

PART II

**EXTERNAL ECONOMIC AID TO DEVELOPING
COUNTRIES**

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The purpose of this chapter is to discuss the major problems arising out of the current programs and policies of the U.S. Government for promoting economic and social progress in the less developed areas, and to suggest some approaches to these problems.

Aside from humanitarian considerations, which have always played an important role in U.S. private and public relations with foreign countries, our foreign aid programs are primarily tools of American foreign policy designed to achieve certain objectives directly or indirectly related to the security and economic welfare of the United States. While the cold war with communism has certainly enhanced our concern for the economic and social problems and aspirations of the less developed countries, the United States would undoubtedly have a foreign aid program even if the Communist threat to our security were by some miracle to disappear. There are some who argue that by promoting prosperity in the poorer regions of the world we will be repaid severalfold by an increase in our own prosperity as a consequence of broadened trade opportunities. However, except for particular types of investment such as those directed toward expanding free world supplies of raw materials, this argument is at best unprovable. In most cases, funds made available in the form of low interest loans or grants would have contributed far more to the U.S. output if they had been invested in the United States. Moreover, for some types of foreign investments, their marginal contribution to total world output is probably less than the marginal contribution of the same investment expenditures made at home. Consequently our justification for development assistance abroad must be based mainly on the realization of important foreign policy and national security objectives, and perhaps more importantly on the promotion of world welfare goals suggested in part I of this study.

The relationship between foreign aid and the achievement of specific economic objectives in foreign countries is always tenuous since the realization of the economic objectives is only partly dependent upon external assistance. Yet tenuous as this relationship is, it is far more predictable and certainly easier to measure in retrospect than is the relationship between economic objectives and their political and social consequences. History has not provided us with a correlation between per capita output on the one hand, and political stability or democratic progress on the other. Some of the less developed countries with the highest per capita output have demonstrated the greatest instability. Nor have generous outpourings of external aid assured the continuance of pro-Western governments in power.