mexico, see ibid., pp. 121-123.

72. Both of these statements are mentioned in the case material in section three of this chapter.

73. Evidence on this point is given in the case material in section three. It will be seen that some qualifications are necessary.

memoirs, Acheson refers to the cotton and transportation credits as part of a bundle of carrots which had been gathered together to support General Marshall's mission by March, 1946. State Department documents indicate that the credits were not actually used by Marshall as an instrument of leverage in his effort to bring about a coalition between the Kuomintang and the Communist Party. Acheson first cleared the credits with Marshall, but the latter indicated in reply that he did not wish to use the credits for bargaining purposes. See Dean Acheson, Present at the Creation: pp. 147-148; "The Acting Secretary of State to the Chargé in China (Robertson), December 24, 1945" in Foreign Relations of the United States, 1945, Vol.7, pp. 1194-1197; "The Chargé in China (Robertson) to the Secretary of State", ibid., p.1204. These communications were received and sent by Marshall, though the titles refer to Robertson.


77. Ibid., pp. 119-120.


79. On this point as it applies to Latin America, see D. Green, op.cit., Chapter One. Concern with economic growth and industrialisation was not absent in much earlier periods in less developed countries. Nor were arguments concerning the need to industrialise to overcome the 'colonial' status of a producer of primary products absent: in Brazil they appeared before 1890. See L. Gordon and E. Grommers, United States Manufacturing Investment in Brazil: Harvard University, 1962, p.2.

80. On the U.S. and Cuba in the nineteen thirties, see the sources cited in footnote 64. U.S. policies in Central America prior to 1930 are discussed in Chapter One.


82. See E. Guerrant, op.cit., p.29.


87. See article three of the first resolution of the Rio Conference in *Documents of American Foreign Relations*, Vol. 4, 1941-42, p.293. Hull did not agree with the decision by Welles to water down the resolution, preferring rather to sacrifice the objective of a unified stance by all of the American republics. See C. Hull, *op. cit.*, pp. 1143-1150.

88. The quote is from Gardner summarising the cable that Welles sent, and is not from the cable itself.


90. The case material on Latin America notes that this was one ground for opposition to the 'cartel' plan for Latin America. See section three of the present chapter.


92. The Export Import Bank was created by Presidential order under the authority of the National Industrial Recovery Act of 1933, and obtained its initial capital from other sections of the U.S. Government (principally the Reconstruction Finance Corporation) rather than from separate Congressional appropriations. The financing of the technical assistance programmes was noted in section one of the dissertation when describing the aid provided.

93. This case is discussed in greater detail in section three of this chapter.


95. On these points, see W. Binning, *op. cit.*, pp. 109-117; and the Senate report cited in footnote 94, pp. 547-548.

96. See W. Binning, *op. cit.*, p.117.

97. The data on government revenue and U.S. trade is in current dollars rather than constant dollars, but the trend in question is clear even without adjustment for changing prices.
98. The citation for this letter is given in footnote 3.


100. U.S. relations with Mexico are discussed in *ibid.*., pp. 24-25, 130-131, 305-313, 359-361, 412-422. On differences between State and Treasury on this issue, see J. Blum, *op.cit.*, pp.493-497.

101. See, for example, Tibor Mende, *From Aid to Recolonisation: Lessons of a Failure*: Harrap, 1973, pp. 29-30. Arndt makes the observation that the same phenomenon was partly responsible for promoting the study of development economics to the status of one of the most written about branches of economics within the space of a few years. See H. Arndt, "Development Economics before 1945", in J. Bhagwatti and R. Eckaus (eds.), *Development and Planning: Essays in Honour of Paul Rosenstein Rodan*: Allen and Unwin, London, 1972, p.24.

102. Chapter One has indicated that some measure of concern for poor nations in Central America was evident early in the century, but there was not, at this early stage, the same degree of concern with questions such as 'world hunger' or the gap between rich and poor nations. For a study of liberal views on these questions during the period under review in this chapter, see Norman Markowitz, *The Rise and Fall of the People's Century: Henry A. Wallace and American Liberalism: 1941-48*: Free Press, 1973, especially pp. 41-43. There were some, even at this stage, who supported the transfer of resources to poor countries on a large scale. Lerner, for example, conceived of appropriating half of the world's increase in per capita income to raise standards in the poorest countries.

103. The Conference was organised by the State Department, apparently at the instigation of President Roosevelt. Acheson declares that he was unable to discover where the idea for such a conference had come from: he was merely informed that the President considered food and agriculture as perhaps man's most fundamental concern, and a good place to begin post-war planning. Hambidge traces the idea for the conference to McDougall, the Australian representative at the international wheat negotiations of 1941 and 1942. McDougall had been an adviser to Stanley Bruce when the latter made his well known speech proposing "a marriage of health and agriculture" to the League Assembly. In Washington in 1942, he had worked with others on a memo outlining plans for an international organisation in the field of food and agriculture, and had subsequently been introduced to the American President by Eleanor Roosevelt: he was thus given an opportunity to outline his ideas. See Dean Acheson, *Present at the Creation*: p.73; G. Hambidge, *op.cit.*, pp. 48-49.

104. As Washington saw it, the actual work of the Conference would focus on these questions. See "Invitation extended by the
Government of the United States to attend the Conference. 
Department of State Release, March 30, 1943", Documents on 

105. On these two points, see C. Hull, op. cit., p.1655. In making these 
last two points, Hull was referring to the international confer­
ences on relief and finance as well as to the Hot Springs Confer­
ence, but they appear to have been particularly significant in 
the latter case. Roosevelt's attitude that food and agriculture 
would be a good place to begin post-war planning has been noted 
in footnote 103.

106. On these points, see G. Hambidge, op. cit., p.53.

107. On the functions of FAO as set out in its constitution, see 
"Constitution of the Food and Agriculture Organisation of the 
United Nations, October 15, 1945", in A Decade of American 
Foreign Policy: Basic Documents: 1941-49: especially Article 
One, p.241. For details of the first authorisation of U.S. 
contributions, see "Joint Resolution Providing for Membership 
of the United States in the Food and Agriculture Organisation 

108. Data is from F. Adams, op. cit., p.150.

109. See C. Hull, op. cit., pp. 495-496. Hull did not at this stage 
advocate increased economic aid as a counter measure, but he did 
seek to convince the German charge in Washington that the policy 
of special trade and financial measures was not in Germany's best 
interest, noting that. "We ourselves can pursue the same course 
is we wish. But it would be like taking opium. It would leave 
this Government worse off in the long run, just as it is leaving 
all the important nations of Europe worse off". Loc. cit.

110. See J. Blum, op. cit., p.526. The memo was initially drafted 
by Harry Dexter White, and was revised at Morgenthau's request 
by White and Oliphant.

111. See Adams, op. cit., pp. 149-150. The State Department deferred 
an opinion on this question. Loc. cit. However, in February, 
1939, the Division of American Republics of the State Department 
declared itself in favour of the extension of reasonable Exim­
bank credits to the governments of Latin America, arguing that 
if the United States provided no assistance, others outside the 
hemisphere might well gain political and economic influence. 
Ibid., pp. 162-163.

112. Cited in ibid., p.154. Also see pp. 151-155.

113. See ibid., pp. 165-166.

114. Data from ibid., p.146.


pp. 24-25. The executive actually proposed a limit of its own,
probably in order to allay strong criticism in Congress over the Bank's recent policies. However, the $100 million limit was thought too restrictive.

117. It was intimated that Eximbank would handle these funds. F. Adams, *op. cit.*, p.170.


120. Noted in F. Adams, *op. cit.*, p.199

121. See W. Langer and S. Gleason, *op. cit.*, p.276. It will be noted subsequently that both Britain and the Empire did increase their purchases from the United States substantially.


123. W. Binning, *op. cit.*, p.44.

124. W. Langer and S. Gleason, *op. cit.*, p.607. While the authors give no documented evidence for this attitude, their work has drawn extensively on American Government documents, and their assessment on this point can presumably be regarded as reliable.

125. See *ibid.*, p.630.


128. On the Rockefeller memo (including the extract cited), and Roosevelt's reaction to it, see *ibid.*, pp. 632-633; and Hodge, *op. cit.*, p.178. On Berle's cartel proposal, see W. Langer and S. Gleason, *op. cit.*, p.631; and Hodge, *op. cit.*, p.176. The memo cited was presented by Rockefeller, and is termed the Rockefeller memo here, but its actual authorship was probably more complex, and had been the subject of some discussion. See the sources referred to above.


130. On this see *ibid.*, pp. 335-342; and W. Binning, *op. cit.*, pp.39-44.

131. See W. Langer and S. Gleason, *op. cit.*, p.631. Also Hodge, *op. cit.*, p.177. For a previous instance where use of the Treasury Stabilisation Fund was raised, see *ibid.*, pp. 94-95. Morgenthau was finally persuaded on July 11 to co-operate with respect to use of the Stabilisation Fund, but this was after the decision to approach Congress for the additional Eximbank funds had been made. Morgenthau's decision enabled the United States to make a definite commitment to the Havana Conference regarding additional economic assistance. See *ibid.*, pp. 189-190.
132. See *ibid.*, p.179.


137. The following grounds were not presented in any one document, but have been gleaned from a number of different statements and comments made while the question of additional loans was under discussion. See statements by Welles, Ambassador Messersmith, and the American Ambassador to Uruguay in W. Binning, *op.cit.*, pp. 70, 73-76, 84. Also the comment by Viner noted in Hodge, *op.cit.*, p.94. And C. Hull, *op.cit.*, p.828.

138. It will be noted in a case study which follows on Brazil that expanding exports was used as a justification for new loans. The executive's argument on the benefits of orderly marketing in Latin America for U.S. producers is discussed in greater detail below.

139. For details of the legislation, and the section from which the passage cited is taken, see *Documents on American Foreign Relations*, Vol.3, 1940-41, pp. 548, 550.

140. See 'The Balance of International Payments of the United States in 1940: Summary Prepared by the Finance Division, Department of Commerce, March 29, 1941' in *ibid.*, pp. 519-520.

141. See R. Hodge, *op.cit.*, p.203. In testimony, Jones promised only that the Bank would have an understanding with each borrowing country about the proportion of each loan to be spent in the United States: not that all funds would be tied to American commodities and services. *Ibid.*, p.199.

142. 'Message of the President Regarding Increase in Capital and Lending Power of Export-Import Bank, July 22, 1940', p.549.


144. For a discussion of the reasons for the abandonment of the cartel plan, see R. Hodge, *op.cit.*, pp. 183-188; W. Langer and S. Gleason, *op.cit.*, pp. 634-635.

For an example of Taft's scepticism on this point, see D. Green, op.cit., p.68.


See R. Hodge, op.cit., pp. 204-207; and W. Binning, op.cit., p.70. Welles is cited from the latter source from Foreign Relations of the United States, 1940, p.609.

These grounds are noted in L. Gardner, op.cit., p.130.

David Green offers a different interpretation to that given here, suggesting that the Roosevelt administration's decision to help finance the Brazilian steel project was important because it indicated a readiness to move into certain developmental activities in Latin America even without the stimulus of the Axis threat. There was no chance in 1940 of Brazil's getting German aid for such a project: the whole situation developed, so to speak, through intra-hemispheric stimulus and response.

The memo by Welles indicates that this was not the case. While it is true that much German trade with Latin America had been cut off under the impact of war, American policy makers at this stage thought that there was a reasonable chance that Germany would win in Europe, and as already noted, were concerned at agreements being made between German interests and Latin American governments and firms even where there was no immediate possibility of trade being undertaken. For Green's point, see op.cit., p.45.

See 'Priority for Steel Mill Construction in Brazil: Department of State Release, July 9, 1941', Documents on American Foreign Relations, Vol.4, 1941-1942, pp. 354-356.

The above account of the Cuban credit is drawn from material in D. Green, op.cit., pp.43, 309; and W. Binning, op.cit., pp. 73-75.

The loan is noted in ibid., pp.83-84.


Cited from Ickes to Baruch, July 29, 1942, in Correspondence File, Baruch MS, in D. Green, op.cit., p.105.

On these matters, see E. Guerrant, op.cit., pp. 197-200; and D. Green, op.cit., pp. 104-106.

See E. Briggs, Assistant Chief of the Division of the American Republics in the State Department, 'Loan of Civilian and Technical and Administrative Experts', Documents on American Foreign Relations, Vol.2, 1939-1940, pp. 169,172. Also see 'The Role of the United States in International Cultural Relations: Address by Assistant Secretary Grady', delivered at the Conference of Inter-American Relations in the Field of Publications and Libraries, November 29, 1939, Department of State Bulletin,
December 2, 1939, pp. 614-616.

158. 'Report to the President from the Under Secretary of State (Stettinius), February 21, 1944', Documents on American Foreign Relations, Vol.6, 1943-44, p.484.

159. For the text of the order see ibid., Vol.3, 1940-41, pp.109-110.

160. See Department of State Bulletin, August 2, 1941, pp. 94-95.


162. E. Guerrant, op.cit., p.131, notes these as being among the reasons for the development of the health programme. It might be noted that the Eleventh Pan American Sanitary Conference held at Rio de Janeiro in September, 1942, discussed a number of detailed measures designed, according to a Department of State announcement to 'further the protection of public health on this continent in the interest of defense'. Resolutions adopted special measures to prevent the spread of epidemics, military medical services, and control of such diseases as malaria and yellow fever. The American delegation included representatives from both the Co-ordinator's Office and the Medical Corps of the Army and Navy, but it is not clear whether any of the proposals became part of the Co-ordinator's technical assistance programme in health. See Documents on American Foreign Relations, Vol.5, 1942-43, pp. 409-411.

163. On these instances, see L. Gardner, op.cit., p.70; C. Hull, op.cit., pp. 271-272, 274, 279; A. Young, op.cit., p.226. The description of the Amau doctrine is taken from the latter source.

164. See C. Hull op.cit., p.446. On the background to the U.S. silver policy and its results in China, see A. Young, op.cit., Chapters 8 and 9. In a letter to Morgenthau, Roosevelt indicated that he was not convinced that the policy would be damaging to China in the long run.

I am inclined to believe that the 'money changers' are wrong and that it is better to hasten the crisis in China - to compel the Chinese people to more and more to stand on their own feet without complete dependence on Japan and Europe - than it is to compromise with a situation which is economically unsound and which compromise will only mean the continuation of an unsound position for a generation to come.

Cited in J. Blum, op.cit., p.206. Young also notes this communication, op.cit., p.206. It is likely that this argument represented little more than an attempt to put the best possible face on a policy which had to be carried out for other reasons. Roosevelt had promised in his election campaign to 'do something for silver', and the strength of the silver bloc in the Senate was such that he found it necessary to go along with a strong purchasing policy on domestic grounds. Morgenthau was aware of
the damaging impact the measure was having on China. See, on the foregoing points, J. Blum, *op.cit.*, pp.183, 205-206.

165. See A. Young, *op.cit.*, pp.224-229; and also J. Blum, *op.cit.*, pp. 205-206.

166. See A. Young, *op.cit.*, p.375.


169. On which see J. Blum, *op.cit.*, p.508.


171. See *ibid.*, p.512; and W. Langer and S. Gleason, *op.cit.*, p.44. Hull does not refer to this issue in his memoirs, but his general attitudes on U.S. policy towards China over the period 1937-39 are indicated at a number of other points. See C. Hull, *op.cit.*, pp. 538, 551, 554, 564-565, 570-571, 638-639. The question was not one in which the State Department lined up against Treasury. Within State, Fcis had come round to supporting a loan by September, while in Treasury, Taylor considered the loan inadvisable on the ground that it would amount to support for one belligerent over another. See J. Blum, *op.cit.*, p.512; and F. Adams, *op.cit.*, pp.187-188.

172. See *ibid.*, p.194.


174. On the transfer of the U.S. fleet, see *ibid.*, p.630; and on the notification of the desire to terminate the Treaty of Commerce, see *Documents on American Foreign Relations*, Vol.2, 1938-39, p.244. The general policy of the United States was to keep Japan guessing as to its intentions at this stage. See C. Hull, *op.cit.*, pp. 637-639.


178. See *ibid.*, pp. 914-915; and for the relevant announcements, see *Documents on American Foreign Relations*, Vol.3, 1940-41, pp. 241-244.

179. On these negotiations, see C. Hull, *op.cit.*, Chapters 71-74, 77-79. For the reasons for which the United States entered the discussions, see *ibid.*, pp. 985-986.

181. For the text of the joint resolution, see *Documents on American Foreign Relations*, Vol. 4, 1941-42, p. 537. The required appropriation was made in a joint resolution passed five days later. *Ibid.*, pp. 538-539.

182. The above information is given in a comment in *ibid.*, Vol. 6, 1943-44, p. 481, but the original source is not indicated.

183. See M. Curti and K. Birr, *op.cit.*, Chapter 4. Also the other sources noted in Chapter One, footnote 5, of this dissertation.

184. For correspondence concerning the addition of Liberia, see *Foreign Relations of the United States*, 1938, Vol. ii, pp. 789-792, 797-798. There was some discussion of the possibility of dispatching a geological expert, but the Bureau of Mines was reluctant to agree because of its limited appropriations, and the heavy work load of its officials. See *ibid.*, pp. 798-800.

185. See *ibid.*, 1941, Vol. iii, pp. 532-549. In particular, see 'Secretary of State to the Minister in Liberia, November 8, 1941' pp. 541-542; 'Memo by the Assistant Chief of the Division of Near Eastern Affairs, December 31, 1941', pp. 545-549; 'Secretary of State to the Minister in Liberia, June 21, 1941', pp. 532-533.

186. See 'Memo of the Assistant Chief of the Division of Near Eastern Affairs, December 31, 1941', *ibid.*, pp. 546-547.


188. See *ibid.*, pp. 355-376, especially 'Special Representative of President Roosevelt in Liberia to the President of Liberia, March 31, 1942', pp. 375-376, on the nature of the assistance provided.

189. See 'Memo of Conversation (with Barclay) by the Assistant Chief of the Division of Near Eastern Affairs, June 1, 1943', *ibid.*, 1943, Vol. iv, pp. 662-663.

190. See 'Secretary of State to President Roosevelt, September 4, 1943', *ibid.*, pp. 685-686; and 'President Roosevelt to the Secretary of State, September 14, 1943', in *ibid.*, p. 686. The agreement with Liberia was not signed until December 31, 1943. For the relevant State Department release, see *Documents on American Foreign Relations*, Vol. 6, 1943-44, p. 222.

191. 'Memo of Conversation (with Barclay) by the Assistant Chief of the Division of Near Eastern Affairs, June 1, 1943', *Foreign Relations of the United States*, 1943, Vol. iv, pp. 659-660.

192. 'The President of Liberia to Mr. Harry L. Hopkins, Special Assistant to President Roosevelt, June 21, 1943', in *ibid.*, pp. 679-680.

193. 'President Roosevelt to the Secretary of State, July 3, 1943', *ibid.*, p. 684. The navy was instructed to survey the possible
sites for the facility, but the criteria to be born in mind apparently included both American naval purposes and the economic needs of Liberia. See 'Secretary of State to the Secretary of the Navy', ibid., p.683. In his memoirs, Hull makes no reference to the military value of the proposed port, merely noting in a paragraph referring to the U.S. decision to construct it, and to provide technical assistance, that

We worked out a long range policy towards Liberia designed to lift the standard of living of this traditional godchild of the United States and to strengthen our economic and political ties.

C. Hull, op.cit., p.1186.

194. See 'President Roosevelt to the Secretary of State, September 14, 1943', in ibid., p.686 and U.S. Department of Commerce, Foreign Aid by the United States Government 1940-1951: p.32.

195. See ibid., pp. 674-678.

196. The United States had provided supplies to French North Africa even prior to the invasion, with the aim of inducing the regional authorities to shy away from concessions to the Axis powers, and using its economic mission to gather intelligence and establish useful contacts with the military and civilian bureaucracy. The supplies were, however, paid for by unlocking sufficient French funds from balances held in the United States. See C. Hull, op.cit., pp. 853-854, 951-952, 1161-1162.


198. See 'Message of the President to Congress, November 1, 1943' ibid., Vol.6, 1943-44, p.414. Also see the message by Roosevelt cited in footnote 197, p.265.

199. Loc.cit.

200. Hull refers to a comment which he made to Halifax on December 1942, to the effect that 'The situation behind the lines is as difficult and delicate as it can possibly be'. C. Hull, op.cit., p.1204. Even allowing for the context in which the statement was made (Hull was appealing for Britain to disassociate itself from De Gaulle's attacks on the American policy of co-operating with groups which had previously been closely associated with the Vichy regime), the statement does indicate a concern with the problem of stability in the area.

In his discussion of the importance of Latin American development, Henry Wallace emphasises the significance of U.S. technical assistance. See *Sixty Million Jobs*: p.97.


Stettinius also suggested that the efforts promoted the broader values of peace, democracy, and American security. See "Report to the President from the Under Secretary of State (Stettinius), February 21, 1944", *ibid.*, Vol.6, 1943-44, pp. 485-486.


For communications from the American Ambassador to Paraguay, Beaulac, defending the proposed loan, see: "The Ambassador in Paraguay to the Secretary of State, May 25, 1946", in *Foreign Relations of the United States*, 1946, Vol.11 on the American Republics, pp. 1201-1202; "The Ambassador in Paraguay (Beaulac) to the Secretary of State, September 7, 1946", *loc.cit.*, "Ambassador in Paraguay (Beaulac) to Secretary of State, October 3, 1946", *ibid.*, pp. 1203-1204. For details of a representation by the Paraguayan Chargé, see the memo cited in footnote 208.

On the grounds for Eximbank's decision, see "The Acting Secretary of State to the Ambassador in Paraguay (Beaulac), October 14, 1946", *ibid.*, p.1205. Also, "The Acting Secretary of State to the Ambassador in Paraguay (Beaulac), July 30, 1946", *ibid.*, p.1202.

See "Memorandum of Conversation by Mr. S.D. Dillingham of the Division of River Plate Affairs, September 24, 1946", *ibid.*, p.1203.

See "Memorandum by the Director of the Office of Financial and Development Policy (Ness) to the Assistant Secretary of State for Economic Affairs (Clayton)", in *ibid.*, p.498.

See the editorial note in *loc.cit.*

As it turned out, this particular credit seems not to have been finally authorised in 1946, for policy makers first sought to secure Brazil's compliance with certain conditions attached to an earlier loan by Eximbank. This evidently resulted in the Brazilian Finance Minister declaring that the loan was not needed. See *ibid.*, pp. 496-504 on the background to differences over the earlier credit, and p.504 on the final attitude of the Brazilian Finance Minister. This does not affect the main point being made here.

On the above points, see C. Hull, *op.cit.*, Chapter 110, "The Near East and Oil".

Hull's understanding was that the Saudi Government's financial difficulty arose primarily from the effect of the war in curtailing the traffic of pilgrims in the region. See *ibid.*, p.1511.

215. See the following in *Foreign Relations of the United States*, 1945, Vol. 8, the Near East and Africa. "The British Embassy to the Department of State, April 17, 1945", pp. 875-877; "Department of State to the British Embassy, April 24, 1945", pp. 882-884; "British Embassy to the Department of State, May 16, 1945", pp. 894-895; "The Secretary of State to the Minister in Saudi Arabia (Eddy), July 4, 1945", pp. 918-920. Some policy makers were less than sanguine about continued American involvement in a joint subsidy programme. The Minister in Saudi Arabia indicated that:

I hope we never join in joint subsidy or supply again but instead attach our independent economic aid to our own strings instead of to British apron strings.

See "The Minister in Saudi Arabia (Eddy) to the Secretary of State, July 15, 1945", in ibid., pp. 929-930.

216. See "Memorandum of Conversation by the Assistant Secretary of State (Acheson), May 17, 1945", in ibid., pp. 895-896.

217. On the points in the above paragraph, see "The Secretary of State to the Minister in Saudi Arabia (Eddy), January 4, 1946", ibid., p.999; "The Acting Secretary of State to the Minister in Saudi Arabia (Eddy), December 20, 1945", ibid., pp.981-983; "Memorandum of Conversation by the Assistant Chief of the Division of Financial Affairs (McGuire), November 30, 1945" ibid., pp. 973-975.

218. "Memorandum by the Director of the Office of Financial and Development Policy (Collado) to the President of the Export-Import Bank of Washington (Taylor), October 9, 1945, ibid., p.961.


223. See footnote 74.

CHAPTER THREE

THE GROWTH OF CONCESSIONAL ECONOMIC AID
TO LESS DEVELOPED COUNTRIES:

PART ONE

Over the period 1948-66, there was a substantial increase in the quantity of economic aid provided to less developed countries by the United States. Both this chapter and the following one are concerned with the problem of explaining this increase. While the subsequent chapter deals with surplus agricultural commodity aid, this section examines the growth of concessional economic aid under a variety of other programmes including those administered by the principle U.S. aid agencies.

One possible explanation for the growth of economic aid under the programmes considered in this chapter can be briefly stated as follows. From the mid-fifties onward, American policy makers became increasingly concerned with the danger that internal political change within less developed countries, together with the expanded use of economic aid, trade and other instruments by communist powers, would lead to growing 'communist' influence and control in those regions.* While not absent in the first part of the period under review, concern with this problem had greatly increased by the early sixties, replacing the previous focus on the danger of economic collapse and left

* American policy makers over this period understood 'communist' influence to exist in a number of circumstances where other observers would suggest a different conclusion: hence the use of quotation marks. According to their criteria, the capture of power by radical nationalist movements could be included as communist control.
wing influence in Europe and the possibility of expansion of areas under communist control by use of the conventional military force. Economic aid for less developed countries was accordingly given a new priority in order to meet this challenge.

From a reading of some of the literature on American economic aid, one might suspect that this represents a satisfactory account of the growth of aid. Thus a number of writers have argued that the desire to preserve existing regimes in less developed countries against internal communist challenge and to counter blandishments of the Soviet Union were central objectives of the American economic aid programme during the period under discussion. Accordingly, it might be thought that the expansion of aid to LDCs stemmed from increasing concern with these objectives. Again, this type of explanation is given a great deal of prominence in accounts of the growth of aid in particular regions and countries. In Latin America, for example, the expansion of American economic aid (through the Alliance for Progress and other channels) is frequently attributed to a changed perception as to the vulnerability of the region to radical movements in the aftermath of the Cuban revolution and other political disturbances. Finally, an explanation of the type outlined is given a prominent place in one work which takes up the question of why the United States increased the emphasis on economic aid for LDCs in the late fifties and early sixties.

It will be argued in this chapter that the account sketched above points to one extremely important cause of the growth of concessional economic aid to less developed countries, but that it leaves out a number of other important factors. Before proceeding to this argument, it will be as well to provide a factual basis for the discussion by describing the extent and nature of the increase in aid under discussion.
The increase in aid levels dealt with in this chapter is broadly indicated in the table which follows. The data covers aid provided under a number of different programmes. A major component consists of aid provided through the Agency for International Development (A.I.D.) and predecessor organisations. 'Predecessor agencies' cover a wide variety of agencies, for the aid programme has been characterised by the frequency with which it has been reorganised. The main 'predecessor' agencies over the period under review were:

The *Economic Co-operation Administration* (E.C.A.), 1948-51. Though mainly concerned with European recovery, this provided some aid to less developed countries. In some cases, aid was allocated directly to LDCs, while in other instances, funds were initially made available to European countries and then transferred to their colonies.


The *Technical Co-operation Administration* (T.C.A.), 1950-53. This administered the Point Four programme initiated by President Truman and was separate from the principal aid agency until 1953.

The *Foreign Operations Administration* (F.O.A.), 1953-55. This replaced the Mutual Security Agency and Technical Co-operation Administration.


The *Development Loan Fund* (D.L.F.), 1958-61. This remained outside the principal aid organisation until 1961 when it was absorbed into A.I.D. along with I.C.A.

A separate programme covered by the above data is the Peace
Table 1. Official Development Assistance for Less Developed Areas.

(Data represents commitments in millions of U.S. dollars. Annual averages are given where intervals of longer than one year are taken. Data does not include aid made available through PL480 and related legislation.)

<table>
<thead>
<tr>
<th>Period</th>
<th>Total</th>
<th>of which Security Supporting aid</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949-52</td>
<td>932.5</td>
<td>(71.1)</td>
</tr>
<tr>
<td>(ann.av.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1953-61</td>
<td>1644.8</td>
<td>(849.1)</td>
</tr>
<tr>
<td>(ann.av.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1962-65</td>
<td>2903.9</td>
<td>(578.7)</td>
</tr>
<tr>
<td>(ann.av.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td>3318.1</td>
<td>(904.6)</td>
</tr>
<tr>
<td>1967</td>
<td>3029.6</td>
<td>(772.7)</td>
</tr>
</tbody>
</table>


Data is calculated from figures given for individual regions and countries. 'Less developed areas' for the purposes of this table excludes all but Europe, Canada, Japan, Australian and New Zealand. Aid for Interregional programmes is included.
Figure 1. Changing Levels of American Economic Aid to Less Developed Countries.

(Does not include PL480 aid, which is discussed in the following chapter.)

Source: Table 1.
Corps, established by the Kennedy Administration in 1961. The Peace Corps has been administered by a separate organisation within the Department of State and has provided middle level technical assistance to a number of countries. Its contributions to the totals in Table 1 are not great: thus in 1966, assistance provided through this programme was valued at 113 million dollars, while other economic assistance of the type discussed in this chapter amounted to more than 4000 million dollars.

Contributions to international lending organisations, such as the Inter-American Development Bank, the World Bank and the International Development Association are included in the totals given. Contributions to these organisations have normally been made under special legislation. However, contributions to a number of other U.N. agencies, such as the United Nations Development Programme have usually been made with funds appropriated in the first instance to the principal aid agency (A.I.D. and its predecessors).

Finally, the above data covers a number of special programmes, most of them operating prior to 1953. These include, for example, assistance through the Philippine Rehabilitation Act, Government Relief in Occupied Areas and like programmes.

In general, the above data covers all aid defined in U.S. A.I.D. statistics as 'Official Development Assistance' except for that provided through the Agricultural Trade Development and Assistance Act of 1954 and related legislation. It must be added that U.S. statistics include in 'official development assistance' some aid which is not normally thought of as falling into that category; for this reason, the term 'concessional economic aid' is normally used in this chapter.
Thus U.S. statistics include 'security supporting assistance' as 'Official Development Assistance', but this has generally consisted of aid made available where specific objectives of a political, military or security nature were considered to justify assistance even though the country concerned would not qualify under strict development criteria. Again, direct relief assistance, compensation payments under the Philippine Rehabilitation Act, and other programmes of like nature are included in A.I.D. statistics as 'Official Development Assistance'.

The picture of substantially increased levels of economic aid suggested in Figure One applies even if a more detailed examination is undertaken and allowance is made for changing prices, altered terms on which assistance is made available, and restrictions on the way in which the recipient might use aid. The question of changing prices may be taken first. The data given indicates the current dollar value of aid made available to less developed countries, but in a period of rapid inflation it would be possible for the real value of aid to fall while figures for assistance in current dollars grew steadily. One rough indication of changes in the real value of aid can be obtained by examining the International Monetary Fund index of prices for commodities and services imported by less developed countries. As the table below indicates, the index for LDC import prices fluctuated over the period under review, but showed no marked tendency to increase in the long run. Thus price changes do not affect the conclusion that the totals in Table 1 reflect a real increase in the value of aid made available.

There was a tendency for economic assistance of the type under discussion to be provided on more onerous financial terms over the
Table 2. Import Prices for LDCs, 1948-64

(Index of prices of commodities and services imported by less developed areas. 1958=100.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>110</td>
</tr>
<tr>
<td>1949</td>
<td>...</td>
</tr>
<tr>
<td>1950</td>
<td>90</td>
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<tr>
<td>1951</td>
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<tr>
<td>1952</td>
<td>108</td>
</tr>
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<td>1953</td>
<td>101</td>
</tr>
<tr>
<td>1954</td>
<td>97</td>
</tr>
<tr>
<td>1955</td>
<td>98</td>
</tr>
<tr>
<td>1956</td>
<td>100</td>
</tr>
<tr>
<td>1957</td>
<td>103</td>
</tr>
<tr>
<td>1958</td>
<td>100</td>
</tr>
<tr>
<td>1959</td>
<td>98</td>
</tr>
<tr>
<td>1960</td>
<td>99</td>
</tr>
<tr>
<td>1961</td>
<td>98</td>
</tr>
<tr>
<td>1962</td>
<td>97</td>
</tr>
<tr>
<td>1963</td>
<td>98</td>
</tr>
<tr>
<td>1964</td>
<td>99</td>
</tr>
</tbody>
</table>

period under review. This is reflected in the increasing proportion of 'Official Development Assistance' provided as loans rather than grants. (Table 3) Nevertheless, this was not sufficient to offset the increase in gross aid totals noted in Table 1. Loans provided by the Agency for International Development were on relatively liberal terms. Under the policy adopted during the Kennedy Administration, loans were repayable in dollars, but had maturities of up to forty years with a grace period of up to ten years. The minimum interest rate was only .75% in 1962, but was raised in January, 1964, to an effective 1.7%, and again in October to an effective 2.1% (one percent during the grace period and 2.5 percent for the remainder of the loan). These minimum rates were not markedly out of line with the average terms on which A.I.D. made available assistance: as late as 1968, A.I.D. loans had average maturities of 39.7 years and average interest rates of 2.4%. Calculations (given in the footnotes) which convert loans on approximately these terms to a 'grant equivalent' suggest that there was a significant increase in the value of aid between 1953-61 and 1962-65 despite the more onerous financial terms on which it was provided.

There was, further, a tendency to increasingly 'tie' aid by restricting the opportunity of recipients to make purchases outside the United States. Although a sizable proportion of aid had always been used for purchases within the United States, a rigorous policy of reducing offshore procurement was not initiated until 1959 when the United States began to encounter increasing problems with its balance of payments. Table 4 illustrates the resulting trend in procurement for assistance provided by A.I.D. and its predecessor agencies.

In general, tying aid reduces its value by restricting the
Table 3. Official Development Assistance: Loans and Grants
(The totals given refer to Official Development Assistance provided to all regions, not simply less developed areas. They exclude aid made available through PL480 and related legislation. Figures refer to aid totals for the whole period and are in millions of U.S. dollars.)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>2551</td>
<td>5850</td>
<td>8346</td>
<td>2238</td>
</tr>
<tr>
<td>Grants</td>
<td>16082</td>
<td>18203</td>
<td>8693</td>
<td>2546</td>
</tr>
<tr>
<td>Total</td>
<td>18633</td>
<td>24054</td>
<td>17039</td>
<td>4784</td>
</tr>
<tr>
<td>% Loans in total</td>
<td>14%</td>
<td>24%</td>
<td>49%</td>
<td>47%</td>
</tr>
</tbody>
</table>


* * * * * * * * *

Table 4. A.I.D. Commodity Purchases by Source of Purchase

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>% used for commodity purchases in:</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>a. the United States</td>
<td>b. Offshore Developed Countries</td>
<td>c. Less Developed Countries</td>
<td></td>
</tr>
<tr>
<td>1959</td>
<td>47.4%</td>
<td>42.1%</td>
<td>10.5%</td>
<td></td>
</tr>
<tr>
<td>1960</td>
<td>40.6%</td>
<td>49.4%</td>
<td>10.0%</td>
<td></td>
</tr>
<tr>
<td>1961</td>
<td>44.2%</td>
<td>47.1%</td>
<td>8.8%</td>
<td></td>
</tr>
<tr>
<td>1962</td>
<td>66.3%</td>
<td>15.7%</td>
<td>17.9%</td>
<td></td>
</tr>
<tr>
<td>1963</td>
<td>79.4%</td>
<td>6.7%</td>
<td>13.9%</td>
<td></td>
</tr>
<tr>
<td>1964</td>
<td>86.6%</td>
<td>3.3%</td>
<td>10.1%</td>
<td></td>
</tr>
<tr>
<td>1965</td>
<td>92.1%</td>
<td>1.7%</td>
<td>6.2%</td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td>90.2%</td>
<td>0.9%</td>
<td>8.9%</td>
<td></td>
</tr>
</tbody>
</table>

opportunity of recipients to choose the most economical sources of supply. Increased tying by the United States was not, however, of sufficient importance to outweigh increases in the gross level of assistance. Calculations presented in the footnotes suggest that there was a significant increase in the value of aid even when allowance is made for the combined effect of tying and more onerous financial terms. Tying was probably less effective than the figures on the percentage of commodities purchased in the United States would indicate, for it is possible for recipients to spend a greater proportion of U.S. aid funds on American commodities and use an increased proportion of their own resources for purchases in other countries. It was not until 1967 that the American Government sought to administer the programme so as to ensure that aid funds created additional shipments from the United States.

A further observation arises from breaking down figures of total aid to less developed countries into particular regions and countries. It can be seen from the following table that the expansion of aid was not confined to any one region or country: there were substantial increases in Latin America, Africa, and the Near East and South Asia. Moreover, it is evident that the trends described earlier conceal very different patterns for particular countries, both with respect to the timing and magnitude of increases in the level of aid. In some cases - the Philippines is one instance noted in the table below - aid levels declined.
Table 5. Trends in Official Development Assistance: Particular Regions and Countries.

(data represents millions of U.S. dollars and excludes aid made available through PL480 and related legislation. Annual averages are given for periods of more than one year.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Latin America</th>
<th>Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949-52</td>
<td>24.4</td>
<td>1.3</td>
</tr>
<tr>
<td>1953-61</td>
<td>115.7</td>
<td>95.1</td>
</tr>
<tr>
<td>1962-65</td>
<td>920.6</td>
<td>257.3</td>
</tr>
<tr>
<td>1966</td>
<td>1089.0</td>
<td>211.4</td>
</tr>
<tr>
<td>1967</td>
<td>917.6</td>
<td>230.8</td>
</tr>
</tbody>
</table>

Near East and South Asia

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>of which</th>
<th>India</th>
<th>Pakistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949-52</td>
<td>143.8</td>
<td>62.0</td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>1953-61</td>
<td>492.9</td>
<td>108.8</td>
<td>111.4</td>
<td></td>
</tr>
<tr>
<td>1962-65</td>
<td>888.8</td>
<td>371.2</td>
<td>216.7</td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td>704.0</td>
<td>334.8</td>
<td>127.6</td>
<td></td>
</tr>
<tr>
<td>1967</td>
<td>586.2</td>
<td>217.8</td>
<td>136.7</td>
<td></td>
</tr>
</tbody>
</table>

East Asia

<table>
<thead>
<tr>
<th>Year</th>
<th>Vietnam</th>
<th>Philippines</th>
<th>S. Korea</th>
<th>Taiwan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949-52</td>
<td>455.7</td>
<td>141.0</td>
<td>121.3</td>
<td>116.8</td>
</tr>
<tr>
<td>1953-61</td>
<td>742.5</td>
<td>27.1</td>
<td>251.7</td>
<td>98.0</td>
</tr>
<tr>
<td>1962-65</td>
<td>449.6</td>
<td>25.2</td>
<td>122.8</td>
<td>69.7</td>
</tr>
<tr>
<td>1966</td>
<td>885.2</td>
<td>8.4</td>
<td>147.3</td>
<td>0</td>
</tr>
<tr>
<td>1967</td>
<td>818.1</td>
<td>15.3</td>
<td>116.1</td>
<td>0</td>
</tr>
</tbody>
</table>


Totals for the Near East and South Asia given in the above table do not include Greece, unlike the data in Table 1.
It is clear that the explanation sketched in the introductory remarks to this chapter points to an important factor generating increased economic aid. U.S. officials and Congressmen perceived, in many countries within the Third World, a greater danger from the possibility of increased communist or radical influence through internal political change. Of course, this was not the case in every country. In Malaya and the Philippines, it was generally recognised that the internal threat posed by insurgent forces was much less in the early sixties than it had been previously. But in many areas, as subsequent discussion on particular regions will suggest, there was greater concern.

There were several reasons for this altered perception. First, there were political disturbances, or changes in the perceived strength of communist or radical forces in a number of areas. Mention has already been made of the importance of the Cuban revolution in Latin America, but as will be seen below, there were other political changes and disturbances which underlined the vulnerability of the region to American policy makers. In the Middle East, to cite another example, a succession of changes - the achievement of power by Nasser, the nationalisation of the Suez Canal, the uprising in Lebanon, and the coup in Iraq among them - had the same effect of generating concern that the region would fall to forces much less sympathetic to the United States than those which had previously held power, and which still clung to it in traditionalist regimes as in Jordan and Saudi Arabia.

A second source of increased concern was the change in Communist policy perceived by some American policy makers: a change understood
to involve greater emphasis than hitherto on the use of national liberation wars in less developed countries as a means of expansion. Evidence of this belief can be found in the following statement from President Kennedy.

In 1952, the United States was concerned about Korean type control and invasions with actual military forces. Now, however, we have seen an entirely different concept which the Communists are frankly and generously explaining to us at great length. Mr. Khrushchev's speech in January, he reiterated it .... In Vienna ... the so-called war of liberation which is not the Korean type war, where armed forces of one side pass across en masse the frontier of another country, but instead the seizure of power internally by what he considers the forces of liberation but which are, as we know, in many cases forces which are Communist controlled, and which are supported from outside the country, but which are internal in their operation. It is for these reasons and because of this change in Communist strategy, which they believe offers them the best hope of success, that this work [foreign aid] is more important than it has ever been before.15

Again, following talks with Krushchev in Vienna in 1961, Kennedy reported that the Russian leader was certain that the tide was moving his way, that the revolution of rising peoples would eventually be Communist revolution, and that so-called wars of liberation, supported by the Kremlin would replace the old methods of direct aggression and invasion. 16

Of course, American policy makers had long considered 'subversion' and internal insurgency to be important components of 'communist' strategy. Even after the outbreak of the Korean War, some high level officials considered that the use of this strategy was more probable than conventional invasion in South East Asia. Thus a policy statement by the national Security Council in 1952 argued that while the danger of an overt military attack...
against South east Asia is inherent in
the existence of a hostile and aggressive
Communist China, ... such an attack is
less probable than continued communist
efforts to achieve domination through
subversion.17

The degree of concern with this problem was partly concealed by the
fact that aid provided to a number of countries in the region was
labelled 'defence support' even where its primary purpose was to pro­
mote economic development as a means of strengthening the position of
incumbent regimes.18 But while Kennedy's statement requires qualifi­
cation, it does indicate the belief of a number of American policy
makers of the period that the emphasis of communist strategy had
shifted markedly in the direction indicated, and that greater priority
should therefore be according to the task of preventing internal
challenge to regimes in less developed countries.

