A candid assessment of the malaise in development thinking and proposals for rebuilding confidence in America's ability to do something right

Foreign Aid: Euthanasia or Reform?

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No aspect of our foreign relations produces more yawns on Main Street or occasional discomfort along Pennsylvania Avenue than our programs of economic assistance to developing countries. If we rather arbitrarily date the beginnings of that effort to coincide with President Truman's Point Four Inaugural, we are now in the thirty-first year of an enterprise that has already cost us more than $150 billion, with no end in sight. As to results, the general feeling is one of frustration, of being overwhelmed and undercompensated. It does not help to have other international and domestic problems clamoring for attention while one developing country after another denounces either our indifference or our interference. Instead of success and gratitude we seem to be reaping continuous foreign policy debacles amongst erstwhile or current Third World aid recipients -- from Nicaragua and Mexico to Afghanistan and Iran.

We have had our share of reassessments, aid agency relabelings, shifts between military and economic assistance, and the discovery (or rediscovery) of "key" solutions to the development problem. But the only items that have demonstrated a dependable trend are our increasing feelings of powerlessness and of intellectual and budgetary fatigue. We don't quite know what to do, or even exactly why we are doing it, yet we don't dare stop. Our contribution to economic aid has been steadily declining, until we now provide only a fifth of the 1 per cent of GNP we have accepted as a goal, ranking us twelfth among major donors. We explain to ourselves and others: (a) we just can't afford to do more; (b) aid doesn't accomplish much anyhow; (c) the need for aid is on the wane and we would do well to concentrate on private capital flows and trade opportunities in the future.

That some of these arguments are mutually contradictory and fly in the face of the facts doesn't seem to bother us. For one thing, the economic performance record in the developing world as a whole has been surprisingly good; growth rates (at 6 per cent plus per year in real terms over the past two decades) have exceeded targets, and a new middle tier of developing countries that don't really need aid has clearly emerged. But this should not be permitted to obscure the point that even if we exclude Mainland China, two-thirds of all the LDCs' populations still live in countries where annual income per head is below $500, or that even within fast-growth countries unacceptable poverty and inequity remain. And perhaps we need no longer exclude China. While today's code words of normalization in the economic sphere are "modern science and technology," what the PRC really needs is assistance with its overall development program so that it can someday repay, through nonoil exports, what it is now getting ready to import from the West. Behind all the sex appeal of China is a poor developing country with a huge rural economy, not so very different from India, with which we have been bored for some time. Concessional aid will continue to be important in helping to bring the world's poor to the point at which they can benefit substantially from their systems' involvement with trade, commercial capital flows, and technology. Even if we accept the proposition that the solution of the problem of achieving equitable growth in the middle-income LDCs, the Brazils of this world, is primarily a function of internal priority and policy shifts, a sizable job remains for an intelligent aid program.

To focus on the poor in the really poor countries has been the "New Directions" mandate of Congress since 1973. But so far precious little has been accomplished. This is true partly because we are trying to tackle a large problem "on the cheap," but more fundamentally because we lack confidence in our own understanding of what to do—and thus we can't sell it to the Congress, to Main Street, or to the LDCs. On the quantitative side, what is left over when all the rhetoric and the strictly politically motivated assistance are stripped away is even less than meets the eye. For example, out of a total AID budget of $3.5 billion, almost $2 billion is politically motivated Security Supporting Assistance, mostly to Egypt and Israel to keep the Middle East on the path to a settlement. The remaining $1.5 billion is for develop-

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ment assistance to some sixty other countries. Food aid under P.L. 480 is running at around $1 billion per year and is also heavily directed to stability/security objectives focused on the Middle East—just as food aid was riveted on Southeast Asia not many years ago. Then there is aid channeled through the multilateral institutions such as the soft-loan windows of the World Bank and the regional development banks. Added all together, the grand total is .2 per cent of GNP. The contrast between our ringing claims of concern and the realities of our aid becomes ever more evident—and painful.

The needs and opportunities are real. The U.S. has the experience and the expertise to respond. But over the last decade we have gradually lost our will and imagination. Largely as a consequence, we have lost the required human resources, mainly to the World Bank. If a bilateral U.S. aid program is indeed worth preserving, it will take more than wishful thinking to reverse the drain of resources and influence. It requires more than another one of those "preemptive reorganizations" that bureaucracies so excel at. What is needed is a substantial reevaluation of *what* we are doing, *how* we are doing it, and *why* the multilaterals can't do it better. What follows is not a panacea and doesn't even touch all the bases. It does focus on the changes needed to break out of a behavior pattern that has been yielding increasing friction and cynicism in return for ever more tax dollars.

