developed countries will require a decade or more, and (2) that the attempt to achieve short-term political goals through economic assistance is likely to prove disappointing. Indeed if aid for short-term objectives involves simply the temporary shoring up of shaky governments which are not responsive to the needs of the people, such assistance may in fact be harmful to our long-term objectives.

In the light of the foregoing analysis we shall examine briefly the various types of aid programs with respect to (*a*) the specific economic objectives to be served; (*b*) the actual forms of aid and conditions under which it is made available; (*c*) the institutions, both bilateral and multilateral, employed for administering development assistance, and (*d*) the economic impact of the aid burden on the United States and how it might be shared equitably with other developed countries.

A. SPECIFIC ECONOMIC PURPOSES SERVED BY THE AID PROGRAM

1. Stabilization assistance

During the postwar period a number of developing countries have experienced chronic inflation and balance-of-payments disequilibrium, necessitating the maintenance of severe trade and exchange controls or frequent devaluations, or a combination of both. Sometimes these conditions have been accompanied by the accumulation of large short- and medium-term external indebtedness to a point where the country's current external liabilities not only exceed its international reserves, but its current liabilities are in excess of the country's ability to meet them out of current foreign exchange earnings without drastically cutting essential imports. At this point the country must either obtain emergency external assistance or take measures of the most serious consequences for the growth and welfare of its economy.

These conditions are usually traceable to financial mismanagement and improper monetary policies. However, in some cases crises have been the result of unexpected decreases in foreign exchange income resulting from a sharp fall in export prices, or a substantial rise in import requirements as a consequence of a crop failure or natural disaster. Even in cases where a condition of chronic inflation and external disequilibrium has not resulted in a balance-of-payments crisis, a perpetuation of this condition makes rational development planning and economic and social progress extremely difficult. Private foreign investment is discouraged and external public lending institutions are reluctant to make long-term development loans. Thus for many countries the first step in a program for longrun economic and social progress is often a thorough financial reform which usually includes an exchange rate adjustment, the elimination of multiple exchange rates and import quotas and licensing, a balancing of the budget, restrictions on bank credit, the elimination of various types of subsidies, and other measures designed to end the cost-price spiral. Prices must be stabilized while at the same time price disparities which result in a misdirection of production and investment must be eliminated.

In the first instance countries in this condition should seek stabilization assistance and technical advice from the International Monetary Fund, but frequently a country's quota in the Fund is too small to deal with the problem. In addition, a country in this position usually needs longer term assistance than that normally provided by the Fund.