Increasing economic difficulties in some countries also contri­
buted to the belief that some areas were more vulnerable to radical
movements than hitherto. As will be seen subsequently, this was the
case in Latin America. In a number of areas (including the Middle East,
discussed later in this chapter), the withdrawal or reduced role of
other Western powers was seen as a development increasing the vulnera­
bility of existing regimes. Finally, there was a belief in the late
fifties and early sixties that the importance of the less developed
countries in terms of U.S. interests was greater than reckoned pre­
viously. Given the existence of a military stalemate between the United
States and the Soviet Union; given the recovery of Europe; it was
considered that there was a greater probability that the outcome of
the Cold War might be decided by the internal course taken by less
developed countries.
In the understanding of many American officials and Congressmen, there was a close connection between the provision of economic aid and the preservation of political stability in less developed countries. Accordingly, concern with the strength of radical and communist movements arising from the above sources tended to generate increased economic aid. Policy makers justified the link between aid and stability on a number of grounds. To begin with, it was held that political instability and the growth of movements of the 'extreme left' were fostered by conditions of poverty, unemployment, ill health and lack of education, and that economic assistance could ameliorate these circumstances, or at least prevent them from deteriorating. Again, it was argued that instability was less probable insofar as people in underdeveloped countries perceived, first, that some improvement was occurring in their living conditions, and second, that there was a reasonable prospect of further improvement in the future within the framework of existing institutions. Economic assistance to the country concerned would, it was held, influence both of these factors. Further, the second belief could be promoted throughout the underdeveloped world as a result of the rapid development of certain 'showcase' recipients. For example, the relative economic and social progress of India and the People's Republic of China would influence attitudes elsewhere. It was also maintained that political extremism and instability were promoted by the stress inherent in the rapid changes occurring in underdeveloped countries, and that the provision of development assistance would help overcome these stresses. Finally, it was suggested that stability required the provision of sufficient external resources to maintain basic government services and economic viability: this consideration was important in the case
of economic aid provided to countries such as South Vietnam, Laos, Jordan and Zaire (formerly the Belgian Congo).

It is not argued that there was any simple relationship between the perception of American policy makers as to the vulnerability of countries to communist movements and the quantity of aid they were willing to make available. The amount of aid was also influenced by other factors such as judgements about the importance of the country to the United States, the capacity of the incumbent regime to use aid effectively, its need for external resources, the capacity of the United States to provide additional aid, and the presence or absence of other interests in providing aid. In some cases, regimes facing a sharp challenge received relatively little economic assistance. This was the position with the Nationalist regime prior to its loss on the mainland of China in 1949. In the understanding of many American policy makers, and especially of those in the executive, the difficulties of the Kuomintang were due to its own corruption, inefficiency and policies rather than to any lack of external resources, and it was thought unlikely that aid would have any marked effect on the situation. But in spite of the absence of any simple relationship between the level of aid and the vulnerability of the country to communist movements, increased concern with the latter problem in less developed countries did tend to generate increased assistance over the period discussed in this chapter.

The growth of economic aid was also promoted by increased activity of the Soviet Union in less developed countries in such fields as aid, trade and diplomacy. After the death of Stalin, the Soviet Union undertook new initiatives towards less developed countries out-
side the communist bloc, embarking on a programme of economic aid, and following up early efforts in this field with much publicised visits by Khrushchev, and Bulganin to India, Burma and Afghanistan in 1955. The scale of economic aid increased quickly in the first years following initiation of the programme, with India, Syria, Afghanistan and Indonesia as major recipients.

There are several reasons for supposing that the trend towards expanded bloc activity in less developed countries had the effect of generating increased American economic aid for the same region. First, it is clear that American policy makers paid close attention to the efforts of the Soviet bloc in this area. The new Soviet policy was the subject of detailed reports almost from its inception. Moreover, policy makers were well aware of the increasing scope of bloc activity. This awareness is illustrated in the figure below which is drawn directly from the summary presentation to Congress of the Act for International Development for fiscal year 1962.

Second, statements from policy makers indicated that bloc efforts were viewed with concern and suggested that the United States should respond with a larger aid effort of its own. Thus the publication referred to in the preceding paragraph noted that:

This large Communist economic and technical effort in the less developed countries is obviously a development of major importance that the United States cannot ignore. It reinforces the need for a major U.S. effort in these countries, bearing in mind, however, that the United States is not merely responding to Communist initiatives but carrying forward a program that has its own importance ... Growing Communist bloc aid to the less developed countries of the non-Communist world offers several dangers to the United States. If any of these countries were to be dependent only on the Communist bloc for its foreign aid,
this would give cause for concern as it could set the stage for a political takeover. The large numbers of bloc aid personnel are an obvious means of extending Communist influence to other countries, even though most bloc personnel have confined themselves to their proper fields of activity. The total effect of the bloc aid effort, together with evidence of achievement by the bloc countries at home, is to enhance the image presented...

Third, policy makers indicated that some loans and grants had been made specifically in order to avoid a situation in which the recipients relied heavily on the Soviet bloc for aid. This was the case, for example, with some programmes in Africa. It was understood that some countries sought additional aid in order to avoid excessive reliance on the former colonial power: by providing aid itself, the United States could reduce the likelihood that the Soviet Union would become a major alternative source of assistance.

Fourth, it has already been seen that the special aid and trade agreements which the Axis powers (especially Germany) concluded with Latin American governments in the late thirties and early forties had the effect of forcing the United States to increase its own loans and grants in the region. In this case, State Department internal correspondence and memoirs (mentioned in Chapter Two) clearly indicate the concern of policy makers that the influence of the Axis powers might be expanded through this technique and make it clear that U.S. loans were frequently made for the specific purpose of preventing increased links between the recipient and the Axis powers.

Having sketched the general reasons for supposing that increased concern with 'communist' influence in less developed countries was important in generating additional American economic aid to the area,
"The Communist effort to win the Underdeveloped World has many phases ..."

<table>
<thead>
<tr>
<th>Year</th>
<th>Bloc Technicians in Less Developed Countries</th>
<th>Free World Students in Bloc Countries</th>
<th>Bloc Trade with Free World Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>1400</td>
<td>433</td>
<td>1.2</td>
</tr>
<tr>
<td>1956</td>
<td>1956</td>
<td>57-58</td>
<td>7.4</td>
</tr>
<tr>
<td>1960</td>
<td>7880</td>
<td>3727</td>
<td>2.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Diplomatic Missions (Resident)</th>
<th>Trade Missions (Resident)</th>
<th>Cultural Delegations</th>
<th>Trade Agreements</th>
<th>Propaganda Broadcasts (hrs./week)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>18</td>
<td>19</td>
<td>87</td>
<td>637</td>
<td></td>
</tr>
<tr>
<td>1960</td>
<td>44</td>
<td>31</td>
<td>38</td>
<td>180</td>
<td>1716</td>
</tr>
<tr>
<td>1955 +23</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

an attempt will be made to examine the impact of this factor in particular regions and countries. In each case, two points must be established: first, that there was increased concern with communist or radical influence of the type under discussion; and second, that this was important in generating increased economic aid.

In Latin America, policy makers had long been concerned with the problem of communist and radical movements, and in some cases—the Bolivian revolution of 1952 and the course taken by the Arbenz regime prior to its ouster in 1954 are examples—it was evidently believed that there was a considerable danger of eventual control by these forces. However, there was a greater depth of concern with this problem from the end of the 1950s as a result of several developments. One change, discussed in greater detail subsequently in this paper, was the increasing economic difficulties faced by some Latin American countries from the mid-fifties: difficulties that were understood by many American policy makers to increase the likelihood of political upheaval. Another was the violent reception which Vice-President Nixon encountered on his tour of Latin America in 1958. In Caracas, Venezuela, the danger to Nixon was considered so great that troops were ordered to Guantanamo Bay and Puerto Rico in case it was necessary to mount a rescue operation. In his memoirs, Eisenhower notes that,

> the events of that week in May, 1958 brought home to us the clear truth that, as the Vice President reported at the end of his trip, 'the threat of Communism in Latin America is greater than ever before'.

More important still was the course taken by the Cuban Revolution in 1959 and 1960. Not only did U.S. officials consider that there was a danger that Castro would act as an agent for 'subversion' on
the continent: there was also the example and inspiration which he provided to revolutionary movements. As Eisenhower notes:

One thing we did know: Fidel Castro was a hero to the masses in many Latin American nations. They saw him as a champion of the downtrodden and the enemy of the privileged who, in most of their countries, controlled both wealth and governments. His crimes and wrongdoings that so repelled the more informed peoples of the continent had little effect on the young, the peons, the underprivileged, and all others who wanted to see the example of revolution followed in their own nations.32

By the time the New Frontier came to assume office, concern among policy makers seemed ever greater: thus a 1961 task force set up by Kennedy concluded that the threat to the United State arising from the attempt of communist forces to "convert the Latin American social revolution into a Marxist attack on the U.S. itself" was more dangerous than the Nazi-Fascist threat of the Roosevelt era.33

A number of considerations suggest that heightened concern with the danger of communism in Latin America was extremely important in generating the very substantial increases in aid identified in Table 5. The timing of the aid increases provides one pointer. American agreement to the creation of the Inter-American Bank followed Nixon's 1958 tour of Latin America.34 Proposals for such an institution had previously been rejected.35 A series of further steps, precursors to the Kennedy Administration's Alliance for Progress, were taken as the Eisenhower Administration came to a clearer appreciation of the challenge posed by Cuba and the need to take action against it: as Eisenhower notes,

On the day I signed the proclamation reducing imports of Cuban sugar, I met with foreign policy advisers to discuss a new aid policy for Latin America.36

These initiatives involved an approach to Congress for approval for a 500 million dollar inter-American fund for social development37: a
promise that additional resources on a large (though still unspecified) scale would be made available in future; and an attempt to induce the Latin American nations through the Bogota Conference to press forward with social and economic reforms. The Kennedy Administration carried this policy a stage further with its "Alliance for Progress" concept, originally announced on March 13, 1961, and formally instituted at the Inter-American Economic and Social Conference at Punta del Este in August of the same year. It was intended that ten billion dollars be provided by the U.S. Government over a decade: this was to include loans from Eximbank, contributions to multilateral organisations, and surplus commodities, as well as assistance provided under the Alliance for Progress section of the A.I.D. programme.

Beyond this, there is direct evidence from statements and memoirs linking concern with communism with the increase in economic aid. Eisenhower's memoirs provide this as far as the initiatives of 1960 are concerned, while for the Kennedy Administration and the views and documents discussed by Schlesinger indicate that the vulnerability of Latin America was a dominant consideration leading to support for the programme within the executive. A view widely held within the Administration was that the economic and social conditions in Latin America, combined with the attempt to exploit this situation by Cuba and the Soviet Union, created a grave threat to U.S. security, and that unless development was accelerated, as it could be by a major economic assistance programme, "new Castros would arise." Similar views were held by policy makers outside the executive. Broadly this justification was given by a number of Senators in the 1963 debates on foreign aid, while the Clay Committee, expressing its support for the Alliance for Progress, noted that the U.S. "cannot allow another Castroite-Communist
In the case of Africa, increased concern with actual or potential communist and radical influence was an important factor (though not the only one) generating the increase in economic aid indicated in Table 5 - from negligible quantities in the period 1949-52 to an annual average of over 300 million dollars for the 1962-65 interval. One change which gave rise to this concern was the emergence of a number of new states in the region in the late fifties and early sixties. As Table 6 indicates, there were only 4 independent states prior to 1955 (including South Africa, but not counting Egypt), but 5 more achieved independence between 1956 and 1959, while 24 new states emerged in the 1960-63 interval. In testimony to Congress on the Foreign Assistance Act for 1962, policy makers from the executive made repeated reference to the stress of change on the continent and to the problem which the limited resources, unrealistic boundaries, strong tribal feelings and absence of national loyalties characteristic of many of the new states posed for their political stability. While it was admitted that no African country had yet been lost to Communism, it was argued that "dangerous inroads have been made in more than one nation", and that a strong aid programme was required to promote conditions more favourable to stability.

The problem of political instability in the newly independent states of Africa was most directly evident in the Belgian Congo (now Zaire), where independence sparked off mutiny from the army, a proclamation of secession from one region, and renewed involvement by Belgium. Concern with the possibility of unilateral Soviet intervention and with the prospect of increased influence for the radical Congolese political leader Lumumba were among factors which prompted American policy makers...
to provide financial and other support through the United Nations and through bilateral agencies. Following the ouster of Lumumba, and the seizure of power by the 'pro-Western' officer Mobutu, it was an important objective of the United States to strengthen this regime by the provision of financial and other support. Zaire was a large recipient of economic aid in the period, obtaining over twenty percent of the amount provided to Africa over the 1962-65 interval.\textsuperscript{47}

In addition, executive spokesmen made reference to the increased activity of the Soviet bloc on the continent. According to Assistant Secretary of State Williams in testimony on the 1962 Act:

During the last two party congresses, they have indicated an interest in penetrating into Africa. If you look at the number of people they have there, they are certainly going about [it] - lumping all of the Communist groups together, roughly they have over 600 diplomats and something over 2000 technicians ... The Soviet opening of credit started very slowly with only about $3 million in 1959. In 1960, it went up to $206 million, 1961 $234 million, and so far this year, 171 million ... All of this hasn't been drawn down, but it does indicate the vigor with which the Soviets are attacking this problem.\textsuperscript{48}

In particular, policy makers were concerned that the desire to escape dependence on the former colonial power would lead African states into reliance on Soviet aid. As Williams pointed out to Congress:

I cannot stress too strongly the significance to the Africans of avoiding economic dependence on the former colonial power. Moderate political leaders are open to severe attack from extremist elements within their countries unless they can demonstrate that they have developed new contacts in the world, as befits an independent nation, and that they are no longer solely dependent on the
Table 6. African States: Dates of Independence

<table>
<thead>
<tr>
<th>States independent prior to 1956:</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethiopia (never colonised)</td>
<td></td>
</tr>
<tr>
<td>S. Africa (independence 1910),</td>
<td></td>
</tr>
<tr>
<td>Liberia (1847), and Libya (1951).</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>States achieving independence between 1956 and 1959.</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghana (1957), Guinea (1958)</td>
<td></td>
</tr>
<tr>
<td>Morocco (1956), Sudan (1956)</td>
<td></td>
</tr>
<tr>
<td>Tunisia (1956).</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>States achieving independence, 1960-63.</th>
<th>24</th>
</tr>
</thead>
<tbody>
<tr>
<td>In 1960: Cameroon, Central African</td>
<td></td>
</tr>
<tr>
<td>Republic, Chad, Congo (Brazzaville),</td>
<td></td>
</tr>
<tr>
<td>Dahomey, Gabon, Ivory Coast, Malagasy</td>
<td></td>
</tr>
<tr>
<td>Republic, Mali, Mauritania, Niger,</td>
<td></td>
</tr>
<tr>
<td>Nigeria, Senegal, Somali Republic,</td>
<td></td>
</tr>
<tr>
<td>Togo, Upper Volta, Zaire, Tanganyika</td>
<td></td>
</tr>
<tr>
<td>(later part of Tanzania).</td>
<td></td>
</tr>
<tr>
<td>1961: Sierra Leone.</td>
<td></td>
</tr>
<tr>
<td>1962: Algeria, Burundi, Rwanda, Uganda.</td>
<td></td>
</tr>
<tr>
<td>1963: Kenya. Also Zanzibar and Pemba,</td>
<td></td>
</tr>
<tr>
<td>later part of Tanzania.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>States achieving independence, 1964-66.</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malawi (1964), Zambia (1964) Gambia (1965)</td>
<td></td>
</tr>
<tr>
<td>Botswana (1966), Lesotho (1966)</td>
<td></td>
</tr>
</tbody>
</table>


The United Arab Republic is considered part of the Near East and is therefore not included in this table. Tanganyika, Zanzibar and Pemba, which later became Tanzania, are counted only once in the above table.
metropole for aid. By providing visible evidence of their change in status to one of sovereign equality, help from the United States makes it easier for the African nations to maintain the close ties with Europe that are in the interest of all of us. 49

In *East Asia*, as already noted, the trend in aid levels differs appreciably from that shown in other regions. The table cited previously shows a high level of aid (in excess of 450 million/annum for the interval 1949-52, and would indicate a higher total if indirect assistance to Vietnam via metropolitan France were included. The Philippines received more in this interval than it did subsequently. Again, the quantity of aid provided to East Asia on average, over 1962-65, was less than that over 1953-61, a consequence principally of reduced requirements in two major recipients, South Korea and Taiwan. 50 Nevertheless, the total for 1966 was higher than annual averages for any of the previous intervals: as the data in Table 5 indicates, this was attributable almost entirely to the enormous jump in aid to South Vietnam as American policy makers escalated support in an attempt to stave off the collapse of the Saigon-based regime. Increased concern with communist insurgency was thus important in helping to generate a high level of aid for this region in 1966.

In *South Asia*, a good deal of the increase in economic aid over the period under review went to India. Pressure to compete with Soviet economic aid was not the dominant factor behind the growth of assistance to India (though it was a major objective of aid to another country in the region - Afghanistan). 51 In India, U.S. aid was much greater than Soviet aid levels, and the latter was not, at least by the 1960s seen as a major threat to American interests. 52 Indeed,
it was suggested by one spokesman for the American executive in 1962 that Soviet aid had the effect of reducing the amount of assistance which the United States had to provide to support India's development. Nor was the growth of aid to India attributable to any direct challenge to the regime from communist parties or other radical movements within the country. The Communist vote at the 1962 election was, at ten percent of the total, no higher than it had been in 1957, and the party was subsequently weakened by rifts arising from the Sino-Indian border war of 1962, the general international Communist schism of the same period, and differences over strategy within its own ranks. Within particular regions, such as Kerala, the party was very strong, but this did not pose any immediate challenge: indeed, in that state, the minority communist government was dismissed in 1959, and an anti-communist alliance was successful in subsequent elections.

What was important in the case of India was the increased attention to development arising from the belief that the outcome of the Cold War might well be decided, not by direct military conflict between the United States and the Soviet Union, but by the long run viability of Western models of development in the Third World. It had been argued by executive spokesmen from the early fifties that India's success or failure in economic development would not only determine whether India remained as a non-communist state, but would also affect the choice between different models of development in other LDCs. But the changing nature of the Cold War added strength to this argument, and seems to have been one of several factors behind the emergence of an increasing number of influential supporters of large-scale assistance to India in Congress and elsewhere in the
In the Near East, American policy makers had been concerned with direct Soviet pressure on Turkey and Iran following World War Two, and the possibility of direct Soviet expansion was partly responsible for the organisation of the Baghdad Pact of 1955. However, the danger that internal political change and Soviet penetration would undermine the Western position in the region only came to the forefront of attention in the mid-1950s. Several factors were important in giving rise to this concern, and each tended to create conditions for larger American efforts in the field of economic aid. One was the emergence of a nationalist reforming government in Egypt. Although Nasser's regime was effectively ruled out as a recipient of American economic aid over the period 1956-58 when it was seen as a major threat to the Western position in the Middle East, its behaviour had the effect of encouraging American support and assistance for more traditional and pro-Western governments faced with challenge from similar forces. Perceptions of Nasser's regime changed appreciably from 1959, but the existence of nationalist regime now had the effect of encouraging aid to Egypt itself as a means of moderating its behaviour and preventing it from falling under the influence of more radical elements.

A second factor was the strength of radical and nationalist movements elsewhere in the region, underlined by an uprising by these forces in Jordan in 1957, by the subsequent seizure of power by pro-Nasser and leftist sections of the Syrian army, by rebellion against the pro-Western leadership of Lebanon in 1958, and by the ouster of the traditional monarch in Iraq by General Kassim (initially believed to be pro-Nasser) in the same year. These developments encouraged
American policy makers to take steps to promote stability in the region. Financial support and economic aid was one means to this objective, though resort was also had to military aid, and, in the case of Lebanon, direct military intervention with American troops.60

The efforts of the Soviet Union and other communist powers in the field of economic and military assistance, trade and the like was a third change of importance: indeed, it was the major arms agreement between Egypt and the Soviet Union of 1955 which was, in Eisenhower's view, "The first evidence of serious Communist penetration in the Middle East".61 The U.S. Government initially sought to prevent Egypt from concluding major aid agreements with the Soviet Union, dispatching a special envoy to the Middle East prior to the arms deal to dissuade Nasser from an arms agreement with the Communists in 1955,62 and attaching, as a condition of American support for the financing of the Aswan Dam, the provision that there should be no 'side deals' between Egypt and the Soviet Union.63 When Egypt emerged as a major recipient of American economic aid in the late fifties and early sixties, the more limited objective of providing some alternative to Soviet aid and thereby moderating Egypt's behaviour was evidently an important consideration.64 It was also an aim of American economic assistance elsewhere in the region - for example in Yemen.65

A fourth factor of importance was the declining capacity of Britain and France to control or shape events in the Middle East. While the position of these countries was already much weakened by the end of the Second World War, it suffered a further decline subsequently - a decline rendered starkly visible by the failure of their joint military intervention after the nationalisation of the Suez
Canal. This contributed, along with other changes already described, to a greater level of U.S. involvement in the region. Indeed, belief that the weakened position of Britain and France had created a 'power vacuum' in the area susceptible to exploitation by the Soviet Union was an important consideration prompting the Eisenhower Doctrine of 1956. While a key section of the Doctrine contained a request for Congressional approval for the use of armed force in the Middle East to protect countries from aggression from any nation "controlled by international Communism", it also sought allocation of greater amounts of economic and military assistance to countries in the region as a means of strengthening their 'independence'.

III

The preceding section has suggested the importance of two factors in generating increased aid between 1948 and 1966. However, the growth of aid cannot be adequately understood by reference to these alone. This section and that which follows will examine the impact of a number of other possible causes, and will argue that some were extremely important in prompting additional transfers to LDCs, or in creating the conditions under which this was possible.

One possibility is that changes, independent of those already discussed, encouraged the transfer of additional aid on foreign policy grounds. There is evidence to support this view. Thus some additional assistance was evidently generated as a result of the desire of American policy makers to go some way toward meeting the demands made by LDCs in the United Nations and other international forums.
During the fifties, in particular, the United States came under strong pressure from less developed countries to support the creation of a Special U.N. Fund for Economic Development (SUNFED). Key features of the proposals of Third World countries were that the fund should provide capital assistance (not simply technical aid); that it should be provided on soft terms; and that the recipients should have a significant voice in decision making in the Fund. An arrangement of the kind which operated for the World Bank, where voting strength was weighted according to financial contributions, was considered unacceptable.68

The United States did not agree to proposals of the type described, but the need to provide some concession to the demands of Third World states seems to have been one consideration supporting the establishment of three aid organisations: The International Finance Corporation (created in 1955), a Special Fund for technical assistance within the United Nations (1958), and the International Development Association (1860). There were, of course, other reasons for U.S. support for these agencies.69

Again, the growth of economic aid was supported by the interest of American policy makers in promoting a favourable image of the United States in less developed countries. The use of aid for the purpose pre-dated major initiatives by the Soviet Union in the area of economic aid: indeed, it was one of several arguments for the expansion of the Point Four programme in the early fifties. While increased Soviet aid had the effect of encouraging decision makers to provide additional aid on this ground, there were independent factors at work which tended to have the same effect.

Thus the belief was evidently widespread among policy makers
in the late fifties that previous American contacts with less developed countries had not always operated to generate a favourable image of the United States. Part of this concern can be traced to the publication in late 1958 of the best-selling work, *The Ugly American*, which presented a dark picture of the way in which American servicemen and government officials abroad had damaged the standing of the United States. Mangan notes that approximately one third of the Senate Foreign Relations Committee and a sizable number of representatives on the Committee on Foreign Affairs asked witnesses for their evaluation of the book during the course of Congressional hearings in 1959.

Rather than reducing support for aid, this concern was evidently one of several factors encouraging the development of a new type of aid programme - the Peace Corps. Under this scheme, volunteers, mainly young people, worked in less developed countries in such fields as health, education and community development. Since the Peace Corps workers were volunteers and since they were required to live at the standard of the recipient community, partake in its activities, and avoid the wealthy and isolated community of American diplomats and businessmen, they served as a convenient way of demonstrating that Americans were motivated by altruistic considerations and not simply by the desire for pecuniary advantage. In the assessment of the American Ambassador in Caracas, they:

worked miracles in changing the Venezuelan image of North Americans. Before the Peace Corps, the only Americans the poor Venezuelans ever saw were riding around in Cadillacs. They supposed them all to be rich, selfish, callous, reactionary. The Peace Corps has shown them an entirely different kind of Americans. It is transforming the whole theory they
have of the United States. It would seem that U.S. officials also saw the Peace Corps as a means of demonstrating "understanding" of the United States on more specific points: thus a deliberate attempt was made to recruit negroes for the service, and volunteers were provided with extensive lectures on U.S. institutions and current events, the latter including material on the U.S. civil rights problem, the Cuban invasion, the U-2 affair, the Hungarian Revolution and similar questions.

There were other motives behind the creation of the Peace Corps. Apart from the purpose already described - promoting "a better understanding of the American people on the part of the peoples served" - it was seen as a useful educational experience for young Americans, as a means whereby the American people might gain understanding of other countries, and as a way of promoting the economic development of LDCs. Statements by such supporters of the programme as Kennedy and Reuss also made reference to other grounds. The point of the preceding argument is not to deny these additional considerations, but to indicate that the motive of promoting "understanding of the American people on the part of the peoples served" was an important one, and that the creation of an aid programme with this objective in mind stemmed in part from changes which were independent of those discussed in the second section of this chapter.

It is also possible to account for changes in the level of aid in terms of changing doctrines about the impact of assistance. To some extent, the growth of aid was facilitated by the emergence and growing currency of beliefs and doctrines which were optimistic in their assessment of the way in which large-scale aid could promote economic development abroad. One source of this change was the
burgeoning literature on economic development. The work of academics from the Center for International Studies of the Massachusetts Institute of Technology was particularly important in this respect, for it influenced American policy makers in a number of ways. Max Millikan, Walt Rostow and others from the Center were in contact with a number of government officials; provided testimony to Congressional committees examining foreign aid; circulated written reports to the executive and Congress (including studies for the Special Senate Committee to Study the Foreign Aid Programme in 1957, and for the Senate Foreign Relations Committee in 1960); spoke to interested groups around the country; and published a number of works outlining policies for dealing with the developing world. These included An American Policy in Asia, A Proposal: Key to an Effective Foreign Policy, and The Emerging Nations: Their Growth and U.S. Policy. The last two works represented revised versions of studies initially circulated to American policy makers. Finally, some members of the Center moved into government, and were able to influence policy from this venue. Thus Rostow was appointed Deputy Special Assistant for National Security Affairs by Kennedy, was subsequently Chairman of the Policy Planning Council at the Department of State and U.S. representative on the Inter-American Committee on the Alliance for Progress, and was from 1966-69 Special Assistance for National Security Affairs in the White House.

The importance which the M.I.T. doctrines attached to a high level of American economic aid stemmed partly from a theory of economic history. According to this doctrine, societies, once stirred from an initial state of "traditional economic stagnation", pass through several stages. First, there is a relatively long period during which
the preconditions for economic progress are established. This is followed by a stage of 'take off' "during which the country makes the complex transition to a position where sustained economic growth becomes possible".

In a decade or two the basic structure of the economy and the social and political structure of the society are transformed in such a way that a steady rate of growth can be sustained with a diminishing inflow of capital.

Next comes a period of self-sustained growth - a "long period of regular if fluctuating progress", followed ultimately by the stage of high mass consumption typified in the fifties by the United States.  

The M.I.T. writers placed existing LDCs at different points in relation to the stages described above, and the same countries were sometimes placed in different positions. However, it was accepted that many LDCs were either in the take-off stage or were entering it, even though some, especially in Africa and the Middle East, were still in the early stages of developing the pre-conditions for economic growth.  

In a memo to Kennedy written on March 2, 1961, Rostow argued that:

Barring a catastrophe, it is likely that a good many of the countries in the underdeveloped world will, during the 1960s, either complete the take-off process or be very far advanced in it. To be specific, it should be possible, if we all work hard, for Argentina, Brazil, Columbia, Venezuela, India, the Philippines, Taiwan, Turkey, Greece - and possibly Egypt, Pakistan, Iran, and Iraq - to have attained self-sustaining growth by 1970 ...  

There were several ways in which this doctrine lent itself to the conclusion that a high level of American economic aid was desirable. Since many LDCs were at, or close to, the take-off stage,
their requirements for foreign capital were extremely high. By con­
trast, there was only a limited ability to make effective use of
capital while the preconditions for growth were being established.⁸⁶
Again, capital from outside, at least for countries adopting Western
models of development during the period in question, was crucial.⁸⁷
According to A Proposal:

External capital is required to prepare
countries for the transition to self­sustained long-run economic growth. In
the transition itself external capital
will often make the critical difference
between an upward spiral of economic,
social and political development and
a downward spiral of stagnation and decay.⁸⁸

Finally, the requirement for special sources of capital would be of
limited duration. As countries moved beyond the stage of take-off
into self sustained growth, the need for special government sources
of capital diminished, since,

First, the country is now generating
out of its own rising output the
resources to plow back into its own
capital formation; and second, invest­
ment opportunities are emerging which
compare favourably in profit prospects
with those in other developed countries.
Thus the normal channels of international
capital supply can be relied on to take
over the burden of any net capital inflow
still required. ⁸⁹

The significance of this point was underlined by the authors of
A Proposal.

[It] is essential to note that the proposals
set forth in this paper do not open the
United States up to an endless, open­ended,
world­wide claim on its resources. The
American purpose would be to assist countries
in establishing the preconditions for growth
(mainly through technical assistance) and
to assist them with capital, notably in the
decisive period of transition. The objective
is not to redistribute income as between the
industrialised nations: the objective is to
help the underdeveloped nations into
the stage of self-sustained growth.
When a country has passed the transition,
it should be in a position to operate
on its own with help only from the normal
international capital market institutions.\textsuperscript{90}

It is not argued here that the M.I.T. doctrine was universally
accepted among those concerned with formulating American foreign
policy. However, there is evidence that the theory underlying it be-
came part of the assumed framework of a number of those concerned with
policy making. The language in which it was formulated — take off,
self-sustaining growth, and similar terms — were frequently used in
Congressional hearings and debates.\textsuperscript{91} The same is true of some exe-
cutive statements on foreign aid. To take an example from Kennedy's
1961 message on foreign aid:

\begin{quote}
There exists in the 1960s, a historic
opportunity for a major economic assistance
effort by the free industrialised nations
to move more than half the people of the
less-developed nations into self-sustained
economic growth, while the rest move substant-
tially closer to the day when they, too,
will no longer have to depend on outside
assistance.\textsuperscript{92}
\end{quote}

There is also the point, noted previously, that the M.I.T. writers were
able to communicate their ideas to policy makers in a number of ways,
and were, on occasions, able to directly participate in policy mak-
ing.\textsuperscript{93} It seems likely therefore, that these doctrines facilitated
the growth of economic aid from the United States.

A further source of optimism as to the impact of aid arose
from the experience of the Marshall Plan.\textsuperscript{94} While American policy
makers seem to have distinguished between the conditions existing in
Europe and those in less developed countries, the magnitude of the
difference seems not have been properly understood, and the success
of large scale capital aid in promoting relatively optimistic notions as to what might be achieved in less developed countries. One indication of the lack of recognition of the difficulties facing the United States in LDCs as compared with Western Europe can be found in Kennedy's statement launching the Alliance for Progress.

I propose that the American Republics begin on a vast new 10-year plan for the Americas, a plan to transform the 1960s into a historic decade of democratic progress. ... if our effort is bold enough and determined enough, then the close of this decade will mark the beginning of a new era in the American experience. The living standards of every American family will be on the rise, basic education will be available to all, hunger will be a forgotten experience, the need for massive outside help will have passed, most nations will have entered a period of self-sustaining growth, and, although there will still be much to do, every American Republic will be the master of its own revolution and its own hope and progress.

... if the countries of Latin America are ready to do their part - and I am sure they are - then I believe the United States, for its part, should help provide the resources of a scope and magnitude sufficient to make this bold development plan a success, just as we helped to provide, against nearly equal odds, the resources adequate to help rebuild the economies of Western Europe.95

The targets mentioned in the speech were not attained, as can be seen by taking education as an example. By 1971, only 58 percent of the 5-14 age group were enrolled as primary students in Latin America, compared with the 1960 figure of 46 percent. 36 percent of the 15-19 age group were enrolled as secondary students in 1971, compared with 18 percent in 1960.96 Yet the speech suggests that basic education for all, along with a number of other ambitious objectives, might be achieved by 1970, with slightly better odds than those which faced the United States in its task of European reconstruction. While it is conceivable that U.S. officials sought, in some measure, to
deliberately 'oversell' aid, the fact that such analogies and expectations could be included in speeches suggests that there was a considerable degree of misunderstanding concerning the magnitude of the development task in Latin America and other less developed areas as compared with that which had faced the United States in Western Europe.

A third possibility is that increased requirements for aid on the part of less developed countries contributed to the growth of American economic assistance. As the following discussion will make clear, this writer places a good deal of emphasis on this factor. It is not suggested that the various estimates, summarized in Table 7, of the capital needs of less developed countries show any trend toward increased aid requirements. Such studies have arrived at very different estimates of the needs of LDCs for capital aid, depending on:

a. the targets for economic and social progress adopted;

b. the level of inefficiency in aid utilisation which is considered tolerable. Any rapid expansion of the quantity of aid is likely to lead to inefficient utilisation of funds because of the appearance of a variety of constraints and bottlenecks, such as shortages of administrative and skilled personnel. Estimates on aid requirements normally attempt to keep aid within a limit - the 'absorptive capacity' - beyond which aid programmes would become extremely inefficient;

c. assumptions made in calculating the amount of capital required to achieve the development goals assumed. Two principal methods have been used. One, the savings gap approach, assumes that a certain level of investment is required and attempts to estimate the amount by which domestic savings must be supplemented so that this total may be reached. Under the foreign exchange gap method, import requirements are estimated separately on the basis of various assumptions about the way in which they are related to economic growth and
Table 7. Estimates of Foreign Aid Requirements

1) **Savings Gap Method**

<table>
<thead>
<tr>
<th>Reference Year</th>
<th>Projection target for annual growth in per capita income:</th>
<th>Total and Additional foreign Capital (billions of dollars/annum).</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total Additional.</td>
</tr>
<tr>
<td>A. United Nations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>United Nations (excluding China, Mongolia)</td>
<td>2.0% over 1950-60</td>
<td>14.0 13.0</td>
</tr>
<tr>
<td>1949</td>
<td>&quot; &quot; &quot;</td>
<td>8.5 7.5</td>
</tr>
<tr>
<td>B. Millikan-Rostow</td>
<td>2.0%</td>
<td>6.5 3.5</td>
</tr>
<tr>
<td>C. Tinbergen/EEC</td>
<td>2.0%</td>
<td>7.5 3.5</td>
</tr>
<tr>
<td>D. Hoffman</td>
<td>2.0% over 1960-69</td>
<td>7.0 3.0</td>
</tr>
<tr>
<td>E. Rosenstein-Rodan</td>
<td>1.8% over 1962-66</td>
<td>6.4 2.4</td>
</tr>
<tr>
<td>1966</td>
<td>2.2% over 1967-71</td>
<td>6.4 -</td>
</tr>
<tr>
<td>1971</td>
<td>2.5% over 1971-76</td>
<td>5.0 -</td>
</tr>
</tbody>
</table>

2) **Foreign Exchange Gap Method**

<table>
<thead>
<tr>
<th>Reference Year, and year of projection.</th>
<th>Import Requirements ($ billions)</th>
<th>Foreign Exchange Gap ($ billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. United Nations</td>
<td>1959, 1970</td>
<td>41.0</td>
</tr>
<tr>
<td>B. G. Blau/FAO</td>
<td>1959, 1970</td>
<td>41.0</td>
</tr>
<tr>
<td>C. Balassa/OECD</td>
<td>1960, 1970</td>
<td>38.0</td>
</tr>
<tr>
<td></td>
<td>1960, 1975</td>
<td>48.7</td>
</tr>
</tbody>
</table>

development: estimates are then made of foreign exchange receipts from exports, private capital flows and other sources in order to determine the amount by which these must be supplemented to achieve the given volume of imports. Either method involves a number of imprecise estimates and assumptions and the margin of uncertainty is accordingly large. Normally, the requirements for aid, measured by these methods, have been a good deal larger than actual aid flows at the time.

Here, it will be said that requirements for aid increased if the economy or government policies of the LDC concerned changed in such a way that greater levels of assistance were needed to achieve development programmes. In some cases, the requirements of less developed countries have increased because their development objectives have become more ambitious, calling for substantial increases in imports in order to make possible the expansion of heavy industry or the achievement of higher growth rates. In other instances, aid requirements have increased because of a decline in export earnings, the diversion of an increasing proportion of foreign exchange receipts toward servicing external debt, and the dissipation of previously accumulated foreign exchange reserves.

The cases of India and Latin America illustrate the importance of this factor in giving rise to increased aid. There were several reasons for India's growing aid requirements. Perhaps most important was the growing gap between India's import requirements and its export earnings. As Table 8 shows, India's export earnings toward the end of the period under review were only slightly higher than the levels reached in 1951. On the other hand, import requirements increased substantially, with a particularly large jump occurring in 1956.
Consequently, the trade deficit (the gap between imports and exports) which had averaged less than one billion rupees over 1947-55, was over three billion rupees for every year from 1956-64 and averaged over 4 billion rupees over the same interval. The increased need for imports was partly a consequence of a change in India's development strategy, though other factors, such as increased dependence on imported food, were also important. The First Five Year Plan, covering 1951-56, was modest in its objectives for public and private sector investment, and in its target for economic growth: moreover, it was directed principally toward increasing agricultural production and improving facilities in irrigation, power and transport. The Second Five Year Plan (1956-61) was far more ambitious in terms of goals for economic growth and investment, and there was an appreciable shift in emphasis towards investment in heavy industry. Because of these changes, foreign exchange requirements for the Second Plan were a good deal higher than those for the First Plan. Table 9 indicates the difference between the two five year plans, and notes that the Third Five Year Plan developed further the emphasis established in the Second. 98

Another change which increased India's requirements for aid was one which affected a number of other less developed countries: namely the increased burden of servicing loans and foreign investment made in previous years. For developing countries as a group, service on public debt in the mid-fifties absorbed less than 4% of export earnings: by 1964, this proportion was 12%. 99 Some indication of the way in which this affected India is given by the items 'investment income' and 'loan repayments' in the balance of payments data in Table 8. Over 1949-51 payments on these items averaged less than ¼ billion rupees each year, but for 1962-64, they averaged almost 1.5 billion rupees.
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<td>-615</td>
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<td>-241</td>
<td>-112</td>
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<td>-1128</td>
<td>-1537</td>
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<td>-1144</td>
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<td>of which, U.S. bilateral</td>
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<td>380</td>
<td>569</td>
<td>167</td>
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<td>95</td>
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<td>-280</td>
<td>702</td>
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### India: Balance of Payments

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<tr>
<td>Exports f.o.b.</td>
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<td>6966</td>
<td>5643</td>
<td>6338</td>
<td>6262</td>
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<td>6723</td>
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<td>-5533</td>
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<td>-814</td>
<td>-900</td>
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<td></td>
<td></td>
<td></td>
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<tr>
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<td>483</td>
<td>422</td>
<td>418</td>
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<td>221</td>
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<td>Repayments on loans received</td>
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<td>86</td>
<td>-</td>
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<td>13</td>
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<td><strong>C. Errors and Omissions:</strong></td>
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<td></td>
<td></td>
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<tr>
<td>Total (A through C)</td>
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<td>-2873</td>
<td>-5315</td>
<td>-4329</td>
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<td>-4408</td>
<td>-3880</td>
<td>-4897</td>
<td>-4991</td>
<td>-7124</td>
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<td><strong>D. Economic assistance, other official loans:</strong>&lt;br&gt;of which,</td>
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<td></td>
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<td></td>
<td></td>
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<tr>
<td>U.S. bilateral</td>
<td>456</td>
<td>610</td>
<td>1548</td>
<td>1048</td>
<td>1426</td>
<td>2381</td>
<td>1987</td>
<td>2564</td>
<td>3635</td>
<td>4151</td>
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<td><strong>F. Monetary Movements:</strong></td>
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<td></td>
<td>-481</td>
<td>2042</td>
<td>3059</td>
<td>1265</td>
<td>-574</td>
<td>535</td>
<td>150</td>
<td>832</td>
<td>-372</td>
<td>317</td>
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Data is taken from International Monetary Fund, *Balance of Payments Yearbook*, Vol. 6, 1955; Vol. 11, 1960; Vol. 17, 1966. The arrangement of tables in the source is slightly different for each volume, and accordingly transfers covered by the various items in the above table are not always identical. Figures for 1953 and 1958 are given in more than one volume, and there are small discrepancies. Here, data for 1953 is taken from Volume 6 and that for 1958 from Volume 11.

The breakdown under A, B and E does not include all items, and accordingly the figures do not necessarily add to the total given.

'Investment income' covers interest on private and government debt, as well as dividends and profits remitted abroad. Credit entries include earnings from investments by the Reserve Bank of India and the Indian Government.

For 1947-53, data for item B is taken from two difference sections of the tables in Vol. 6: 'Private Donations and Capital', and 'Miscellaneous official capital and donations'.

Debit items under this heading cover amortization on loans received by the Indian Government. These were large items in the early sixties, totalling 540 million rupees in 1961, 419 million in 1962, 501 million in 1963, and 574 million in 1964. On the credit side, they include repayments on various 'loans' made by the Indian Government, such as payments from the U.K. to India from excess pension funds. Data after 1959 includes repayments by private recipients of loans from the I.B.R.D. and U.S. bilateral sources. These debit items were 77 million rupees in 1960, 99 million in 1961, 123 million in 1962, 84 million in 1963, and 103 million in 1964.

Some monetary movements over 1947-49 are excluded from the above table since they involved special transactions with the United Kingdom, and their inclusion would distort the picture of developments in India's balance of payments. For details, see Vol. 6 of *Balance of Payments Yearbook*.

Data for 1964 is preliminary.
Table 9. India's Plans for Development: 1951-66

<table>
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<tr>
<th></th>
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<tr>
<td><strong>A. Planned and Estimated Investment for the Public and Private Sectors.</strong></td>
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<td></td>
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<tr>
<td><strong>Net investment total: (Rs. crores)</strong></td>
<td>3500 100%</td>
<td>6200 100%</td>
<td>10400 100%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>875 25%</td>
<td>1180 19%</td>
<td>2110 20%</td>
</tr>
<tr>
<td>Big Industry</td>
<td>805 23%</td>
<td>1810 29%</td>
<td>3632 35%</td>
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<tr>
<td>Other industry</td>
<td>175 5%</td>
<td>270 4%</td>
<td>425 4%</td>
</tr>
<tr>
<td>Transport, communication</td>
<td>775 22%</td>
<td>1360 22%</td>
<td>1736 17%</td>
</tr>
<tr>
<td>Other</td>
<td>870 25%</td>
<td>1580 26%</td>
<td>2497 24%</td>
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<tr>
<td><strong>B. Planned Investment in the Public Sector.</strong></td>
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<td></td>
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<tr>
<td><strong>Net investment total: (Rs. crores)</strong></td>
<td>1850</td>
<td>3800</td>
<td>6300</td>
</tr>
<tr>
<td>Agriculture</td>
<td>525</td>
<td>780</td>
<td>1310</td>
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<tr>
<td>Big industry</td>
<td>380</td>
<td>1190</td>
<td>2532</td>
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<tr>
<td>Other industry</td>
<td>25</td>
<td>120</td>
<td>150</td>
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<tr>
<td>Transport, communication</td>
<td>650</td>
<td>1235</td>
<td>1486</td>
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<tr>
<td>Other</td>
<td>270</td>
<td>475</td>
<td>822</td>
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<td><strong>C. Planned rise in national income.</strong></td>
<td></td>
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<td></td>
<td>11.2%</td>
<td>25.0%</td>
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**Exports, Imports and Trade balance: Planned and Achieved.**

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<th>Plan</th>
<th>Actual</th>
<th>Plan</th>
<th>Actual</th>
<th>Plan</th>
<th>Actual</th>
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<td>Exports f.o.b.</td>
<td>2800</td>
<td>3109</td>
<td>2965</td>
<td>3060</td>
<td>3700</td>
<td>3735</td>
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<td>-6030</td>
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<tr>
<td>Trade Balance</td>
<td>-1000</td>
<td>-542</td>
<td>-1375</td>
<td>-2340</td>
<td>-2650</td>
<td>-2295</td>
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</table>

India's requirements for aid also increased because of the exhaustion of foreign exchange reserves accumulated during the Second World War. At the beginning of the First Five Year Plan (1951), India's sterling balances exceeded 9 billion rupees. The data on monetary movements in Table 8 indicates that relatively little stress was placed on these reserves during the period of the First Plan. However, they were run down rapidly during the course of the Second Plan. Indeed, in 1956 and 1957, drawings on reserves exceeded the level of foreign aid. By 1961, India's sterling balances had declined to 1.36 billion rupees, and it was noted in the Third Five Year Plan that India could no longer finance its development programmes to any significant extent by recourse to this source.

