

2. Sharing the aid burden among developed countries

The shift in the relative economic position of the United States over the past decade as a consequence of rapid growth in Western Europe and Japan, together with recent balance-of-payments difficulties of the United States caused in part by our large economic aid and military expenditures abroad, have led the United States in cooperation with other industrialized countries to give serious consideration to the problem of how foreign aid should be shared. European powers, such as Belgium, France, the Netherlands, and the United Kingdom, which either administer territories in underdeveloped areas or maintain close economic and political ties to former colonial areas which have recently become independent, have been providing substantial amounts of loan and grant assistance, and in addition have contributed to international institutions such as the World Bank and IDA and to regional institutions such as the Oversea Development Fund of the European Economic Community. On the other hand, countries which have not had special ties with overseas territories have until recently, at least, contributed relatively little to development aid beyond their subscriptions to international institutions.

The problem of determining what a country's fair share of the aid burden should be is a very difficult one. To begin with, there is a problem of defining "aid" itself, since many credits to less developed countries are made available primarily for the purpose of financing exports. In the "Summary Presentation" to the Congress, comparative data on bilateral aid were limited to "net grants and gross loans of over 5 years original maturity."⁹ This excludes private loans and grants and contributions to international institutions. Contributions to international institutions present special problems in measuring a country's aid burden, since some countries' local currency subscriptions are employed to a greater extent than others, and in the case of organizations such as the World Bank, a large portion of the subscriptions are not callable except in case of default and constitutes, in effect, an underwriting of the Bank's loans.

Once the problem of defining aid has been resolved, it is necessary to determine a basis for equitable sharing. The usual approach is to relate the amount of a country's aid to its gross national product. But should Japan—whose real GNP per head is less than a fourth that of the United States—or a Western European country—whose real per capita output may be less than half that of the United States—be expected to provide the same percentage of its GNP in the form of aid to developing countries as the United States? Should we, in effect, apply the principle of progressive taxation to nations just as we apply it to taxation of individuals in this country?

These are some of the questions which the representatives of the member nations of the Development Assistance Group (DAG) have been struggling with. Thus far 10 governments have become members of DAG—the United States, Britain, Canada, France, West Germany, Italy, Belgium, the Netherlands, Japan, and Portugal—but it is expected that other OECD members will join DAG (which is to become the Development Assistance Committee (DAC) of the OECD)

⁹ See "An Act for International Development, a Summary Presentation," June 1961, p. 144. This does not represent the administration's definition of "aid," but the concept was employed on the basis of the availability of the data.