The U.S. needs to maintain an independent and vigorous bilateral aid program. After Vietnam, liberal congressional leaders joined conservatives in trimming aid programs and channeling resources through presumably more efficient and less politicized multilateral channels. By 1976 the U.S. was putting more than a third of its official aid resources through the multilaterals, in contrast to less than 5 per cent of a much larger (in real terms more than twice as large) total a decade ago.

The facile assumptions behind this gradual dismantling of bilateral aid need to be reexamined. For one, the World Bank/regional bank family, contrary to popular myth, does not stand six-feet tall—either in terms of its economic or its political performance. There is little evidence that the World Bank has used its greater freedom of action and greater ability to attract quality personnel to build a more innovative track record on development assistance. Nor is it clear that its greater political independence makes it more acceptable to LDCs as a "buffer" institution and purveyor of disinterested advice. In fact, one can reasonably argue that many of the past innovative ideas in development theory and aid policy—program lending linked to aggregate policy changes, flexibility on local cost financing, even the initiation of rural poverty-oriented assistance programs—were actually generated within the much-maligned U.S. bilateral program. Moreover, the less-developed countries generally view the World Bank family with virtually the same measure of neocolonial suspicions as they view the U.S. itself. That level of suspicion increases with the expansion of the financial and intellectual power of the World Bank.

We should retain an independent U.S. capacity to associate ourselves, as a nation, with the process of national development abroad. This also offers LDCs an additional and important option. While multilateral umbrellas, such as World Bank consortia and consultative groups, are a useful coordination device, no one donor government or multilateral institution has a monopoly on wisdom or should have a monopoly on resources. The regular and unthinking attacks on AID incompetence have had the cumulative effect of a self-fulfilling prophecy by denuding the bilateral program of most of its talented manpower. A self-confident bilateral aid program retains an important potential role in the total U.S. effort.

Our development assistance programs should be unambiguously directed to the problem of "growth with equity" in the poorer countries of the developing world. The U.S. has tried to move in these "New Directions" under heavy congressional prodding during the past few years. But saying so doesn't make it so. Really helping the poor cannot be done with a shopping list of "direct impact" projects administered by a tired and besieged AID bureaucracy. We need to work with recipients on the outlines of "growth with equity" programs tailored to the particular situation of each country. Spreading potable water across the globe may make us feel good—from both a humanitarian and budgetary viewpoint—but it may not really advance the recipients' own plans for the satisfaction of water and other basic needs.

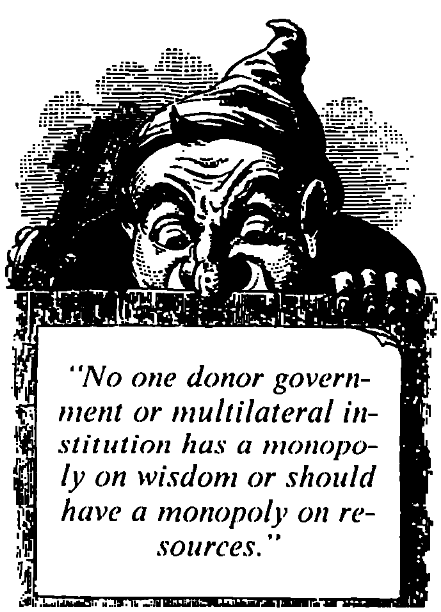
The U.S. development assistance program should be separated from other kinds of official transfers. Of course we retain legitimate political and security interests in the Third World. Maintaining our base rights in the Philippines or encouraging Mideast peace negotiations may indeed be extremely important foreign policy objectives. We may even wish to assist a middle-income country like Portugal or Mexico with its temporary balance of payments or employment problems. Whether or not these objectives can be reliably "bought" with foreign assistance dollars, the U.S. will clearly want to retain such options. But such political objectives should be paid for out of Defense Department appropriations, or under Security Supporting Assistance funds requested by the Department of State, or through the Export-Import Bank or Treasury's Exchange Stabilization Fund. Such transfers should not be confused with development assistance programs, whose basic aim ought to be alleviating poverty and advancing growth in the low-income countries.

The same agency should not automatically administer both types of programs. Letting the military attachés and economic counselors of embassies disburse military and political assistance puts the transaction where it belongs, and on the table. The temptation to use the same instrument to buy a political favor and to maximize development—along with serving commercial and a few other objectives—is part of the fatal "oversell" we have always found it so hard to resist. If a developing country chooses to use additional Security Supporting Assistance dollars for development purposes, any development agency should of course be responsive. But to have the State Department continue to assign an agency the job of squeezing maximum poverty alleviation out of a deal that was politically motivated to begin with is ludicrous on the face of it. More serious is the crippling effect on the aid agency's capacity to attract the right type of personnel, to earn and keep some respect on Main Street and in the Congress, and to signal to poor nations that, among other objectives, we do have a clear interest in LDC growth with equity on a longer-term, nonopportunistic basis.