To some extent, the improved prospects for obtaining foreign aid allowed the Indian Government to let the gap between imports and exports widen. Thus the Second Five Year Plan was known at the outset to require a higher level of external financing than its predecessor, and was evidently based on the assumption that donors would be willing to supply the necessary assistance. But increased external financing was not simply a consequence of an improved climate for aid in donor countries. The Indian Government concern to push ahead with a major programme of industrialisation and the other changes described above acted as a spur to the growth of aid from the United States and other countries, and pushed aid to higher levels than would otherwise have been made available. As it turned out, the foreign exchange costs of the Second Five Year Plan were much greater than those initially anticipated, and the resulting foreign exchange crisis from 1956 was important in contributing to the growth of American economic aid.

In the case of Latin America, there was increasing difficulty

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<td>Gross Product (millions of 1960 dollars)</td>
<td>48254 6168 81610</td>
<td>84458 86150</td>
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<tr>
<td>Volume of exports and tourist income (millions of 1960 dollars)</td>
<td>5923 6895 8676</td>
<td>8972 9788 10137</td>
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<td>Volume of exports and tourist income as a percentage of gross domestic product</td>
<td>12.3 11.2 11.2</td>
<td>11.0 11.6 11.8</td>
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<tr>
<td>Terms of trade effect with respect to 1960 (as a percentage of gross domestic product)</td>
<td>2.9 1.7 -</td>
<td>0.1 -0.6 -0.3</td>
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<td></td>
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<tr>
<td>Imports of goods and services as a percentage of gross domestic product</td>
<td>12.4 11.7 11.1</td>
<td>10.9 10.5 10.1</td>
<td></td>
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</table>

Terms of Trade Effect:
1) With respect to 1960 | 1279.5 604.6 - | -236.2 |
2) With respect to 1950-54 | -883.5 -1918.0 -2019.5 |

Net autonomous capital inflows: 440.7 1193.9 806.6 789.8

2) Provisional data.
<table>
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<th>Period</th>
<th>Current Revenue</th>
<th>Imports</th>
<th>Financial Servicing</th>
<th>Profits</th>
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<td>1951-55</td>
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<td>-7664.8</td>
<td>-1249.1</td>
<td>-852.1</td>
<td>-83.1</td>
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<th>Errors, Omissions etc.</th>
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<th>Net Gold &amp; Foreign exchange</th>
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<td>Direct investment</td>
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<td>325.3</td>
<td>281.0</td>
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<td>1956-60</td>
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<td>1052.0</td>
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<tr>
<td>1961</td>
<td>2598.8</td>
<td>365.4</td>
<td>1975.1</td>
<td>-570.0</td>
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<td>1962</td>
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<tr>
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<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
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</table>

2) Annual averages.
3) Strictly 'Short and long term assets and net errors and omissions'.
4) Not available.
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### Latin American Countries: Balance of Payments Data, continued

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<th>Period</th>
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<th>Errors(^2) Omissions, etc.</th>
<th>Gross balance of Payments Loans</th>
<th>Net Gold &amp; Foreign Exchange</th>
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<td>Direct investment</td>
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<td>78.5</td>
<td>219.0</td>
<td>-79.6</td>
<td>15.1</td>
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</table>


2) Strictly 'Short and long term assets and net errors and omissions'.

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from the mid-fifties in financing a volume of imports adequate for the development programmes of the countries of the region. Data on the level of imports provides one indication of this. Even with increased assistance, imports for the region as a whole declined as a percentage of gross domestic product. (Table 10) In the case of Argentina, Brazil, Columbia and Uruguay, there was an absolute decline in outlays on imports. (Table 12) Even this level was difficult to finance. It was necessary to reschedule debt payments of the four countries mentioned; and there was heavy recourse to reserves during 1961 and 1962.

There were several reasons for these foreign exchange difficulties. To begin with, receipts from exports and services failed to expand sufficiently. Table 11 indicates that the volume of exports declined slightly as a percentage of gross domestic product, but the decline in export earnings in proportion to GDP was much greater as a result of the marked deterioration in Latin America's terms of trade over the period under review. As indicated, restoration of the terms of trade prevailing in 1950-54 would have increased export earnings by more than two billion dollars per annum over 1961-63; more than twenty percent of imports for the same period, and a good deal more than all government loans under the Alliance for Progress.

Again, the burden of repaying loans and remitting interest and profits increased markedly. During the 1955-1960 interval, a number of the American republics incurred a heavy burden of indebtedness. Because of the absence of large scale economic aid on soft terms, there was extensive resort to credits with relatively short maturities and high interest rates. A major function of early loans under the Alliance for Progress was to refinance the debts built up in the
preceding period. In addition, the debts of several countries were renegotiated. Even so, as Table 11, indicates, profits, interest and loan amortization, which had averaged less than a billion dollars a year over 1951-55, were three times that amount by 1964. Debt servicing and profit remittances increased from 15 percent to more than 25 percent of current foreign exchange earnings over the same period. (Table 13)

Table 13. Latin America: Financial Servicing as a Percentage of Current Foreign Exchange Earnings.

<table>
<thead>
<tr>
<th>Year</th>
<th>Direct Investment Income</th>
<th>External Debt Servicing</th>
<th>Total</th>
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<tr>
<td></td>
<td></td>
<td>Interest</td>
<td>Amortization</td>
</tr>
<tr>
<td>1951-55</td>
<td>10.5</td>
<td>1.2</td>
<td>3.9</td>
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<td>1956-60</td>
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<tr>
<td>1963</td>
<td>9.8</td>
<td>3.4</td>
<td>13.3</td>
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</table>


A further factor which increased the requirements for aid was a decline in the level of private direct investment in evidence in the early 1960s. Table 11 shows that net direct investment was much less over 1961-64 than the average for 1956-60. The more detailed breakdown in Table 12 indicates that much of the decline can be attributed to special circumstances in Venezuela, but there was a fall off in direct investment in many other countries. Finally, outflows
of capital from Latin America increased over the period under review. The magnitude of this trend can be roughly judged from the column in Table 12 dealing with "short and long term assets and net errors and omissions": this increased from negligible quantities over 1951-55 to more than $\frac{1}{2}$ billion/annum for the 1961-64 interval.

Needless to say, increased foreign exchange requirements was only one factor contributing to the growth of aid to the region. Reference has already been made to the importance of events such as the riots which greeted Nixon's tour in the region in 1958 and the Cuban Revolution as immediate causes of the growth of American economic aid. However, the region's increasing requirements encouraged a response which involved large-scale capital assistance. There is direct evidence that American policy makers were aware of the general trends described, and much evidence supports the point that foreign exchange requirements have been taken into account in determining the level of American economic aid to particular countries. It is therefore reasonable to conclude that this was an important cause of the growth of economic aid through the programmes discussed here.

A fourth possibility is that improved relations between the United States and recipients made the transfer of greater amounts of economic aid acceptable. Disagreement between the United States and other recipients over foreign policy issues, or over economic issues such as the nationalisation of American property have not infrequently led to reductions or suspension of economic aid: conversely, one might expect that improved relations would promote a climate more favourable to the provisions of large-scale economic aid.

India is one case where this factor was of some significance. Differences between the United States and India over foreign policy
issues tended to act as a constraint on American economic aid during the early fifties. Even during the severe food shortages of 1951-52, there were delays in the approval of American economic aid, accompanied by criticism of India for its attempts to mediate the Korean War, and its refusal to sell the United States certain strategic materials. India's policy of non-alignment and its alleged friendship for the Soviet bloc were frequent targets of attack by Congressmen during aid hearings.

While there remained many significant foreign policy differences between the United States and India during the late fifties and early sixties, they were evidently considered less important than previously - at least by many policy makers. To some extent, this change can be attributed to a shift in U.S. attitudes towards non-alignment. There were signs during the second Eisenhower Administration that a policy of underlining American disapproval of non-alignment was giving way to a more flexible approach. The Kennedy Administration undertook a number of initiatives to indicate that a non-aligned posture was not a barrier to close co-operation with the United States.

In addition, many officials and Congressmen perceived India to be in closer accord with the United States and its foreign policy objectives following the border clashes with the Chinese People's Republic in 1959 and 1962. Indeed, after the 1962 dispute, the United States provided India with military aid for the first time since the Second World War. These changes tended to make the provision of large scale economic aid more acceptable than it would have been previously.

There was also somewhat less emphasis on differences over 'socialism'. Part of the reason for this lies in changes within the
United States. The Kennedy Administration, less hostile to public ownership than its predecessor, followed the recommendations of its 1961 task force by modifying American policy on aid to projects in the public sector. Previous American policy had been to deny aid to government owned enterprises operating in fields in which private firms could function. Assistance directed to the public sector was generally restricted to projects which were designed to build up the recipient's overall economic infrastructure in areas such as transportation and irrigation. Under Kennedy's Administration, the United States indicated that it was prepared to provide aid to some nationalised industries in Bolivia, and did in fact extend credits to the Bolivian State Mining Corporation. In the case of India, Kennedy indicated willingness to assist India with the construction of a large government owned steel mill at Bokara. The proposal encountered strong opposition in Congress - much of it evidently a result of the fact that the steel mill was to be a state enterprise - and India eventually withdrew its request for assistance. Even so, the fact that it was supported by a number of officials in the executive indicates that there had been some change in attitudes within the U.S. government.

Differences over 'socialism' were also reduced by changes in the Indian Government's policy, which retreated from the bold declaration of the Industrial Policy Resolution of April, 1956, setting forward "the adoption of the socialist pattern of society as the national objective". Since India's attitude to private enterprise was an issue frequently raised during the course of Congressional hearings, it is likely that this change facilitated the growth of American economic aid.
In other instances, too, improved relations encouraged the growth of aid. In Egypt, increased tolerance for non-alignment, and the policy changes introduced by Nasser from 1959 (discussed earlier in this chapter) helped to create a climate in which that country could emerge as a significant aid recipient. There were, of course, instances where relations deteriorated. Under President Goulart, Brazil's foreign policy orientation moved away from close alignment with the United States, its government failed to carry through a stabilisation programme on which American aid was conditioned, American property was nationalised, and the regime was perceived by American policy makers to be increasingly vulnerable to 'leftist' infiltration. There was a marked fall off in American economic aid towards the latter part of Goulart's term. However, the fall off in aid was of relatively short duration, with substantial commitments being made following Goulart's ouster by the military in the first half of 1964.

In Sri Lanka (then Ceylon), economic aid through the Agency for International Development was suspended in 1963 after the government had nationalised facilities owned by two American oil companies. The programme was not resumed until 1965, when agreement was reached between the Ceylonese Government and the companies concerned regarding compensation. In this case, the data shows a decline in the level of economic aid, but since Ceylon was only a small recipient in the first place, the decline was not of very great magnitude.

A fifth possibility is that the growth of aid was promoted by the increased capacity of the United States to provide assistance. In two senses at least, this is true. First, with the economic recovery of most European countries, and consequent decline in the amount of assistance required in that region, the United States was able to
make available increased amounts to less developed countries without increasing total outlays on economic aid. Indeed, as Table 14 indicates, the total amount of economic aid provided declined.

Table 14. Economic Aid to All Regions

Data represents annual averages in millions of U.S. dollars. It excludes aid provided under PL480.

<table>
<thead>
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<th>All Regions</th>
<th>- - - of which</th>
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<td>Europe</td>
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<td>1949–52</td>
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<td>1953–61</td>
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<tr>
<td>1962–65</td>
<td>2831.0</td>
<td>19.5</td>
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</table>


Without the decline in requirements for aid elsewhere, it would have been difficult for policy makers to have increased the amount provided to less developed countries at the same rate. The difficulty of providing for additional aid while there was a substantial programme operating in Europe seems to have been one factor accounting for the relatively small volume of assistance transferred to Asian countries in the early part of the period under review. The Eisenhower Administration was, throughout its term of office, strongly committed to the objectives of restraining public expenditure and avoiding deficit financing, and frequently cited budgetary constraints as a reason for not increasing aid to less developed
countries. It would presumably have been more reluctant to expand aid to LDCs if aid to other regions had continued at a high level.

The growth of aid was also facilitated by the increase in Federal Government revenue over the period under review. Table 15 indicates the extent of this increase: although the data is in current dollars rather than constant dollars, allowance for price changes would not affect the conclusion that there had been a significant expansion. Had the increase in revenue not occurred, budgetary considerations of the type mentioned above would doubtless have acted as a stronger constraint on the expansion of economic aid.

Table 15. U.S. Federal Government Revenue
(figures refer to millions of U.S. dollars)

<table>
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<th></th>
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<tbody>
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<td></td>
<td>71626</td>
<td>81660</td>
<td>101865</td>
<td>109739</td>
<td>115530</td>
<td>117384</td>
<td>123490</td>
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</table>


In one sense at least, the capacity of the United States to provide assistance did not increase. As noted previously, the American balance of payments became a source of increasing concern for policy makers after 1958, and gave rise to measures, such as tying aid to procurement in the United States, which reduced the real value of aid to the recipient.

Sixth: it might be thought possible to account for the growth of economic aid by a shift by the United States away from alternative
methods of dealing with less developed countries, or by reduced expectations about the efficacy of such alternatives. Military assistance is one alternative instrument, for it may be used in several ways to substitute for economic aid. Thus military aid may serve as a means of winning co-operation from LDCs; it may be a means of promoting stability in those regions by directly enlarging the capability of counter-insurgency forces and strengthening the position of groups (such as the military) likely to support the status quo; and it may be used to promote economic development, either through civic action projects, or by freeing for economic development funds which would have been used to purchase military equipment.

Table 16 American Military Aid to Less Developed Countries.

<table>
<thead>
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<th>Region</th>
<th>1949-52</th>
<th>1953-61</th>
<th>1962-65</th>
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</thead>
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<td>Near East and South Asia</td>
<td>149</td>
<td>388</td>
<td>467</td>
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<td>(including Greece)</td>
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<tr>
<td>Latin America</td>
<td>-</td>
<td>49</td>
<td>122</td>
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<td>East Asia (not including Japan or Oceania)</td>
<td>103</td>
<td>580</td>
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<td>Africa</td>
<td>-</td>
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<tr>
<td>Total</td>
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<td>1380</td>
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</table>


The evidence does not support the conclusion that the growth of economic aid occurred because of absolute reductions in military assistance, with reallocation of the funds saved to economic aid. As Table 16 indicates, military aid shipments to less developed countries grew, not only in total, but in each region over the period.
under review. There were indications in the late fifties that many policy makers considered the share of military aid in the total Mutual Security Programme to be excessive, and that American interests would be better served by a more substantial allocation of funds to economic aid. However, this did not lead to a reduction in the level of military aid: its impact was to raise the proportion of economic aid in the increasing total. (As Table 17 indicates, however, the ratio of economic aid to military aid did not reach the figure which had applied over 1949-52.) Even the change between 1953-61 and 1962-65 cannot be entirely attributed to a shift in attitudes regarding the relative effectiveness of military and economic aid. There were many independent factors, of the kind already discussed, which lent themselves to a rapid expansion of economic aid.

Table 17. Ratio of Economic Aid to Military Aid.

<table>
<thead>
<tr>
<th>Year</th>
<th>Economic Aid to LDCs (excluding PL480)</th>
<th>Military Aid to LDCs.</th>
<th>Economic Aid/Military Aid</th>
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<td>1962-65</td>
<td>2903.9</td>
<td>1380.0</td>
<td>2.1</td>
</tr>
</tbody>
</table>


Other economic instruments may also serve as partial substitutes for concessional economic aid. Alternatives of this kind include measures to encourage the flow of private capital; steps to expand export earnings of less developed countries by reducing tariff and
other barriers to their products; and the provision of 'hard' loans of the kind transferred by Eximbank. The growth of economic aid cannot be attributed to any deliberate government policies designed to reduce use of these instruments and substitute economic aid, but policy makers did learn that these alternative instruments were less effective than previously thought. Changing doctrines about the effectiveness of alternative instruments thus helped to facilitate the growth of concessional economic aid.

As far as private capital flows are concerned, American policy makers continuously sought to increase transfers to less developed countries, by underlining the importance of policies to attract private capital, by enacting measures designed to add to the security of private investment, and in other ways. U.S. officials and Congressmen did not lose interest in measures of this kind: indeed, such schemes as the investment guarantee programme were progressively expanded. Nevertheless, many learned that there were limits to the role of private capital in LDCs. Whereas statements early in the period under review had suggested that private capital (in conjunction with trade liberalisation measures, the provision of hard loans and a small measure of grant aid) could meet most of the requirements of LDCs, later views were generally less optimistic. The flow of private capital failed to grow as rapidly as hoped, while flows from the United States declined abruptly after 1957, and were, in 1966, still below the level reached ten years earlier (Table 18.). There were, moreover, problems in reliance on private capital given the increasing indebtedness of many LDCs. Increased awareness of these difficulties led to a more realistic assessment of the possible role of measures to encourage private capital, thus facilitating the growth of
economic aid.

Table 18. Private Capital Flows to Less Developed Countries and Multilateral Agencies from the United States: 1957-68.

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Disbursements (in millions of U.S. dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>2008.7</td>
</tr>
<tr>
<td>1958</td>
<td>1275.0</td>
</tr>
<tr>
<td>1959</td>
<td>954.1</td>
</tr>
<tr>
<td>1960</td>
<td>1042.2</td>
</tr>
<tr>
<td>1961</td>
<td>1101.7</td>
</tr>
<tr>
<td>1962</td>
<td>819.0</td>
</tr>
<tr>
<td>1963</td>
<td>880.0</td>
</tr>
<tr>
<td>1964</td>
<td>1326.0</td>
</tr>
<tr>
<td>1965</td>
<td>1897.5</td>
</tr>
<tr>
<td>1966</td>
<td>1359.9</td>
</tr>
<tr>
<td>1967</td>
<td>1922.4</td>
</tr>
<tr>
<td>1968</td>
<td>2070.7</td>
</tr>
</tbody>
</table>


Similarly, policy makers learned that the other alternatives mentioned above - trade liberalisation and the provision of hard loans - were of more limited effectiveness than had been previously thought. Given the problem of growing indebtedness faced by many LDCs, it was increasingly understood that hard loans of the kind provided by Eximbank would be of limited use unless supplemented by grants and by loans on more concessional terms. As noted previously in this chapter service on public debt for LDCs rose from approximately 4% of export
earnings in the mid-fifties to 12% of export earnings in 1964. U.S. officials did not make absolute reductions in the level of Eximbank lending to LDCs, but they came to appreciate that it would not be possible to provide a very high proportion of funds to most LDCs in the form of hard loans. 131

Again, trade liberalisation proved to be difficult to achieve in practice, given the constraints imposed by domestic economic interests and the policies of other governments. Indeed, there is evidence of increasing restrictions being imposed on imports over the period under review. Between 1950 and 1964, the percentage of imports admitted to the United States on a duty free basis declined from 54.5% to 37.8%, while duties rose from 5.97% of all imports in 1950 to 8.51% of all imports in 1964. 132 These figures apply to imports from all other countries, but it is likely that data on imports from less developed areas would show a similar trend.

IV

The preceding section has suggested six additional factors which were important in explaining the growth of American economic aid to less developed countries. The fourth part of this chapter will examine a further three possible explanations, though it is concluded that they were relatively minor causes of the growth of aid.

The first possibility is that the growth of aid stemmed from changes in the requirements (or perceived requirements) of the domestic economy for raw materials, or for outlets for surplus production. The work of such writers as Magdoff 133 has emphasised the importance
of economic objectives of the kind mentioned in shaping the American economic aid programme: accordingly, it might be thought that changes in the domestic economy would help to account for the growth of aid. It is argued here that this does not provide a satisfactory explanation for the expansion of aid programmes of the type under discussion in this chapter. The emergence of agricultural commodity surpluses was important in bringing about the introduction of the PL480 programme, but this is considered in the following chapter.

The reasons for attributing little weight to this factor can be seen by examining the several possible ways in which changes in the requirements, or perceived requirements, of the American economy might have given rise to increased aid. The growing demand for raw materials might have directly generated increased aid as a means of developing new supplies for the American economy. It has already been seen that aid was used for this purpose during the Second World War, though principally where the raw materials needed were of significance for the war effort. Thus aid was provided to Latin American countries to develop supplies of rubber and to expand the production of critical minerals.

However, it is difficult to attribute much of the change in aid levels over 1949-66 to this factor, except in the indirect sense discussed below. American policy makers placed little emphasis on this in their justifications of aid programmes. There was, for example, little reference in the early sixties to specific cases where programmes of the type being discussed here were used directly to promote the production of critical materials. This was evidently not due to any reluctance to comment on matters of this kind. Other economic objectives were discussed in detail. The summary presentation of the
Act for International Development for Fiscal Year 1962 provided details of American dependence on a number of materials essential to American industry: the implication, however, was that it was important to keep the countries concerned in the orbit of 'free nations', not that economic assistance was being directly employed to increase production. 134

Again, it is difficult to argue that there was a shift towards greater emphasis on special government action to obtain supplies of raw materials from abroad: indeed, in some respects, there was less emphasis. Thus the American Government accorded very high priority to securing stockpiles of strategic raw materials in the early fifties, with funds set aside for this purpose being sharply increased after the outbreak of the Korean War. Stockpile targets at this stage were frequently in excess of the actual amounts held and accordingly there was considerable interest in securing new supplies. 135 This was not without impact on government lending abroad: a number of new loans planned by Eximbank in the early fifties were justified on the ground that they would open up new sources of raw materials. 136 By 1958, however, new and reduced targets for stockpiles had been established, based primarily on the recommendations of a report, Stockpiling for Defense in the Nuclear Age, and in particular on the assumption that any emergency would last three years instead of five. Under the new procedure, the value of stockpiles exceeded the total required, even under 'maximum' objectives. 137 Given reduced interest in acquiring stockpiles, 138 and the difficulties of some mining industries in the United States, the American Government went so far as to impose restrictions on some imports: thus quotas were placed on imports of lead and zinc in 1958, and an excise duty was imposed on copper imports.
in the same year. It was not until 1966 that the lead and zinc import quotas were abolished and the import duty on copper temporarily lifted (along with excises which had been placed on alumina and bauxite imports).

Finally, the available data does not suggest that a high proportion of the programme under discussion here went to the mining sector. Over the period 1958-60, for example, American government agencies (excluding Eximbank) operating in Latin America provided 12.4 million dollars to the mining sector, of which $10.4 million went to Bolivia and the balance to Columbia. One writer has suggested that expanding supplies of raw materials was a primary function of the Point Four programme after 1950, but the evidence does not support this contention. Data on the sectorial allocation of funds in one case, Brazil, which is given as an instance of the use of Point Four to open up mineral supplies, suggests that it can only have been a minor function. Of a total of more than $56 million provided to the end of fiscal year 1961, less than $4.5 million went to "industry mining and labor", whereas more than $40 million went to health, agriculture and public administration.

Increased dependence on materials from LDCs may have contributed to the growth of aid in a more indirect sense by raising the strategic importance of those countries in the eyes of American policy makers. It has already been noted that policy makers were well aware of the way in which the United States depended on imports of raw materials from less developed countries. This was used to support the view that this part of the world was extremely important to the United States and that the United States should keep the countries concerned within the orbit of 'free nations'.
Another possibility is that the growth of aid stemmed from increased emphasis on the objective of developing markets for the United States in less developed countries. One of the advantages of economic aid, in the understanding of many policy makers, was the increase in trade which would result, in the long run, from economic growth in LDCs, and from the exposure of their populations to American products. The benefits arising from this process were evidently thought by many to outweigh the costs of adjusting to greater competition from less developed countries in some areas of industry.

While that served as an argument for aid over the entire period under review, it is difficult to account for the expansion of assistance in terms of greater emphasis on this objective. Towards the end of the Second World War, there was (as noted in Chapter Two) great concern with the problem of securing adequate markets for the United States, so as to avoid the prospect of a new depression in the post-war period. But the performance of the American economy in the fifties was such as to belie gloomy expectations of this sort. There had been short-lived recessions, but no prolonged downturn by the standards of the pre-war period. The statements of American policy makers recognised this point. There was less emphasis on the long term problem of maintaining a high level of activity in the American economy, and on this as a reason for foreign lending. Export promotion became more important when the United States began to encounter problems with its balance of payments from 1958. But these difficulties tended to create pressure to reduce the level of economic aid rather than increase it. The outflow of dollars under aid represented a significant deficit item in the balance of payments, while its benefits in terms of markets might be expected to accrue only in the long term. As already noted,
the U.S. Government found it necessary to increasingly tie aid to procurement in the United States as a means of reducing the outflow of dollars.

It could also be argued that aid was expanded as a means of providing immediate benefits to American industry. And indeed, one justification for economic aid, occasionally used during the period under review, was that it would create employment and prosperity in those industries able to provide goods and services for the programme. But several considerations suggest that this was not a very important factor in the growth of aid of the type being discussed. To begin with, even some of those who made much of the argument conceded that it was not a principal motive. It is also notable that it was not until 1962 that the proportion of aid spent in the United States reached two thirds of the total. Even this figure overstates the benefits to American industry, for it was possible for recipients to use American aid to make purchases in the United States which would have been made through commercial channels in any event. Nor was the policy of progressively tying aid to purchases in the United States introduced to provide benefits to American industry; it arose from concern with the balance of payments. Again, economic aid is of limited effectiveness as a means of stimulating demand or employment. Given the long interval between an aid commitment and the actual expenditure, increases in aid designed to add to demand might well begin to have an impact when restraint was required. Finally, the idea that domestic benefits were extremely important leaves unexplained the degree of hostility to the aid programmes in Congress, and the fight which the executive was forced to put up each year in support of its aid request. Traditionally, programmes with an important
impact on particular sectors of the domestic economy have found strong defenders in Congress.

A second possible explanation of the expansion of economic aid attributes it to a change in values and attitudes within rich countries, resulting in greater emphasis on action to alleviate poverty abroad as an end in itself. There are several possible sources of such a change. Julius Stone attributes it to an increased acceptance of the responsibility of the government to maintain minimum living standards for all its citizens, and the partial diffusion of this domestic 'principle of justice' to other spheres, leading to its application to the poorer regions of the world. In Stone's assessment, this has been the dominant factor behind the growth of economic aid in rich countries. Other possible sources of a change in attitudes of this kind include increased perception of the United States (and other rich countries) as affluent or overdeveloped societies; and increased contact with or knowledge about the depth of poverty in other countries.

The position taken here is that a change of this kind (assuming that it occurred) was not a very significant cause of the growth of aid over the period under review. There are several reasons for taking this view. First, 'humanitarian' considerations of the type described seem to have carried relatively little weight with most of those who have been in effective control of economic aid: accordingly, one would not expect that a change in emphasis on them would account for much of the expansion of economic aid. This is not to say that such aims have been of no significance at all: the fact that appeals have constantly been made to humanitarian sentiments in speeches suggests that they have had some impact. Further, there are
statements by some policy makers which suggest that some aid would have been provided on these grounds alone. But concern with poverty and distress abroad has generally been subordinate to other motives. The statements of many U.S. officials and Congressmen suggest this, but it is also indicated by the allocation of aid. Even where the relief of acute distress has been at issue, political differences and disagreements with the recipient have prevented or delayed the transfer of assistance. Thus the United States withdrew its support for the United Nations Relief and Rehabilitation Agency as relations with the Soviet Union deteriorated. Relief aid which that organisation provided to Eastern Europe was perceived to have the adverse political consequence of strengthening the control of communist regimes in those countries, perhaps adding to the resources of the Soviet Union itself. Famine in communist countries perceived to be hostile (for example the Chinese People's Republic in the early sixties) has not given rise to the transfer of aid, while foreign policy differences with India in the early fifties delayed agreement on the provision of aid to overcome severe food shortages. The relatively weak role of the general concern to alleviate poverty as an end in itself is also evident in the allocation of other types of assistance: thus countries such as Taiwan, South Korea and South Vietnam have at one time or another absorbed a very large share of the aid programme for foreign policy reasons.

A further point is that it is difficult to obtain any direct evidence that a shift in values and attitudes of the kind mentioned occurred. To this writer's knowledge, no attempt has been made to assess the weight accorded to such humanitarian considerations, and the way this has changed over time: in any case, the problems involved
in such an enterprise are formidable. Appeals to a moral interest in alleviating Third World poverty can be found in frequent use at the beginning of the period under review in the case of programmes such as Point Four, just as they can be found at later intervals. This does not rule out a change in emphasis on these concerns, but it does caution against assuming a change in values without further evidence.

Finally, this explanation is not required to account for the growth of aid. Using other factors mentioned in this chapter, it is possible to give an account of the growth of aid—and an account which explains the different patterns of growth in different regions.

Before proceeding, two possible objections to the above argument must be examined. It might be suggested the increasing emphasis on 'development' as a rationale for aid provides some evidence of changes in values of the kind described and of their importance in shaping the aid programme. While development was always a justification of much aid provided by the United States, it assumed a more central place in the latter part of the period under review. Justification during the first Eisenhower Administration emphasised defence and security: thus the principal legislation under which aid was transferred was titled the Mutual Security Act, and principal categories of aid were 'defence support' and (security) supporting assistance. Under the Kennedy Administration, the main aid organisation was the Agency for International Development, and major aid categories were 'development loans' and 'development grants'. Further, the Administration made an attempt to reduce the amount of aid provided as 'security supporting assistance'. However, this change in emphasis did not mean that concern with poverty in LDCs carried much
greater weight than hitherto. As already noted, policy makers saw political and economic benefits in the development of poor countries; and the change in emphasis can be explained in large part as the product of a new phase of the Cold War, discussed in the second section of this chapter.

The other possible objection is that the preceding account places little emphasis on the importance of general public attitudes to aid. It has been argued above that the allocation of aid, and some of the statements of key policy makers, suggest that 'humanitarian' motives are subordinate to others. But in the case of the general public, it might be said, this is not so. While the opinions of the general public may have had little influence on the allocation of aid among recipients, a shift in its values along the lines indicated may have been necessary for the growth of aid.

Now it does not appear to be true that humanitarian considerations have played a more important part in the minds of those of the general public supporting aid than they have with many Congressmen and decision makers within the executive. But there is little evidence of a shift in public attitudes in favour of higher levels of aid over the period under review. There seems to have been some increase in support for the general principle of providing aid, but this does not necessarily imply that the public was more willing to support larger amounts of aid. In 1959, when asked, "Do you think there is anything for which the government should be spending less money than it is at present?", 17% of respondents mentioned foreign aid. Asked in 1963, "Can you think of anything which the government spends too much money on?", 41% gave foreign aid in response. While the second reply was doubtless affected by the
strong criticism levelled at the amount of economic aid during the year, \(^{158}\) it is sufficient to cast doubt on the argument that a change in public attitudes had the effect of promoting support for increased levels of economic assistance. In any event, existing studies indicate that the connection between public opinion on economic aid, and the voting patterns and decisions of those most likely to be influenced by such considerations - Congressmen - is at best highly tenuous. \(^{159}\)

A third possibility is that the growth of economic aid can be partly explained as a product of increased amounts made available for direct military purposes. 'Direct military objectives' include the acquisition of military bases, the development of supplies of raw materials required for strategic purposes, and the provision of financial support to enable recipients to resist or undertake conventional operations. It has already been seen that increased requirements for raw materials from abroad does not seem to have been a particularly significant factor accounting for the change in aid levels over the period under review; and, indeed, that government concern with obtaining stockpiles of strategic raw material was greater in the early fifties than in the late 1950s and early 1960s. As far as the objective of securing rights to bases is concerned, it is clear that some aid was provided for this. According to one executive statement, $60 million of supporting aid - about 10% of the request for supporting aid - was intended for this purpose in fiscal year 1962, all of it going to less developed countries. \(^{160}\) Even allowing for the possibility that other types of aid were transferred for this reason, the amount involved was not large. It is not entirely clear how much was provided for bases during the early part of the period.
under review, but in some countries, payments for bases did contribute to increasing amounts of aid. In Morocco, the United States initially reached agreement with France regarding the construction of air bases in 1951: however, negligible quantities of assistance were transferred to the country under the Mutual Security Act until after it achieved independence in 1956. The United States then found it necessary to conduct new negotiations with the Moroccan authorities. Though it was forced to evacuate the bases by the end of 1963, some aid transferred to Morocco in the interim seems to have been provided as compensation for continued use of bases by the United States.\textsuperscript{161} To some extent, increases in aid of this type may have been offset by reduced requirements for bases abroad. With the development of long range missiles (ICBMs) and nuclear submarines, the need for bases abroad was somewhat less pressing than before.\textsuperscript{162} In any event, U.S. base requirements were not a very significant cause of the growth of aid between 1948 and 1966.

The desire to enhance the external military capability of recipients (that is their capacity to resist or undertake a conventional invasion across frontiers) contributed to the growth of economic aid early in the period under review, but was not a principal cause of the subsequent expansion of aid. Under the Eisenhower Administration, much economic aid was transferred under the heading of 'defense support' and it was suggested by policy makers that one function of this aid was to maintain adequate forces around the periphery of the Sino-Soviet bloc. In practice, much of this aid was designed to promote economic development rather than to increase the size of the conventional military forces,\textsuperscript{163} but there were cases - South Korea is an example - where the latter objective was important.
Although maintenance of adequate defence forces remained one of the several declared objectives of supporting aid under the Kennedy and Johnson Administrations, it is doubtful if very much of the change in average aid levels between 1953-61 and 1962-65 can be attributed to increased requirements under this heading. In South Korea, support for the military budget remained an important function of U.S. supporting aid, with U.S. assistance providing between one third and one half of the government's budget at the outset of the Kennedy Administration's term of office. But even so, aid levels for 1962-65 were scarcely higher than those prevailing in the 1949-52 interval and were below the average for 1953-61. Military requirements were extremely important in progressively raising the level of economic aid in South Vietnam, but it was the mounting challenge by forces operating within South Vietnam which was the cause of increased aid in this case: not concern with the danger of conventional invasion. Accordingly, this has been discussed in section two of this chapter to illustrate the way in which increased difficulties arising from insurgency in less developed countries generated higher levels of economic aid.

In the case of India, part of the expansion of economic aid after 1962 can probably be attributed to American support for India's defence build up. Following the border clashes with the Chinese People's Republic, the United States provided direct military aid (for the first time in the post-war period): a total of almost $130 million was committed over four years. However, this did not cover the cost of the major build up which the Indian Government launched. In the fiscal 1964 budget, defense spending accounted for more than half of total expenditure and represented a 55%
increase on outlays in the preceding year. As the data on India's balance of payments presented above in Table 8 indicates, there was a substantial rise in disbursements of U.S. economic aid to India at this stage, and it is likely that the expansion of India's defence spending was partly responsible for this. Presumably, an important aim of American policy makers was to insure that the Indian Government's emphasis on defence did not cause it to sacrifice its economic development programmes, but it is likely that the effect of aid in helping India to expand its forces was also considered desirable.

V

To conclude: from the mid-fifties onward, American policy makers became increasingly concerned with the danger that internal political change within less developed countries, together with the expanded use of trade, economic aid, and other instruments by communist powers, would lead to growing 'communist' influence and control in those regions. While not absent initially, concern with this problem greatly increased, replacing the previous focus on the danger of economic collapse and left wing influence in Europe and the possibility of direct military expansion by communist powers. Economic aid for less developed countries was accordingly given a new emphasis in order to meet this challenge.

But this was not the only cause of the growth of concessional economic aid for LDCs. Other changes encouraged the transfer of additional aid on foreign policy grounds. As less aid was required in Europe, and as American government revenue expanded, the capacity of the United States to provide aid increased. The expansion of aid
was also facilitated by the growing currency of doctrines which were optimistic in their assessment of the way in which large scale aid could promote economic development abroad; by increased requirements for aid in many LDCs; by improved relations between the United States and some recipient countries; and by a more pessimistic assessment of alternatives to economic aid.


4. The unpopularity of the programme in Congress has been one reason, though not the only one, for the frequency of reorganisation.

5. The data includes only contributions paid into the organisation. It does not include capital which is not paid in, but which must be made available under certain conditions.


7. The above indicator can be taken only as a rough guide to the impact of price changes. First, it covers all less developed countries, not merely those receiving assistance from the United States. Second, the index chosen, general import prices, is strictly appropriate only insofar as aid is completely untied. Where this is the case, funds provided represent an addition to the overall purchasing power of the recipient, and alterations in their value are determined by changes in the prices of the entire import bill which they help to finance. But where aid is tied to procurement in the donor, or where other restrictions are placed on its use, the funds are no longer simply an addition to the general purchasing power of the recipient, but to its power to purchase particular products from specific sources. Price changes for this limited range of products may be quite different from that of a country's overall import bill. American aid was increasingly tied over the period under review, and to this extent the index used is unsuitable."
the fifth chapter of this dissertation, where the decline of aid is covered, an index developed by the Development Assistance Committee taking account of price changes in commodities provided under U.S. development assistance programmes is employed, but an index of this kind is not available for the entire period covered in this chapter.

8. 'Financial terms' include the amount made available as loans as opposed to that provided as grants; and, in the case of loans, the period of repayment, interest rates, and similar information.


10. For the calculations mentioned, see footnote 12.


12. The following calculation indicates that the annual average level of aid over 1962-65 was higher, from the standpoint of its value to recipients, than that for 1953-61, even when allowance is made for the increasing proportion of loans and the policy of tying aid.

a. For 1962-65, the annual average level of development assistance to LDCs amounted to 2903.9 million dollars (Table 1).

b. For 1962-65, the percentage of all development assistance provided as loans was 49%. This applies to aid provided to all regions, not simply to LDCs, but it will be assumed that the same ratio applied to aid to LDCs.

c. It is possible to calculate the grant equivalent of a loan. From the standpoint of the recipient, one can ask: How much of the face value of the loan would have to be set aside and invested to meet the cost of interest and repayments of principal? The remainder constitutes the grant element. To do this, some assumption must be made as to the appropriate rate of interest on funds invested: it is also necessary to know the terms on which the loans are made.

d. Assume that loans over 1962-65 were repayable over 40 years after a 10 year grace period, and that interest (payable during the grace period) was 2%. For the purpose of calculating the grant equivalent, assume that the country could borrow or invest funds at an interest rate of 10% through normal market channels. Given these
assumptions, the grant equivalent of a loan amounts to 73% of its gross value according to tables developed by Ohlin. Since loans were 49% of development assistance the grant equivalent of development aid is 51% + 49% times .73 = 86.77% of its gross value. (For a table of grant equivalents from which the above figure is taken, see G. Ohlin, *Foreign Aid Policies Reconsidered: O.E.C.D.*, 1966, pp. 101-112.)

e. Assume that tying reduced the value of aid to the recipient by 15%. Then the value of aid to the recipient becomes 86.77% times .85 = 73.75% of the gross value of development assistance. The figure of $2903.9 millions is thus equivalent to $2141 million of untied grant aid.

f. For 1953-61, the gross value of official development assistance was 1644.8 million dollars/year. This is well below the figure arrived at in (e).

g. There are two respects in which this calculation fails to indicate the difference in aid levels in the two intervals. First, no attempt has been made to convert the figure for gross development assistance over 1953-61 to its equivalent in terms of untied grant aid. This would reduce its value, since a substantial proportion of aid was made available as loans during this period. Second, there was increasing resort to programme loans rather than project loans under the Kennedy Administration.

Under the latter, assistance is attached to particular projects in the recipient - for example, building a factory or constructing an irrigation system. With programme loans, the aid is provided to the recipient to finance general imports (or imports for a whole sector of the economy). Tying aid to projects is normally understood to reduce its value to the recipient: accordingly, a shift away from emphasis on this type of aid would increase the value of aid.

h. While the above calculation does not take account of the factors mentioned in (g), and while there are a number of simplifying assumptions noted in the course of the analysis, it does suggest that the policies of tying aid to procurement in the United States, and increasing the proportion of loans, did not offset the rise in the gross value of aid.


18. For a careful study of the objectives of such aid up to 1957 in Southern Asia, see Charles Wolf, Foreign Aid: Theory and Practice in Southern Asia: Princeton University Press, 1960. A number of articles by Hans Morgenthau written during this period seem to exaggerate the extent to which the problems of communism in Asia was understood in conventional military terms. See, for example, The Impasse of American Foreign Policy: Vol. 11 of Politics in the Twentieth Century: University of Chicago Press, 1962, pp. 20, 257-258, 284.


25. See Ian Cummins, "Soviet Policies in Asia", in M. Teichmann (ed.), Powers and Policies: Alignments and Realignments in the Indo-Pacific Region: Casell, 1970, pp. 94-96. As Cummins points out, the change in Soviet policy was not simply due to a change in leadership: there were some signs of the new policy prior to Stalin's death. On the latter point, see also W.W. Rostow, The Diffusion of Power: an Essay in Recent History: Macmillan, 1972, p. 15.


29. As noted previously in this chapter, this was one justification for security supporting assistance. Also see speech by Senator Church, Congressional Record, Vol. 109, Part 16, 1963, p. 21219; and "Address by Senator J.F. Kennedy, U.S. Senate, June 14, 1960", Documents on American Foreign Relations, 1960, p. 67.

30. The A.I.D. Administrator, Fowler Hamilton, provided an outline of the increased difficulties of Latin American Countries, and of the way in which he understood this to have contributed to political difficulties in, Foreign Assistance Act of 1962: Hearings before the Committee on Foreign Affairs.


32. Ibid., p. 525.

33. The task force report is cited in A. Schlesinger, Jr., A Thousand Days: John F. Kennedy in the White House: Andre Deutsch, 1965, p. 176. There may have been some concern among policy makers with the more active role of the Soviet Union in seeking economic relations with Latin America in the late fifties, but this seems to have been of relatively little significance by comparison with the events discussed above. On Soviet economic relations, see S. Clissold (ed.), Soviet Relations with Latin America: a Documentary Survey: Oxford University Press, 1970, pp. 23-25.

