mental projects which must eventually be financed and expanded from public revenues, a distinction between grants and loans based on whether the investment adds to the "social" capital or "economic" capital of a country does not appear to be a very sound one, since quite obviously a country requires different types of capital, all of which contribute to the expansion of the social value product.

The attempt to deal with the grant-versus-loan problem by requiring countries to pay in local currencies has been recognized by the administration as an unfortunate experiment which ought to be liquidated as soon as possible. The administration's new AID program wisely provides that development loans—

> will be repayable in dollars, will bear interest at low rates, or will be interest free, and will extend for terms up to 50 years, with substantial grace periods where warranted.

In justifying this position, the "Summary Presentation" states that—

> the shift to dollars from local currency repayment is being made because experience has shown that substantial, unusable local currency accumulations constitute a source of misunderstanding and friction between providing and receiving countries and do not make economic resources available either to the United States or the receiving country. Moreover, aid-receiving countries are likely to husband their dollar resources more carefully if they are obligated to repay loans in dollars. In addition, the United States is entitled to be repaid in dollars if receiving countries achieve sufficient growth so that they are able to make such repayments.[7]

The International Development Association (IDA) has rejected the local currency repayment approach in favor of repayment in dollars on generous terms. However, the soft-loan window of the Inter-American Development Bank and the Social Progress Trust Fund administered by the IDB under a trust agreement continue to make loans on a local currency repayment basis. Also, under title I of Public Law 480, sales of agricultural commodities continue to be made for local currencies with the result that in some countries the United States is accumulating enormous quantities of local currencies that it will never be able to use for its own purposes and will constitute a source of misunderstanding and administrative difficulties for many years to come. It would be highly desirable to put the whole title I, Public Law 480, program on a basis similar to that provided by title IV of Public Law 480 as amended in 1961. This would involve the sale of the agricultural commodities on very generous credit terms, but with provision made in the credit agreement for appropriate controls on the use of the commodities in relation to the country's development program. The credit terms could be related to the country's overall capacity to service foreign indebtedness.

There is, of course, no harm in the same country's receiving development assistance from different sources under varying credit terms, provided that the "mix" of hard and generous repayment terms is determined in relation to the country's capacity to repay. But this could only be done by the closest coordination between the activities of, say, hard-loan institutions such as the Export-Import Bank and the World Bank, and soft-loan development agencies such as IDA and AID.

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[7] See "An Act for International Development, Fiscal Year 1962, a Summary Presentation," US GPO, June 19, 1961, p. 34.