A relatively "clean" bilateral U.S. development assistance program can make a major contribution to the LDCs' chances of achieving growth with equity. No one denies the fact that even in the world's poorest countries, development is principally a domestic problem to be addressed with domestic resources and policy changes. It is precisely in helping improve the quality of LDC behavior patterns—and not just in quantitative impact—that foreign assistance can make a real difference. This emphasis on aid as a potential catalyst could, of course, be viewed cynically as an evasion of the need for resources large enough to make a quantitative impact. But experience shows that policy packages geared to weaning LDCs away from their urban biases and toward an employment-intensive rural-oriented growth path may require timely key inputs of foreign capital and know-how—witness the few successful cases of growth with equity, Taiwan, South Korea, and Pakistan, of the Sixties. Foreign assistance that is mainly used to fill existing bottles rather than to change their shape will make little difference. In fact, analogous to a natural resources bonanza (in oil, for example), filling bottles can be counterproductive, making an economic system more comfortable with an inappropriate set of policies.

Obtaining maximum—or at least acceptably good—results from an aid package does not just happen; it has to be negotiated. LDC resistance to foreign intervention is rising—about as fast as the American public's unwillingness to accept low or uncertain standards of performance. The U.S. must recognize that any substantial donor has no choice but to become involved in the internal decisions of a recipient country. If aid is provided without any "strings," we are, in fact, intervening on behalf of the existing policy and resource-allocation structure, we are reinforcing the status quo. The question is the manner and intelligence with which a donor "intervenes," not whether the donor gets involved.

The first objective must be to reach a substantial consensus with the recipient on just what can and needs to be done. Without that consensus, no amount of arm-twisting—no matter how sophisticated and low key—will work. Where a consensus is reached, there is still hesitation as to the risks involved. For example, the transition from quotas to tariffs as a means of protecting the balance of payments may be good economics, but politically risky in terms of the feared short-run impact on reserves. In such widely varying instances as Colombia and South Korea in the Sixties and the Philippines in the early Seventies uncertainties like these could be reduced through aid-financed temporary balance of payments support. We cannot shy away from our responsibilities or hide behind transparent multilateral umbrellas. Our aid, if it makes any difference at all, must provide additional options to any recipient. But we cannot simply assume that this advances the cause of "growth with equity" unless we know how the overall system intends to respond. Walking away from this basic truth may be expedient—and consistent with "keeping a low profile"—but it is bound to backfire, at home and abroad.



The U.S. must make an effort to rid itself of many of the self-imposed rigidities that are now bound to frustrate the best-intentioned, most innovative program. Part of the problem comes from the much-amended present aid legislation, vintage 1961. It carries provisions ranging from the prevention of narcotics traffic, to the enhancement of U.S. exports, the assurance of nondiscrimination against U.S. maritime insurance companies and of discrimination on behalf of the U.S. Merchant Marine. Part of the problem is in the executive branch's desire for maximum accountability, culminating in extremely cumbersome end-use auditing requirements. This accumulation of barnacles leaves little time for substantive attention to how we can best assist LDCs with their "growth with equity" programs. More important, the caliber and morale of personnel spending most of their time on check-lists and end-use audits is bound to deteriorate even further. Even the well-intentioned drafters of last year's Humphrey Bill were apparently afraid to rouse too many of these special interest sleeping dogs. Instead, we have an administrative reorganization to create a new super aid agency (IDCA) to which the old AID, along with other "spigots," is to be attached. This will change very little that is essential. Even the once-promising new Institute for Scientific and Technological Cooperation announced by the president in Caracas in 1978 runs the considerable risk of settling into the status of an unduly routinized and insufficiently risk-taking appendage to the bilateral aid program.

Perhaps the politically most difficult aspect needing reexamination is the potential for greater flexibility in our annual budgetary cycle. In the Sixties, for example, aid recipients were often subjected to annual (sometimes even quarterly) performance reviews, with loan disbursement subject to being held up. The aid agency found itself exacting self-help conditions in September and then force-feeding disbursements in June—if it were not to lose face, and more resources, on the Hill. The annual aid commitment cycle, whether imposed by Congress or largely self-imposed (as is currently the case in the World Bank), is not a credible instrument for forging a productive link between foreign capital inflows and domestic performance.