34. Dillon indicated that the U.S. was prepared to consider the establishment of such an institution in a speech in August, 1958. Documents on American Foreign Relations, 1958, p. 513. (contd.)

35. For details of such proposals, see R. Campos, Reflections on Latin American Development: University of Texas Press, 1967, pp. 124-125. The reaction to Nixon's tour was not the only factor involved in bringing about agreement. For some policy makers, there was evidently a strong case for the institution on other grounds. The pressure from Latin American governments, in particular, the suggestions of Brazil's President for an "Operation Pan American", may also be noted. See ibid., pp.125-127.


37. For Eisenhower's speech proposing the Fund, see "Statement by the President, Newport, July 11, 1960", Documents on American Foreign Relations, 1960, pp. 528-531.


41. Congressional Quarterly Almanac, Vol. XXIII, 1967, p.326. The United States definitely committed itself to provide over one billion dollars in public funds from March 13, 1961 to March 13, 1962, and to make available "a major part of the minimum of twenty billion dollars which the Latin America will require over the next ten years from all external sources ...". "Declaration of the Peoples of America, August 17, 1961". Documents on American Foreign Relations, 1961, pp. 434-435.

42. See A. Schlesinger, op.cit., pp. 168-170, 176-177. For a more tentative conclusion, see the Tragen-Cox memo in Che Guevara, "On Growth and Imperialism", in J. Gerassi (ed.) Venceremos: the Speeches and Writings of Che Guevara: Panther, 1969, pp. 255-261. The memo was addressed to Ambassador Moscoso in Venezuela, and was written by his advisers Cates, Tragen and Cox. The document was stolen by a group of Venezuelan students during a riot, and was read to the Punta del Este Conference by the leader of the Cuban
delegation, Che Guevara. For a comment on the memo, see Gerassi, *The Great Fear in Latin America*: p.259.

43. See the speeches by Senators Morse, Inouye, Humphrey, Church, Williams, for example, *Congressional Record*, Vol. 109, 1963, pp. 20482, 20921, 20925, 21106, 21243.


45. See, for example the statement of Mr. Hutchinson, Assistant A.I.D. Administrator, Bureau of Africa and Europe, in *Foreign Assistance Act of 1962: Hearings*: p. 632.

46. See the statement by G.M. Williams, Assistant Secretary of State for African Affairs, *ibid.*, pp. 618-619, 627.


50. As early as 1962, the Administrator of A.I.D. suggested that the possibility of self sustaining growth was in sight in Taiwan. It was announced in 1965 by President Johnson that A.I.D. assistance would no longer be provided to the country. While policy makers were probably keen to cease concessional assistance in this case as a way of demonstrating that aid was not an interminable policy and that recipients could successfully 'take off', the economic progress of Taiwan did make it possible for the cut off to occur. See, on the above points, the statement by Fowler Hamilton, Administrator of A.I.D., in *ibid.*, p. 393; President Lyndon Johnson, "January 14, 1965, Message on Foreign Aid", *Congressional Quarterly Almanac*, Vol. XXI, 1965, p. 1398; R. Walters, "Domestic Politics and Foreign Aid: a Review", *J. of Conflict Resolution*, Vol.13, 1969, pp. 396-397.

51. See the comments by William Gaud, Assistant Administrator, Bureau for the Near East and South Asia, A.I.D., in *Foreign Assistance Act of 1962: Hearings*: pp. 574,582.

52. A further explanation for the lack of U.S. opposition to Soviet aid, suggested by Eldridge, is that good relations
between India and the Soviet Union would exacerbate the split between the Soviet Union and China. P. Eldridge, op.cit., p.34.


55. See R. Ripley, "Congressional Government and Committee management", Public Policy, Vol. XIV, 1965, p.33. For an early example of this argument, see Truman's statement in 1951, discussed in Ram Mohan Roy, The India Emergency Food Aid Act of 1951: a Study in Foreign Policy Formulation in the United States: Ph.D., Claremont Graduate School and University Centre, 1969, pp.47-50. The view mentioned was apparently held by Kennedy. Schlesinger mentions that the President saw the importance of aiding India because "if China succeeds and India fails, the economic development balance of power will fall against [the United States]", A.Schlesinger, op.cit., p.454.

56. S. Chandrasekhar, American Aid and India's Economic Development: Praeger, 1965, p.76, notes the emergence of an "India lobby". The other factors which promoted increased aid to India are discussed subsequently in this chapter, but for a detailed discussion, see P. Eldridge, op.cit., Chapter 3. Also S. Chandrasekhar, op.cit., Chapter 3.


58. There was initially some doubt as to the implications of the new regime in Egypt. Indeed, Eisenhower notes that, During the early months of Colonel Nasser's Premiership (beginning in April of 1954) the nations of the West tended to look hopefully toward him because he appeared to favour a pro-Western alignment.

However, several foreign policy decision of the new regime (including its recognition of Communist China); its nationalisation of the Suez Canal following withdrawal of the American offer to help finance the Aswan Dam; and Nasser's efforts to undermine more traditional regimes elsewhere in the region, were among the factors which gave rise to the belief that the regime was a serious danger to the position of the West. These
perceptions changed from 1959. Nasser seemed to Eisenhower and others to "become progressively less aggressive": he also curtailed the influence of left wing groups within Egypt, and attacked the Soviet Union for interfering in the Arab world. (Even during the 1956-58 interval, Nasser was not understood as being completely subservient to 'Communism' though according to Eisenhower, "If he was not a Communist, he certainly succeeded in making us very suspicious of him"). The quotations from Eisenhower above are from Waging Peace: pp. 23, 265, 288. On the general points above, see ibid., Chapters 2, 7, 11. Also see J. Pratt, A History of United States Foreign Policy: Prentice-Hall, 2nd ed., 1965, p.524; and P. Mansfield (ed.), The Middle East: a Political and Economic Survey: Oxford University Press, 4th ed., 1973, pp. 226-230.

59. On this point, see Bose, op.cit., pp. 58-60. Much of this assistance was in the form of food aid, discussed in the following chapter of this dissertation, but some was provided from the programmes under discussion here.

60. For details of American policy in the instances mentioned, see ibid., Chapters 1 and 2; Waging Peace, Chapters 7 and 11; J. Pratt, op.cit., Chapter 46.


62. Ibid., p.25.


64. See the statement of William Gaud in Foreign Assistance Act of 1962: Hearings: p. 574.

65. See the testimony of Mr. William Gaud, Assistant Administrator, Bureau for the Near East and South Asia, A.I.D., in Foreign Assistance Act of 1962: Hearings: p.591.

66. According to Sherman Adams,

The defeat of the attempt by Britain and France to settle the Suez Canal controversy by military force temporarily destroyed the prestige and political power of those two nations in the Middle East. The disappearance of Anglo-French influence from the Arab world created what Eisenhower described as a power vacuum in that strategic area. Unless the United States undertook to fill the vacuum and to make clear to the world its intention to do so, the President said, the Soviets could be counted upon to move into the Middle East and we could find ourselves in an intolerable situation.

op.cit., p.216.

Also see Waging Peace: pp. 178-181; and J. Pratt, op.cit., pp. 522-523.
Foreign policy considerations cover such objectives as maintaining friendly relations with other countries, establishing a preferred political system elsewhere, promoting a favourable image abroad, etc.


The International Finance Corporation filled a gap in existing international finance institutions. Under its charter, the World Bank was unable to make loans directly to private firms without obtaining recipient government guarantees: a procedure generally not welcomed either by the government or the enterprise. There was therefore a strong case for its introduction on this ground alone. Establishment of such an institution had been recommended in a report by the International Development Advisory Board to President Truman in 1951. In the case of the International Development Association, there were a large number of considerations favouring the establishment of the agency: the factor mentioned was only one of them. For detailed discussion of the establishment of these agencies see D. Baldwin, *op.cit.*, p.172; L. Hyde, *The United States and the United nations: Promoting the Public Welfare: Examples of American Co-operation, 1945-55*: Manhattan Publishing Co., 1960, pp. 132-150; E. Haas, *The Webb of Interdependence: the U.S. and International Organisations*: Prentice-Hall, 1970, p.69; D. Baldwin, "Congressional Initiative in Foreign Policy", *J. of Politics*, Vol.28, 1966, pp. 754-773; J. Weaver, *op.cit.* especially pp. 46-47, 88; J. Hadwen and J. Kaufmann, *op.cit.*, pp. 95-100.


This is noted in S. Shriver, "Two Years of the Peace Corps", *Foreign Affairs*, Vol.41, 1962-63, p.698. The Peace Corps Library in Washington contains two thick volumes of press clippings dealing with the drive to recruit negroes for the Peace Corps, publicity associated with appointments of negroes, and similar matters. The clippings cover the period 1961-62.


83. Quotations are from A Proposal: pp.44-48. The same doctrine of stages is contained in Chapter 7 of An American Policy in Asia. For an elaboration of the theory and for discussion of the mass consumption stage, which does not figure prominently in the above works, see W.W.Rostow, The Stages of Economic Growth: a Non-Communist Manifesto: Cambridge University Press, 1960.

84. See An American Policy in Asia: p. 44.

85. The memo is cited in The Diffusion of Power: p. 647.

86. See A Proposal: pp.45, 47.

87. However it was not absolutely essential in all cases according to Rostow: Foreign capital has played a major role in the take-off of many economies: for example the United States, Russia, Sweden, Canada. The cases of Britain and Japan indicate, however, that it cannot be regarded as an essential condition.

The Stages of Economic Growth: p. 49.
In the 1960s we face the peak historical requirement for special external aid. More important politically, we can honestly say to the American people and to the world that we are not entering onto an endless job; but that if we work hard for a decade we will get over half the peoples of the underdeveloped areas into self-sustained growth and off the dole. 

_The Diffusion of Power_: p. 647.

In her study of the Congressional debates on aid over 1949-59, Mangan notes the change in language, with such terms as 'take-off' coming into currency towards the end of the period. However, Mangan attributes this to the expertise developed by Congressman, rather than to the emergence of new doctrines on economic development. See. M. Mangan, _op.cit._, p.363.


Data is from A.I.D., Statistics and Reports Division, _Latin America: Economic Growth Trends_: 1974, p.38. Data for less developed countries is typically much less accurate than that available in O.E.C.D. countries, and the figures given can therefore be taken only as estimates.

The above discussion deals only with changes which induced a greater degree of optimism concerning the role which American economic aid could play in LDCs. However, Packenham has persuasively argued that much of the optimism of American policy makers concerning the extent to which the United States could affect change goes deeper, having its roots in what Louis Hartz has called 'the Liberal Tradition in America'. See
R. Packenham, *op.cit.*, especially Chapter 3.


100. *Information* on India's sterling balances is given in V. Rao, *art.cit.*, pp. 85-86. For other details, see the survey in *International Monetary Fund, Balance of Payments Yearbook*, Vol.6, December, 1955, pp. 15-16.


102. See *ibid.*, pp. 107-108. also the works cited in footnote 98.

103. See *loc. cit.* and Table 9.

104. Although some countries in the region emphasised import substitution as a strategy for industrialisation, requirements for imports remained considerable in practice. The domestic production of goods previously imported had the effect of increasing reliance on capital and intermediate goods.


106. This point is noted in the Pearson Commission's Report, *Partners in Development*: Pall Mall, 1969, p.245.

107. There is direct evidence that this was taken into account in one decision to increase aid to Latin America. In his memoirs, Eisenhower notes that

> Because of the unrest and situations in both Cuba and the Dominican Republic, the flow of private investment to Latin America had slowed considerably. One remedy, Douglas Dillon said, was to ask Congress to authorize an increase in the capital of the Inter-American Development Bank, primarily to support 'economic and social projects'.

*Waging Peace*, p. 536.

108. According to A.I.D. Administrator Hamilton:

> From 1946 until 1954 the prices of the raw materials that the Latin American countries were selling were rising faster than the price of the manufactured goods they were buying.

Furthermore, they had accumulated very substantial reserves of foreign exchange during the war when they were selling raw material at good prices, but all of
our output and European output was going into weapons of war so they weren't able to import manufactured goods they wanted.

That situation commenced to turn over in 1954 with the result that by 1960 it, in effect, cost the Latin American countries $1.350 billion more to buy imports from the United States than it would have cost in 1954 because of the change in the terms of trade.

Another reflection of this was the fact that their foreign reserves, all the Latin American countries, decreased from 1956 to 1960 from $4 billion to $3 billion. That balances the other figures. They were having to draw down their reserves.

Another aspect of the similar problem is that the decline in raw material prices in 1958 deprived the less developed countries of foreign exchange earnings, which were somewhat greater than the total amount of foreign aid which had gone into those areas before.

You are all familiar with that.

In Latin America, then, we had a balance of payments crisis. This economic situation, in turn, has had its political repercussions, and the interplay between these two has contributed to the set of problems which, of course, we are now endeavouring to deal with in the Alliance for Progress, stemming historically from the Act of Bogota of 1960.


109. On this case, see Ram Mohan Roy, op.cit.

110. Hostility to India was particularly evident in the appropriations committees. Ripley notes that a number of members of the Foreign Operations Subcommittee of the House Appropriations Committee saw India as being on the wrong side in the Cold War. See R. Ripley, art.cit., p.41. Attitudes of the other committees concerned with foreign aid are discussed in the remainder of the article. See pp. 28-48.

111. Within the executive, the period during which Dulles was at the State Department marked the height of American opposition to non-alignment. Eldridge notes that opposition to neutralism reached its greatest height in the U.S. Congress over 1954-58. See. P. Eldridge, op.cit. p.31.

Increased tolerance for non-alignment subsequently was a general phenomena, but their were other considerations which added weight to this in the case of India: so much so, that American policy makers may have preferred that India remained non-aligned by the early sixties. Crabb suggests that after 1962, Washington was concerned that India remained non-aligned so as not to escalate the conflict with the C.P.R. Eldridge also suggests that it was in the interest of the United States at this stage to widen the Sino-Soviet split, and that accordingly, a shift in India's posture of non-alignment would not

112. See M. Mangan, op.cit., p.270, on Congressional attitudes on this point.


118. Other sources of Congressional opposition included general disapproval of aid to non-aligned India, doubts concerning the economic feasibility of the project, a desire to protect the American steel industry, and concern over the amount of aid required for the project.


120. Ripley notes that the House Foreign Affairs Committee payed a good deal of attention to the position of private enterprise in India. See art.cit., p.35.

281.


122. In an interview with the writer (Washington, D.C., 1975), the U.S. Ambassador at the time, Lincoln Gordon, argued that the failure of the Brazilian Government to adhere to the terms of the Bell-Dantas agreement was the major factor in the reduction of aid, but it is probable that the other factors mentioned also contributed to the reduction of aid.


124. The American response was relatively small in view of the evident degree of concern over the region. The Griffin Mission recommended only 66 million dollars for fifteen months over 1950-51 for the five countries visited in South East Asia. Hayes, Deputy Chief of the Mission, suggests at one point in his discussion of the recommendations that

The fact that larger amounts of aid were not recommended by the Mission was primarily a result of the limited 'absorptive capacity' of the countries visited:

that is, the limited number of projects that appeared feasible to undertake promptly, and the limited number of skilled persons to organise and run them ...

However, a different emphasis is given in other passages. There were still those in Asia who looked for a great 'Marshall Plan for Asia'. The Mission knew that there wouldn't be that kind of money for aid in Southeast Asia, and it doubted that that kind of money could in any event be widely and productively used there.

It is also noted that the Mission was aware of the fact that possible sources of funds were limited, and at the outset it had in mind "a range of from $50 million to $100 million as a possible 'order of magnitude'." Samuel Hayes, *The Beginning of American Aid to Southeast Asia: the Griffin Mission of 1950*: Heath Lexington, 1971, pp. 8, 15, 39-40. Despite the comment concerning absorptive capacity, it therefore seems likely that the amount would have been higher had the U.S. not been engaged in a large scale effort in Europe.

125. Rostow notes that foreign aid lobbyists received by Eisenhower on April 8, 1948 were "shaken to hear a troubled and wistful monologue about the overriding need to balance the budget." *The Diffusion of Power*: p.112. Eisenhower's own views on the importance of achieving balanced budgets and reducing government expenditure are outlined at a number of points in his memoirs. See, for example, *Mandate for Change, 1953-56*: Heinemann, 1963, pp. 129-131. Also see S. Adams, *op.cit.*, Chapter 9. On one instance where the zeal of Eisenhower and George Humphrey to reduce the outlays of the previous Administration led them to contest a particular loan to Brazil, see *Mandate for Change*, pp. 135-136.

127. See, for example, the letter from eight members of the Senate Foreign Relations Committee to Eisenhower of August 25, 1958. This argued that there was excessive emphasis on the military component of the American aid programme. It had helped to create a militaristic image of the United States and perpetuate military hierarchies in less developed countries. Further, it was argued, "the primary threat of Soviet totalitarianism lies in the political and economic realm". *Documents on American Foreign Relations*, 1958, pp. 44-47.

128. On the methods used by policy makers to encourage private capital flows, see David Baldwin, *Economic Development and American Foreign Policy*.

129. The doctrine of policy makers during the early part of the period under discussion here are outlined in D. Baldwin, *op.cit.*

130. As already noted, service on public debt for developing countries rose from approximately 4% of export earnings in the mid-fifties to 12% in 1964.

131. The way in which policy makers came to appreciate the need for soft loans is traced in D. Baldwin, *op.cit.*


138. In the case of tin, there were substantial sales from the strategic stockpile under the Kennedy Administration. *Economic Survey of Latin America, 1963*: p.217.


141. Needless to say, there are problems in deducing the motive behind aid from its sectorial allocation. For one thing, aid may be provided to the mining sector simply as a means of promoting economic development, and not because of any particular interest in securing supplies of the material in question. Again, funds may be allocated to other sectors - for example, transport - to facilitate the extraction and supply of materials. However, the data given below does suggest that opening up mineral supplies can only have been a minor function of aid in the cases mentioned.


144. For examples of these views, see R. Mikesell, The Economics of Foreign Aid: Aldine, 1968, p.11; J. Montgomery, Foreign Aid in International Politics: Prentice-Hall, 1967, p.20.

145. See statements by Congressman Barry, in Foreign Assistance Act of 1962: Hearings: pp. 876, 884-885. Barry's assessment, using A.I.D. statistics, was that up to 700,000 jobs might be involved in the aid programme, but he conceded that: the essential justification for foreign aid, however, lies not in the U.S. jobs for which it might be responsible, but rather in the vital U.S. foreign policy interests it serves.

146. See Table 4.


148. It must be added that this particular possibility is not supported by one recent survey of attitudes to foreign aid which suggests, surprisingly, that there is no significant correlation between travel to the Third World and sympathy for its development problems. See P. Laudicina,

149. See the exchange between A.I.D. Administrator Fowler Hamilton and Mrs. Church of the House Committee on Foreign Affairs, Foreign Assistance Act of 1962: Hearings: p.35.


While there were many charges against UNRRA on such grounds as administrative inefficiency, the most serious, as Acheson notes, was that

the great bulk of relief, largely supplied or paid for by the United States, went to Eastern Europe and was used by governments bitterly hostile to us to entrench themselves.


152. For a detailed study of this case, see Ram Mohan Roy, op.cit.


154. Data on the level of contributions to voluntary aid agencies cannot reasonably be used as an indicator of the emphasis on humanitarian attitudes on the part of American policy makers. In any event, rapid growth in contributions to these organisations during the 1960s ran parallel with a decline in the level of official development assistance. See P. Laudicina, op.cit., p.93.

155. According to Hero,

Most below the college level (and many college educated as well) have tended to view aid other than military as humanitarian charity, a sort of international community chest and relief for the unfortunate around the world. Since the principal popular support of aid other than military has been philanthropic in source, emergency relief has been more popular than capital assistance. art.cit., p.94.

156. According to surveys taken in 1958 and 1963, those who were "in general ... for foreign aid" rose from 51% to 58%. Ibid., p.78.

157. Ibid., pp. 78-80.

A 1958 survey showed almost no correlation between constituent attitudes and the opinions and voting behaviour of Congressmen on foreign aid. See A. Hero, *art. cit.*, pp. 108, 112. It is also notable that there has been very little support for increasing aid among the public. Given an open ended question in 1959 as to where the government should spend more money, less than 1% mentioned foreign aid. Asked in 1957 to specify attitudes to the level of foreign economic aid, only 4% wanted to increase it. *Ibid.*, pp. 79-80.


See Table 5.

The forces operating in South Vietnam were assisted with supplies, arms and personnel from North Vietnam: in public statements, U.S. officials argued that they were also supported with North Vietnamese regular troops. Even so, it can hardly be classified as a conventional invasion.


Data is from Roy Jumper, "India", in *Collier's Yearbook 1964*: Crowell-Collier, 1964, pp. 327-328. Also see P. Eldridge, *op.cit.*, pp. 327-328.

This is not to say that policy makers approved the full measure of India's increase in defense spending.
CHAPTER FOUR

THE GROWTH OF CONCESSIONAL ECONOMIC AID
TO LESS DEVELOPED COUNTRIES: PART TWO:
PL480 and ASSOCIATED PROGRAMMES.

The present section of the dissertation attempts to account for the emergence and expansion of agricultural commodity aid under the provisions of the Agricultural Trade Development and Assistance Act of 1954 and some associated provisions of the Mutual Security Act. Aid provided under the former programme has been popularly known as PL480 assistance, or later as 'Food for Peace' or 'Food for Freedom' (though much of the aid has not been in the form of food) and these labels will be used interchangeably here. The importance of these programmes from the standpoint of the present dissertation is that they have comprised a very large share of the economic aid made available by the United States to less developed countries - approximately one third of the total by the mid-sixties.¹

According to the generally received view, commodity aid emerged simply as a result of the concern of American policy makers to find some outlet for growing agricultural surpluses, and was subsequently modified to serve as a tool for promoting Third World development and other foreign policy objectives as a result of the persistence of Senator Humphrey, the election of Kennedy as President, and similar factors.² It will be suggested here that this account is far from an adequate explanation, but before proceeding to this argument, it is convenient to briefly describe the programme and indicate the amount of assistance provided under its terms.
1. The Commodity Aid Programmes

Table 1 provides data on the growth of surplus agricultural commodity aid to countries classified here as less developed. While the figures given represent only one of the possible measures of the value of commodity aid, they do provide an indication of its volume and of the way in which aid to less developed countries increased between 1955 and 1965. Third World countries gained at the expense of other recipients: initially, European countries and Japan were major recipients, but the share of surplus commodity aid allocated to them dropped steadily.

The provision of assistance under the Agricultural Trade Development and Assistance Act covered several kinds of aid during the period reviewed. Under title 1 of PL480, the largest form of commodity aid for most years, agricultural commodities were sold under government agreements for currencies of the recipient. These currencies were transferred to the account of the U.S. Government in the country concerned in the first instance, and were subsequently allowed to accumulate or used for a variety of purposes under the terms of agreements with recipient governments. Such purposes included grants and loans to the recipient for economic development, loans to private enterprise, defence support, and specific U.S. uses - for example, embassy expenses and the provision of currencies to American tourists.*

Under title 2, stocks were donated for various relief and economic development programmes, operated by the United States itself, or by multilateral agencies as in the case of the World Food Programme.

* It would be appropriate to discount the level of PL480 shipments by the extent to which barter and use of local currencies by the United States for such items as embassy expenses reduced foreign exchange earnings to the recipient.
Table 1. Volume of U.S. Commodity Aid

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>PL480: World Total</th>
<th>Secs. 402,550 Total for Mutual Security:</th>
<th>World Total under World Total 1 &amp; 2.</th>
<th>Percentage to LDCs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>385</td>
<td>450</td>
<td>835</td>
<td>264</td>
</tr>
<tr>
<td>1956</td>
<td>984</td>
<td>355</td>
<td>1339</td>
<td>414</td>
</tr>
<tr>
<td>1957</td>
<td>1525</td>
<td>394</td>
<td>1919</td>
<td>797</td>
</tr>
<tr>
<td>1958</td>
<td>982</td>
<td>227</td>
<td>1209</td>
<td>666</td>
</tr>
<tr>
<td>1959</td>
<td>1017</td>
<td>210</td>
<td>1227</td>
<td>709</td>
</tr>
<tr>
<td>1960</td>
<td>1116</td>
<td>167</td>
<td>1283</td>
<td>890</td>
</tr>
<tr>
<td>1961</td>
<td>1317</td>
<td>186</td>
<td>1503</td>
<td>1031</td>
</tr>
<tr>
<td>1962</td>
<td>1496</td>
<td>74</td>
<td>1570</td>
<td>1170</td>
</tr>
<tr>
<td>1963</td>
<td>1466</td>
<td>14</td>
<td>1480</td>
<td>1221</td>
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<tr>
<td>1964</td>
<td>1494</td>
<td>24</td>
<td>1518</td>
<td>1326</td>
</tr>
<tr>
<td>1965</td>
<td>1671</td>
<td>26</td>
<td>1697</td>
<td>1502</td>
</tr>
<tr>
<td>1966</td>
<td>1574</td>
<td>42</td>
<td>1616</td>
<td>1412</td>
</tr>
</tbody>
</table>

Note to Table 1. Data is calculated from figures on aid to individual recipients given in U.S. Department of Agriculture, *12 years of Achievement under Public Law 480*: Washington, D.C., 1967, pp. 78-124. For the purposes of the table, LDCs are defined to include Turkey, but to exclude other countries classified as European in this source. Japan, Australian and New Zealand, as well as countries in North America, are similarly excluded. The values given represent export market values estimated by the Department of Agriculture, not the cost of shipments to the Commodity Credit Corporation.
Title 3 authorised the United States to provide donations of commodities for voluntary relief agencies and international agencies, and in addition, allowed for the exchange of agricultural commodities for materials and services procured abroad. A fourth title, added in 1959, made provision for the sale of surplus agricultural commodities for dollars on a credit basis, with repayment periods extending up to 20 years.\(^3\)

Section 550 of the Mutual Security Act of 1953, and section 402 of the same Act between 1954 and 1961 required that the executive use more than a specified amount of the funds under the programme to finance the sale of surplus agricultural commodities for local currencies.\(^4\) Table 2 indicates the minimum amounts earmarked in this way and the amounts actually used by the executive.

Table 2. Sales for Local Currencies of Surplus Agricultural Commodities under the Mutual Security Programme.

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<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Minimum amounts earmarked under sections 550 and 402 of the Mutual Security Act.</td>
<td>100</td>
<td>350</td>
<td>300</td>
<td>250</td>
<td>175</td>
<td>175</td>
<td>175</td>
<td>175</td>
</tr>
<tr>
<td>Actual Sales</td>
<td>236</td>
<td>444</td>
<td>349</td>
<td>283</td>
<td>203</td>
<td>186</td>
<td>174</td>
<td>178</td>
</tr>
<tr>
<td>Sales to Near East, Asia, Latin America</td>
<td>60</td>
<td>146</td>
<td>232</td>
<td>189</td>
<td>117</td>
<td>117</td>
<td>111</td>
<td>99</td>
</tr>
</tbody>
</table>

11. The Emergence of Surplus Commodity Aid.

In general works on American foreign aid, the introduction of a new programme of economic aid under PL480 is usually explained simply by the need to find an outlet for growing agricultural surpluses in the United States. It is argued here that this was the immediate cause behind the introduction of the programme, and that very little of the additional aid would have been provided in the absence of surpluses. But other changes were important in creating the conditions favourable to the use of aid as a means of tackling the problem of surpluses, and without these changes, the amount of assistance provided to less developed countries through the programme would have been smaller.

In one sense, it is possible to define a commodity as being 'in surplus' when special measures have to be used to constrain supply or supplement normal commercial demand if prices are to be held at 'acceptable' levels. Alternatively, surpluses can be defined

* In the case of surplus commodities provided under sections 550 and 402 of the Mutual Security Act, the position is more complex. Here surplus disposal was tacked on to an existing programme controlled by different groups in the executive and different committees in Congress. It seems reasonable to suppose that some of this aid would have been provided even in the absence of surpluses - though in the form of dollars. This is particularly plausible where the executive used more in this way than the minimum earmarked by Congress (since the executive normally requested more than Congress was willing to provide, and would presumably have made the funds available in any event). However, the remarks in this section are primarily concerned with the PL480 programme.
to exist when government price support measures take the form of adding to commercial demand by purchasing commodities and stockpiling them. It was in this directly visible form that surpluses began to accumulate at a very rapid rate prior to the introduction of the programmes under discussion here. Inventories acquired by the Commodity Credit Corporation as part of its price support operations climbed from slightly over one billion dollars in 1952, to more than three billion dollars in 1953, and then to almost six billion dollars in the following year.6

The origins of the policies which led to the accumulation of these stockpiles are complex. A programme of price supports commenced in 1933 when the Agricultural Adjustment Act was passed and the Commodity Credit Corporation was created.7 Initially, the Corporation was concerned with price support operations for corn and cotton producers, but over the period 1933-42 there was a rapid increase in the number of commodities subject to price supports.8 The general aim of the programmes was to provide support for the prices of the commodities concerned if they fell below a certain percentage of 'parity'. Parity was subject to varying definition, but was generally meant to refer to a price which gave the farmer a return in relation to his purchases and other costs equivalent to that obtained in a selected base period.9

In 1942, in the context of increased wartime requirements, it was determined that the prices of 'basic' commodities (cotton, wheat, rice, corn, peanuts, tobacco) and of all other commodities for which the Secretary of Agriculture requested increased production would be supported at 90% of parity rate, not only for the duration
of the war, but for two years from the proclamation of cessation of hostilities. This effectively held price support levels at the ninety percent level until 1948, for it was not until the close of 1946 that President Truman issued a proclamation of this type.\textsuperscript{10} Even then, there was no reduction in the level of price support, for while Congress in 1948 enacted legislation which would have made possible reduced support from 1950, the results of the 1948 election — Republican loss of key mid-Western states was widely attributed to the party's policy of reducing price supports — induced Congress in 1949 to postpone introduction of this scheme. In 1952, Congress extended price supports at the 90\% rate until 1954.\textsuperscript{11}

Despite the long period of operation of a system of guaranteed price supports for a number of commodities at the 90\% level, the United States managed to avoid anything more than temporary difficulties of excess production with most commodities until the early fifties. The reasons for this are complex, but a particularly important factor was the stimulus to demand arising in turn from the Second World War, post-war devastation, and the Korean War. The particular case of wheat illustrates this point. As the table below indicates, production of this commodity was substantially greater for 1941–45 than for 1936–1940, but this change was outweighed by increased demand stemming principally from requirements generated by the Second World War. The additional demand was not so much for wheat itself (though there was a significant increase in direct purchases reflected in the data on military procurement) as for meat and other products required for such programmes as Lend-Lease. Because of the shortage of feed grains, wheat was diverted for this purpose under a series of acts which provided for the release
of government stocks at feed prices. As the table indicates, use of wheat for feed was abnormally high during the war period.12

In the immediate post-war period, production was at high levels, but demand was also particularly strong, mainly because of the enormous quantities required for shipments to devastated areas under military relief operations, the United Nations Relief and Rehabilitation Administration, the Marshall Plan, and other government and commercial channels.13 It was not until 1949 that the problem to come became apparent: although production was not high compared with preceding years, it was in excess of requirements which had slumped with reduced demand from abroad. Surpluses began to grow, but the situation was reversed in 1950 and 1951. The principal cause was increased demand induced directly or indirectly by the Korean War, but slightly reduced production in 1951 was also a contributing factor.

In 1952 and 1953, exports were again down, but production was at higher levels than in 1951. The consequence was the rapid accumulation of stockpiles of wheat. Surpluses also mounted in the case of a number of other commodities resulting in the rapid build up of Commodity Credit Corporation inventories noted previously.

In this context, PL480 and associated provisions of the Mutual Security Act represented convenient methods of preventing accumulation of further stocks of agricultural commodities and disposing of those already in existence. There are several reasons for supposing that it was primarily this consideration which generated the support for the introduction of a new programme of aid under Public Law 480. First, the statements of a number of U.S.
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>New Production</td>
<td>796</td>
<td>985</td>
<td>1185</td>
<td>1098</td>
<td>1019</td>
<td>988</td>
<td>1306</td>
<td>1173</td>
<td>984</td>
</tr>
<tr>
<td>Imports</td>
<td>8</td>
<td>37</td>
<td>3</td>
<td>2</td>
<td>12</td>
<td>32</td>
<td>22</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Total demand</td>
<td>751</td>
<td>1079</td>
<td>1129</td>
<td>983</td>
<td>1060</td>
<td>1164</td>
<td>978</td>
<td>851</td>
<td>885</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>491</td>
<td>478</td>
<td>482</td>
<td>484</td>
<td>490</td>
<td>481</td>
<td>474</td>
<td>473</td>
<td>474</td>
</tr>
<tr>
<td>Feed, etc.</td>
<td>114</td>
<td>306</td>
<td>135</td>
<td>111</td>
<td>103</td>
<td>103</td>
<td>83</td>
<td>77</td>
<td>60</td>
</tr>
<tr>
<td>Military</td>
<td>-</td>
<td>69</td>
<td>117</td>
<td>124</td>
<td>41</td>
<td>17</td>
<td>14</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>Export and Procurement</td>
<td>-</td>
<td>64</td>
<td>98</td>
<td>306</td>
<td>183</td>
<td>338</td>
<td>474</td>
<td>319</td>
<td>220</td>
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<td>Shipment</td>
<td>-</td>
<td>82</td>
<td>127</td>
<td>88</td>
<td>81</td>
<td>88</td>
<td>88</td>
<td>88</td>
<td>69</td>
</tr>
<tr>
<td>Other (e.g., seed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stocks</td>
<td>234</td>
<td>389</td>
<td>282</td>
<td>425</td>
<td>396</td>
<td>256</td>
<td>606</td>
<td>934</td>
<td>1036</td>
</tr>
</tbody>
</table>

**Source**: *Statistical Abstract of the United States, 1955, p. 671; and 1957, p. 659.*

The former issue is used for data up to 1950. Because of rounding from the original sources, figures may not add to the precise totals given.
officials and Congressmen indicated that this was their primary objective in providing the assistance, and in some cases, that they wished to see the policy of surplus disposal carried out more aggressively even where it was in conflict with the promotion of American foreign policy objectives. The following exchange provides one example:

Mr. Hoeven (House Committee on Agriculture):
I have always felt that the Department of Agriculture was not a free agent in its attempts to dispose of agricultural commodities overseas. I feel there has been too much interference on the part of the Department of State. Do you feel that the Secretary of Agriculture can operate as a free agent in his endeavour to dispose of our surplus agricultural commodities abroad?

Mr. Butz (Assistant Secretary of Agriculture):
... I will not say we are not getting the job done, but we may not be getting it done as rapidly as you would like.

Mr. Hoeven: Our primary interest is to get rid of our agricultural surplus commodities.

Mr. Butz: That is ours too. I say that is a primary interest of those concerned with the disposition of surplus commodities. Of course, the primary interest of the country, I think, is to preserve peace and build up a friendly orbit of nations. Sometimes these two interests conflict.

Mr. Hoeven: We are agreed then that we are confronted with handicaps in our disposal program.

Second, the PL480 programme derived much of its support from sources which had taken little interest in, or been openly hostile to, the extension of additional quantities of economic aid abroad. Within the executive branch, it would appear that the
Department of Agriculture was a key source of support for the programme. Within Congress, it derived support from representatives from the South and Mid-West who frequently supported reductions in other types of aid even where they did not vote against it completely.

Third, it was an understandable solution to the difficult problem of grappling with surpluses for many policy makers. Within both Congress and the executive there was extreme reluctance to move away from the concept of a high level of price support for agricultural commodities. Eisenhower, after much equivocation, declared himself in favour of 'flexible' (in practice, lower) price supports varying between 75 and 90 percent of parity. The 1954 Agricultural Bill made provisions for this, but in 1956 Congress passed legislation which would have restored the 90 percent parity rate for the six basic crops. This was vetoed by Eisenhower, but it provides some indication of the difficulty of allowing stockpiles to be cleared by reducing commodity prices. Even given the introduction of lower levels of price support, and use of a variety of other methods (acreage diversion and other forms of production control, attempts to expand commercial exports and use of surpluses for domestic welfare programmes) designed to deal with the problem, there remained an excess of supply as well as a large stockpile of commodities accumulated previously. Not only was the storage of these surpluses expensive: it was also reasonable for policy makers to fear that failure to deal with the problem would lead to public reaction which would force a further reduction of price supports - as it had in the case of potatoes in the late forties. Surplus commodity shipments abroad would not only act as a direct method
of siphoning off surpluses: they were also expected to develop new commercial markets abroad for American agricultural products. Thus a report of the Department of Agriculture and other interested agencies noted that:

Exports under title 1 have been effective primarily in helping to reduce large accumulated surpluses and in preventing further accumulations ... The corollary objective of Public Law 480 is to build expanded foreign markets for United States agricultural products ... While few immediate results can be expected, evidence is growing that improved diets abroad as a result of title 1 sales and market development activities connected with the programme will be reflected in future exports. 19

Fourth, there is no other reasonable explanation for the abrupt jump in aid levels which occurred with the introduction of PL480. As David Baldwin notes, the preoccupation of Congress at the time was more with cutting aid levels than increasing them; and there were a number of indications that some Congressmen were interested in using the PL480 programmes as a means of cutting down on other types of aid. 20

While the concern of American policy makers with the need for an outlet for growing agricultural surpluses was the immediate cause of the introduction of PL480, and while it was initially the dominant concern of those supporting the programme, there were other underlying changes which encouraged the use of aid as a means of solving the problems of American agriculture. In the first place, stockpiles emerged in the fifties in circumstances in which the provision of large quantities of aid on a grant or grant-like basis was considered much more reasonable and acceptable than it would
have been fifteen years previously. As noted already, the sale of surplus agricultural commodities for foreign currencies was attached to an existing aid programme under the Mutual Security Act a year before the PL480 programme was introduced. A little over two decades earlier, there would have been no aid programme of any magnitude in existence; and from this date up to the Second World War, public capital movements were extremely small and were largely confined to credits provided on onerous terms. By the early fifties there was more reason for policy makers to provide aid, less skepticism of the effectiveness of aid as a means of promoting foreign policy objectives, and greater acceptance of the idea of a large scale programme carried on by the government. It seems likely that these changes encouraged resort to the use of aid as a mean of dealing with agricultural surplus problems, and that in their absence, greater use would have been made of other methods as a way of preventing accumulation of stockpiles.*

There is a possible objection to this line of argument on the ground that PL480 found little support, even opposition, from sources which tended to favour the provision of aid on other grounds. Many farm congressmen charged that the State Department opposed the introduction of PL480 and sought to constrain its operations for several years subsequently. 21 In Congress, it might be said, support for the programme came from those who exhibited little interest in the

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* Aid would not have been entirely absent had surpluses emerged in the conditions of the thirties. As Chapter Two notes, problems with falling prices for wheat and cotton led to the provision of a small credit (if on relatively onerous terms) to China in 1933.
objectives which aid programmes sought to promote, and who wished to promote surplus disposal even where it was in direct conflict with these aims.

Now it is clear that there were many in the State Department who saw serious disadvantages, as well as benefits, in PL480 in the early years of its operation. In statements to Congressional committees, spokesmen for the Department indicated their concern that major sections of the programme were in conflict with the general position of the United States regarding avoidance of dumping and discrimination in international trade; and that it could sometimes operate in ways which were to the disadvantage of the recipient country's economy. An indication of the attitudes of many in the State Department was given in a statement of the Deputy Assistant Secretary of State for Economic Affairs, Thorsten Kalijarvi, to the Senate Committee on Agriculture and Forestry in 1957. On the debit side of PL480, it was suggested that "disposals under title I, and under title III barter, have upset some of our best friends abroad", though these countries had been patient because the programme was regarded as temporary. Countries which had been "vocal in their complaints of injury by the United States in the form of displacement of their exports from the world's import markets" included Australia, Canada, New Zealand, Denmark, Mexico, Uruguay, Argentina, Burma, Italy and Peru. Moreover, there were dangers for recipients in excessive and prolonged assistance through title I of PL480 in that it could lead to a heavy debt burden, "the development of permanent dependence on essential imports of food and fiber from the United States under an emergency and temporary programme", and to other problems.
However, the Department saw several advantages in the programme according to Kalijarvi. Donations under title II and disposals through private charity under title III had "undoubtedly produced dividends in the foreign relations field". These had, undoubtedly generated good will, increased or maintained the physical well-being of people over what it would otherwise have been, and except in a very few isolated cases, resulted in no displacement of commercial purchases which would otherwise have been made.

Again, Specific United States objectives, such as educational and cultural exchange, assistance to American schools abroad, military housing, mutual defence, market development, acquisition of strategic materials, have all been promoted by Public Law 480.

Finally, Public Law 480 disposals under title I have been helpful in terms of our relations with certain individual countries because we assisted them when they were in trouble. 25

The disadvantages of PL480 in the eyes of the State Department have sometimes been understood to have been much greater than the outline given above would suggest. Some writers note that much aid under PL480 in the fifties went to India, Yugoslavia, Indonesia, the United Arab Republic and other countries with which the United States maintained only poor relations. This has been taken to mean that policy makers were unwilling or unable to veto these transactions because of the pressure to reduce excess stocks of commodities. 26 It would presumably follow that this would be seen as a significant cost of the programme by the State Department. However, the observation is open to another interpretation. It could be argued that
policy makers within the executive saw advantages in the use of a high proportion of surplus commodity aid in these countries in that there would be less likelihood of encountering effective opposition to the policy in Congress or in undermining support (always precarious) for economic aid under the Mutual Security legislation. There are several grounds for supporting this second interpretation. It was the Department of State which had been given responsibility for negotiating all PL480 agreements with other governments and for ensuring that agreements were not in conflict with the overall foreign policy objectives of the United States. More decisively, the countries listed were evidently not immune from having shipments under the programme suspended. In the case of Yugoslavia, aid was cut off following an apparent shift in the orientation of the regime towards the Soviet Union. Again, with Egypt, PL480 shipments were virtually suspended (as the table below indicates) for two years following the nationalisation of the Suez Canal and the ensuing Suez crisis. It was not until December 1958 that a new agreement for provision of surplus commodities to Egypt was concluded, evidently as part of a series of steps by the United States to repair relations. Finally, this was not mentioned as a disadvantage of the scheme in the statement of Kalijarvi discussed previously, even though the statement contained a frank assessment of other disadvantages. Indeed, Kalijarvi argued that the State Department view was that "given the need to do something about the surplus problem, we have succeeded in general in using surpluses for sound purposes." Thus it cannot be concluded that the State Department was opposed to the programme in the early years of its operation, even though it was clearly worried about several aspects of it. Moreover,
Table 4. Shipments of Commodities to the United Arab Republic under PL480 and the Mutual Security Act: 1955-1960 (thousand dollars)

<table>
<thead>
<tr>
<th>Year ending June 30.</th>
<th>Title I</th>
<th>Title II</th>
<th>Title III</th>
<th>Mutual Security</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>-</td>
<td>-</td>
<td>15831</td>
<td>-</td>
<td>15831</td>
</tr>
<tr>
<td>1956</td>
<td>17057</td>
<td>-</td>
<td>19067</td>
<td>5064</td>
<td>41188</td>
</tr>
<tr>
<td>1957</td>
<td>-</td>
<td>-</td>
<td>965</td>
<td>-</td>
<td>965</td>
</tr>
<tr>
<td>1958</td>
<td>-</td>
<td>-</td>
<td>1686</td>
<td>-</td>
<td>1686</td>
</tr>
<tr>
<td>1959</td>
<td>20901</td>
<td>-</td>
<td>5019</td>
<td>-</td>
<td>25920</td>
</tr>
<tr>
<td>1960</td>
<td>76796</td>
<td>163</td>
<td>6490</td>
<td>3935</td>
<td>87384</td>
</tr>
</tbody>
</table>

Note: Values are estimated export market levels.

Some statements from members of the Department indicated that the advantages of the programme were considered to outweigh its costs. There is also direct evidence that the State Department did not oppose the introduction of the scheme. Anderson has drawn attention to the testimony of Waugh, a Nebraska banker whom Eisenhower selected as Assistant Secretary of State for Economic Affairs. Waugh asserted in February 1955 that:

The State Department aggressively favoured the enactment of legislation to permit the $1 billion worth of agricultural products to be made available for export on special terms over a three year period,

and indeed that,

the decision to propose such a three year
programme to the Congress was reached by an interagency group meeting in my office. 33

The State Department would presumably not have supported the PL480 programme in the absence of conditions in which foreign aid was considered useful as an instrument of American foreign policy. Even if the above argument is incorrect, and the Department was opposed to the programme, its opposition would have doubtless been much stronger in a climate in which aid was not favoured for other reasons. In this case, the advantages of the programme would have been a great deal weaker. Some of the costs might also have appeared weaker (for example, concern about the impact of the very high levels of commodity aid on Third World development), but it is likely that the reduction in perceived advantages would have outweighed this effect.

Within Congress, it is true that much support for the PL480 programme came from those who did not normally support aid, or who were prepared to push ahead with surplus disposal even where it ran into conflict with the objectives which assistance programmes sought to promote. The exchange between Representative Hoeven of the House Committee on Agriculture, and Assistant Secretary of Agriculture Butz provides one example of the view, widespread among key supporters of PL480, that the programme should be expanded even if this was found to involve foreign policy problems. Nor were some members any more sympathetic to American government programmes promoting development if these ran into conflict with the objective of disposing of surpluses and expanding markets abroad. To provide one illustration:

Mr. Poage (Vice Chairman, House Committee on Agriculture):
... the agricultural attaches of the United States have promoted and devoted a substantial part of their time to showing these people how
they could get better seed and get it from the United States. They have shown them how to get better machinery, getting it for them have they not?

Mr. Butz: Have the attachés done that, or has that been under the Point 4 programme?

Mr. Poage: Certainly both have done it. That has been exactly one of the complaints we have had about this attaché programme. We hope we are now improving it. Too often our attachés have felt they were foreign country agents whose duty it was to simply improve the agricultural practices of the nation to which they were accredited. I think that is all wrong ...

Mr. Butz: As you know, we are trying very intensively to redirect the activity and emphasis of our attachés to make them market promoters, and eyes and ears of the Department.

However, members of Congress whose prime concern was with American agriculture had to attract support from other areas, and it is unlikely that they would have been able to operate a disposal programme of the size of PL480 in the absence of an environment in which foreign aid programmes were considered useful and acceptable on other grounds. Moreover, key supporters of PL480 in Congress included those who seemed genuinely attracted by its possibilities as a means of promoting economic development abroad and furthering other foreign policy objectives. Senator Humphrey was one example. From the outset a strong supporter of the programme, Humphrey argued consistently from 1953 that American agricultural surpluses were an asset rather than a liability, and that they were an effective means of promoting economic development and other foreign policy interests abroad. While Humphrey's state of Minnesota was a significant beneficiary of PL480, ranking 11th in the list of states gaining from agreements over the period 1955-63, it does not seem that these arguments were merely a mask for the promotion of American agricultural
interests. Humphrey was also a strong supporter of other programmes under the Mutual Security Act, and his position was quite consistent with his basic political philosophy of 'cold war liberalism'. He had, in the early forties began as a strong supporter of Henry Wallace, and then moved over in the latter part of the forties, in company with a number of other left liberals, to the type of position championed by Americans for Democratic Action. For this position (which included a strong element of concern for the problems of under-developed countries), Humphrey was a strong exponent in the Senate in the fifties. Further, Senator Humphrey sometimes seemed willing (if with obvious hesitation) to entertain the idea of using PL480 for foreign policy purposes in less developed countries even where it might not be wholly consistent with the narrower interests of American agriculture.

For those like Humphrey, therefore, the foreign policy benefits of PL480 were considered to be of real value. The prominence given to the foreign policy justification of the programme in the statement of the purposes of the legislation provides further evidence that this carried some weight in Congress. It seems reasonable to conclude that the use of aid as a means of dealing with the problem of agricultural surpluses was encouraged by an environment in which large programmes of foreign assistance were considered useful on grounds other than their contribution to American agricultural prosperity, and that in the absence of this environment, there would have been more pressure to use other methods as a way of preventing accumulation of stockpiles.

A second underlying change relevant to the emergence of a large scale commodity aid programme was the increased reliance of less
developed countries on grain imports. Without this change, it seems probable that the scope for disposing of American agricultural surpluses within those regions would have been smaller. The shift under discussion is broadly indicated in the table below.

Table 5. Grain Trade of Asia, Africa and Latin America.

<table>
<thead>
<tr>
<th></th>
<th>1934/38</th>
<th>1948/52</th>
<th>1960</th>
<th>1966</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa and Asia</td>
<td>+3</td>
<td>-6</td>
<td>-19</td>
<td>-41</td>
</tr>
<tr>
<td>Latin America</td>
<td>+9</td>
<td>+1</td>
<td>0</td>
<td>+5</td>
</tr>
</tbody>
</table>


The above data conceals differences within regions, some countries being major exporters and others, even in surplus regions, being significant importers. It also fails to distinguish different commodities. To ascertain the significance of these shifts, it is therefore necessary to undertake a more detailed examination.

In the case of wheat - a major item in PL480 accounting for well over half of the value of shipments - the trend in imports, both for various regions and for particular countries is noted in the table below. It is clear that there was a major shift towards increased reliance on imports of wheat and wheat flour in less developed countries. Before the Second World War, imports of these commodities averaged only 2½ million tons annually, whereas over the period 1955-57, 8.2 million tons were imported each year on average.
Nor does this provide a complete picture of increased dependence. Thus India (then including Pakistan) was a net exporter before the war, but the table provides information on imports only. 41

Countries which increased their dependence on wheat imports were among those which became major recipients of this commodity under Public Law 480 and associated provisions of the Mutual Security Act: the trend described did therefore increase outlets for disposal of surplus wheat. It is also evident that the shift towards increased reliance on imports of wheat set in before the special U.S. disposal programmes were initiated, and that even after the introduction of these programmes, the total amount of wheat imported exceeded the amount which was provided as aid by the United States. Thus the trend under discussion did not occur simply because the United States had commodities to be disposed of: it was an independent factor.

The fact that this change was a significant factor increasing outlets for surplus wheat does not mean that it was important for all commodities. In the case of rice - also a sizable item in PL480 shipments, though the value transferred was little over one tenth that of wheat - changed import patterns do not appear to have been a factor facilitating resort to aid. Most U.S. rice exports under government programmes went to Asian countries: over the period 1955-61, 374,000 tons were provided to this region out of total shipments of 417,000 tons. 42 But within Asia, imports of rice tended to decline. In the selected interval before the Second World War, they averaged 4.5 million tons annually, whereas over 1952-56, 2.4 million tons were imported. American rice disposal under PL480 does not seem to have been greatly affected, for the rice deficit was still large, even at the reduced level prevailing in the post-war period, and shipments
Table 6. Wheat and Wheat Flour: Total Imports and Imports under Special U.S. Programmes in Underdeveloped Regions: (data refers to annual averages in million tons).

<table>
<thead>
<tr>
<th>Year</th>
<th>Asia (excluding Japan)</th>
<th>India</th>
<th>Pakistan</th>
<th>Africa</th>
<th>Egypt</th>
<th>South America</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>1934/35</td>
<td>.8</td>
<td>1.7</td>
<td>.4</td>
<td>.4</td>
<td>.4</td>
<td>1.3</td>
<td>1.0</td>
</tr>
<tr>
<td>1947/48</td>
<td>3.4</td>
<td>2.4</td>
<td>.8</td>
<td>1.1</td>
<td>.8</td>
<td>1.4</td>
<td>.8</td>
</tr>
<tr>
<td>1950/51</td>
<td>4.5</td>
<td>1.0</td>
<td>.3</td>
<td>2.3</td>
<td>.4</td>
<td>2.4</td>
<td>1.5</td>
</tr>
<tr>
<td>1954/55</td>
<td>4.1</td>
<td>.7</td>
<td>.2</td>
<td>1.4</td>
<td>.4</td>
<td>2.7</td>
<td>1.6</td>
</tr>
<tr>
<td>1957/58</td>
<td>8.3</td>
<td>2.8</td>
<td>.7</td>
<td>2.6</td>
<td>1.2</td>
<td>2.8</td>
<td>1.7</td>
</tr>
<tr>
<td>1960/61</td>
<td>9.6</td>
<td>3.8</td>
<td>1.1</td>
<td>3.1</td>
<td>1.3</td>
<td>3.3</td>
<td>1.9</td>
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</table>

--- Special U.S.

<table>
<thead>
<tr>
<th>Year</th>
<th>Asia (excluding Japan)</th>
<th>India</th>
<th>Pakistan</th>
<th>Africa</th>
<th>Egypt</th>
<th>South America</th>
<th>Brazil</th>
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<tbody>
<tr>
<td>1938/39</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1949/50</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1953/54</td>
<td>...</td>
<td>...</td>
<td>.2</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1956/57</td>
<td>...</td>
<td>...</td>
<td>.7</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1959/60</td>
<td>...</td>
<td>...</td>
<td>.7</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
</tbody>
</table>


... denotes not available.

Data for 1960/61 is preliminary only.
into the Far East under aid programmes only averaged about ten percent of the region's imports. Further, the amount supplied by traditional exporters such as Burma and Cambodia had diminished markedly, and this tended to reduce problems arising from the need to avoid shipments which would cut heavily into the commercial exports of other countries. Even so, the trend was not without some impact. As the table below indicates, India was one country where there was a major reduction in the level of rice imports. It was noted by a State Department official in the course of Congressional hearings in 1959 that the American government had been unable to persuade India to accept shipments of rice under PL480 in that year. In the face of a bumper crop of its own, and the need to continue imports under arrangements with Burma, the Indian Government had, the official noted, "explained that its own supplies, supplemented by its imports from Burma, were adequate to meet its needs". This constraint would presumably not have arisen in the pre-war circumstances when India was a major importer of rice.

### Table 7. Net Imports of Rice by Selected Countries in the Far East (in million tons, milled rice equivalent).

<table>
<thead>
<tr>
<th>Country</th>
<th>av.34-38</th>
<th>av.52-56</th>
<th>57</th>
<th>58</th>
<th>59</th>
<th>60</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ceylon</td>
<td>.5</td>
<td>.4</td>
<td>.5</td>
<td>.5</td>
<td>.6</td>
<td>.5</td>
</tr>
<tr>
<td>India</td>
<td>2.2</td>
<td>.4</td>
<td>.8</td>
<td>.4</td>
<td>.3</td>
<td>.7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>.3</td>
<td>.4</td>
<td>.6</td>
<td>.7</td>
<td>.6</td>
<td>1.0</td>
</tr>
<tr>
<td>Malaya</td>
<td>.5</td>
<td>.3</td>
<td>.3</td>
<td>.4</td>
<td>.4</td>
<td>.4</td>
</tr>
<tr>
<td>S.Korea</td>
<td>-</td>
<td>.1</td>
<td>.2</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Pakistan</td>
<td>-</td>
<td>.1</td>
<td>.4</td>
<td>.3</td>
<td>.3</td>
<td>.2</td>
</tr>
<tr>
<td>Total Far East (excluding Japan)</td>
<td>4.5</td>
<td>2.4</td>
<td>3.7</td>
<td>3.1</td>
<td>2.8</td>
<td>3.5</td>
</tr>
</tbody>
</table>

There are two other factors which may have encouraged resort to the use of aid as a means of removing surpluses, and which therefore must be examined. First, there is a possibility of increased willingness on the part of American policy makers to take action which would impinge on the interests of other exporting countries or be in conflict with its own general policy of encouraging a liberal trading system. (PL480 provided for barter, state involvement in trade, subsidised trade and other arrangements which were at odds with the general principles which the United States tended to support).

It has already been seen that policy makers understood that there were costs involved in PL480 in these respects. Dirks has suggested that considerations such as these tended to restrain the United States from aggressive competition in world markets prior to 1954. This raises the possibility that a general change in the willingness of decision makers to resort to 'economic nationalist' measures facilitated the emergence of surplus agricultural commodity aid.

In practice, however, there had been a history of willingness to take special measures in defence of agriculture which extended well before the Eisenhower Administration. Referring to the difference between the American Government's general trade policy emphasising liberal principles of international trade, and that concerned with agriculture, Diebold notes:

The conflict between them was not a post-war development. It stemmed directly from the contrast between the principles of the Trade Agreements Act adopted in 1934 and the agricultural policies adopted about the same time to cope with the depression and the 'farm problem' that had plagued the United States even in prosperity. The trade policy sought to lower tariffs and remove quotas, while the farm policy aimed at
raising farm prices in ways that virtually required the imposition of new restrictions on imports.\(^47\)

Again, Anderson notes that the United States was already insisting on a double standard whereby agriculture was held to looser restraints than industry by 1945 and that GATT reflected this in its provisions.\(^48\) Under the early Eisenhower Administration, the trend towards special treatment of agriculture was carried further in a number of directions,\(^49\) but it seems more plausible to understand this as a result of growing agricultural problems rather than any change in basic willingness to breach the general principles of liberal international trade. In the period before 1954, government stockpiles had not been of the same magnitude, and the tendency to avoid aggressive international competition noted by Dirks can reasonably be attributed to this.

The other possibility is that underlying changes had occurred which discouraged action to reduce stockpiles by essentially domestic measures, so that when surpluses emerged on a substantial scale in the early fifties, policy makers were driven to seek foreign outlets for the products in question. Some of the domestic measures which might have been used to reduce surpluses - disposing of stockpiles on the open market for example - would have been inconsistent with the policies which had led to excess commodities in the first place. But other methods, the destruction of stockpiles, or the distribution of commodities through non-commercial channels within the United States, would not have been subject to this difficulty to the same extent.\(^50\)

There is no evidence of increased reluctance on the part of American policy makers to distribute commodities through 'non-commercial channels' within the United States. The table below indicates that
as surplus commodities were increasingly shifted abroad as foreign aid, there was a corresponding rise in the value of the commodities distributed within the United States to needy persons, as part of social welfare programmes and in other ways.\(^{51}\) As far as the option of destroying surpluses is concerned, this had been used to some extent prior to 1954: for example, during the depression years and in the potato price support programme discussed previously.\(^{52}\) (It has also not infrequently been used by other countries faced with surplus production). It seems likely that policy makers had become more reluctant to use this technique, for on both of the occasions mentioned, it had been accompanied by strong public criticism. Moreover, in a period such as that in the early fifties when the United States found it necessary to be sensitive to the image which it presented to the world, and to charges raised against it by the Soviet Union, destruction of foodstuffs would presumably have been much less acceptable than previously.\(^{53}\) As Assistant Secretary of State Edwin Martin noted when the question was raised in the course of Congressional hearings in 1961, "in terms of the U.S. position before the world, with a great deal of hunger and starvation, this would be a most unfortunate procedure to follow."\(^{54}\) But it is doubtful that this change was of much significance for the emergence of PL480. Given the size of the surplus problem, destruction of stocks would not have been a politically feasible option even in the absence of this change, and in any event, the positive interest of the United States in providing commodities as aid rendered interest in this option unnecessary. It was not, as far as the writer is aware, even considered as a serious alternative in the early fifties.\(^{55}\)
Table 8. Federal Food Distribution Programmes:

| Year beginning July, 1. | School Lunch Distribution | | Special Milk | | Direct distributions and needy persons |
|-------------------------|---------------------------|-----------------|-----------------|-----------------------------------------------|
|                         | Cash                      | Sec.6           | Sec.32          | (millions of dollars)                          |
| 1944                    | 42                        | -               | 6               | -                                             |
| 1945                    | 51                        | -               | 6               | -                                             |
| 1946                    | 60                        | 6               | 2               | -                                             |
| 1947                    | 54                        | 13              | 19              | -                                             |
| 1948                    | 59                        | 14              | 22              | -                                             |
| 1949                    | 65                        | 17              | 39              | -                                             |
| 1950                    | 68                        | 15              | 35              | -                                             |
| 1951                    | 66                        | 16              | 17              | -                                             |
| 1952                    | 67                        | 15              | 52              | -                                             |
| 1953                    | 67                        | 15              | 94              | -                                             |
| 1954                    | 69                        | 13              | 70              | 17                                           |
| 1955                    | 67                        | 15              | 100             | 46                                           |
| 1956                    | 84                        | 15              | 132             | 60                                           |
| 1957                    | 84                        | 15              | 76              | 66                                           |
| 1958                    | 94                        | 43              | 67              | 74                                           |
| 1959                    | 94                        | 61              | 71              | 80                                           |
| 1960                    | 94                        | 61              | 72              | 84                                           |
| 1961                    | 99                        | 69              | 113             | 89                                           |
| 1962                    | 109                       | 59              | 121             | 94                                           |
| 1963                    | 121                       | 59              | 136             | 99                                           |
| 1964                    | 130                       | 59              | 213             | 97                                           |
| 1965                    | 139                       | 59              | 125             | 99                                           |

The Expansion of Commodity Aid to Less Developed Countries.

As the first table in this chapter indicated, the value of aid provided to less developed countries under PL480 and associated provisions of the Mutual Security Act increased substantially over the period from 1954 to 1965. For the three years 1956-58, transfers to LDCs were valued at an annual average of 626 million dollars. For 1963-65, they stood at more than double that amount — approximately 1350 million dollars. The present section of the chapter is concerned with the problem of explaining this increase.

One conceivable explanation for the expansion of commodity aid to less developed countries is that there was increasing pressure to dispose of surpluses. However, the evidence does not support this explanation. Although there was a considerable increase in aid to the Third World, shipments under PL480 and associated programmes to all regions rose only slightly (on average) from 1956. For the three years 1956-58, the annual average value was $1489 million, while for 1963-65 it was $1565 million (at current prices). The rate at which aid siphoned off surpluses therefore increased only slightly. It is doubtful whether even this small increase can be attributed to any significant increase in the pressure to dispose of stockpiles. In the first place, there is an alternative, and more plausible explanation of the slight rise in commodity shipments, as will be seen subsequently. Moreover, stockpiles in the latter period did not reach the levels which had accumulated in earlier years. Thus the highest value which Commodity Credit Corporation inventories of surplus commodities reached over the period 1961-66 was $7256 million, but this
value had been passed three times in the year 1955-1960.* Finally, shipments continued at a high level in 1965 and 1966 when surpluses were declining markedly.

This is not to say that policy makers were unconcerned with the need to remove surpluses. Their statements indicated that this remained an important objective. The point is rather that increased aid to the Third World cannot be attributed to pressure to dispose of surpluses at a significantly greater rate than hitherto.

A second possible explanation for the expansion of commodity aid to LDCs is that there was a diminished willingness on the part of policy makers to transfer surpluses to countries outside the Third World, leading to the allocation of increasing amounts to the latter region. The evidence strongly supports this view. It is clear that much of the expansion of agricultural commodity aid to LDCs occurred as these countries became recipients in place of Japan and European nations. In fiscal year 1956, the first nine recipients of commodity assistance were the United Kingdom, Japan, Spain, Yugoslavia, Italy, West Germany, France, the Netherlands and Greece. By fiscal year 1963, only Yugoslavia (ranking third) was a major recipient of agricultural commodities under the programmes in question. As the first table in the chapter indicated, the total value of agricultural commodities shipped increased only slightly in the period under review, but the amount and percentage allocated to LDCs expanded by a considerable amount.

Part of this shift in allocation may be attributed to a positive interest in increasing aid levels to LDCs - a factor which is discussed subsequently. But it is also clear that policy makers,

* The table which follows provides data on CCC inventories.
### Table 9. Commodity Credit Corporation Inventories and Total Shipments of Commodities under Government Programmes.

(millions of dollars)

<table>
<thead>
<tr>
<th>Fiscal Years</th>
<th>Total Commodity Shipments: All regions.</th>
<th>Commodity Credit Corporation Inventories (at the end of the fiscal year).</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>835</td>
<td>6609.5</td>
</tr>
<tr>
<td>1956</td>
<td>1339</td>
<td>7669.3</td>
</tr>
<tr>
<td>1957</td>
<td>1919</td>
<td>6704.7</td>
</tr>
<tr>
<td>1958</td>
<td>1209</td>
<td>6277.4</td>
</tr>
<tr>
<td>1959</td>
<td>1227</td>
<td>7707.5</td>
</tr>
<tr>
<td>1960</td>
<td>1283</td>
<td>7323.1</td>
</tr>
<tr>
<td>1961</td>
<td>1503</td>
<td>7038.7</td>
</tr>
<tr>
<td>1962</td>
<td>1570</td>
<td>6657.0</td>
</tr>
<tr>
<td>1963</td>
<td>1480</td>
<td>7256.5</td>
</tr>
<tr>
<td>1964</td>
<td>1518</td>
<td>7097.9</td>
</tr>
<tr>
<td>1965</td>
<td>1697</td>
<td>6386.6</td>
</tr>
<tr>
<td>1966</td>
<td>1616</td>
<td>5312.3</td>
</tr>
</tbody>
</table>

**Source:** Data on total shipments of commodities is taken from Table 1 of this chapter. Figures on CCC inventories are taken from W.D. Anderson, *The Intersection of Foreign and Domestic Policy: the Examples in Public Law 480: Ph.D. in Political Science, University of Illinois, 1970,* p.6. Anderson cites as the source of his data, U.S. Department of Agriculture, *Commodity Credit Corporation Charts: March, 1967,* p.8.
as early as 1957, considered many of the countries in Europe, as well as Japan, unsuitable recipients for agricultural commodity aid, even under barter arrangements. In statements, U.S. officials made it clear that they preferred to provide commodities through commercial channels, and that they believed Japan and a number of European countries were able to pay for goods they received with dollars.\textsuperscript{58} A major difficulty faced by the United States in its efforts to transfer more commodities to these countries on a commercial basis was the extensive import restrictions which many applied — restrictions often discriminating against dollar products.\textsuperscript{59} However, as recovery proceeded, the United States was increasingly able to gain entry for its products through commercial channels. A major step forward in this area occurred in December 1958 when the major trading countries of Europe made their currencies convertible in international trade.\textsuperscript{60} As the table below indicates, commercial sales in Europe and Japan tended to increase as shipments under special government programmes declined.

A positive interest in providing additional economic assistance to the Third World was a further factor which contributed to the increase in commodity assistance to that region. The reasons for this interest, and the way in which it gave rise to increased aid under other programmes has been examined in the preceding chapter. From 1959, there was an extensive debate among American policy makers as to how far agricultural commodity programmes should be shaped by this concern.\textsuperscript{61} Within Congress, one end of the spectrum of opinion on this question was represented by Senator Humphrey. In April of 1959, Humphrey introduced proposals entailing a considerable expansion of
Table 10. Shipments Through Special Government Programmes and Commercial Channels: Europe and Japan.

(millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Japan Gov. Commercial</th>
<th>Europe Gov. Commercial</th>
<th>United Kingdom Gov. Commercial</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>53</td>
<td>547</td>
<td>74</td>
</tr>
<tr>
<td>1956</td>
<td>122</td>
<td>830</td>
<td>155</td>
</tr>
<tr>
<td>1957</td>
<td>136</td>
<td>1048</td>
<td>153</td>
</tr>
<tr>
<td>1958</td>
<td>34</td>
<td>565</td>
<td>34</td>
</tr>
<tr>
<td>1959</td>
<td>12</td>
<td>518</td>
<td>13</td>
</tr>
<tr>
<td>1960</td>
<td>16</td>
<td>427</td>
<td>43</td>
</tr>
<tr>
<td>1961</td>
<td>22</td>
<td>485</td>
<td>34</td>
</tr>
<tr>
<td>1962</td>
<td>36</td>
<td>473</td>
<td>21</td>
</tr>
<tr>
<td>1963</td>
<td>24</td>
<td>280</td>
<td>8</td>
</tr>
<tr>
<td>1964</td>
<td>15</td>
<td>218</td>
<td>3</td>
</tr>
<tr>
<td>1965</td>
<td>1</td>
<td>231</td>
<td>2</td>
</tr>
<tr>
<td>1966</td>
<td>13</td>
<td>226</td>
<td>18</td>
</tr>
</tbody>
</table>


Turkey is included as part of Europe in the above data, though in earlier tables in this chapter, it was counted as part of the Third World.
PL480 operations, mainly for the benefit of less developed countries. Among other points, the Humphrey bill proposed the extension of title 1 over five years, with the annual authorisation being increased from 1.5 billion dollars to 2 billion dollars, and grants being made by the Commodity Credit Corporation to build up food reserves in LDCs.62

At the other extreme were a group of Congressmen whose sympathy for aid was limited, at least where the costs and criticism were born by agricultural interests, and who accordingly sought to have surpluses disposed of in the most business-like fashion possible. The concern of these Congressmen was to increase the direct returns which the United States might gain by providing commodities - by emphasising the possibilities for bartering surpluses for materials required by the United States; by seeking to have local currencies obtained from surplus disposal allocated to U.S. purposes rather than being transferred to the recipient as grants; and in other ways.63

The dominant attitude of the Eisenhower Administration was evidently somewhere between these two extremes. In a special message on agriculture in January, 1959, Eisenhower had placed emphasis on the use of surplus food to promote long-run American objectives abroad, using the phrase "food for peace", and outlining a proposal for exploration of ways in which the United States, in conjunction with other food surplus countries, might use surpluses to contribute to "the well being of friendly peoples throughout the world".64 At a subsequent conference of five exporting countries held in May, 1959, Under Secretary Dillon noted that an important American objective was,

to find ways of using food more effectively to further the economic development of the less-developed areas,
which are important to us all in the worldwide struggle for freedom. 65

This interest was reiterated in other statements. Thus Paarlberg, Special Assistant to the President, noted in November 1959, that he was interested in:

... a matching of our abundant agricultural capacity and knowledge with the great needs of developing countries.

... There are some who view the food needs of the developing parts of the world simply as a safety valve to permit the continuation of unsound price support legislation in the United States. What I am suggesting is something far different: the conscious reorientation of our farm policies with respect to the needs and opportunities of our foreign policy. 66

Nevertheless, the Eisenhower Administration made clear its opposition to Senator Humphrey's proposals, not only on the ground that shipments of the magnitude envisaged would damage relations with other producers (including in some cases LDC producers which were recipients of American economic aid), but that "the apparent shift of emphasis of S1711 [Humphrey's bill] from surplus disposal to increased foreign assistance ... would result in a misleading impression of the possibilities for increased economic development". 67

As for the Kennedy Administration, the predominant attitude was highly favourable to the use of commodity aid as a means of expanding economic assistance to LDCs. This observation is supported by the memoirs of Schlesinger and Sorensen, 68 by the statements of the President and other Administration spokesmen, 69 and, as will be seen, by the actions of the Administration regarding PL480. It must be added that Sorensen draws a distinction between the Eisenhower and Kennedy Administrations which is far too sharp, though it is no doubt true that the Kennedy Administration was more favourable to the reorientation
of farm programmes to serve an interest in expanding aid to LDCs than was its predecessor.

Thus in the executive under both Eisenhower and Kennedy, and within Congress, there is evidence of attitudes favourable to the modification of commodity disposal programmes to serve an interest in providing additional economic aid to LDCs. These attitudes seem to have influenced the growth of economic aid to the Third World under these programmes in several ways. To begin with, they probably encouraged the redistribution of commodity shipments away from other areas such as Europe. Beyond this, concern with providing additional aid to less developed countries seems to have been an important factor leading to the increased volume of commodities shipped abroad through government programmes. It has been noted that the small increase in the total value of commodities shipped abroad cannot be adequately explained on the ground of a need to siphon off surpluses at a more rapid rate than previously. The interest of transferring additional economic aid to less developed countries provides a reasonable explanation for the increase, and there is much direct evidence, in the statements and memoirs noted previously, to confirm that it was important.

Apart from the increase in average annual volume of commodities shipped abroad, there was some improvement in the terms and conditions on which they were provided. Part of this can perhaps be attributed to an interest in adding to assistance for less developed countries. Thus there was diminished use of the Mutual Security legislation as a vehicle for disposing of surpluses. It will be recalled that section 402 and 550 of the Mutual Security Act had specified that a minimum amount of assistance under the Act should be
made available in the form of surplus agricultural commodities. While it is not entirely clear that Congress would have provided x additional dollars to replace a provision for supplying x dollars' worth of surplus commodities, it seems likely that these sections did cut into the dollar aid available to recipients to some extent. This is even more probable where the executive earmarked more for this purpose than the amount Congress had specified. The diminished resort to this practice — progressively smaller amounts were provided under it, and the relevant provisions were dropped from the Act for International Development in 1961 — was thus probably of some value to recipients, since additional shipments through title 1 of PL480 more than compensated for the decline, and it seems likely that they would have obtained more dollar aid. This improvement can probably be attributed in part to increased interest in assisting LDCs. Although diminished use of it was sometimes justified by executive spokesmen on the ground that it was difficult to induce recipients to forego dollar aid for agricultural commodities, the United States had been quite successful in having LDCs accept commodities in this way in the past (as Table 2 indicates).

Some improvements in the terms on which commodities were transferred resulted from other considerations. This was so with diminished use of barter. In 1956 and 1957, barter transactions averaged $350 million per annum, whereas they did not, until 1966, come within $150 million of this value. But most barter agreements in the early period had been with developed countries, and the proportion of barter agreements in shipments to less developed countries showed no tendency to decline. Less resort to barter was therefore a consequence of changes in the way commodities were distributed
among regions, rather than a direct result of increased concern to improve the quality of assistance for LDCs. Again, the increased proportion of local currencies granted directly to recipients probably resulted from two principal considerations: the fact that these currencies were accumulating at a rapid rate in a number of countries; and the belief that this action and others like it (e.g., removing the requirement that recipients maintain the value of its local currency holdings with respect to the U.S. dollar after devaluation) would expedite the negotiations of agreements. Executive spokesman made reference to both arguments in testimony to Congress.

A fourth change relevant to increased PL480 and associated aid to less developed countries was the increased dependence of a number of these nations on imports of relevant commodities, especially wheat. The table cited earlier indicates that there was a continued trend towards reliance on external sources. Statements by U.S. officials provide direct evidence that increased requirements made possible additional shipments abroad, and that inadequate outlets had constrained shipments in the past. It was not simply that the United States could not make available more than the total amount which the recipient country required. It had also to leave room for the normal commercial marketings of its own and other producers. As one State Department official noted:

After a request for Public Law 480 commodities is received ... we analyse the historical trade patterns for a past representative period. We evaluate the information concerning such factors as existing stocks, domestic production, estimated consumption, foreign exchange reserves and total import requirements. On the basis of the results we can determine how much wheat we can put into country A [in the hypothetical example taken] without impairing normal commercial
imports from the United States and other suppliers.

... We then consult the other suppliers and explain what we have in mind. We point out ... that available data show that country A should be required to import 300,000 tons of wheat on a regular commercial basis; that we believe that leaves room for them as well as ourselves to maintain our respective normal commercial imports to country A, and that we would like to have their views.76

Specific quantities to be imported under normal commercial arrangements were in some cases included in written agreements and notes covering PL480 shipments: that with India in 1960, for example, was accompanied by a note from the Indian Minister of Food and Agriculture confirming that imports under title 1 of PL480 would be,

... Over and above usual commercial imports from the United States and countries friendly to the United States during each United States fiscal year 1961-64 of not less than 400,000 MT.77

In the absence of increased requirements by less developed countries, the United States would thus have found it difficult to avoid constraints imposed by the need to maintain these normal sources of supply.

There is a fifth possibility that must be examined: namely that the expansion of agricultural commodity aid to LDCs was made possible by improved relations between the United States and other producers of these commodities. Now it would appear that there was some improvement in this area: State Department testimony in the sixties no longer emphasised strained relations with other producers as a problem. This change can be attributed to several factors. In the first place, the United States took a number of steps designed to smooth over points of difficulty. One of the aims of President
Eisenhower's initiative in calling an International Food for Peace Conference in 1959 was evidently to improve relations with competing producers of wheat. Executive spokesmen indicated that there had been a modest measure of success in this respect. Thus according to Clarence Miller, Assistant Secretary of Agriculture:

This group arrived at a considerably better understanding and set up what was called a wheat utilisation committee, meant to be an influential, high-level committee of these nations to meet intermittently and to operate at a high level of flexibility without any formal secretarial organisation or anything of that sort. It has had one meeting here in Washington, June 15-17. The visible results of this, other than better understanding of the problem on the part of wheat exporting nations, have been the development of some guidelines for the non-commercial programmes to be operated in such a way as to increase total use and not interfere with commercial markets, ours or theirs. 78

Specific changes to U.S. practices included abandoning the policy of tied sales whereby the United States had required recipients of PL480 title 1 commodities to purchase a given volume of agricultural products in the United States. This practice had been the cause of strong objections from other wheat exporting countries. 79 Again, the reorientation of agricultural commodity aid to focus on LDCs probably encouraged improved relations between the United States and other producers, for shipments to rich countries, especially under barter arrangements, carried a greater danger of interfering with the commercial transactions of other countries. Expanding requirements of Third World countries was probably also a contributing factor, while the increase in aid to less developed countries under other programmes no doubt helped to mollify the criticisms of Third World producers affected adversely by U.S. commodity programmes.

Thus it seems evident that there was an improved understanding
between the United States and other producers. Moreover, it is true that an important concern of policy makers in the initial years of operation of commodity programmes—and one which tended to impose restrictions on them—was that the United States should avoid expanding the scheme so far that relations with these countries would be strained. Nevertheless, relatively little emphasis should be placed on this as an independent factor explaining the expansion of commodity aid to LDCs. The improvement in relations was, to a considerable degree, the result of factors already considered—increased interest in providing additional aid to LDCs, expanding requirements in Third World countries, and reduced emphasis on Europe and Japan as recipients. To the extent that this was the case, it does not need to be introduced as an independent causal factor. Further, strained relations in the early years had not prevented the United States from running a programme which was, in terms of average shipments to all areas of the world each year, not much smaller than the one which operated in the sixties.

Sixth: there is the possibility that reduced interest in allocating surplus commodities through domestic channels contributed to the growth of commodity aid to less developed countries. However, the evidence does not support this view. As the table cited earlier indicated, the tendency was for distribution of surpluses through domestic channels to grow along with the increase in commodity aid to the Third World.

IV. Conclusion

To conclude: the immediate cause of the introduction of
PL480 was the concern of policy makers to find an outlet for growing agricultural surpluses in the United States. However, resort to economic aid to tackle the problem of surpluses was facilitated by the increased reliance of less developed countries on imports of wheat and other relevant commodities; and by the existence of a climate in which the provision of large quantities of aid on a grant or grant-like basis was considered more reasonable and acceptable than it would have been fifteen years previously.

The expansion of commodity aid to less developed countries - the average annual value of shipments for 1963-65 stood at more than double the level for 1956-58 - resulted from several factors. These included a diminished willingness on the part of policy makers to transfer surpluses to countries outside the Third World, a positive interest in providing additional economic aid to less developed countries, expanded requirements for food imports in these countries, and (less important) improved relations between the United States and other producer countries.
FOOTNOTES


2. See, for example, Israel Yost, "Food for Peace Arsenal", in S. Weissman et al., The Trojan Horse: a Radical Look at Foreign Aid: Ramparts Press, 1974, pp. 158-159.


7. See D. Gale Johnson, "Agricultural Price Policy and International Trade", Essays in International Finance, No.19, June, 1954, p.3. Also see Murray Benedict and Oscar Stine, The Agricultural Commodity Programmes: Two Decades of Experience: Twentieth Century Fund, 1956, pp. xv-xliii. It might be noted that the Federal Farm Board had been involved in certain limited price support operations as early as 1929.


9. For details, see D. Gale Johnson, art. cit., especially pp. 4-5.


11. For detailed description of the various proposals to reduce the level of price supports, see ibid., pp. 85-87; and P. Toma, op.cit., p.7.
12. On shortage of feed grains and the use of wheat for this purpose, see M. Benedict and O. Stine, *op.cit.*, pp. 118-211.

13. Much of the war and post-war demand for agricultural commodities came from government requirements for programmes of assistance such as lend-lease and UNRRA. For data on the value of agricultural commodities shipped through government programmes of this type, see E. Menzie, L. Witt, C. Eicher, and J. Hillman, *Policy for United States Agricultural Export Disposal*: Technical Bulletin No. 150, University of Arizona, 1962, pp. 27, 31.


16. See *ibid.*, pp. 287-289 for Eisenhower's account of this.

17. For comment on this, see *ibid.*, pp. 559-561.

18. See W.D. Anderson, *op.cit.*, pp. 100-101. Benedict and Stine note of this case that:

   Public and congressional opposition to the programme became so vigorous that the 1948 and 1949 agricultural acts provided for a reduction in the percentage of parity at which the price of potatoes would be supported ... By 1951, opposition to the programme had become so strong that Congress directed that no further price support should be provided on potatoes unless marketing quotas were in effect ...

   *op.cit.*, pp. 427, 430.


21. One instance of Congressional hostility to the State Department on this score has already been noted. For other examples, see E. Menzie and R. Crouch, *Political Interests in Agricultural Export Surplus Disposal Through Public Law 480*: Technical Bulletin No. 161, University of Arizona (Interregional

22. This particular point was acknowledged by Secretary of Agriculture Benson in 1957. See P. Toma, *op.cit.*, p.58. On discussions concerning the programme (and the need of the United States to consult with affected countries) at sessions of the General Agreement on Trade and Tariffs (GATT) and the Food and Agriculture Organisation, see Frederick Dirks, "U.S. Exports and Surplus Commodities", *International Monetary Fund Staff Papers*, Vol.5, 1956-57, pp. 212-217. Also see Mordecai Ezekiel, "The Role of Food in Economic Development", *Canadian J. of Agricultural Economics*, Vol. X, No.2, 1962, pp. 4-5.


27. Anderson adopts this interpretation, though he does not seem to examine the rival view noted above. See W.D. Anderson, *op.cit.*, pp. 11-14.

28. This is noted in the statement of Kalijarvi referred to above. *Policies and Operations: Hearings before the Committee on Agriculture and Forestry*: p.87.

29. See the case study on Yugoslavia in W.D. Anderson, *op.cit*.


32. One statement in 1958 is relevant on this point. According to C.W. Nichols of the State Department:

   We are convinced on balance that the Public Law 480 programme has a net of pluses and advantages in the foreign relations side without forgetting for a moment the need to continue to administer it very carefully so that it does not harm the dollar export trade of the United States or the commercial trade on which some of our allies are very dependent.


34. Surplus Disposal Programme: *Hearing before the Committee on Agriculture*: p.14. For similar comments, see pp.12-13, 15.


36. The rankings of states benefiting from the PL480 programme are given in *ibid.*, p.168.

37. For notes on Humphrey's position on aid in the early fifties, see M. Mangan, *The Congressional Image of Aid to the Underdeveloped Countries (1948-59) as Revealed in the Congressional Hearings and Debates*: Ph.D. in Political Science, Yale University, 1964, pp.68-69, 112, 122.


43. *Loc.cit.*


46. F. Dirke, *art.cit.*, p.200. Dirks actually refers to foreign policy considerations, but his meaning seems to be the specific costs mentioned above. On the conflict between PL480 and liberal international trade principles, see W.D. Anderson, *op.cit.*, p.81.


49. Ibid., p.96.

50. It is perhaps necessary to emphasise the phrase "to the same extent". It is, in practice, difficult to distribute commodities without having some impact on the amount which can be sold through commercial channels at a given price.

51. Also see Food Distribution Programmes: Hearings before a Subcommittee of the Committee on Agriculture and Forestry, United States Senate: 86th Congress, 1st Session, June 4, 5, 8, 1959, U.S. Government Printing Office, p.31.

52. On the potato case, see M. Benedict and O. Stine, op.cit., p.426. On destruction of crops in the depression years, see N. Markowitz, op.cit., pp. 22-23. Also see J. Blum, From the Morgenthau Diaries: Years of Crisis, 1928-38: Houghton Mifflin, 1959, Chapter Two. The latter source makes it clear that destruction of crop was controversial within the Administration even during the depression years.

53. There was some concern even over 'Communist' charges that the United States was allowing food to pile up in storage before giving it to the hungry people of the world. Representative Gathings raised this point in floor debate on surplus commodity legislation in 1954. See. E. Menzie and R. Crouch, op.cit., p.32.


55. Destroying surpluses was not proposed by the Congressman who raised the subject in 1961. Rather, he sought to argue that the advantages which agriculture gained from the programme could be obtained by this course of action, and that much of the cost of the programme should therefore be charged to other government agencies. Ibid., pp. 717-719.

56. Thus Chairman Cooley of the House Committee on Agriculture reiterated for the benefit of the Assistant Secretary of State for Economic Affairs that:

We are primarily interested in getting rid of the surpluses and we don't care how you do it and under what authority. We have told you that we want the commodities sold for dollars first and then for foreign currencies or then donate them.

Extension of Public Law 480: Hearings before the Committee on Agriculture: House of Representatives: 86th Congress, 1st

57. The ranking of recipients in various years is given in U.S Department of Agriculture, 12 Years of Achievement under Public Law 480: Washington, D.C., 1967, p.73.

58. See, for example, the statement of Assistant Secretary of Agriculture Earl Butz, in Policies and Operations: Hearings before the Committee on Agriculture and Forestry: pp.48-49.

59. For discussion of these difficulties and the steps taken to overcome them, see the statement by Assistant Secretary of Agriculture Butz in Surplus Disposal Programme: Hearing before the Committee on Agriculture: p.3.


61. For an excellent summary of this debate (and one on which the following comments draw), see P. Toma, op.cit., pp.60-61.

62. On Humphrey's proposals, see International Food for Peace: Hearing before the Committee on Foreign Relations: especially p.71. Also see P. Toma, op.cit., p.61.


65. Dillon's remarks were quoted in testimony by W. Beale, Deputy Assistant Secretary for Economic Affairs, Department of State, in International Food for Peace: Hearing: p.32. For the communiqué of this conference, see Department of State Bulletin, Vol. XL, No.1040, June 1, 1959, pp.793-795.