At the same time, one-year commitments of assistance are not satisfactory *if* aid is, in fact, to help with the difficult problem of restructuring a system in the direction of greater equity—while providing reassurance (real or psychological) against the multiyear balance of payments or budgetary pressures arising in the course of such policy reform. The decision to liberalize imports in Colombia in the mid-Sixties, for example, was facilitated by linkage to the ballooning of program assistance. We need only recall the bitterness generated in the wake of the 1966 India package, when multiyear program aid expectations tied to a substantial devaluation/liberalization package were left to twist in the winds of political change. No one underestimates the difficulty of obtaining multiyear aid authorizations, not to speak of appropriations. Nevertheless, it is hard to perceive of a meaningful assistance program capable of lubricating always complicated restructuring efforts without an enhancement of our flexibility and our ability to stay the course.

The other side of the same coin is that the notion of annual "country aid levels" that must more or less be maintained (or changed substantially only for overall budgetary or country-specific political reward or punishment reasons) has to be sacrificed. Ideally, when and if country X has a notion of what it wants to do and can do over the next few years, it could approach the U.S. for help in doing it. Once both parties, possibly joined by others, agree on the substance of activities and policies, a major prerequisite for the efficient use of foreign aid over several years is met. When that particular task, whether monetary reform or the provision of rural mini-infrastructure, has been accomplished with our help, there is no reason why aid must continue to flow at more or less the earlier levels. It would indeed be far better for all parties were there no such presumption. While zero-base budgeting may not be wholly realistic—and some continued low-level annual aid "presence" may be warranted—the development agency should essentially be in a position to sit back and wait for whatever (and whenever) an LDC—perhaps the same one—next wants to negotiate a major package of assistance linked to a package of domestic actions and programs. A generally friendly and forthcoming, yet nevertheless much more passive, role for the aid agency would help diminish the current levels of suspicion about U.S. motives, and simultaneously enhance the productivity of our assistance.

We need better mechanisms for carrying out multilateral assistance and policy reviews. Given all the reasons that make a stronger bilateral aid program necessary, the U.S. should not aim to regain a solo role center stage. Far from it, the substantial progress made in burden-sharing and in multilateralizing the total OECD aid effort undoubtedly represents one of the major success stories of the postwar era, a success that should be maintained and built upon.

The multilateral framework for the coordination of donor aid packages and attitudes has served a very useful purpose, especially as mutual demonstration and cajoling have helped to lever larger aid packages in short-term crisis situations such as the crop failures of the early Seventies. But the weaknesses of the framework are also serious and require attention. I have already mentioned the increasingly exclusive role of the World Bank as lender, coordinator of other lenders, assessor of country performance, and purveyor of policy advice. As a direct consequence of this, the bilateral program has been consistently declining in both quantitative importance and intellectual capacity, with AID becoming ever less capable and willing to reverse the trend.

Moreover, when you have a clear commitment—as the Bank does—to increased dominance of the multilateral coordination process and to ever-higher lending targets for itself tomorrow, it becomes increasingly difficult to render truly independent judgments on development performance today. The Bank's consultative group mechanism, originally intended for a serious annual review of aid and policy packages, has increasingly turned into rather stylized occasions for the obligatory exchange of compliments and a focus on the quantitative rather than the qualitative aspects of development.

The current fabric of the multilateral aid umbrella is leaky in one other important respect: It is inefficient in utilizing perhaps the scarcest commodity of all, the time and energy of key LDC decisionmakers. The Bank carries out routine annual reviews, plus occasional general reviews, in the more important LDCs. There are visiting Bank sectoral and project teams almost continuously at work. In addition, every major bilateral donor, as well as every other multilateral agency, tends to send in its own team and hold its own discussions. They usually ask the same questions of the same ministers and the same technocrats. This way of doing business is terribly wasteful of the time of the too few key individuals in any developing country. It is also a basic cause of the growing sense of irritation, combined with fatigue and apathy, on both sides with respect to a potentially most important set of relationships.

What is required, I believe, is a new way of carrying on with the business of simultaneous assistance and policy reviews—somewhat at arm's length from the most powerful donor and able to generate the requisite freshness, intellectual focus and policymaker attention. Every few years—perhaps whenever country X indicates its desire to associate a substantial multidonor aid package with its own plans for resource inputs and strategy change—independent expert team reviews would be undertaken. Such teams would, of course, draw on the expertise and continuity represented within the major aid-giving agencies, multilateral as well as bilateral, but would not be the creature of any one donor or group of donors. It might report to a strengthened development committee, composed of rich and poor countries' finance ministers, under the joint aegis of the Bank and the IMF. Its agenda would include a multilateral assessment of donor as well as recipient actions and policies. This would not only avoid the tendency for the production of reports that pull their punches, but would also substantially reduce the danger of "big brother" atmospherics in the process of advice-giving and aid allocation. As an added dividend, with LDC and D.C. representatives examining each other, the mutuality of the learning process would have ascendancy over the (often suspect) paternalism of foreign experts and aid officials.