67. See the statement of Beale noted in footnote 65. The quote is from p.32.


70. Data on barter transactions is given in *12 Years of Achievement under Public Law 480*: p.5.

71. To illustrate with the case of Latin America: barter accounted for approximately 11% of transactions under PL480 and associated programmes over the period 1956-58. The corresponding figure for 1962-64 was 16%. Calculated from date given in *ibid.*, p.89.

72. Grants of local currencies to recipient governments for economic development averaged 9% of total use between fiscal 55 and fiscal 57. The corresponding figure over fiscal years 60-62 was 30%. Data calculated from O.E.C.D., *Food Aid: its Role in Economic Development*: p.33. This was perhaps of less consequence than some Congressmen feared, for the currencies, even if held by the United States could not be used to buy convertible foreign exchange. Further agreements between the United States and the recipient specified the amounts which could be allocated to various categories of uses, and except for a small proportion, seem to have required recipient government agreement before they could be used for particular projects even within the terms of the overall agreement. Still, there were dangers in allowing the United States to hold a large volume of the money supply, particularly where, as in the agreement with India in 1960, there was provision for the United States to use currencies as it saw fit if there was no agreement regarding their disbursement after a specified period. Increased grants of the currencies was therefore of some value to recipients. (The agreement with India is given in *Public Law 480 Amendments: Hearings before the Committee on Agriculture, House of Representatives*: 86th Congress, 2nd Session, June 2-14, 1960, U.S. Government Printing Office, 1960, pp. 111-116. For the provision referred to above, see Article 11, section 1).

73. For statements referring to these points, see *ibid.*, p.26; and *International Food for Peace: Hearings*: pp.80-81.

74. Except in the case of Latin America, where net grain exports for 1966 were up on levels in 1960.

75. See the statement of John Duncan, Assistant Secretary of Agriculture, in *Amend Title 1 of Public Law 480: Hearing*: p.3.

76. Statement by W.T. Beale, Deputy Assistant Secretary for Economic Affairs, Department of State, in *International Food for Peace: Hearing*: p.34.
77. See item 5 of the note attached to the agreement, printed in *Public Law 480 Amendments: Hearings*: p.115.

78. See the statement of Clarence Miller, Assistant Secretary for Agriculture, in *Extension of Public Law 480: Hearings*: p.109.

CHAPTER FIVE

THE DECLINE OF CONCESSIONAL ECONOMIC AID

From approximately the mid-sixties, there was a decline in the amount of concessional economic aid provided by the United States to less developed countries. The present chapter attempts to account for this change. The first part of the chapter takes up the preliminary tasks of establishing that there was a decline in aid levels; identifying those recipients and programmes which received less assistance; and indicating where there was an erosion of political support for aid. The subsequent section attempts to identify the changes which brought about this loss of support, and the consequent decline in aid levels.

The change in the level of American economic aid to less developed countries is partly indicated in Table One. This shows that the level of U.S. commitments of concessional economic aid to less developed countries entered a period of irregular decline after 1966. By 1972, gross commitments of concessional aid amounted to slightly under 3.6 billion dollars, compared with the 1966 total of 4.6 billion dollars. 'Concessional economic aid', as defined here, is equivalent to 'official development assistance' in U.S. statistics, and covers loans and grants (including supporting assistance) made available through the A.I.D., Peace Corps assistance, contributions to international financial institutions and agricultural commodity assistance.
Table 1.

Concessional Economic Aid: Commitments 1962-73
(in millions of U.S. dollars)

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<td>4086</td>
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<td>3667</td>
<td>3428</td>
<td>3580</td>
<td>4096</td>
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Price Index for Imports to Less Developed Areas

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<td>94</td>
<td>94</td>
<td>96</td>
<td>100</td>
<td>104</td>
<td>111</td>
<td>128</td>
</tr>
</tbody>
</table>

D.A.C. Deflator for Disbursements of Official Development Assistance from the U.S. to Less Developed Countries and Multilateral Agencies

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<tr>
<td></td>
<td>88.0</td>
<td>91.9</td>
<td>94.4</td>
<td>95.5</td>
<td>97.0</td>
<td>100</td>
<td>105.5</td>
<td>112.8</td>
<td>161.3</td>
</tr>
</tbody>
</table>


The countries included as 'less developed' in the above table are not exactly the same in different sections.

The D.A.C. deflator cannot be used directly to adjust figures given in the first section of the table. The deflator refers to disbursements rather than commitments. For an explanation of the way in which the deflator is calculated, see Report of the Chairman of the Development Assistance Committee, Development Assistance: 1971 Review: O.E.C.D., 1971, pp. 147-150.
Table One suggests a partial recovery in the level of aid commitments in 1973, but this is somewhat misleading since the totals given refer to values in current dollars and are unadjusted for changes in prices and exchange rates. By 1973, substantial increases in outlays on aid in current dollars were required simply to maintain the existing value of aid in real terms.

Thus the index of import prices for less developed countries (Table One) advanced from 111 in 1972 to 128 in 1973 while the D.A.C. index for adjusting disbursements of U.S. development assistance increased from 112.8 to 161.3 (suggesting that 161 dollars of U.S. aid transferred in 1973 was approximately equivalent in real terms to 113 dollars made available in the preceding year). The data given in the table also suggests that the decline in American aid levels from 1966 is very much understated in Table One: appropriate adjustment for inflation would indicate a much greater reduction in aid levels.

The proportion of grants and the financial terms on which loans are made available must be taken into account in discussing changes in the level of economic aid. Table 2, which provides relevant data over the period 1967-73, indicates that changes of this kind do not alter the conclusion that there was a substantial decline in the volume of aid. The overall grant element in commitments of official development assistance from the United States - a useful indicator of the impact of these factors - fluctuated over the interval, but never rose above the 1967 figure of 89.9%.

The extent to which economic aid is tied to purchases in the donor also affects the value of aid. By 1966, most assistance provided through the A.I.D. was effectively tied with over 90% of A.I.D. commodity purchases being made in the United States. (Agricultural
commodity assistance had always been tied aid.) In 1967 an even stricter policy aiming at 'additionality' was implemented. This sought to prevent recipients from circumventing the policy of tying by ensuring that their 'purchases' under aid programmes were over and above those which would normally have been made from the U.S. through commercial channels.

Table 2.

<table>
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<tbody>
<tr>
<td>Overall Grant Element in U.S. Official Development Assistance (%)</td>
</tr>
<tr>
<td>Percentage of Grants in Total Commitments</td>
</tr>
<tr>
<td>Average Terms of Loan Commitments:</td>
</tr>
<tr>
<td>(a) Maturity (years)</td>
</tr>
<tr>
<td>(b) Interest rate - %</td>
</tr>
<tr>
<td>(c) Grace Period (years)</td>
</tr>
</tbody>
</table>


* Estimate

The policy of seeking additionality was abandoned in 1969, but assistance made available through aid generally remained tied to procurement in the United States, just as it had in 1966 (Table 3). Thus the changes in policies concerning aid tying do not weaken the conclusion that there was a substantial decline in commitments of
American economic aid over 1966-73.

The decline of aid indicated in Figure 1 refers to commitments to provide concessional economic assistance. It would be possible to choose other measures of the level of aid: for example, one might focus on disbursements of aid in relation to gross national product. Table 4 provides data on the level of U.S. development assistance as measured by these indicators. It indicates that the conclusion that there was a decline in economic aid still holds, but the pattern of decline, and the point at which aid levels peaked, is not the same with these alternative measures.

Table 3.

A.I.D. Commodity Expenditures by Source of Purchase

<table>
<thead>
<tr>
<th>Year</th>
<th>Purchases in U.S.</th>
<th>Purchases Offshore</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966</td>
<td>...</td>
<td>90.2%</td>
</tr>
<tr>
<td>1967</td>
<td>...</td>
<td>96.2%</td>
</tr>
<tr>
<td>1968</td>
<td>...</td>
<td>98.4%</td>
</tr>
<tr>
<td>1969</td>
<td>...</td>
<td>98.9%</td>
</tr>
<tr>
<td>1970</td>
<td>...</td>
<td>98.0%</td>
</tr>
<tr>
<td>1971</td>
<td>...</td>
<td>99.7%</td>
</tr>
<tr>
<td>1972</td>
<td>...</td>
<td>95.5%</td>
</tr>
<tr>
<td>1973</td>
<td>...</td>
<td>94.5%</td>
</tr>
</tbody>
</table>

### Table 4.
Aid Levels: 1963-73: Alternative Indicators

<table>
<thead>
<tr>
<th>Year (calendar)</th>
<th>(a) Net Official Dev.Aid from U.S. to LDCs and Multilateral agencies: disbursements</th>
<th>(b) Data in (a) adjusted to take account of price changes (1970 dollars)</th>
<th>(c) Data in (a) in relation to gross national product.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1962</td>
<td>3181.5</td>
<td>3683</td>
<td>.56%</td>
</tr>
<tr>
<td>1963</td>
<td>3566.6</td>
<td>4096*</td>
<td>.59%*</td>
</tr>
<tr>
<td>1964</td>
<td>3591.9*</td>
<td>3999</td>
<td>.56%</td>
</tr>
<tr>
<td>1965</td>
<td>3417.7</td>
<td>3884</td>
<td>.49%</td>
</tr>
<tr>
<td>1966</td>
<td>3349.3</td>
<td>3644</td>
<td>.44%</td>
</tr>
<tr>
<td>1967</td>
<td>3471.8</td>
<td>3678</td>
<td>.43%</td>
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<tr>
<td>1968</td>
<td>3242.3</td>
<td>3395</td>
<td>.37%</td>
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<tr>
<td>1969</td>
<td>3092.0</td>
<td>3188</td>
<td>.33%</td>
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<tr>
<td>1970</td>
<td>3050.0</td>
<td>3050</td>
<td>.31%</td>
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<tr>
<td>1971</td>
<td>3324.0</td>
<td>3150</td>
<td>.32%</td>
</tr>
<tr>
<td>1972</td>
<td>3349.0</td>
<td>2970</td>
<td>.29%</td>
</tr>
<tr>
<td>1973</td>
<td>2968.0</td>
<td>1840</td>
<td>.23%</td>
</tr>
</tbody>
</table>


* = peak level. Data in (b) is calculated.
As Table 5 indicates, the decline in aid levels was not borne by any single programme. Commitments to less developed countries through the Agency of International Development totalled over $2600 million per annum in 1966: over 1971-73 they averaged less than $2000 million per annum. * There was a decline in assistance provided under PL480, from 1966 when commitments totalled almost $1400 million, to 1973 when (with wheat prices almost double the 1966 values) the nominal value of commitments was a little over $1100 million. The table also indicates a decline in the value of aid provided through the much smaller Peace Corps programme. Of course, the level of aid did not fall off for every programme. Commitments of assistance to international lending organisations fluctuated markedly over the period with no clear tendency toward decline.

The decline in aid was not confined to any one region or country. Table 6 indicates a significant erosion in the level of concessional economic aid provided to each of Latin America, Africa and the Near East and South Asia. Countries in which there was a marked decline in aid levels included Brazil, Chile, Taiwan, Egypt, India, Pakistan and Turkey. There were some instances where aid increased. Thus aid to Indonesia rose substantially following the destruction of the PKI and the ousting of Sukarno.

A further point is that the decline of concessional economic aid resulted from an erosion of support on the part of different groups within the United States; it cannot be attributed simply to 'disenchantment' within one branch of government or from one section of the political spectrum. Loss of support was perhaps most visible in Congress, with successively lower appropriations for the Agency of International Development in the latter half of the sixties; the

* This understates the magnitude of the decline for no adjustment has been made for price changes.
Table 5

Aid Commitments under Different Programmes: 1962-73

<table>
<thead>
<tr>
<th>Year</th>
<th>A.I.D.</th>
<th>PL480</th>
<th>International Lending Organisations</th>
<th>Peace Corps</th>
<th>Other</th>
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<tbody>
<tr>
<td>1962-65</td>
<td>2374</td>
<td>1288</td>
<td>179</td>
<td>62</td>
<td>197</td>
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<tr>
<td>1966</td>
<td>2677</td>
<td>1397</td>
<td>354</td>
<td>113</td>
<td>82</td>
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<tr>
<td>1967</td>
<td>2419</td>
<td>955</td>
<td>374</td>
<td>104</td>
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<tr>
<td>1968</td>
<td>2176</td>
<td>1312</td>
<td>424</td>
<td>107</td>
<td>67</td>
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<tr>
<td>1969</td>
<td>1690</td>
<td>1169</td>
<td>480</td>
<td>100</td>
<td>75</td>
</tr>
<tr>
<td>1970</td>
<td>1877</td>
<td>1136</td>
<td>480</td>
<td>91</td>
<td>83</td>
</tr>
<tr>
<td>1971</td>
<td>1861</td>
<td>1222</td>
<td>180</td>
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<td>2062</td>
<td>1204</td>
<td>142</td>
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<tr>
<td>1973</td>
<td>1984</td>
<td>1118</td>
<td>775</td>
<td>81</td>
<td>138</td>
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</table>


Note: Data concerns only aid to less developed countries. Annual averages are given for 1962-65. The figures given are unadjusted for price changes and ordinarily understate the decline in aid levels for the various programmes where this occurred. (Food prices - as measured by the DAC index - actually fell significantly over the period 1964-1970, but by 1972 they had passed previous levels. In 1973, the index was almost double the 1972 value. See Development Cooperation: 1974 Review, p.209; and Development Assistance: 1971 Review, pp. 147-149.)

The gradual shift of a number of Congressmen from strong support for the Foreign Assistance Act to outright opposition; and the defeat of the principal aid authorization bill on the floor of the Senate in 1971. But reduced support was not confined to any single class of legislators. One indication of this is given in Table 7 which lists
Table 6

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<td>Near East and South Asia</td>
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<td>... of which Egypt</td>
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<td>1635</td>
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<td>933</td>
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<td>... of which India</td>
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<td>162</td>
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<td>327</td>
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<td>... of which Iran</td>
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<td>379</td>
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<td>... of which Pakistan</td>
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<td>394</td>
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<td>396</td>
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</tr>
<tr>
<td>... of which Turkey</td>
<td></td>
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<td>160</td>
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<td>160</td>
<td>160</td>
<td>160</td>
<td>160</td>
<td>182</td>
</tr>
</tbody>
</table>

Source: U.S. Overseas Loans and Grants: Obligations and Loan Authorizations, July 1, 1945 - June 30, 1974. The data given above has not been adjusted for price changes and thus overstates the value of aid in later years in comparison with that in the early sixties.
TABLE 7

Senators' Votes on Foreign Aid Authorization

<table>
<thead>
<tr>
<th>Senator</th>
<th>Party</th>
<th>64 and earlier Year of first vote in parentheses.¹</th>
<th>Voting Record</th>
<th>Liberalism/Conservatism Score²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allott</td>
<td>Rep.</td>
<td>Y 9 times (1955)</td>
<td>Y Y Y Y Y N</td>
<td>Not available</td>
</tr>
<tr>
<td>Bayh</td>
<td>Dem.</td>
<td>Y once (1963)</td>
<td>Y Y Y Y Y N</td>
<td>87/12</td>
</tr>
<tr>
<td>Burdick</td>
<td>Dem.</td>
<td>Y twice (1961)</td>
<td>Y N N N N N N</td>
<td>82/23</td>
</tr>
<tr>
<td>Byrd (W.Va.)</td>
<td>Dem.</td>
<td>3Y (1960); 2N (1959)</td>
<td>Y Y N N N N N</td>
<td>40/54</td>
</tr>
<tr>
<td>Church</td>
<td>Dem.</td>
<td>Y 7 times (1957)</td>
<td>Y Y ? N N N N</td>
<td>83/15</td>
</tr>
<tr>
<td>Cotton</td>
<td>Rep.</td>
<td>Y 8 times (1955)</td>
<td>N N N N Y N N</td>
<td>8/ 88</td>
</tr>
<tr>
<td>Dominick</td>
<td>Rep.</td>
<td>Y once (1963)</td>
<td>Y Y Y Y Y N</td>
<td>19/84</td>
</tr>
<tr>
<td>Fulbright</td>
<td>Dem.</td>
<td>Y 14 times (1948)</td>
<td>Y Y Y N N N N</td>
<td>51/14</td>
</tr>
<tr>
<td>Hatfield</td>
<td>Rep.</td>
<td></td>
<td>Y Y Y Y N</td>
<td>71/17</td>
</tr>
<tr>
<td>Magnuson</td>
<td>Dem.</td>
<td>Y 12 times (1948)</td>
<td>Y Y Y N N N N</td>
<td>84/30</td>
</tr>
<tr>
<td>Mansfield</td>
<td>Dem.</td>
<td>Y 10 times (1954)</td>
<td>Y Y Y N N N N</td>
<td>78/13</td>
</tr>
<tr>
<td>Montoya</td>
<td>Dem.</td>
<td></td>
<td>Y Y Y Y N N N</td>
<td>73/29</td>
</tr>
<tr>
<td>Nelson</td>
<td>Dem.</td>
<td>Y twice (1963)</td>
<td>Y Y Y Y Y Y N</td>
<td>93/7</td>
</tr>
<tr>
<td>Pastore</td>
<td>Dem.</td>
<td>Y 10 times (1951)</td>
<td>Y Y Y Y Y Y N</td>
<td>82/28</td>
</tr>
<tr>
<td>Pell</td>
<td>Dem.</td>
<td>Y 3 times (1961)</td>
<td>Y Y Y Y Y Y N</td>
<td>88/20</td>
</tr>
<tr>
<td>Randolph</td>
<td>Dem.</td>
<td>Y 4 times (1959)</td>
<td>Y Y Y Y Y Y N</td>
<td>64/33</td>
</tr>
<tr>
<td>Smith</td>
<td>Rep.</td>
<td>Y 16 times (1949)</td>
<td>Y Y Y Y Y Y N</td>
<td>not available</td>
</tr>
<tr>
<td>Spong</td>
<td>Dem.</td>
<td></td>
<td>Y Y Y Y Y N</td>
<td>not available</td>
</tr>
<tr>
<td>Symington</td>
<td>Rep.</td>
<td>Y 10 times (1954)</td>
<td>Y N N N N ? N</td>
<td>82/25</td>
</tr>
</tbody>
</table>

Notes: (contd.)

The table covers those Senators who opposed the foreign aid authorization bill of October 1971, but who had supported the aid authorization bill at least twice in the 1960s. 'Opposition' is taken to include voting against, being paired against, or announcing against the bill on final passage; similarly 'support' covers voting for, being paired for, or announcing for the legislation.
Notes to Table 7.


1. Y and N have somewhat narrower meanings under the column '1964 and earlier' than under the other headings. Thus for 1965-71, Y covers being paired for or announcing for the bill, as well as actually voting for it. But before 1964, it refers to only the latter.

2. The 'liberalism/conservatism score' gives two figures, the first a rough measure of how liberal a Congressman is, with 100 being the maximum score attainable; and the second an indicator of conservatism with 100 again being the highest possible total. Using this measure, Barry Goldwater obtains 4/91, while Edward Kennedy is given 93/6.

The basis for the first figures is the rating which three liberal groups, Americans for Democratic Action, the Committee on Political Education, and the League of Women Voters, gave to Congressmen over 1970-72. (Each group selects a number of critical votes and gives a rating for legislators representing the number of 'correct votes'.) The ratings were simply averaged to give the final result.

The second figure is obtained from ratings given by three conservative groups, the National Association of Businessmen, the American Security Council, and Americans for Constitutional Action. The period covered is again 1970-72.

Needless to say, the rating given to a legislator by any one group may vary markedly from year to year as the issues selected change. For general comments on the way in which the above groups calculate ratings, see M. Barone et al., op.cit., pp. ix-xi.
those who opposed the foreign aid bill in the Senate in October 1971, but who had supported the same measure at least twice during the 1960s. It can be seen that those changing their allegiance ranged from conservative Republicans such as Senator Dominick to liberal Democrats like Senators McGovern and Church. They also included those, for example, Fulbright and Mansfield, who had been in the vanguard of support for economic aid in the late 1950s.

There were some instances where the executive was directly responsible for decisions which reduced aid levels. In August, 1971, foreign aid was reduced by 10% as part of a package of measures designed by the executive to improve the U.S. balance of payments position. (Other measures included the suspension of the convertibility of the dollar into gold and the imposition of a surtax on dutiable imports.) More important, there was first stagnation and then decline in the level of aid provided under the PL480 programme, even though the executive was not under any immediate constraint from Congress. Provisions in the basic legislation concerning PL480 gave the executive a substantial measure of freedom from annual Congressional authorizations and appropriations. Sums authorized in a given year for Title 1 and Title 11 of the programme, but not utilised in that year, were available for use subsequently. The authorization accumulated under this carryover principle was substantial: as of December 31, 1967, it amounted to $3.1 billion in the case of Title 1, and $588 million for Title 11. This compared with new annual authorizations of $1.9 billion for Title 1 and $600 million for Title 11. Again the executive did not have to secure appropriations from Congress to gain the funds necessary to transfer commodities; it was able to use the general borrowing authority of the Commodity Credit Corporation for this purpose before Congressional appropriations for PL480 had been made. The position with PL480 was
thus quite different from that where aid was made available through the Agency for International Development: in the latter case, the executive was forced to struggle each year, first to have funds authorized, and then to have them appropriated. With PL480, the failure to transfer greater amounts of aid often arose directly from decisions made by the executive. In some years, domestic budgetary considerations were cited as the reason for not raising shipments to the levels made possible by authorizations. In calendar 1973, on the other hand, when shipments dropped to their lowest level since the inception of the programme in 1954, the judgment of the Secretary of Agriculture that commodities were in limited supply was the primary constraint on the programme.

With much aid, including that under the Foreign Assistance Act, Congressional decisions were the immediate constraint on the size of the programme, and the amounts finally appropriated by Congress were usually well below the levels requested by the executive. But even with these programmes, it seems likely that reduced commitment to aid on the part of members of the executive contributed to the declining totals voted by Congress.

This is not to say that members of the executive generally endorsed the massive cuts which Congress made in the programme, or that they were unconcerned with them. Rather it would seem that the goal of obtaining a high level of economic aid ranked somewhat lower in the executive's scale of preferences between 1967 and 1973 than it had in the first half of the sixties; and that accordingly less of its political resources were directed towards the task of rounding up support for additional economic aid.

One reason for adopting this view is that it is supported by
statements made by persons in close contact with the policy making process. Thus Donald Fraser, a representative in the U.S. Congress from 1962, argued in 1971 that the Congress had not seen a major effort by a president in the aid field for half a dozen years; further, he suggested that this was of considerable importance for the aid programme since the president could influence Congress more effectively than anyone else.\footnote{11}

Again, according to Bill Gaud, Administrator of the Agency for International Development from 1966-68, President Johnson spent relatively little effort on behalf of development assistance during this period.\footnote{12} Whereas Kennedy (and Johnson during the early part of his Administration) had spent a good deal of time on the phone contacting Congressmen and others concerning the aid legislation,\footnote{13} very little of this lobbying was carried out during Gaud's term as Administrator.

Similarly, Paul Clark\footnote{14} suggests that there was little emphasis on development assistance by the president and other members of the executive.

President Johnson and people in the National Security Council Staff and those in the Budget Bureau were so constrained by other economic and international policy objectives that development aid dropped way down on the list of priorities.

The position was not very different under President Nixon according to Clark.\footnote{15}

Other considerations lend weight to the view that the executive was no longer pressing development aid as strongly as it had previously. The Johnson Administration, towards the end of its term of office, was evidently preoccupied with the Vietnam War\footnote{16} and with the problems of economic management which had largely arisen from the
problem of financing the war; in these circumstances, reduced emphasis on the aid programme and less political support for it is hardly surprising. In the case of the first Nixon Administration, there were a number of indications that the question of development assistance was not accorded high priority. For example, there was a substantial delay in submitting recommendations for a revised aid programme. The 1968 Foreign Aid Bill had included a provision calling upon the President to submit recommendations on this point to Congress by March 31, 1970. In May 1969, Nixon indicated that a long term study of the aid programme would be undertaken and Rudolph Peterson was subsequently commissioned to head a task force on the subject. However, the President's broad proposals for a revised aid programme were not outlined to Congress until September 15, 1970, and it was not until April of 1971 — more than a year after the due date — that draft legislation was submitted. This action was hardly conducive to building support for the programme. In its report on the 1971 legislation, the Senate Foreign Relations Committee noted the dissatisfaction which members had expressed with the foreign aid programme in previous years and indicated that because the President's proposal had been submitted at such a late stage, the Committee "again finds itself recommending the continuation of a programme for which few members have any real enthusiasm". 17

Support for the existing programme of economic aid also weakened outside Congress and the executive. Thus a number of private groups became noticeably less enthusiastic in their attitude to the programme over the period under review. Sewell and Paolillo, writing in 1974, noted that churches and church related groups had,

... virtually ceased to be important
sources of development aid, partly because of Vietnam, but also because they now give primary importance to problems of domestic poverty.18

The direction in which general public opinion shifted is not entirely clear. There was an increase in the percentage of the population favouring U.S. assistance to less developed countries - from 51% in 1958 to 58% in 1966 to 68% in 197219 - but this does not necessarily mean that attitudes towards the level of economic aid shifted in the same direction. As indicated in the previous chapter, increased support for the general principle of U.S. assistance to less developed countries had in the past gone hand in hand with a greater inclination to reduce the amount of money spent for this purpose.

II

The erosion of support described above, and hence the decline of U.S. concessional economic aid, can be explained as the result of a number of changes. First, there was less emphasis on some of those foreign policy considerations which had been extremely important in justifying the transfer of aid in the late 1950s and early 1960s. It has been seen in earlier chapters that an important motive for the transfer of economic aid had been the desire to avoid an tendency towards growing 'communist' influence and control in less developed countries. In the understanding of many U.S. officials and Congressmen there was a grave danger that internal political change within less developed countries, combined with the expanded use of aid and other instruments by communist powers, would lead to this result. It was believed that any tendency of this kind posed a significant threat to American interests and that economic aid was a suitable instrument
with which the United States might respond.

These 'cold war' justifications for economic aid were not absent in the late 1960s and early 1970s, but as a rule they were not accorded the same emphasis. To begin with, the danger from 'communist' and allied movements was generally perceived to be less pressing. Following the Cuban Missile Crisis of 1962, relations between the Soviet Union and the United States improved markedly. Diminished fear of the Soviet Union helped to make possible a series of limited arms control measures (beginning with the Nuclear Test Ban Treaty of 1963) and other forms of limited co-operation, but it probably also contributed to a lower priority for economic aid.

There was also increasing evidence of schism and divergence within what had been previously regarded as 'the communist bloc'. Most important in this respect was the deterioration in relations between the Soviet Union and China. Differences between the two powers came into the open in 1960 (though some policy makers in the U.S. were slow to understand its importance) with the effective breakdown of state and party relations between the two powers. Subsequent propaganda campaigns by both sides, border clashes, and competition for allegiance abroad served only to confirm the extent of Sino-Soviet differences. There were some who concluded that growing diversity among 'communist' and radical movements increased the flexibility with which they could operate, and thus the danger which they posed. But it was more usual to take the view that the breakdown of unity diminished the threat which 'communism' posed to the United States. Further, governments in less developed countries often seemed less vulnerable to the blandishments of other communist powers or to radical movements within their own borders. In the late 1950s and early 1960s, Latin
America had been considered extremely vulnerable to Castroite-Communist guerilla movements. But by the end of the Johnson Administration, the problem was seen as less immediate and pressing; a task force on Latin America which reported to the President was able to conclude that the threat from rural based guerilla movements was minimal. Some regions, notably Indochina, seemed just as vulnerable to Communist movements as ever, but this was the exception rather than the rule.

Again, the notion the Soviet economic aid would lead to a substantial degree of influence seemed implausible to many policy makers in the light of experience. As Senator Church - a former supporter of the aid programme - noted:

> When it comes to using aid for political purposes, the Russians have a greater talent for alienating people from communism than we do.  

There was still occasional reference to the problem posed by the Soviet aid programme in Congressional hearings, but there was nothing comparable to the concern which had been expressed in the 1950s.

A further reason for reduced emphasis on the 'cold war' justifications for aid was that economic assistance seemed less effective than had been previously thought in promoting these objectives. The statements cited below illustrate a shift in attitude concerning the effectiveness of aid, both as a means of promoting stability, and as a method of winning support for the United States on foreign policy issues.

Finally, with increasing involvement in Vietnam and heightened awareness of domestic problems, policy makers became increasingly aware of the cost of attempting to impose their preferred political order in less developed countries, and increasingly favourable to a
policy of scaling down American commitments. For some, the cost of
direct military involvement merely underlined the importance of using
less direct techniques such as economic assistance as a means of pro-
moting stability in less developed countries, but there were many
others who sought to reduce even these less direct forms of involve-
ment. Some Congressmen saw bilateral economic aid as a vehicle lead-
ing to the extension of American commitments and interests abroad and
ultimately to the type of military intervention which had occurred in
Vietnam. According to Fulbright, in a speech to Congress in 1966,
foreign aid while,

not in a literal sense the cause or
the reason for American military involve-
ment in Vietnam ... was however, an
important factor contributing to the
state of mind of policy-makers who
committed the United States to a major
land war in Asia after having stated
forcefully ... that that was exactly
what they intended not to do.

The fact that aid was becoming a vehicle for extended American involve-
ment and commitment abroad was, in Fulbright's view, a key reason for
his opposition to the existing American aid programme; in the case
of multilateral aid which did not suffer from this disadvantage,
Fulbright remained a supporter. 25

Direct evidence of the change described above can be found in
the statements of a number of those who occupied or had occupied
positions in the executive or Congress. Galbraith, in 1969, noted
his own change of attitudes thus:

The late 1940s and ... the 1950s was ... a
period when it was possible to believe
Secretary of State Rusk's haunting dream
of a Communist imperium, completely united
and probing at any soft point in its peri-
meter and without - and with no objective
short of the ultimate destruction of its
opposition.
... We persuaded our people - I was in some degree one of those persuaded - that the world stood at a decisive watershed. The question in India, in the Congo, in Southeast Asia and elsewhere, was whether they would become part of the Communist empire or would follow another kind of development.

There was an assumption, certainly on our part and I think equally on the part of the Soviets, that the superpowers had an enormous capacity to influence the direction of the development of these countries. There was also an assumption, largely unexamined, that the nature of this development was of great importance militarily, economically, and otherwise to the countries involved.

In the last twenty years we have found out that these things simply are not true. 26

The views of Senator Church, who supported economic aid early in his Congressional career (1957-66) and had by 1968 become an opponent of it, are also relevant. In a speech in 1971 Church noted that economic aid during the 1950s and 60s had been seen primarily as an instrument of containment. But U.S. policy had been based on the false premise of a Communist monolith. It had also been based on an exaggerated notion of what economic aid might achieve, for while military assistance could be a potent instrument in counterinsurgency, U.S. economic support had almost no influence on whether a country went communist or not - as the examples of Cuba and Chile had shown. Nor was there any great case for aid as a means of countering blandishments offered by the Soviet Union, for the Soviet Union, through its aid programme, had shown a greater capacity for alienating people from communism than the U.S. By 1971, the very objective of preventing revolutions in less developed countries seemed of doubtful value to Church for:

In countries long under the domination of corrupt oligarchies, nothing less than a radical redistribution of political power
may be the essential precondition for economic development. If the bulk of the people are to make the concerted effort and accept the enormous sacrifices required for lifting a society out of chronic poverty, they have got to have some belief in the integrity of their leaders, in the commitment of those leaders to social justice, and in the equality of sacrifice required of the people.27

The examples of Galbraith and Church indicate a change of attitudes towards cold war justifications at the liberal end of the American political spectrum. However, the change in attitudes was not confined to this area but extended to groups normally considered to be extremely conservative. A 1973 survey of almost 600 vice-presidents of the largest industrial and financial corporations in the United States indicated that 58% perceived a decline in "the external threat of communism to U.S. security ... over the last decade", while only 15% saw an increase. Asked to specify the "major problems facing the United States today", less than 25% named "national and socialist movements in less developed countries" or "military and technological advances of China and Russia" - traditional cold war concerns - while 75% listed "domestic order and stability", "social and racial disparities within the United States" and "world ecological problems".28

Diminished emphasis on 'cold war' arguments was not the only reason for the decline in economic aid. A second factor, affecting the 'Food for Peace' programme, was the fall in the level of American agricultural surpluses. As Table 8 indicates, surpluses had begun to decline by the mid-sixties. The trend towards decline was interrupted between 1967 and 1969, but surplus levels thereafter fell again, reaching their lowest value for two decades in 1973.
Table 8.
Commodity Credit Corporation:
Price Supported Commodities Owned and Outstanding under Loan, 1963-73.
(Figures represent millions of U.S. dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value of all commodities owned by the Commodity Credit Corporation</th>
<th>Value of commodities outstanding under price support loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1963</td>
<td>5023</td>
<td>2928</td>
</tr>
<tr>
<td>1964</td>
<td>4611</td>
<td>2802</td>
</tr>
<tr>
<td>1965</td>
<td>4110</td>
<td>2598</td>
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<tr>
<td>1966</td>
<td>2340</td>
<td>2069</td>
</tr>
<tr>
<td>1967</td>
<td>1005</td>
<td>2355</td>
</tr>
<tr>
<td>1968</td>
<td>1064</td>
<td>3605</td>
</tr>
<tr>
<td>1969</td>
<td>1784</td>
<td>3628</td>
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<tr>
<td>1970</td>
<td>1594</td>
<td>2973</td>
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<tr>
<td>1971</td>
<td>1118</td>
<td>3186</td>
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<td>1972</td>
<td>830</td>
<td>2438</td>
</tr>
<tr>
<td>1973</td>
<td>394</td>
<td>1266</td>
</tr>
</tbody>
</table>


The reasons for the decline in agricultural surpluses are complex, but may be illustrated by considering the case of one important commodity - wheat. As Table 9 indicates, it was not a decline in production which led to the reduction in surplus levels: there was a general tendency for production to increase over the 1962-73 interval. However, the volume of wheat utilised also increased, and except for the years 1967-69, remained above the amount produced. Surpluses accordingly declined. Increased use of wheat for seed and feed...
<table>
<thead>
<tr>
<th>Year beginning July</th>
<th>Carrying supply, July 1</th>
<th>Production</th>
<th>Imports</th>
<th>Total supply</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Controlled by CCC</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Owned</td>
<td>Under loan or reacquired</td>
<td>Privately held</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>million bushels</td>
<td>million bushels</td>
<td>million bushels</td>
<td>million bushels</td>
</tr>
<tr>
<td>1962</td>
<td>1096.6</td>
<td>95.0</td>
<td>130.4</td>
<td>1322.0</td>
</tr>
<tr>
<td>1963</td>
<td>1082.5</td>
<td>96.6</td>
<td>16.1</td>
<td>1195.2</td>
</tr>
<tr>
<td>1964</td>
<td>828.9</td>
<td>62.6</td>
<td>9.9</td>
<td>901.4</td>
</tr>
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<td>1965</td>
<td>507.7</td>
<td>74.7</td>
<td>134.9</td>
<td>873.7</td>
</tr>
<tr>
<td>1966</td>
<td>262.1</td>
<td>78.3</td>
<td>194.8</td>
<td>355.2</td>
</tr>
<tr>
<td>1967</td>
<td>123.6</td>
<td>77.7</td>
<td>223.1</td>
<td>424.4</td>
</tr>
<tr>
<td>1968</td>
<td>102.3</td>
<td>220.9</td>
<td>215.3</td>
<td>538.5</td>
</tr>
<tr>
<td>1969</td>
<td>162.7</td>
<td>459.0</td>
<td>195.0</td>
<td>816.7</td>
</tr>
<tr>
<td>1970</td>
<td>301.2</td>
<td>436.3</td>
<td>147.4</td>
<td>884.9</td>
</tr>
<tr>
<td>1971</td>
<td>369.9</td>
<td>199.7</td>
<td>161.9</td>
<td>731.5</td>
</tr>
<tr>
<td>1972</td>
<td>366.5</td>
<td>361.6</td>
<td>135.0</td>
<td>863.1</td>
</tr>
<tr>
<td>1973</td>
<td>209.2</td>
<td>93.0</td>
<td>136.3</td>
<td>438.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year beginning July</th>
<th>Domestic use</th>
<th>Exports of wheat, flour, and other products</th>
<th>Total disappearance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Food</td>
<td>Seed and feed</td>
<td>Under government programs</td>
</tr>
<tr>
<td></td>
<td>million bushels</td>
<td>million bushels</td>
<td>million bushels</td>
</tr>
<tr>
<td>1962</td>
<td>485.4</td>
<td>79.9</td>
<td>564.3</td>
</tr>
<tr>
<td>1963</td>
<td>503.3</td>
<td>85.2</td>
<td>588.5</td>
</tr>
<tr>
<td>1964</td>
<td>509.2</td>
<td>134.4</td>
<td>643.6</td>
</tr>
<tr>
<td>1965</td>
<td>515.4</td>
<td>215.8</td>
<td>731.2</td>
</tr>
<tr>
<td>1966</td>
<td>501.9</td>
<td>171.2</td>
<td>673.1</td>
</tr>
<tr>
<td>1967</td>
<td>519.2</td>
<td>114.1</td>
<td>633.3</td>
</tr>
<tr>
<td>1968</td>
<td>519.7</td>
<td>215.7</td>
<td>735.4</td>
</tr>
<tr>
<td>1969</td>
<td>520.6</td>
<td>251.0</td>
<td>771.6</td>
</tr>
<tr>
<td>1970</td>
<td>519.5</td>
<td>249.1</td>
<td>768.6</td>
</tr>
<tr>
<td>1971</td>
<td>525.9</td>
<td>338.8</td>
<td>864.7</td>
</tr>
<tr>
<td>1972</td>
<td>526.4</td>
<td>260.2</td>
<td>786.6</td>
</tr>
</tbody>
</table>

purposes, and increased sale of wheat abroad on a commercial basis accounted for the growth in utilisation of wheat; domestic demand for wheat as food remained almost static. Sales of wheat abroad were extremely high in 1972 and 1973, as a result of large purchases by the Soviet Union and expanded sales to Western Europe and Japan.

It is not difficult to understand why a decline in surpluses should lead to a greater reluctance to provide commodity aid. As Chapter 4 indicated, the pressure to dispose of surpluses was an important factor in the emergence of this type of aid. Further, the decision to provide commodity aid involved virtually no additional cost to the American taxpayer while large stocks of surplus commodities were present. There was even some saving on storage expenses. With an appreciable decline in surpluses, the decision to provide aid sometimes involved the allocation of funds to purchase the commodities required. As early as 1966, policy-makers found it necessary to amend the basic PL480 legislation to remove the requirement that commodities transferred under the programme should come from surplus stocks. Not only was there a budgetary cost: purchasing commodities specifically for aid meant that there would be upward pressure on commodity prices — before they had fallen to levels where government price supports would normally be invoked. There is direct evidence that these considerations were of some importance. As indicated previously, the budgetary cost of commodity aid was mentioned as a constraint on the programme in Department of Agriculture statements. In 1973, shipments dropped to their lowest level since the inception of the programme in 1954, as a result of the determination by the Secretary of Agriculture that commodities were in 'limited supply'. With surpluses at

* Accumulating surpluses involved substantial costs, but this was basically done to support the prices of the commodities in question, not to obtain commodities for foreign aid purposes.
their lowest level for two decades, and with a sharp rise in food prices, it was evidently considered that additional government purchases to sustain the aid programme would be undesirable. These constraints would presumably have been less important had CCC stock of surplus commodities remained at the levels existing in the late 1950s and early 1960s.

A third factor contributing to the decline in U.S. concessional economic aid was increased concern with domestic problems. Over the period 1965-68, hunger in America emerged as a key public issue; widespread urban riots in 1967 and 1968 (extending to almost every major city in the United States) underlined the problem of urban poverty and racial tension; and there was increased attention to the question of environmental pollution. There was mounting concern from 1966 with the problem of inflation, with prices rising more rapidly than at any time since the Korean War boom of 1950-51 (see Table 10).

Table 10.
Percentage Change in Consumer Price Index, 1948-74
(Figures represent percentage changes from December to December)

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</thead>
<tbody>
<tr>
<td></td>
<td>2.7</td>
<td>-1.8</td>
<td>5.8</td>
<td>5.9</td>
<td>.9</td>
<td>.6</td>
<td>-.5</td>
<td>.4</td>
<td>2.9</td>
<td>3.0</td>
<td>1.8</td>
</tr>
<tr>
<td>1959</td>
<td>1.5</td>
<td>1.5</td>
<td>.7</td>
<td>1.2</td>
<td>1.6</td>
<td>1.2</td>
<td>1.9</td>
<td>3.4</td>
<td>3.0</td>
<td>4.7</td>
<td>6.1</td>
</tr>
<tr>
<td>1970</td>
<td>5.5</td>
<td>3.4</td>
<td>3.4</td>
<td>8.8</td>
<td>12.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Table 11 indicates that government spending in areas such as income security, health, education, social services, the environment and energy grew rapidly between 1967 and 1972—more rapidly than total expenditure. By contrast, spending (in current dollars) for national defense rose only slightly, while that for international affairs, space, science and technology actually declined. However, the growth in spending on 'domestic problems' was not as rapid as many—especially liberals—would have liked. Given a desire to keep total government spending under control so as not to add further to inflationary pressures,* other items became targets for cuts.

Direct evidence can be found in Congressional hearings and debates which suggests that inflation and requirements for domestic problems were taken into account when considering expenditure on economic aid—and that concern with these competing priorities encouraged reductions in the level of economic aid. Even consistent supporters of foreign aid referred to alternative priorities. Thus Senator Sparkman, of the Foreign Relations Committee, argued in 1971:

Recently there were authoritative estimates that the budget deficit for the current and next fiscal years could go as high as $55 billion. It is in the context of the growing Federal deficit and national debt, the mounting problems of our own society, and the totality of our foreign aid effort ... that the members of the Foreign Relations Committee must weigh the executive branch proposals. 34

Domestic problems within the United States apparently also served to

* In general Congress tended to favour a somewhat greater level of spending on domestic problems than the executive; the executive paid more heed to the problem of balancing the budget, and to priorities in the areas of defence and international affairs.
Table 11  
(Data in millions of U.S. dollars and refers to fiscal years)  

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>National defense</td>
<td>69,101</td>
<td>79,409</td>
<td>80,207</td>
<td>79,284</td>
<td>76,807</td>
<td>77,356</td>
<td>75,072</td>
</tr>
<tr>
<td>International affairs</td>
<td>4,695</td>
<td>4,612</td>
<td>3,784</td>
<td>3,564</td>
<td>3,093</td>
<td>3,723</td>
<td>2,956</td>
</tr>
<tr>
<td>General science, space and</td>
<td>6,231</td>
<td>5,522</td>
<td>5,016</td>
<td>4,508</td>
<td>4,180</td>
<td>4,174</td>
<td>4,030</td>
</tr>
<tr>
<td>technology</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Natural resources, environment, and energy</td>
<td>3,697</td>
<td>4,010</td>
<td>3,901</td>
<td>4,043</td>
<td>4,941</td>
<td>5,521</td>
<td>5,947</td>
</tr>
<tr>
<td>Agriculture</td>
<td>2,982</td>
<td>4,541</td>
<td>5,779</td>
<td>5,164</td>
<td>4,288</td>
<td>5,279</td>
<td>4,855</td>
</tr>
<tr>
<td>Commerce and transportation</td>
<td>9,205</td>
<td>10,637</td>
<td>7,665</td>
<td>9,090</td>
<td>10,396</td>
<td>10,601</td>
<td>9,930</td>
</tr>
<tr>
<td>Community and regional development</td>
<td>1,412</td>
<td>1,891</td>
<td>2,224</td>
<td>3,166</td>
<td>3,632</td>
<td>4,325</td>
<td>5,529</td>
</tr>
<tr>
<td>Education training, employment and social services</td>
<td>6,023</td>
<td>7,004</td>
<td>6,671</td>
<td>7,888</td>
<td>9,045</td>
<td>11,694</td>
<td>11,874</td>
</tr>
<tr>
<td>Health</td>
<td>6,759</td>
<td>9,708</td>
<td>11,758</td>
<td>13,067</td>
<td>14,716</td>
<td>17,471</td>
<td>18,832</td>
</tr>
<tr>
<td>Income security</td>
<td>30,821</td>
<td>33,680</td>
<td>37,281</td>
<td>43,066</td>
<td>55,423</td>
<td>63,911</td>
<td>72,958</td>
</tr>
<tr>
<td>Veterans benefits and services</td>
<td>6,899</td>
<td>6,882</td>
<td>7,640</td>
<td>8,677</td>
<td>9,776</td>
<td>10,730</td>
<td>12,013</td>
</tr>
<tr>
<td>Law enforcement and justice</td>
<td>610</td>
<td>650</td>
<td>761</td>
<td>952</td>
<td>1,299</td>
<td>1,650</td>
<td>2,131</td>
</tr>
<tr>
<td>General government</td>
<td>1,569</td>
<td>1,684</td>
<td>1,649</td>
<td>1,940</td>
<td>2,159</td>
<td>2,466</td>
<td>2,682</td>
</tr>
<tr>
<td>Revenue sharing and general purpose</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>fiscal assistance</td>
<td>288</td>
<td>311</td>
<td>365</td>
<td>451</td>
<td>488</td>
<td>531</td>
<td>7,222</td>
</tr>
<tr>
<td>Interest</td>
<td>12,533</td>
<td>13,751</td>
<td>15,793</td>
<td>18,312</td>
<td>19,609</td>
<td>20,582</td>
<td>22,813</td>
</tr>
<tr>
<td>Allowances</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Undistributed offsetting receipts</td>
<td>-4,573</td>
<td>-5,460</td>
<td>-5,545</td>
<td>-6,567</td>
<td>-8,427</td>
<td>-8,137</td>
<td>-12,318</td>
</tr>
</tbody>
</table>

Composition of undistributed offsetting receipts:  

| Employer share, employee retirement | -1,661 | -1,825 | -2,018 | -2,444 | -2,611 | -2,768 | -2,927 |
| Interest received by trust funds   | -2,275 | -2,674 | -3,099 | -3,936 | -4,765 | -5,089 | -5,436 |
| Rents and royalties on the Outer Continental Shelf | -637   | -961   | -428   | -187   | -1,051 | -279   | -3,956 |

confirm and extend the opposition of some Congressmen to existing aid programmes. In 1967, Fulbright had moved over to oppose the existing bilateral aid programme, citing its role in extending U.S. involvement abroad, and the demeaning nature of bilateral aid for the recipient. At that time, he indicated his support for multilateral aid at levels well above those spent on the existing aid programme. A year later, in the context of urban disturbances within the United States, Fulbright's line of argument had shifted significantly. There was "... something wrong with a system of priorities that proposes to continue foreign aid as usual under the circumstances facing our nation today". Despite "an obligation on the part of the richest, most powerful nation to help narrow the growing gap between the rich and the poor of this world", that obligation did not have precedence over "the needs of our own citizens". It was more important "to build hope out of despair for the ghetto dwellers in Detroit, Newark and Harlem than ... to try to remake the societies of Asia and Africa".

It might be argued that foreign aid accounted for only a small percentage of the total federal budget and that it is accordingly implausible to suggest that concern to make room for spending in other areas, or to contain the deficit, was a significant factor in its decline. However, while foreign aid was a small percentage of total spending, it was a much larger fraction of those items capable of being trimmed. A very large percentage of the budget in any given year can be regarded as essentially fixed, being for unavoidable, or continuing programmes. Given difficulties in reducing other programmes, it is not surprising that foreign aid - always unpopular in Congress, and lacking any powerful domestic constituency - should have been seen as a convenient area in which to impose cuts.
Again, Congressmen were confronted under both the Johnson and Nixon Administrations with instances where relatively small programmes favoured by Congress were opposed by the executive or vetoed on grounds of economy; in some instances funds voted by Congress were impounded as a result of presidential decision. In these circumstances, it was not surprising that Congressmen questioned spending on the aid programme. The problem was raised by Senator Sparkman and Senator Aiken, both consistent supporters of foreign aid, in the course of Congressional hearings on Asian Development Bank funds in 1971.

Senator Sparkman:

... I am talking about the impounding of funds that have been appropriated by Congress. ... I believe the House Committee has come out in the neighbourhood of about $12 million in funds appropriated for our uses here at home that have been impounded. I will pick out one thing, for instance, in which I am involved. That is the matter of housing and urban affairs. The total appropriation last year was $3,400,000. There has been impounded $1,300,000. It seems to me an unduly heavy amount for that one activity, particularly when it is probably the best job-producer in the country. ... When you are trying to get rid of unemployment, why impound funds that would produce jobs and at the same time plan a deficit of some $20 billion over two fiscal years? ...

Dr. Walker:

... You are worried about the deficit on the one side but willing to release these funds. But obviously releasing the funds would swell the deficit unless you cut back somewhere else.

Senator Aiken:

I would like to say that the shortage of homes, the shortage of places for people to live, is perhaps the greatest need of the country at this time and the construction would create more employment and more business. But before you can build a home you have to have a water supply and a sewer system.

Senator Sparkman:

Those funds are impounded too.
Senator Aiken:

That is what I was leading up to. And you have to get people out of the cities if you are going to continue the rural development program. Out of a hundred million dollars which was appropriated by both Houses of Congress, I think without any dissenting vote, only $34 million have been permitted to be expended ...

Senator Sparkman:

... I remember when President Johnson impounded $2 billion I think on public works, road building, housing, Farmers Home Administration, a good many things. ... He said he was ready to release a part of those funds. ... He did make that release and I just hope you will consider releasing some of these badly needed things, such as community facilities, that will produce jobs.

Senator Aiken:

It is more far reaching than that, because it is the impoundment of the funds for these relatively inexpensive programs which are wholly approved by the Congress and the public ...

Senator Sparkman:

That is what I said.

Senator Aiken (continuing):

Which has created so much opposition to the foreign aid programs. 37

Deteriorating relations with some aid recipients was a fourth factor contributing to the decline in concessional economic aid from the United States. Attacks by governments of less developed countries on U.S. policies, and expressions of 'anti-American' sentiments within less developed countries were not new, but they appear to have become somewhat more frequent and hostile over the period under discussion here. These attacks appear to have had some influence on Congressional decisions on foreign aid. For example, the defeat of the 1971 foreign aid authorization bill on the Senate floor in 1971 can be partly attributed to the overwhelming vote in the United Nations a few days earlier to expel Taiwan and admit the Chinese People's
Republic. Not only did U.N. delegates vote against the American position, there was also evident jubilation at the result. The U.N. decision was mentioned frequently in floor debate in the Senate and there was some discussion of the possibility of cutting allocations to U.N. organisations. It seems likely that this and other expressions of opposition to U.S. policy contributed to a weakening of support for economic aid, especially among more conservative members of Congress.

Apart from general expressions of opposition and criticism of the type mentioned above, there was also a marked deterioration in U.S. relations with some countries which had been particularly important aid recipients in the early 1960s. This contributed to smaller allocations of bilateral aid for the countries in question. It probably also contributed to a reduction in the total amount of U.S. aid to less developed countries, for in formulating programme requests for aid within the executive, the amounts to be provided to particular countries were taken into account; and it was normal for Congressional committees to consider executive proposals for particular countries when deciding on recommendations for aid levels.

Egypt can be taken as one example where poor relations prevented the transfer of much aid. As Table 6 indicates, Egypt received an average of $135 million/year over the 1962/65 interval. As early as 1965, Rusk indicated during the course of Congressional Hearings that relations with the U.A.R. were a matter of great concern, and commitments in 1966 and 1967 were well below the average levels of the 1962-65 interval. With the 1967 war, however, relations deteriorated further and additional cuts were made; indeed, Egypt received no new commitments at all between fiscal 1968 and 1971; and only
insignificant amounts in 1972 and 1973.\textsuperscript{42} Strained relations also contributed to the reduction in aid provided in India. This was probably a factor as early as 1967, for it was evident by this date that India had moved into a position involving a much closer relationship with the Soviet Union than that in the early sixties.\textsuperscript{43} The decline in U.S. bilateral aid to India was significantly greater than that of the total aid programme; thus assistance from the Agency of International Development to India over 1968-71 was 37% below that for 1962-65, while the decline in the total A.I.D. budget was of the order of 20%.\textsuperscript{44} It is evident that a number of policy makers, especially in Congress were annoyed by India's criticisms of, and divergence from, U.S. policy,\textsuperscript{45} and it is plausible to attribute the decline in aid partly to this factor. India's 1971 war with Pakistan (leading to the dismemberment of that country and the creation of Bangladesh) further strained relations with the United States as U.S. officials openly conceded.\textsuperscript{46} As a consequence, India received negligible commitments of aid through the Agency of International Development between fiscal years 1972 and 1974; commitments for PL480 were also much reduced.\textsuperscript{47}

A fifth change relevant to the decline of concessional American economic aid was the increase in capital flows and transfers to less developed countries from other sources, as well as their improved export earnings. There was a considerable expansion in the total nominal value of capital and transfers to less developed countries - despite the decline of concessional economic aid from the United States. This much is indicated in Table 12, which provides two sets

\* An increase in flows is said to be in 'nominal terms' if it has not been adjusted for price changes and altered exchange rates.
of data on these flows. The first, based on I.M.F. statistics, measures net capital flows to the public and private sector of less developed countries (excluding OPEC countries) as well as transfers (excluding military aid) received by the governments of those countries. The second, based on statistics presented in reports of the Development Assistance Committee of O.E.C.D. estimates flows from member nations of DAC to 'developing countries' (including under this definition countries in Southern Europe such as Cyprus, Spain and Greece) and multilateral agencies. These sources indicate that total net capital flows to less developed countries more than doubled in nominal terms between 1967 and 1973. In real terms (that is, with due allowance for changes in prices and exchange rates), the increase was much smaller, but was still appreciable. This is indicated in item 4 of the table, which employs deflators prepared by DAC to estimate the total net flow of resources in constant 1970 dollars.

One source of this expansion was an increase in bilateral development assistance from donors other than the United States. Table 13 indicates that bilateral development assistance from DAC members other than the United States more than doubled in nominal terms between 1966 and 1973, rising from $2267 million to $4799 million. Countries in which bilateral development aid more than doubled (in nominal terms) over this interval included Australia, Belgium, Canada, Denmark, Germany, Japan, the Netherlands, Norway, Portugal, Sweden and Switzerland.

* Members of the Development Assistance Committee covered by the table include Australia, Belgium, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, Norway, Portugal, Sweden, Switzerland, the United Kingdom and the United States. Data for one other DAC member, New Zealand, is not readily available for the entire period.
Table 12
Capital Flows and Transfers to Developing Countries (millions of U.S. dollars)

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</thead>
<tbody>
<tr>
<td>1. Net Capital Flows and Government Unrequited Transfers to less developed countries of Asia, Africa, and the Middle East (excluding OPEC countries).</td>
<td>7141</td>
<td>7866</td>
<td>6895</td>
<td>10332</td>
<td>11792</td>
<td>14644</td>
<td>17819</td>
</tr>
<tr>
<td>2. Net Flow of Financial resources (official and private) from DAC members to developing countries and multilateral agencies. 'Developing countries' include countries in Southern Europe.</td>
<td>11435</td>
<td>13509</td>
<td>13778</td>
<td>15791</td>
<td>18158</td>
<td>19876</td>
<td>24391</td>
</tr>
<tr>
<td>3. Deflator for the total net flow of resources in (2) above. (1970 = 100)</td>
<td>90.9</td>
<td>92.7</td>
<td>94.9</td>
<td>100.0</td>
<td>106.5</td>
<td>115.9</td>
<td>142.2</td>
</tr>
<tr>
<td>4. Flow identified in (2) above adjusted for changes in prices and exchange rates. (Constant 1970 dollars).</td>
<td>12580</td>
<td>14573</td>
<td>14518</td>
<td>15791</td>
<td>17050</td>
<td>17149</td>
<td>17153</td>
</tr>
</tbody>
</table>


Table 13.
Bilateral Development Assistance from DAC members (in millions U.S. dollars)

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>5648</td>
<td>5800</td>
<td>5626</td>
<td>5570</td>
<td>5707</td>
<td>6421</td>
<td>6750</td>
<td>7136</td>
</tr>
<tr>
<td>U.S.</td>
<td>3381</td>
<td>3165</td>
<td>2994</td>
<td>2762</td>
<td>2657</td>
<td>2893</td>
<td>2724</td>
<td>2337</td>
</tr>
<tr>
<td>DAC members other than the United States</td>
<td>2267</td>
<td>2635</td>
<td>2632</td>
<td>2808</td>
<td>3050</td>
<td>3528</td>
<td>4026</td>
<td>4799</td>
</tr>
</tbody>
</table>


Multilateral agencies were another source of increased capital and transfers for less developed countries. As the table below indicates, net disbursements from this source almost doubled in nominal terms between 1966 and 1973. This resulted, in part, from increased concessional contributions and subscriptions to multilateral agencies by a number of governments (including the United States); and in part from increased capital of other kinds - for example, greater borrowing by the World Bank from private capital markets and from governments at market rates. Table 15 provides evidence on these points.

A further channel for increased resource flows to less developed countries consisted of bilateral transfers and credits from governments other than those included under the heading of 'development assistance'. Government export credits at commercial or near commercial rates, various forms of debt rescheduling, government equities in foreign investment in less developed countries, and other 'hard loans'
### Table 14

Net Flows of Resources from Multilateral Institutions to Developing Countries of Africa, Asia and Latin America. (Net disbursements, millions of dollars)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Soft Loans &amp; Grants: Total</strong></td>
<td>606</td>
<td>745</td>
<td>558</td>
<td>779</td>
<td>936</td>
<td>1138</td>
<td>960</td>
<td>1179</td>
</tr>
<tr>
<td>of which I.D.A.</td>
<td>254</td>
<td>351</td>
<td>189</td>
<td>234</td>
<td>279</td>
<td>277</td>
<td>607</td>
<td></td>
</tr>
<tr>
<td>U.N. Agencies</td>
<td>244</td>
<td>259</td>
<td>314</td>
<td>350</td>
<td>414</td>
<td>515</td>
<td>545</td>
<td>576</td>
</tr>
<tr>
<td><strong>Hard Loans: Total</strong></td>
<td>277</td>
<td>256</td>
<td>232</td>
<td>292</td>
<td>477</td>
<td>669</td>
<td>574</td>
<td>560</td>
</tr>
<tr>
<td>of which I.B.R.D.</td>
<td>211</td>
<td>197</td>
<td>171</td>
<td>215</td>
<td>347</td>
<td>499</td>
<td>619</td>
<td>436</td>
</tr>
<tr>
<td><strong>Total Disbursements</strong></td>
<td>883</td>
<td>1002</td>
<td>789</td>
<td>1071</td>
<td>1413</td>
<td>1807</td>
<td>1534</td>
<td>1739</td>
</tr>
</tbody>
</table>

(may differ slightly from the sum of the above figures.)

**Source:** UNCTAD, Financial Flows to and from Developing Countries: United Nations, 1975, p. 55.

Disbursements are net of repayments, capital subscriptions and participations by less developed countries.

### Table 15

Multilateral Agencies: Sources of Finance
(Data in millions of U.S. dollars)

|------|------|------|------|------|------|------|------|------|
| 1. Contributions by DAC
  member govs. to multilateral agencies at concessional rates (includes capital subscriptions to the I.B.R.D., etc.) | 336  | 736  | 683  | 1050 | 1124 | 1339 | 1901 | 2245 |
| (Total) | -32  | 307  | 248  | 330  | 393  | 431  | 625  | 631 |
| U.S. |      |      |      |      |      |      |      |      |
| 2. Contributions by DAC
govs. at market rates. | 53   | 20   | -10  | -15  | 273  | 267  | 372  | 398  |
| 3. Private multilateral portfolio investment (from DAC member nations). | 175  | 469  | 767  | 419  | 474  | 770  | 667  | 258  |
| 4. World Bank:
  Total borrowings: | 288  | 729  | 735  | 1224 | 735  | 1368 | 1744 | 1723 |
| Net borrowings: | 64   | 503  | 222  | 698  | 299  | 819  | 1136 | 955  |

(data is for the relevant fiscal year)

Contd.
Table 15 (continued)


1. New Zealand is not included.
2. World Bank borrowings include some of the amounts noted in rows 2 and 3 of this table.

from public sources are included within this category. Table 16, which provides data on net flows of this kind from member governments of the Development Assistance Committee, indicates that there was a significant growth in this item over the period under review. Government export credits made an important contribution to expanding flows within this category.

Table 16

'Other Official Flows' (Bilateral) from member governments of the Development Assistance Committee to 'Developing Countries'.

(in millions of U.S. dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>394</td>
<td>499</td>
<td>748</td>
<td>586</td>
<td>880</td>
<td>1004</td>
<td>1205</td>
<td>2185</td>
</tr>
<tr>
<td>of which export credits</td>
<td>259</td>
<td>392</td>
<td>646</td>
<td>502</td>
<td>578</td>
<td>573</td>
<td>724</td>
<td>1122</td>
</tr>
</tbody>
</table>


New Zealand is excluded from the data presented above.
Finally, less developed countries received increased transfers and capital flows from private sources. Table 17 provides data on flows of this kind (including loans and investment at market rates, and grants by voluntary agencies) between member nations of the Development Assistance Committee and 'developing countries'. While some private flows are only partly reflected in the totals given, and while private flows are frequently difficult to estimate, the table does indicate the considerable expansion in transactions of this type which occurred over the period under review; from a little over 4 billion dollars in 1966 to more than 12 billion in 1973 (in current dollars).

Table 17
Private Flows from member nations of the Development Assistance Committee to 'Developing Countries'. (Net disbursements in millions of dollars).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Net Private flows at market rates (excluding disbursements to multilateral institutions).</td>
<td>3784</td>
<td>3912</td>
<td>5695</td>
<td>6167</td>
<td>6474</td>
<td>7445</td>
<td>7951</td>
<td>10811</td>
</tr>
<tr>
<td>... of which: direct investment</td>
<td>2179</td>
<td>2105</td>
<td>3152</td>
<td>2919</td>
<td>3563</td>
<td>3874</td>
<td>4445</td>
<td>6654</td>
</tr>
<tr>
<td>... of which: private export credits (wholly or partly guaranteed)</td>
<td>1119</td>
<td>995</td>
<td>1586</td>
<td>2013</td>
<td>2156</td>
<td>2724</td>
<td>1409</td>
<td>1150</td>
</tr>
<tr>
<td>... of which: bilateral portfolio investment</td>
<td>485</td>
<td>812</td>
<td>959</td>
<td>1234</td>
<td>755</td>
<td>846</td>
<td>2096</td>
<td>3007</td>
</tr>
<tr>
<td>B. Grants by voluntary agencies.</td>
<td>(296)</td>
<td>n.a.</td>
<td>(446)</td>
<td>(620)</td>
<td>858</td>
<td>913</td>
<td>1031</td>
<td>1357</td>
</tr>
</tbody>
</table>


New Zealand is not included in the above.

Data in parenthesis is estimated.
As the table indicates, grants from voluntary agencies accounted for part of the increase in private flows; these grants rose from approximately $300 million in 1966 to more than four times that amount (in nominal terms) by 1973. Private direct investment expanded from slightly over two billion dollars to more than six billion in 1973, with increased disbursements in each year except 1969.49

In the case of private export credits, the pattern is more uneven. The data given indicates a pattern of growth until 1971, when net disbursements were more than double the 1966 value in nominal terms. However, there was an appreciable decline in 1972 and 1973, partly because increased borrowing on the Eurocurrency market50 substituted for credits of this kind.

The table shows a substantial expansion in bilateral portfolio investment in developing countries, especially in 1972 and 1973. According to the figures given, net flows of this type amounted to $3007 million in 1973, compared with $846 million in 1971 and $485 million in 1966. Statistics from the Development Assistance Committee are, however, thought to understate the amounts involved. Thus bonds issued by developing countries in foreign and international capital markets51 accounted for an important part of the growth in portfolio investment, but the corresponding flows are believed to be only partly reflected in the figures cited previously. Table 18 provides information on the gross amounts involved in such issues, based on data collected by the World Bank.

Again, Eurocurrency lending52 by private banks was a significant source of increased portfolio investment in less developed countries, but information on lending of this type is limited, and the amounts transferred are generally thought to be greater than those
Table 18
Foreign and International Bond Issues by Developing Countries, 1966-73.
(including bonds issued in North America, and Europe, and Eurobonds.)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>204</td>
<td>274</td>
<td>225</td>
<td>235</td>
<td>201</td>
<td>283</td>
<td>339</td>
<td>713</td>
</tr>
<tr>
<td>Europe</td>
<td>74</td>
<td>173</td>
<td>307</td>
<td>51</td>
<td>15</td>
<td>17</td>
<td>-</td>
<td>38</td>
</tr>
<tr>
<td>Eurobond</td>
<td>103</td>
<td>129</td>
<td>71</td>
<td>492</td>
<td>438</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>278</td>
<td>446</td>
<td>532</td>
<td>389</td>
<td>345</td>
<td>371</td>
<td>830</td>
<td>1189</td>
</tr>
</tbody>
</table>


Both public and private placements are included. Eurobond issues over 1965-68 are included under Europe, and the 1973 figure for North America includes some issues on European markets. Because of rounding, data given may not add exactly to the total.

Eurobonds are not the same as bonds issued in a single national market in a European country; they are bonds issued in more than one market simultaneously, and are denominated in third-country currencies.

recorded in DAC statistics. Table 19 provides information on the volume of publicly announced credits, but the fraction of total lending revealed in this way is unclear. 53

Less developed countries also obtained increased foreign exchange by expanding their export earnings. Table 20 below provides data on merchandise exports for less developed areas, and indicates that their value more than doubled in nominal terms between 1966 and 1973. The table also indicates that export earnings rose more rapidly than import prices; accordingly expanded earnings were not simply absorbed by higher prices abroad, but made it possible to purchase
### Table 19
Publicized Eurocurrency Credits to Developing Countries: 1971-73.

<table>
<thead>
<tr>
<th></th>
<th>1971</th>
<th>1972</th>
<th>1973</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong> (includes credits to countries in Southern Europe such as Spain and Greece)</td>
<td>1475</td>
<td>3888</td>
<td>9348</td>
</tr>
<tr>
<td>... of which, e.g.,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Algeria</td>
<td>120</td>
<td>257</td>
<td>1353</td>
</tr>
<tr>
<td>Argentine</td>
<td>50</td>
<td>244</td>
<td>87</td>
</tr>
<tr>
<td>Brazil</td>
<td>212</td>
<td>577</td>
<td>718</td>
</tr>
<tr>
<td>Columbia</td>
<td>90</td>
<td>170</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>98</td>
<td>478</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>140</td>
<td>490</td>
<td>1573</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>10</td>
<td>15</td>
<td>92</td>
</tr>
<tr>
<td>Peru</td>
<td>147</td>
<td>734</td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>61</td>
<td>179</td>
<td></td>
</tr>
<tr>
<td>Venezuela</td>
<td>78</td>
<td>259</td>
<td>63</td>
</tr>
<tr>
<td>Zaire</td>
<td>55</td>
<td>90</td>
<td>287</td>
</tr>
</tbody>
</table>

*Source*: O.E.C.D., Development Cooperation: 1974 Review; O.E.C.D., 1974, pp. 288. The countries listed are examples only; for the full list see the source mentioned.

### Table 20
Exports (fob) of less developed areas (in millions of U.S. dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Index</td>
<td>94</td>
<td>94</td>
<td>94</td>
<td>96</td>
<td>100</td>
<td>104</td>
<td>111</td>
<td>128</td>
</tr>
</tbody>
</table>

a larger volume of imports.\textsuperscript{54}

Had there been no increase, or a significantly smaller increment, in the export earnings of less developed countries, and in transfers and flows of capital to them through other channels, it is likely that the U.S. Government would have increased concessional economic aid as a means of overcoming foreign exchange shortages and other constraints (for example, savings constraints) on the development programmes of the countries concerned. As it was, developing market economies were able to expand their imports of goods and services over 1965-73 at a rate which was above the growth in G.D.P. The growth of imports over 1965-73 was also more than double that for 1960-65 in real terms. Not only did less developed countries expand their imports rapidly over 1965-73, there was also a build up in foreign exchange reserves, both in absolute terms and as a percentage of imports (Tables 21 and 22).

Table 21.

<table>
<thead>
<tr>
<th></th>
<th>Developing Market Economies: Average Annual Rates of Growth (at constant prices) of:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>1960-65</td>
<td>4.9%</td>
</tr>
<tr>
<td>1965-70</td>
<td>5.9%</td>
</tr>
<tr>
<td>1970-73</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

Table 22.
Reserves of Less Developed Areas
(data in millions of U.S. dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Latin America</th>
<th>Middle East</th>
<th>Other Asia</th>
<th>Other Africa</th>
<th>Total Reserves for less developed areas (end of year)</th>
<th>Imports, c.i.f.</th>
<th>Reserves as a % of imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967</td>
<td>3435</td>
<td>3310</td>
<td>4085</td>
<td>2125</td>
<td>13015</td>
<td>41900</td>
<td>31%</td>
</tr>
<tr>
<td>1968</td>
<td>3915</td>
<td>3320</td>
<td>4295</td>
<td>2495</td>
<td>14185</td>
<td>45300</td>
<td>31%</td>
</tr>
<tr>
<td>1969</td>
<td>4470</td>
<td>3035</td>
<td>4880</td>
<td>3095</td>
<td>15625</td>
<td>49800</td>
<td>31%</td>
</tr>
<tr>
<td>1970</td>
<td>5640</td>
<td>3245</td>
<td>5235</td>
<td>4180</td>
<td>18430</td>
<td>56000</td>
<td>33%</td>
</tr>
<tr>
<td>1971</td>
<td>6585</td>
<td>5255</td>
<td>5920</td>
<td>5500</td>
<td>23390</td>
<td>63500</td>
<td>37%</td>
</tr>
<tr>
<td>1972</td>
<td>10550</td>
<td>7630</td>
<td>7830</td>
<td>5925</td>
<td>32125</td>
<td>70900</td>
<td>45%</td>
</tr>
<tr>
<td>1973</td>
<td>16305</td>
<td>11595</td>
<td>10135</td>
<td>6535</td>
<td>44720</td>
<td>92600</td>
<td>48%</td>
</tr>
</tbody>
</table>

Source: from data in International Monetary Fund, *International Financial Statistics*, Vol. XXVII, No. 8, August 1974, pp. 19,37. The data on imports does not include all imports (for example, some services are excluded), but this does not affect the conclusion that reserves increased as a percentage of imports. The figure for total reserves for less developed areas is not obtained by adding the regional data provided.

The preceding analysis is based on data for all less developed countries, and accordingly conceals marked differences among countries within this category. For some countries, increased transfers and capital flows from other sources, and improved export earnings promoted conditions in which U.S. officials could make substantial reductions in the level of concessional economic aid. Taiwan was a very large recipient of concessional economic aid during the 1950s and early 1960s, receiving on average 96 million dollars in commitments each year over 1953-65. For much of this period U.S. aid was of considerable importance, typically financing at least two-thirds of the
sizable deficit on current account. However, from the early sixties, exports expanded rapidly, especially in manufactures, while private capital flows also increased (Table 23). Taiwan was accordingly able to expand its imports extremely rapidly, while at the same time building up its reserves. These trends, among others, made it possible for the Johnson Administration to announce the termination of concessional aid through the A.I.D. in 1965. Taiwan subsequently received only small amounts of concessional aid through such programmes as PL480.

Table 23.

Taiwan's Balance of Payments: 1960-70
(millions of U.S. dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports of goods and services</td>
<td>-1071</td>
<td>-1512</td>
<td>-2737</td>
<td>-3111</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>719</td>
<td>1452</td>
<td>2565</td>
<td>3087</td>
</tr>
<tr>
<td>Current balance</td>
<td>-352</td>
<td>-60</td>
<td>-172</td>
<td>-24</td>
</tr>
<tr>
<td>Net official transfer</td>
<td>207</td>
<td>56</td>
<td>5</td>
<td>-7</td>
</tr>
<tr>
<td>Net official capital</td>
<td>76</td>
<td>85</td>
<td>61</td>
<td>7</td>
</tr>
<tr>
<td>Net private long term capital</td>
<td>37</td>
<td>50</td>
<td>238</td>
<td>277</td>
</tr>
<tr>
<td>Net short term capital and errors and omissions</td>
<td>-2</td>
<td>23</td>
<td>-46</td>
<td>41</td>
</tr>
<tr>
<td>Overall balance</td>
<td>-34</td>
<td>154</td>
<td>86</td>
<td>294</td>
</tr>
</tbody>
</table>


Again, in the case of Brazil, a rapid expansion of exports and large capital flows from other sources helped to make possible substantial reductions in the level of concessional economic aid.
Table 24 which provides data on Brazil's balance of payments, indicates the changes in question. Thus exports, which grew only slowly in the five years after 1963, began to expand rapidly after 1968, increasing more than threefold in nominal terms between 1968 and 1973. Net capital inflows also grew rapidly from the same date to reach more than 3 billion dollars in 1973. This was not due to increased disbursements of concessional aid from the U.S. and other donors; indeed, such aid declined (Table 25). It resulted principally from a growth in hard loans from multilateral agencies and from other official sources (for example, export credits), increased flows of direct private investment, and portfolio investment (Table 19 indicates that Brazil borrowed heavily in the Eurocurrency market). As a consequence of these developments, Brazil was able to increase its imports at an extremely rapid rate, with the growth in imports averaging between 18% and 20%/annum in real terms over 1965-73. At the same time, it made massive additions to its reserves, especially in 1972 and 1973 (see Tables 26 and 27). U.S. officials were accordingly able to make substantial reductions in the level of concessional American economic aid. Whereas commitments of U.S. development assistance to Brazil had averaged $258 million per annum over 1962-68, they amounted to only $75 million/annum for 1969-73.

In India, by contrast, foreign exchange difficulties imposed severe constraints on imports over the period under review. Exports did increase, but the expansion was modest in comparison with that of Brazil, and total net capital flows declined significantly (Table 18). Foreign exchange shortages accordingly imposed a constraint on India's capacity to import. Partly for this reason, the decision was made to abandon the draft version of the fourth five year plan (which had been
Table 24.
Brazil: Balance of payments: 1963-73
(data in millions of U.S. dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports, fob.</td>
<td>1406</td>
<td>1741</td>
<td>1654</td>
<td>1881</td>
<td>2311</td>
<td>2739</td>
<td>2891</td>
<td>3941</td>
<td>6084</td>
</tr>
<tr>
<td>Trade Balance fob.</td>
<td>112</td>
<td>438</td>
<td>213</td>
<td>26</td>
<td>318</td>
<td>232</td>
<td>-365</td>
<td>-252</td>
<td>-63</td>
</tr>
<tr>
<td>Balance on goods and services</td>
<td>-214</td>
<td>-110</td>
<td>-353</td>
<td>-548</td>
<td>-367</td>
<td>-582</td>
<td>-1330</td>
<td>-1495</td>
<td>-1785</td>
</tr>
<tr>
<td>Unrequited transfers</td>
<td>43</td>
<td>79</td>
<td>77</td>
<td>22</td>
<td>31</td>
<td>21</td>
<td>13</td>
<td>5</td>
<td>27</td>
</tr>
<tr>
<td>Capital, n.i.e.: private</td>
<td>62</td>
<td>136</td>
<td>40</td>
<td>343</td>
<td>664</td>
<td>668</td>
<td>1199</td>
<td>1835</td>
<td>2346</td>
</tr>
<tr>
<td>Central govt.</td>
<td>76</td>
<td>220</td>
<td>98</td>
<td>48</td>
<td>184</td>
<td>215</td>
<td>404</td>
<td>532</td>
<td>986</td>
</tr>
<tr>
<td>Deposit money banks</td>
<td>16</td>
<td>-27</td>
<td>39</td>
<td>228</td>
<td>183</td>
<td>232</td>
<td>286</td>
<td>1112</td>
<td>431</td>
</tr>
<tr>
<td>Allocation of SDRs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>59</td>
<td>47</td>
<td>51</td>
<td>-</td>
</tr>
<tr>
<td>Monetary authorities (increase in reserves negative)</td>
<td>93</td>
<td>-273</td>
<td>134</td>
<td>-92</td>
<td>-675</td>
<td>-651</td>
<td>-610</td>
<td>-2478</td>
<td>-2376</td>
</tr>
<tr>
<td>Net errors and omissions</td>
<td>-76</td>
<td>-25</td>
<td>-35</td>
<td>-1</td>
<td>-20</td>
<td>38</td>
<td>-9</td>
<td>438</td>
<td>371</td>
</tr>
</tbody>
</table>


Table 25.
Brazil: Receipts of 'Official Development Assistance' from DAC Countries and Resources at Concessional Terms from Multilateral Agencies: 1969-73.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
<td>138</td>
<td>136</td>
<td>120</td>
<td>93</td>
<td>63</td>
</tr>
</tbody>
</table>

### Table 26

Average Annual Rates of Growth of Gross Domestic Product, Exports and Imports at Constant Prices

<table>
<thead>
<tr>
<th>Brazil</th>
<th>GDP</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-65</td>
<td>4.2%</td>
<td>3.5%</td>
<td>-5.2%</td>
</tr>
<tr>
<td>1965-70</td>
<td>7.5%</td>
<td>9.5%</td>
<td>18.2%</td>
</tr>
<tr>
<td>1971</td>
<td>11.3%</td>
<td>8.8%</td>
<td>20.5%</td>
</tr>
<tr>
<td>1972</td>
<td>10.4%</td>
<td>8.8%</td>
<td>19.9%</td>
</tr>
<tr>
<td>1973</td>
<td>11.4%</td>
<td>15.1%</td>
<td>18.3%</td>
</tr>
</tbody>
</table>


### Table 27

Brazil: Reserves, 1967-73
(in millions of U.S. Dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Reserves</td>
<td>199</td>
<td>257</td>
<td>656</td>
<td>1187</td>
<td>1746</td>
<td>4183</td>
<td>6417</td>
</tr>
<tr>
<td>Imports, cif.</td>
<td>1667</td>
<td>2132</td>
<td>2265</td>
<td>2849</td>
<td>3701</td>
<td>4783</td>
<td>6855</td>
</tr>
<tr>
<td>Reserves as % Imports, cif</td>
<td>12%</td>
<td>12%</td>
<td>29%</td>
<td>42%</td>
<td>47%</td>
<td>87%</td>
<td>94%</td>
</tr>
</tbody>
</table>

issued in 1966) and to proceed on an interim basis for some years. The new Fourth Plan, prepared in 1969, projected imports at a level well below those planned in the 1966 version. As late as 1972, India's imports remained below the 1963 levels, even in nominal terms. Gross fixed capital formation also failed to increase as a percentage of GDP, as Table 29 indicates. The decline in American economic aid to India cannot, therefore, be explained by reference to the rapid growth of other sources of foreign exchange and of domestic savings.

A sixth factor contributing to the decline of economic aid was a shift in attitudes concerning its effectiveness. Reference has already been made to changed assessments about the political consequences of aid, but there was, in addition, greater scepticism as to its role in promoting economic and social development. While a few saw this as an indication that even greater efforts were required, many policy makers considered it an argument for according less priority to economic aid.

One indication of the change in attitudes under discussion is to be found in the statements of some Congressmen. Senator Church provides an example of disillusionment from the liberal end of the spectrum. In a speech to the U.S. Senate in 1971, he argued that U.S. economic aid had been commonly used to promote industrialisation programmes which generated a high level of consumption for the privileged with little, if any, 'trickle down' for the dispossessed. While the Kennedy Administration had attempted to encourage progressive policies in Latin America, this had failed because the ability to impose reforms from the outside was limited, and because the United States wanted 'stability' and a favourable climate for private investment even more than it wanted reform. Accordingly:
<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports, f.o.b.</td>
<td>1623</td>
<td>1714</td>
<td>1680</td>
<td>1544</td>
<td>1640</td>
<td>1799</td>
<td>1864</td>
<td>1896</td>
<td>1973</td>
<td>2493</td>
<td>2886</td>
</tr>
<tr>
<td>Imports, c.i.f.</td>
<td>2493</td>
<td>2946</td>
<td>2994</td>
<td>2792</td>
<td>2774</td>
<td>2433</td>
<td>2084</td>
<td>2258</td>
<td>2629</td>
<td>2712</td>
<td>3444</td>
</tr>
<tr>
<td>Trade Balance, c.i.f.</td>
<td>-870</td>
<td>-1197</td>
<td>-1254</td>
<td>-1069</td>
<td>-1134</td>
<td>-635</td>
<td>-220</td>
<td>-362</td>
<td>-656</td>
<td>-218</td>
<td>-558</td>
</tr>
<tr>
<td>Goods and services</td>
<td>-890</td>
<td>-1234</td>
<td>-1418</td>
<td>-1147</td>
<td>-1304</td>
<td>-840</td>
<td>-463</td>
<td>-608</td>
<td>-914</td>
<td>-456</td>
<td>-798</td>
</tr>
<tr>
<td>Transfers</td>
<td>223</td>
<td>323</td>
<td>160</td>
<td>305</td>
<td>183</td>
<td>176</td>
<td>233</td>
<td>233</td>
<td>272</td>
<td>293</td>
<td>267</td>
</tr>
<tr>
<td>Capital, n.i.e.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>: private</td>
<td>38</td>
<td>12</td>
<td>-3</td>
<td>14</td>
<td>3</td>
<td>-13</td>
<td>-34</td>
<td>-23</td>
<td>-25</td>
<td>-5</td>
<td>-47</td>
</tr>
<tr>
<td>: central government</td>
<td>709</td>
<td>1090</td>
<td>1037</td>
<td>831</td>
<td>1199</td>
<td>923</td>
<td>695</td>
<td>623</td>
<td>792</td>
<td>317</td>
<td>542</td>
</tr>
<tr>
<td>Deposit money banks</td>
<td>24</td>
<td>0</td>
<td>-5</td>
<td>-42</td>
<td>22</td>
<td>17</td>
<td>-5</td>
<td>-9</td>
<td>0</td>
<td>2</td>
<td>-6</td>
</tr>
<tr>
<td>Allocation of SDRs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>126</td>
<td>101</td>
<td>109</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monetary authorities</td>
<td>-23</td>
<td>110</td>
<td>117</td>
<td>17</td>
<td>14</td>
<td>-72</td>
<td>-385</td>
<td>-320</td>
<td>-131</td>
<td>4</td>
<td>80</td>
</tr>
</tbody>
</table>

Table 29

India: Imports and Gross Fixed Capital Formation as a Percentage of Gross Domestic Product.

<table>
<thead>
<tr>
<th></th>
<th>Imports as a % GDP</th>
<th>Gross Fixed Capital Formation as a % GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1963</td>
<td>7%</td>
<td>16%</td>
</tr>
<tr>
<td>1964</td>
<td>7%</td>
<td>16%</td>
</tr>
<tr>
<td>1965</td>
<td>6%</td>
<td>17%</td>
</tr>
<tr>
<td>1966</td>
<td>8%</td>
<td>17%</td>
</tr>
<tr>
<td>1967</td>
<td>7%</td>
<td>16%</td>
</tr>
<tr>
<td>1968</td>
<td>6%</td>
<td>17%</td>
</tr>
<tr>
<td>1969</td>
<td>5%</td>
<td>16%</td>
</tr>
<tr>
<td>1970</td>
<td>5%</td>
<td>16%</td>
</tr>
<tr>
<td>1971</td>
<td>5%</td>
<td>16%</td>
</tr>
</tbody>
</table>


... the per capita income of Latin American countries has risen during the years of the Alliance for Progress, but it has risen in so imbalanced and inequitable a way that the gains have gone almost entirely to the twenty per cent ... who live within the modern economy. The benefits accruing to the lower eighty per cent have not even kept up with population growth...

In countries long under the domination of corrupt oligarchies, Church argued, nothing less than a radical redistribution of political power might be the essential precondition for economic development. 65

A further indication of the change in attitudes which had occurred can be found by examining statements from the executive.
It has been seen in an earlier chapter that speeches concerning aid during the Kennedy Administration were often extremely optimistic in their assessment of the possibilities for rapid development, and the contribution which aid could make to this process. Thus one statement cited suggested that the difficulties involved in promoting economic development in Latin America were broadly comparable to those which the United States had faced in the reconstruction of Europe, and that a decade of the Alliance for Progress would suffice to eliminate hunger, bring basic education to all, and remove the need for massive assistance from outside.* Whether those making such statements believed them or not, the fact that they could be included in speeches is an indication of the climate of optimism which existed at the time. By the end of the 1960s, it was usual for remarks about the impact of aid to be couched in more sober terms. 66 Moreover, senior officials (or former officials) themselves made the point that the contribution which aid could make had been exaggerated in the past. 67

Seventh, the way in which other increasingly unpopular issues became linked to economic aid contributed to its decline. Over 1966-73, military assistance was regarded with increasing disquiet by a number of liberal Congressmen and by liberal groups outside Congress. 68 Since military aid was normally included with economic aid in one piece of legislation, the diminishing popularity of the former tended to weaken support for the latter. 69 As one liberal, Senator Kennedy saw it, the military assistance programme "was the worst aspect of

*Actual achievement fell far short of these targets. In the case of education, it has been seen that only 58% of the 5-14 age group were enrolled as primary students in Latin America in 1971 - a rise of 12% from the 1960 figure of 46%.
the (foreign aid) bill now before us, contaminating what remains by its very presence". Again, partly because a large share of military and economic aid was transferred to Indochina, economic assistance became linked with the issue of American involvement in that region, and its popularity suffered with those groups which favoured withdrawal. As noted previously, this issue contributed to a weakening of support for the bill on the part of church groups.

More broadly, the aid programme served as one means whereby Congressmen could indicate their dissatisfaction with the Administration policy on a whole range of foreign policy and national security issues. The remarks of Representative Fraser, normally a strong supporter of economic aid, illustrate the way in which some Congressmen saw their support for aid as linked with the Administration's stance on more general issues. In the course of Congressional hearings on aid in 1969, Fraser noted that:

The current Administration, like the last Administration, is pursuing marginal or fictional security concerns. The result is that we don't have very much money for domestic programs. ... I am having a real problem developing any real enthusiasm for working hard for foreign aid this year. And I am deeply disturbed by the Administration's continued insistence on the testing of the MIRV program, and by what I regard as the unbelievable assertions by the Secretary of Defense with respect to the security threats facing the United States. ... This Administration, it seems to me, has got to do better if it expects some of us to help in the program which, for the most part, has been opposed by the members of his own party.