Having tried to ignore or, alternately, bamboozle public opinion to get continued support for aid, we might try a bit of candor. The final and biggest question remains: Is the U.S. taxpayer, in this era of Proposition 13, willing to support "growth with equity" in faraway places? Or is Zbigniew Brzezinski right in advising us to concentrate our scarce energies on the Third World's "new influentials," who don't need aid but could deny us oil and markets and threaten us with nuclear proliferation?

There can be little doubt that neither Congress, the taxpayer, nor the administration is ready for a brave new Marshall Plan to help "eradicate the worst aspects of global poverty by the year 2000." But we may be ready to embark on the type of low-key, low-cost but high-quality program described above to turn things around for us—both in terms of image and reality. Once we have demonstrated our seriousness of purpose, as well as our success in execution, additional resources can be expected to follow. But we must first reverse a no longer serviceable approach and start worrying about the demonstrated quality of what we are doing rather than following the siren song of per cent of GNP targetry.

How much can we "afford"? What is the ticket of admission to this new kind of a ball game? It is hard to say. President Carter early proposed a doubling of aid, but has since scaled this down considerably in the face of the present budget crunch. He too is presumably considering the issue of linking quantity to quality, in an approach that goes beyond yet another aid agency reorganization.

However it is designed, the only honest rationale for aid is essentially humanitarian. Programs of "growth with equity" among the world's poor should concern us because they are "right." No matter how selfish we have become, most of us realize that there is an inevitable process of change out there with which we want and need to be associated. More than the avoidance of future costly Irans is involved, and more than the growth of markets that are already larger than those of Western Europe and Japan. On the other hand, precisely how much association we can afford is something else, something we must decide in terms of our own priorities as a people. It will depend in no small way on whether we can recapture some semblance of confidence in our capacity to mount a really effective program.

There is reason to believe that lawmakers may be seriously underestimating how well a lean and hard-nosed aid program would be received in Peoria. People are aching to have us recapture a higher moral ground abroad—just as they would like to be able to regain their faith in government at home. But it can't be accomplished with just another patchwork repair job.

The main problem in convincing Main Street of our capacity to run an effective program is that we have consistently tended to oversell foreign assistance in the past, whether our objective was containing the Soviets, expanding markets, buying bases, or effecting instant LDC "takeoffs"—and the objective was usually a combination of all the above. By pyramiding objectives, interest groups, and spigots, we have typically sought to stem the tide of eroding aid levels. In the process, the whole package has been rendered ever more suspect and subject to low political *and* economic rates of return. With the same agency increasingly involved in political and security-oriented programs, its ability to act effectively as a credible instrument for development has been more and more reduced. When the dollar tag on our security assistance—going to a handful of countries—dwarfs that of our total bilateral development assistance allocations to more than sixty developing countries, and when even our P.L. 480 food aid has been heavily politicized, this does little to enhance our credibility abroad. The inevitable instances of the misuse of aid—the champagne glasses and luxury boats so dear to the press—become more inevitable when the basic bargains underlying the transfers are nondevelopmental.

Neither aid-giving nor aid-receiving is easy—neither among nations nor within families. The rich can and ought to do more for the poor; on an ever-more interdependent globe it is even likely to be in their own longer term self-interest. But it won't happen as long as the only assured results of the effort seem to be higher levels of friction and confrontation. Whether or not one accepts the precise changes suggested here, the fact is that our present foreign aid effort just isn't getting the job done.

Substantially enlarged bilateral aid budgets are definitely not around the corner. There are always good and sufficient reasons for putting off the day—especially when the overall North-South dialogue seems to be in recess, when post-Afghanistan containment and military aid to Pakistan have assumed new urgency, and when inflation is threatening domestic programs that are politically far more powerful. But a continuation of the current policy of back-burner drift is not viable either. Clearly, the stakes are high, even if the fuse is long. The U.S. seems uncertain as to whether or not it is, after all, the policeman of the world; but it has to worry about the basic causes of "crime in the streets," and this remains a big part of the world's collective conscience. If we continue to try to delude ourselves that the Third World can be ignored, except in times of crisis, the best we can hope for is that creeping fatigue will someday give us the courage for euthanasia. But the ultimate costs, fiscally, politically, and morally, are bound to be infinitely higher. WV