It seems likely that disillusionment with general foreign and defence policies of the kind expressed by Fraser contributed to some weakening of support for aid in this manner.

Two further factors must be considered as possible causes of
the fall in concessional economic aid. There is first the possibility that it resulted from a decline in the capacity of the United States to bear the economic and financial burden of providing aid. Congressmen frequently made reference to this factor as a reason for restricting the programme; indeed, one statement making reference to grounds of this kind has been cited already in this chapter.

In one sense the capacity of the United States to provide aid did decline. Over the period under review, the United States faced a continuing problem with its balance of payments. Concern with this problem was not new; it had given rise to measures to increasingly tie aid as early as 1958. But by the mid-sixties, the problem was more serious. After a series of deficits, U.S. official reserve assets (mainly gold, but also including other convertible currencies and its reserve position with the International Monetary Fund) had declined from the 1958 level of more than 22 billion to a 1966 value of less than 15 billion (Table 30). Thereafter, reserves fluctuated, falling to a low of a little over 12 billion at the end of 1971. Over the whole period, short term dollar claims held by foreigners tended to increase, giving rise to increasing doubts as to the ability of the U.S. Government to maintain the value of the dollar in terms of gold. Ultimately, the American Government was forced to temporarily suspend official gold convertibility for the U.S. dollar (August 1971), to seek an upward realignment of other currencies, and to twice devalue the dollar in terms of gold (1972 and 1973). But increased concern with the balance of payments problem had led to new measures well before this; thus in 1965, a voluntary programme for corporations was introduced under which the business community accepted the need for limits on investment in developed countries, for export expansion,
### Table 30.


(in millions of U.S. dollars)

<table>
<thead>
<tr>
<th>U.S. Official Reserve Assets (end of period)</th>
<th>Changes in liabilities to foreigners</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>1958</td>
<td>22540</td>
</tr>
<tr>
<td>1959</td>
<td>21504</td>
</tr>
<tr>
<td>1960</td>
<td>19359</td>
</tr>
<tr>
<td>1961</td>
<td>18753</td>
</tr>
<tr>
<td>1962</td>
<td>17220</td>
</tr>
<tr>
<td>1963</td>
<td>16843</td>
</tr>
<tr>
<td>1964</td>
<td>16672</td>
</tr>
<tr>
<td>1965</td>
<td>15450</td>
</tr>
<tr>
<td>1966</td>
<td>14882</td>
</tr>
<tr>
<td>1967</td>
<td>14830</td>
</tr>
<tr>
<td>1968</td>
<td>15710</td>
</tr>
<tr>
<td>1969</td>
<td>16964</td>
</tr>
<tr>
<td>1970</td>
<td>14487</td>
</tr>
<tr>
<td>1971</td>
<td>12167</td>
</tr>
<tr>
<td>1972</td>
<td>13151</td>
</tr>
<tr>
<td>1973</td>
<td>14378</td>
</tr>
</tbody>
</table>


* Includes liabilities to foreign official agencies reported by U.S. Government and U.S. banks and U.S. liabilities to the I.M.F. arising from reversible gold sales to, and gold deposits with, the United States.
and for increased repatriation of foreign earnings. This was replaced by stricter mandatory controls entering into force at the beginning of 1968.  

There are several reasons for suggesting that concern with the American balance of payments problem contributed to a weakening of support for economic aid. Although aid had been largely tied to procurement within the United States by the mid-sixties, there remained a small leakage arising both from the small proportion of aid which remained untied and from the possibility that shipments financed by aid might displace commercial exports from the United States. There is evidence of a considerable measure of concern within sections of the executive (most notably the Treasury) over the impact of aid in this area: concern which in some instances gave rise to decisions to reduce the real value of aid to recipients or even to impose cuts on the programme. Thus for a short period after 1967, an attempt was made to ensure the aid financed commodities and services 'additional' to those which would have been provided through commercial channels. At one stage, each loan proposal made by A.I.D. was scrutinised by Treasury for possible foreign exchange costs. According to A.I.D. Administrator Gaud:

I wasn't too worried about this (the impact of aid on the balance of payments). But Joe Fowler, the Secretary of the Treasury was. ... The concern was so pronounced that each of our loans went through Treasury to be examined. The Secretary of the Treasury then reported to the White House on every loan we made.

A further indication of concern was the 1971 announcement, noted previously, that aid would be cut by 10% as part of a package of measures to improve the U.S. balance of payments position.

Within Congress concern over the impact of aid on the balance
of payments was expressed frequently. In some instances, it was suggested that this factor was of considerable importance to the Congressmen concerned. Thus, Senator Symington pointed out that he had opposed soft loans for the Asian Development Bank in 1965 because the U.S. balance of payments was becoming such a problem.

The notion of a decline in the capacity of the United States to provide aid is less plausible in other senses. The per capita GNP of the United States grew at an average rate of 2% per annum in real terms over the 1965-72 interval. Budget receipts increased (in nominal terms) from 117 billion in fiscal 1965 to 232 billion in 1973. It is accordingly somewhat unreasonable to suggest that the U.S. Government was less able to bear the budgetary cost of providing aid. In Congress, it was at times suggested that large budget deficits (especially in the context of rapid inflation) and an expanding national debt were reasons for curtailing foreign aid programmes. However, both deficits and increased debt arose from increased spending in other areas rather than from a decline in government revenue; they are accordingly better treated as symptoms of greater emphasis on other areas in public expenditure rather than as indications of a decline in the capacity to provide aid. The manner in which increased priority in other fields contributed to a weakening of support for aid has already been examined under a different heading in this chapter.

The remaining possibility is that the decline in concessional economic aid resulted from greater resort to alternative instruments by American policy makers. Military assistance, trade preferences and concessions, hard loans and measures to encourage private capital flows may act as partial substitutes for concessional economic aid in some circumstances.
The available evidence suggests that a shift towards alternative instruments was of relatively little importance in explaining the decline in concessional economic aid. In the case of military aid, there was a significant growth in the total amount provided to less developed countries between 1966 and 1973, but as Table 31 shows, the increase was largely channeled to Israel, South Vietnam, Laos, Cambodia and South Korea. In the case of two of these countries - Cambodia and Israel - there was a significant expansion of economic aid over the 1966-73 interval; military aid was thus not increased to offset declining levels of economic aid. The possibility that the executive branch used increased military aid in preference to seeking additional economic assistance cannot be ruled out in the remaining instances, but there is no direct evidence to support this view, and it is more likely that the increase arose from greater military requirements.

There is no evidence to suggest that the decline in concessional economic aid from the United States resulted from greater use of trade concessions. A number of other countries moved to implement general tariff preferences for products from less developed countries over the period 1966-73, but the United States was not among the group. While President Johnson agreed to consider a generalised preference scheme as early as 1967, it was not until January 1, 1976, that one was actually brought into effect. Other trade negotiations do not appear to have been employed to offset declining economic aid to any appreciable extent.

As far as private foreign investment is concerned, there was a significant increase in the amount made available to developing countries from sources within the United States with the total rising
Table 31.
U.S. Military Aid: 1966-73
(data represents commitments in millions of U.S. dollars)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Near East and South Asia</td>
<td>558</td>
<td>546</td>
<td>349</td>
<td>436</td>
<td>192</td>
<td>835</td>
<td>611</td>
<td>592</td>
</tr>
<tr>
<td>Israel</td>
<td>90</td>
<td>7</td>
<td>25</td>
<td>85</td>
<td>30</td>
<td>545</td>
<td>300</td>
<td>308</td>
</tr>
<tr>
<td>Latin America</td>
<td>126</td>
<td>88</td>
<td>76</td>
<td>45</td>
<td>23</td>
<td>75</td>
<td>91</td>
<td>83</td>
</tr>
<tr>
<td>East Asia</td>
<td>1123</td>
<td>1228</td>
<td>1808</td>
<td>2129</td>
<td>2249</td>
<td>3084</td>
<td>3852</td>
<td>4417</td>
</tr>
<tr>
<td>S. Vietnam</td>
<td>659</td>
<td>652</td>
<td>1064</td>
<td>1353</td>
<td>1512</td>
<td>1920</td>
<td>2571</td>
<td>3299</td>
</tr>
<tr>
<td>Laos</td>
<td>63</td>
<td>82</td>
<td>82</td>
<td>95</td>
<td>140</td>
<td>198</td>
<td>287</td>
<td>374</td>
</tr>
<tr>
<td>Cambodia</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>8</td>
<td>184</td>
<td>187</td>
<td>160</td>
</tr>
<tr>
<td>S. Korea</td>
<td>210</td>
<td>272</td>
<td>389</td>
<td>480</td>
<td>330</td>
<td>556</td>
<td>532</td>
<td>363</td>
</tr>
<tr>
<td>Africa</td>
<td>30</td>
<td>48</td>
<td>20</td>
<td>31</td>
<td>18</td>
<td>48</td>
<td>37</td>
<td>29</td>
</tr>
<tr>
<td>Total Military Aid</td>
<td>1837</td>
<td>1910</td>
<td>2253</td>
<td>2641</td>
<td>2482</td>
<td>4043</td>
<td>4591</td>
<td>5121</td>
</tr>
<tr>
<td>Aid for the Regions</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Listed</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total excluding</td>
<td>815</td>
<td>897</td>
<td>693</td>
<td>628</td>
<td>462</td>
<td>640</td>
<td>714</td>
<td>617</td>
</tr>
<tr>
<td>Israel, S. Vietnam, Laos</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Cambodia, Korea</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Data obtained directly or calculated from information given in U.S. Overseas Loans and Grants: Obligations and Loan Authorizations, July 1, 1945 - June 30, 1974.

from $1859 million in 1965 to $3996 million in 1973. Most of this represented an increase in direct investment, though there was also a significant expansion in the case of portfolio investment and private export credits. However, it would seem that much of the expansion which occurred resulted from factors other than changes in government policy. Encouragement of foreign private investment in less developed countries had long been an objective of U.S. policy and a variety of
methods had been employed for some time to promote this end. These included attempts to persuade less developed countries to improve the climate for foreign investment, measures to guarantee approved foreign investment against losses arising from revolution, expropriation and other contingencies, advice to foreign investors, loans in domestic currencies accumulated through the sale of agricultural commodities, and various tax advantages. The administration of the various insurance and guarantee programmes was simplified by the establishment of the Overseas Private Investment Corporation in 1969, but provisions designed to encourage private investment abroad were not notably more liberal than those which had existed previously. Indeed, in some respects, U.S. government policy became increasingly restrictive. Although the 1965 voluntary restraints on private foreign investment exempted developing countries, the 1968 controls limited new investment in less developed countries by individuals and companies to 110% of their 1965-66 average. Thus, though increased private foreign investment from the United States may have contributed to the decline of aid in the manner discussed in a previous section of this chapter, policy makers did not, by and large, bring about this growth so that they could reduce concessional aid.

A further possibility is that the American Government opted increasingly for what in O.E.C.D. statistics are termed 'other official flows'—flows such as government export credits which fall outside the category of concessional economic aid. Net flows of this type from the United States fluctuated markedly over the period under review without any apparent tendency towards expansion; thus the 1972 total was below the amount reached in 1967. It is accordingly difficult to suggest that the decline of aid resulted from increased
To conclude, there was a significant decline in the level of concessional American economic aid to less developed countries over the period 1966-1973. This decline resulted from an erosion of support among both liberals and conservatives. Disenchantment was perhaps most visible in Congress, but there was also a weakening of support within the executive and among other groups.

A number of changes explain this loss of support. 'Cold War' considerations previously important in justifying the transfer of aid lost some of their force in the late 1960s and early 1970s, while increasing concern with domestic problems (such as urban squalor, poverty and inflation) gave rise to pressure to cut spending on international programmes. Declining agricultural surpluses, a deterioration in relations between the United States and some aid recipients, greater scepticism concerning the effectiveness of aid in promoting economic and social development, and the increasing severity of the American balance of payments problem were other contributing factors. A number of less developed countries were able to improve their export earnings markedly, and obtain substantial increases in capital flows from other sources; cuts could therefore be made in their aid without placing their development programmes in jeopardy. Finally, economic aid was, or became, linked with other increasingly unpopular issues such as the American intervention in Indochina and its involvement in supplying arms to other countries under military assistance programmes.
1. Neither the D.A.C. index, nor the index of import prices can be used to adjust figures on U.S. aid commitments precisely. They are mentioned only to indicate that substantial increases in aid to current dollars would have been required to maintain its value in real terms.

2. The concept of 'the grant element' in aid has been discussed in an earlier chapter. A detailed treatment is given in Goran Ohlin, *Foreign Aid Policies Reconsidered: O.E.C.D.*, 1966, pp. 101-112.


5. It has already been seen that there was a fall off in the real value of commitments under PL480. The previous figures measured the level of PL480 assistance in terms of the estimated export market value of the commodities transferred. An alternative measure of the value of aid under PL480 is the cost of procuring and shipping commodities to the Commodity Credit Corporation. By this standard, the decline was even more marked. See *1973 Annual Report on Public Law 480*, presented to 93rd Congress, 2nd Session (House Document 93-362), U.S. Government Printing Office, 1973, p.73.


8. According to a statement from the executive, Under the authorization of Public Law 480, as amended, additional program expenses over and above the amounts appropriated are authorized to be financed from the borrowing authorization of the Commodity Credit Corporation.

See, *Department of Agriculture and Related Agencies Appropriations for Fiscal Year 1970: Hearings before the Subcommittee of the Committee on Appropriations on HR1612*, U.S. Senate, 91st Congress, 1st Session, U.S. Government
Printing Office 1970, p. 585. It must be added that the borrowing authority of the Commodity Credit Corporation was substantial when compared with the funds involved in PL480 operations.


10. See 1973 Annual Report on Public Law 480, p.7. Under Section 401 of the Act, commodities were only available for shipment under PL480 if the Secretary of Agriculture determined that supplies had been assured for domestic consumption, stocks and commercial exports.


13. Interview with David Bell, New York, 1975. Bell was Administrator of the Agency for International Development under both Kennedy and Johnson.

14. Clark was Assistant Administrator for Programme and Policy Co-ordination in the Agency for International Development during the last year of the Johnson Administration and the first half year of the Nixon Administration.


16. One indication of the way in which this preoccupation affected the general aid programme is to be found in the allocation of personnel attached to the Agency for International Development. According to Bill Gaud, anyone needed for work in Vietnam had to be taken from any other mission. Interview with Bill Gaud, Washington, D.C., 1975.


20. As Frankel notes, some observers have argued that the degree of detente following the Cuban Missile Crisis was such as to mark the end of the Cold War. See J. Frankel, *International Relations*: Oxford University Press, 2nd ed., 1969, p. 133.


22. The report was not made public. Information concerning this conclusions was obtained from a discussion between the writer and one of the task force members, Edward Martin, Washington, D.C., 1975. The task force evidently concluded that insofar as a threat of subversion existed, it was from the urban areas rather than from the countryside.


26. From a contribution to E. Knoll and J. McFadden (eds.), *American Militarism 1970*: Viking, 1969, pp. 22, 26. Galbraith did not conclude that there was a case for lower levels of economic aid on this ground, arguing that other considerations made a high level of economic assistance desirable.

27. See Frank Church, "A Farewell to Foreign Aid", pp. 249-261. The quote is from p. 255. The article cited consists of extracts from Church's speech to the Senate.


30. See *Congressional Quarterly Almanac*, Vol. XXII, 1966, p. 118. During 1966 action such as increasing acreage allotments and
support loans was taken to increase the production of commodities required for shipments under PL480. See ibid., p.121.


38. The attacks were not infrequently mentioned in the course of Congressional debates. See for example, W. Dickinson, op.cit., p.107.


40. Many conservatives had, of course, long opposed the aid programme, but there were some who moved from supporting the programme to opposition over the period in question as Table 7 indicates.


44. Calculated from data given in *U.S. Overseas Loans and Grants: Obligations and Loan Authorizations*, July 1, 2945 - June 30, 1974; pp. 6, 14. Data refers to fiscal years.

45. Interviews with two senior aid officials, William Gaud, A.I.D. Administrator between 1966 and 1968; and Paul Clark, Assistant Administrator during 1968 and 1969, indicated that this was an important source of concern within Congress.


48. However, flows of this kind were also substantial in 1961, when net disbursements amounted to 716 million dollars. See O.E.C.D., *Flow of Resources to Developing Countries*: O.E.C.D., 1973, p. 431.

49. For comments and data on the distribution of private direct investment, see UNCTAD, *Financial Flows to and From Developing Countries*: United Nations 1975, pp. 34-36.

50. The expansion of the Eurocurrency market is discussed briefly below.

51. Bonds are a means of providing credit which contain promises to pay a fixed sum at a given date and to pay interest periodically at specific dates. Foreign bonds are those issued in a single national market in a country other than the borrower; bonds issued in international capital markets are those sold in two or more markets simultaneously. Definitions are adapted from *I.M.F. Survey*, September 6, 1976, p. 266.

52. Eurocurrency lending refers to loans by banks located outside the United States with funds other than deposits in the given national currency or borrowed in national money markets. A credit in U.S. dollars by a group of banks in Europe or in Singapore would thus qualify as a Eurocredit.

53. It is generally thought that at least half of all credits are publicly advertised. A further difficulty arises from the possibility that announced credits may not be fully utilised. For discussion of Eurocurrency lending and the problems involved in its measurement, see *Development Cooperation: 1975 Review*: O.E.C.D., 1975, pp. 159-161; UNCTAD, *Financial Flows to and From Developing Countries*: pp. 40-45.

54. Exports of services are not included in Table 20, and the price index used does not refer to prices of services imported. However, the inclusion of such items would not affect the conclusion reached above.
55. Calculated from *U.S. Overseas Loans and Grants*: p.68.


58. Other relevant trends included the growth in domestic savings as a proportion of GNP. Gross domestic savings as a percentage of GNP rose from 7.3% over 1956-60 to 23.7% for 1967-70. *Ibid.*, p.125.


60. A detailed breakdown of capital flows into Brazil between 1969 and 1974 can be found in *IMF Balance of Payments Yearbook*, Vol. 27, 1967-74.


63. On the above points, see W. Malenbaum, *Modern India's Economy*: Merrill, 1971, pp. 56-58, 184, 189.

64. Some of the factors which contributed to the decline of concessional aid to India have already been discussed.

65. See F. Church, "A Farewell to Foreign Aid", pp. 249-261. The quotation is taken from p. 358.

66. Statements concerning the Green Revolution are an exception to this point. U.S. officials argued that the introduction of hybrid strains of rice, wheat and other grains through A.I.D. programmes had made a dramatic contribution to solving the food problem in a number of less developed countries. See, for example, "Statement of Elliot Richardson, Acting Secretary of State", in *Foreign Assistance Act of 1969: Hearings before the Committee on Foreign Affairs: House of Representatives*, 91st Congress, 1st Session, U.S. Government Printing Office 1969, p.67.

67. Thus Richardson, *Ibid.*, p. 71: Any realistic appraisal of our relationships with Latin America must recognise that the hopes and expectations of the past decade have not been realised. Although important economic gains have been registered in many places, only a few of the Latin American
nations have achieved self-sustaining progress within a democratic framework.
Edwardin Martin, Assistant Secretary of State under Kennedy, suggested in an interview with the writer in 1975 that a number of people on Kennedy's staff thought change in Latin America would be much easier to accomplish than was actually the case. Interview, Washington, D.C., 1975.

68. The Senate Foreign Relations Committee criticised what it saw as an excessive emphasis on military aid as early as 1958, but opposition to the programme was much stronger in the late 1960s. For a discussion of this opposition, see Lenny Siegel, "The Future of Military Aid", in S. Weissman et al., The Trojan Horse: Ramparts Press, 1974, pp. 211-215.

69. The Senate considered military and economic aid separately in 1966. The inclusion of military aid tended to generate support from more conservative members of Congress who were prepared to support military aid, but not economic assistance alone. But this observation does not weaken the point made above which suggests that military aid became less popular over time, thereby contributing to a loss of support for the combined military-economic aid bill.


73. I.M.F. Survey, March 1, 1976, pp. 72-75.


75. The policy of additionality has been discussed previously in this dissertation.


77. See, for example, Asian Development Bank Special Funds: Hearing before the Committee on Foreign Relations.

78. Ibid., p.20.


81. Data on aid levels to these countries is given in *U.S. Overseas Loans and Grants*.

82. In the case of South Korea, executive statements in 1972 indicated that military aid was being expanded in order to modernise Korean forces in preparation for a reduction in the number of American troops. See *Foreign Assistance Act of 1972: Hearings before the Committee on Foreign Affairs*: p.9.

83. See G. Erb, "The Developing Countries in the Tokyo Round", in *J. Howe et al., op.cit.*, p.89.

84. For details concerning the scheme and its impact, see *Scheme of Generalised Preferences of the United States of America: Study by the UNCTAD Secretariat*: UNCTAD, November, 1975; *Addendum: The Executive Order of November 24, 1975*: UNCTAD, January, 1976.


CONCLUSION

It was noted at the outset that this dissertation would be concerned with three principal questions. The first problem was to explain the emergence of significant programmes of economic aid for less developed countries over the period 1933-47. The second was to account for the expansion of concessional economic aid to LDCs between 1948 and 1966, while the third was to explain the decline of this type of assistance over 1966-73.

The first three parts of this concluding chapter will state the findings of the dissertation on these points. In the fourth section, an attempt will be made to make some generalisations about the factors which have affected the level of aid to less developed countries.¹

¹

A number of factors help to account for the emergence of significant programmes of economic aid for less developed countries over 1933-47. First, there were strong foreign policy and defence motives for providing aid, arising principally from conflict with the Axis powers and the broad nature of American post-war objectives. From 1938 through the war period, aid was used to increase influence over other governments or deny it to hostile powers, to create good will for the United States and its cause, to strengthen the capacity of recipients to resist the Axis powers, to contribute to political stability where this was considered important to the effort against the opposing powers, and to add to the production of resources needed for
the war effort. A variety of programmes, including Eximbank and technical assistance operations, were expanded with these considerations in mind. Aid was provided for comparable purposes after the Second World War. In addition, the general objective of a more stable and peaceful post-war world encouraged policy makers to establish the World Bank and the International Monetary Fund.

For at least part of the period, there were strong reasons for providing aid as a means of developing markets and outlets for American products. This was, to a large extent, a consequence of the Depression and of fears of a new depression following the Second World War. It was the problem of falling agricultural prices, brought about by the Depression, which prompted the Roosevelt Administration to take its first major initiative in the field of foreign aid - a credit enabling China to purchase American wheat and cotton. Early loans by the Export-Import Bank were also largely concerned with promoting the sale of American products. Private sources of finance for exports had declined abruptly because of the Depression, leaving American exporters at a disadvantage with respect to competitors in Great Britain, Italy, France and Japan who could draw on government export agencies established in the period since the end of the First World War. Concern with the problem of maintaining full employment and prosperity following the Second World War was an important factor in the decision to create such institutions as the World Bank and the International Monetary Fund.

A third factor encouraging the emergence of significant programmes of economic aid was a change in attitudes concerning the effectiveness of aid as a foreign policy instrument. Aid to governments was initially thought more likely to damage relations than improve
them. This attitude was important in the rejection of a number of proposals for aid, especially in Latin America. For a variety of reasons, this view had changed appreciably by the late 1930s, and the American Government began to use aid as a means of promoting more friendly relations with other countries. Subsequent experience satisfied many officials and Congressmen that aid was an effective instrument for this purpose.

Substantial requirements on the part of recipients contributed to the growth of aid. Requirements for aid were large because of the disruption of many economies during the Second World War, the decline in private capital flows from the United States and other creditor countries following the Depression, and greater interest in industrialisation and economic development in many less developed countries.

There were some senses in which the capacity of the United States to provide aid increased. Substantial increases (in real terms) in gross national product and government revenue were registered, despite a temporary decline during the Depression. Further, the United States was increasingly able to provide large amounts of aid without running into balance of payments problems. Even so, there were constraints on aid during the Second World War because of scarcities of many commodities urgently needed for the war effort.

In some instances, improved relations between the United States and other countries encouraged the provision of aid. This was so in Mexico where settlement of issues arising from nationalisation of American property cleared the way for the transfer of significant amounts of aid. Resort to economic aid was also encouraged by a shift away from alternative techniques for influencing events in less developed countries. Alternatives no longer favoured included military
intervention, the use of customs receiverships, gunboat diplomacy, and measures to deny or facilitate loans from private sources. Chapter One demonstrated that these techniques were used extensively by the United States in Central America in the first part of the present century.

Further, there was a relatively favourable domestic political climate for the transfer of aid, arising in part from increased acceptance of government intervention in the economy. Not only did this indirectly help to make possible such measures to "provide a New Deal in international economics" as the institutions established at Bretton Woods: there were also a number of instances where broad powers granted to enable the government to deal with war or depression were used to establish or finance programmes of economic aid. Again, aid to less developed countries was often linked with issues having broader support - for example, the general war effort, or reconstruction aid to Europe.

Finally, the widespread destruction brought about by the Second World War appears to have given rise to some support for relief measures on humanitarian grounds. There were already powerful reasons for providing relief on other grounds, for it was thought to contribute to political stability, to promote the conditions for an expanding liberal world economy, and assist in prosecution of the war effort. But humanitarian motives added to the weight of these.

II

The second task of the dissertation was to account for the increase in the amount of concessional economic aid provided to less developed countries between 1948 and 1966. Chapters Three and Four,
which deal with this question, suggest a number of factors which help to explain this change. First, there was increased concern with the danger of 'communist' influence in less developed countries. This concern had not been absent in the late 1940s and early 1950s, but policy makers were then preoccupied with, first, the problem of economic collapse and left wing influence in Europe, and second, the possibility of direct military expansion by communist powers. From the mid-1950s onward, U.S. officials and Congressmen became increasingly concerned with the danger that internal political change, together with the expanded use of trade, economic aid and other instruments by communist powers, would lead to growing communist influence in less developed areas. Economic aid for LDCs was accordingly given greater emphasis. There were other factors which tended to encourage the transfer of additional amounts of economic aid on foreign policy grounds. Thus some decisions to increase aid appear to have been influenced by the intense efforts of less developed countries to obtain a Special United Nations Fund for Economic Development.

Large stockpiles of agricultural surpluses began to accumulate in the United States in the early 1950s, with inventories of the Commodity Credit Corporation exceeding six billion dollars by 1954. This was an important factor (thought not the only one) behind the introduction of programmes providing agricultural commodity assistance. Initially, commodities were supplied to Europe and Japan as well as less developed countries: it was not until 1958 that half of the agricultural commodity assistance was provided to LDCs. However, the American Government increasingly took the view that Europe and Japan should obtain commodities through commercial channels. Less developed areas therefore became the main outlet for American
surpluses, receiving almost 90% of commodities provided by 1965.

The growth of aid was facilitated by the emergence and growing currency of doctrines which were optimistic in their assessment of the way in which aid could promote economic development abroad. One source of this optimism was the burgeoning literature on economic development. The work of Millikan, Rostow and others from the Center for International Studies of the Massachusetts Institute of Technology was of particular importance. These writers suggested that the United States could, through the application of large scale capital aid for a limited period, move many of the less developed countries into self sustained growth. The experience of the Marshall Plan was a further source of optimism concerning the impact of aid.

Requirements for aid increased in many less developed countries. Sometimes, this was because development objectives became more ambitious. In other cases, it resulted from such changes as declining terms of trade, increased indebtedness, and the dissipation of previously accumulated foreign exchange reserves. Policy makers tended to take account of these factors when determining aid levels. Sometimes, as in India following the introduction of the Second Five Year Plan, they provided further aid when unanticipated foreign exchange problems arose. In the case of surplus agricultural commodity programmes, increased requirements in LDCs for imported grains helped to make it possible for the United States to dispose of large volumes of surpluses. Officials had to leave room for commercial exports from American and other producers: accordingly, it would have been difficult to dispose of surpluses without this change. As it was, it was not always possible to dispose of surpluses at the rate desired.
There were some senses in which the capacity of the United States to provide aid increased. Aggregate production and American government revenue continued to increase in real terms. Without these trends, it is likely that the growth of aid would have been slower. As it was, budgetary considerations often led Eisenhower to impose restrictions on economic aid. Further, as economic recovery proceeded, there was a sharp decline in the amount of aid provided to Europe - with commitments falling from more than $3 billion/year over 1949-52 to less than $20 million/year over 1962-65. This helped to make possible increased aid elsewhere. Of course, the capacity of the United States to provide aid did not increase in all respects. There was increasing difficulty with the balance of payments from 1958, and this led policy makers to reduce the real value of each unit of aid provided by progressively tying aid to commodities and services produced in the United States.

Relations between the United States and some less developed countries improved, making the transfer of increased amounts of aid to them more acceptable. This was significant in the case of India, where increased tolerance of non-alignment and somewhat less emphasis on differences over 'socialism' tended to encourage the growth of aid. It was also a factor in Egypt. Increased acceptance of non-alignment and the policy changes introduced by Nasser from 1959 (discussed in Chapter Three) helped to create a climate in which that country could emerge as a major recipient. Improved relations between the United States and other producer countries (not all LDCs) was a minor factor facilitating the expansion of agricultural commodity aid from 1959. Previously, there had been strong criticism of some aspects of the PL480 programme from a number of producers.
Finally, policy makers became less optimistic in their assessment of some of the alternatives to economic aid. They had tended to argue, in the early part of the period under review, that measures to encourage private capital flows, trade liberalisation and the provision of loans at near commercial rates would be adequate to meet most of the requirements of less developed countries. This view was no longer as widely held by the early 1960s.

III

There was a significant decline (in real terms) in the level of U.S. concessional economic aid to less developed countries over 1966-73. The final task of the dissertation was to provide an explanation for this change. The immediate cause of the decline was an erosion of support among a variety of groups in the United States, including both liberals and conservatives. Disenchantment was perhaps most visible in Congress, but there was also a weakening of support within the executive and among other groups.

This loss of support, and hence the decline of concessional aid, can be seen as the result of a number of changes. First, 'cold war' considerations previously important in justifying the transfer of aid lost some of their force for many in the late 1960s and early 1970s. This was a consequence of improved relations with the Soviet Union following the Cuban missile crisis; schism within 'the communist bloc'; the fact that many LDCs seemed less vulnerable to radical movements and to the blandishments of other communist powers; and awareness of the cost of attempting to impose America's preferred political order on less developed countries. At the same time, there was increased concern with domestic problems in the United States,
such as urban squalor, poverty and inflation. Accordingly, there was a shift in emphasis away from foreign policy objectives, leading to pressure to cut economic aid and other international programmes.

Second, the level of U.S. agricultural surpluses declined markedly. The value of commodities actually owned by the Commodity Credit Corporation dropped from over $5 billion in 1963 to less than $400 million in 1973. In that year, shipments of agricultural commodity assistance fell to their lowest level since the inception of PL480 in 1954, as a result of the determination of the Secretary of Agriculture that commodities were in short supply.

Again, there was a shift in attitudes regarding the effectiveness of aid. The inequitable pattern of growth in many LDCs, and the failure of aid to achieve targets previously considered attainable led to greater scepticism as to the effectiveness of aid in promoting economic and social development. In the climate of optimism of the early 1960s, the executive had been able to release statements suggesting that a decade of the Alliance for Progress would suffice to eliminate hunger, bring basic education to all, and remove the need for massive assistance from outside. By the end of the 1960s, it was usual for remarks about the impact of aid to be couched in much more sober terms. There was, too, a belief on the part of some policy makers, that aid was less effective than had been previously thought in promoting stability and winning support for the United States on foreign policy issues. Some, like Fulbright, argued that bilateral economic aid had become a vehicle for the extension of American interests abroad, leading ultimately to the type of military intervention which had occurred in Vietnam.

A number of less developed countries were able to obtain
substantial increases in the amount of capital provided from other sources, including private sources, other governments and multilateral agencies. Many countries also improved their export earnings markedly. Such countries - Taiwan and Brazil are examples - could finance their growing requirements for imports from these sources. Accordingly, cuts could be made in concessional aid from the United States without placing their development programmes in jeopardy.

The American balance of payments problem became increasingly severe over the period reviewed. This weakened support for aid, for in spite of measures to tie aid to procurement of American products, there was still a small leakage of dollars abroad, and there was a possibility that aid could displace commercial exports. There is evidence of a considerable measure of concern with aid programmes on this account, both within the executive (most notably the Treasury) and in Congress.

Relations between the United States and some recipients deteriorated. Attacks by governments of less developed countries in U.S. policies, and expressions of 'anti-American' sentiments within less developed countries appear to have become somewhat more frequent and hostile over the period under discussion. These apparently had some impact on Congressional decisions on foreign aid. Further, there was a marked deterioration in U.S. relations with some countries which had been important aid recipients in the early 1960s, and this contributed to smaller aid allocations to the countries in question. Egypt and India are examples.

Finally, concessional economic aid was or became linked with other issues which were increasingly unpopular. Thus military assistance was regarded with increasing disquiet by a number of liberal
Congressmen and by liberal groups outside Congress. Economic assistance was also linked with the issue of American involvement in Indochina, and its popularity in Congress suffered accordingly.

IV

The final section of this concluding chapter will attempt to make some general statements concerning the factors which have affected the amount of economic aid provided to less developed countries by the United States. First, the level of aid has been influenced by the importance and scope of such foreign policy and defence objectives as promoting political stability abroad, influencing the policies of other governments, promoting a favourable image of the United States abroad, and strengthening the capacity of recipients to deal with military threats. When these considerations became of paramount importance prior to and during the Second World War, the level of economic aid rose sharply. Increased concern with the danger of radical movements in less developed countries, and with the influence that communist powers might gain through their aid programmes was also an important factor in the growth of concessional economic aid between 1948 and 1966. Again, decreased emphasis on 'cold war' objectives between 1966 and 1973 was a significant factor in the decline of aid.

The level of aid has also been affected by the degree of American interest in disposing of surplus products abroad, or in developing markets. Interest in adding to the markets for American products was, of course, an important factor in the expansion of Eximbank operations in less developed countries. Concern with the possibility of inadequate demand in the post war period contributed to the introduction of the World Bank and the International Monetary Fund, for
these institutions were expected to increase the demand from abroad for American products. Again, the emergence of large stockpiles of surplus agricultural commodities gave rise to a programme of aid to dispose of them, while the decline in these stockpiles was an important cause of reduced shipments under these programmes.

Thirdly, the amount of aid provided has been influenced by policy makers' assessments as to its effectiveness. Attitudes regarding the effectiveness of aid as a means of influencing the policies of other governments and winning support from other countries have changed markedly over the period discussed in this dissertation. During the early 1930s, it was generally assumed that aid would damage relations, giving rise to problems over the question of repayment, suspicion of American motives, and expressions of dissatisfaction from governments not favoured. By the late 1930s, that attitude of many policy makers had changed (though there remained a number of sceptics), and aid was increasingly used as a means of promoting a favourable image of the United States abroad, and influencing events elsewhere. This contributed to the growth of aid. There were signs of increased disenchantment with aid on this score between 1966 and 1973, and this appears to have been a factor in the decline of concessional economic aid.

Attitudes concerning the effectiveness of aid as an instrument of economic development have also changed markedly, contributing to changes in the level of aid. At the height of optimism in the early 1960s, it was possible for U.S. officials to argue that a decade of aid would suffice to eliminate poverty and achieve self sustained growth in large parts of the underdeveloped world. In the more sceptical climate of the late 1960s, senior officials openly conceded that
the contribution which aid could make had been over-estimated, and
some of those who had formerly supported the programme in Congress
concluded that it had failed to benefit the bulk of the population
in most recipient countries.

Fourth, the amount of economic aid provided by the United States
to less developed countries has been influenced by their requirements
for aid. Balance of payments problems arising from more ambitious
targets for economic growth and industrialisation, increased indebted­
ness, declining export revenues, and reduced flows of private capital
have tended to generate pressure for increases in American economic
aid. This has also occurred with major food shortages or widespread
destruction in the recipient. These factors were important in the
emergence and growth of economic aid. Rapid growth in export earnings
and sharp increases in private capital flows also made possible re­
ductions in the amount of concessional American economic aid provided
to such countries as Taiwan and Brazil.

Fifth, the level of aid has been influenced by the capacity of
the United States to provide it. Continued economic growth, expanding
government revenues, and reductions in aid to recipients outside the
Third World have facilitated the growth of aid to less developed
countries. Even with these trends, aid levels have been restricted
by budgetary considerations or even (during the Second World War)
shortages of the commodities required. Balance of payments difficul­
ties have also had an impact on the level of aid. Problems with the
American balance of payments during the late 1950s and early 1960s
did not prevent increases in the amount of aid provided, but
led policy makers to progressively tie aid to American products,
thereby reducing the real value of each unit of aid transferred.
Increasingly severe difficulties with the balance of payments was a factor in the decline of concessional aid between 1966 and 1973.

Sixth, the level of aid has been affected by the nature of relations between the United States and recipient countries. Where there have been strong differences over foreign policy questions or over issues such as American property rights in the recipient, the amount of aid provided has tended to be relatively small. India and Egypt provide examples of countries where there have been significant changes in the level of aid because of improved or deteriorating relations. In the case of Egypt, improved relations in the late 1950s helped to create a climate in which that country could emerge as a significant aid recipient. Egypt received an average of $135 million/year in concessional economic aid over 1962-65. However, relations again deteriorated, and the U.A.R. broke off relations with the United States in 1967. Egypt received no new aid commitments between fiscal 1968 and 1971, and only insignificant amounts in 1972 and 1973.

Changes affecting the use of alternatives to economic aid have sometimes had an impact on the level of assistance. In the first part of the century, the American Government used a variety of techniques (ranging from gunboat diplomacy to the institution of customs receiverships) in its efforts to impose political and economic stability in Central America, or to influence the policies of governments in that region. Use of these instruments helps to account for limited recourse to aid in this period. Again, a more sober assessment of the possibilities of trade liberalisation, 'hard' loans and measures to encourage private capital contributed to the expansion of concessional economic aid between 1948 and 1966.

Other factors have affected the domestic political climate for
aid, and accordingly have influenced the amount provided. Increased acceptance of government intervention, and the manner in which aid was linked with other issues with broader support facilitated the emergence of economic aid between 1933 and 1947. Again, one factor contributing to the decline of aid over 1966-73 was the increasing unpopularity of issues with which it was linked - the war in Indochina and American involvement in supplying arms to other countries under the military assistance programme.

Finally, there appear to have been changes in the measure of support among policy makers and others in the United States for transferring aid simply on humanitarian grounds - as a means of relieving poverty and distress abroad as an end in itself. Widespread devastation in other countries appears to have sometimes given rise to a significant amount of support for aid on this ground. This seems to have been a factor in the extension of relief aid during and after the Second World War, though a number of other motives were also present. Stone has argued that increased acceptance by governments of the responsibility to maintain minimum living standards for all their citizens, and the partial diffusion of this domestic 'principle of justice' to the poorer regions of the world, has been the dominant factor behind the growth of aid from rich countries. But it has been argued in this dissertation that this was at best a weak factor in the expansion of American economic aid to less developed countries.
FOOTNOTES

1. In this chapter, data and evidence are not documented as a rule. Full details can be found in the relevant chapter of the dissertation.


3. Use of the word 'disenchantment' is not intended to convey the impression that there had ever been wild enthusiasm for aid in Congress: merely that there was a loss of support.

4. The link between economic and military aid still helped to attract some support from conservatives.

5. An objective increases in scope if it applies to a larger number of countries.
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The persons listed below were interviewed during the course of a field trip to the United States in 1975. The list does not cover all persons interviewed: some officials wished to remain anonymous.

David Baldwin, Dartmouth College.

David Bell, Ford Foundation. Formerly Administrator of the Agency for International Development.

Mr. Joel Bernstein, Former official in A.I.D.

Eugene Black, Former President of the World Bank.

Mr. Larry Bush, Information Division, Foreign Agricultural Service of the United States.

Mr. James Caldwell, Staff member of the House Committee on Banking, Currency and Housing.

Mr. Bruce Cheek, World Bank.

Mr. William Clark, World Bank.

Mr. Paul Clark, Williams College. Formerly Assistant Administrator in A.I.D.

Mr. Cooper, Consultant to Eximbank, Mexico City.

Mr. David Denoon, New York University. Former A.I.D. official.

Professor R. Falk, Princeton University.

Professor Fischer, University of Arizona, Tucson.

Mr. James Fowler, A.I.D.

Mr. Lincoln Gordon, at 'Resources for the Future', Washington, D.C. Formerly Assistant Secretary of State.

Mr. Bill Gaud, World Bank. Former Administrator of A.I.D.

Mr. Clarence Gulick, A.I.D.

Mr. Hagl, UNCTAD, New York.
Mr. J. Hannah, United Nations Development Programme.

Professor J. Hillman, University of Arizona, Tucson.

Mr. Robert Hindle, World Bank.

Mr. John Holsen, World Bank.

Mr. Robert Hormats, Executive Office of the President.

Mr. James Howe, Council for Overseas Development.

Ms Sara Jackson, State Department.

Mr. Lawrence, UNCTAD, New York.

Ms J. Lewis, A.I.D.

Mr. Lars Lind, United Nations Development Programme

Dr. Lowenthal, Council on Foreign Relations.

Mr. Donor Lyon, A.I.D.

Ambassador Martin, World Bank. Former Assistant Secretary of State and Chairman of the Development Assistance Committee of O.E.C.D.

Mr. M. McLaughlin, Overseas Development Council. Former A.I.D. official.

Mr. Bruce McMullen, State Department.

Mr. Kelsey Meek, Staff member of the House Committee on Banking, Currency and Housing.

Mr. Chris. Mitchell, New York University.

Professor John Montgomery, Harvard University.

Mr. Moussouris, U.N. Secretariat.

Emeritus Professor Dana Munro, Princeton University.

Mr. Murray, Staff of the House Agriculture Committee.

Mr. M. O'Leary, Syracuse University.

Mr. Robert Packenham, Stanford University.

Mr. Pascoe, U.S. Embassy, Mexico City.

Mr. Pfeifer, International Development Research Centre, Ottawa.
Mr. H. Reynolds, World Bank.

Professor W.W. Rostow, University of Texas. Occupied a number of senior positions in the Kennedy and Johnson Administrations, including that of Special Assistant for National Security Affairs in the White House.

Mr. John Sanbrails, Harvard University. Former Peace Corps and A.I.D. official.

Ing. Alejandro Scopelli R., Inter-American Development Bank, Mexico City.

David Searle, Director of the Peace Corps.

Ms Kay Stocker, State Department.

Mr. Willard Thorp, occupied a number of senior positions in the American Government, including that of Deputy Assistant Secretary of State for Economic Affairs. Also a former Chairman of the Development Assistance Committee of O.E.C.D.

Professor Toma, University of Arizona, Tucson.

Professor Richard Ullman, Council on Foreign Relations.

Edward Weidner, Chancellor of the University of Wisconsin, Green Bay.