of their GNP in terms of U.S. prices. For most countries real GNP is substantially higher than GNP derived by converting the local currency value of the product into dollars at current exchange rates. Thus if we assume that the foreign aid made available by the various DAG members represents the dollar value of the assistance in terms of international prices, the burden of the foreign aid measured as a percentage of nominal GNP in tables 1 and 2 may overstate the real burden of the foreign aid for most other DAG members in comparison with that of the United States.

On the other hand, it may be argued that countries with higher per capita incomes should assume a proportionately higher share of the aid burden in accordance with the principle of progressive taxation. In an analysis of the problem of determining the proper U.S. share of foreign aid, Dr. P. N. Rosenstein-Rodan of the Center for International Studies, Massachusetts Institute of Technology, calculates the ratio of U.S. GNP to the combined GNP of all countries capable of providing development assistance to be 54 percent.[12] After applying the principle of progressive income taxation to per capita real GNP for these countries, Dr. Rodan concludes that as of 1961 the United States should contribute about 65 percent of total aid, leaving 35 percent to Europe, Oceania, and Canada. Dr. Rodan excludes Japan from the countries capable of providing development assistance.

The purpose of the foregoing discussion has been to illustrate the problems in the determination of how the aid burden should be shared rather than to recommend any particular formula. We are confronted with even more difficult problems in deciding which countries are eligible for development assistance. These would appear to be matters for high-level policy discussions among the major industrialized countries and in consultation—on certain points at least—with representatives of the developing countries themselves. This discussion again suggests the advisability of moving more in the direction of multilateralized assistance.

3. Development aid sharing, and the balance of payments

Of the approximately $5 billion in grants and long-term loans provided by the industrialized OEEC countries, Canada, and Japan during the 1956–59 period, three-fourths was in the form of grants and the remainder in long-term loans. Some countries generally tie their loans and grants to domestic procurement. These countrie include Austria, Canada, Japan, Italy, and France. Although formerly much of Germany's aid had been tied in one way or another, it is reported that new German financial credits are not tied to the purchase of German exports. Belgium, the Netherlands, and Portugal also do not as a rule tie procurement to their exports.[13]

In the past a substantial portion of U.S. development assistance has been untied, but recently measures have been taken to increase

[12] Free world countries capable of providing development assistance, according to Dr. Rodan, include Belgium, Canada, Denmark, Finland, France, Germany, Italy, Luxembourg, Netherlands, Norway, Oceania, Sweden, Switzerland, the United Kingdom, and the United States. See P. N. Rosenstein-Rodan, "International Aid for Underdeveloped Countries," the Review of Economics and Statistics, May 1961, pp. 111, 138.

[13] See the "International Development and Security Act," hearings, House Committee on Foreign Affairs, 87th Cong., 1st sess., on H.R. 7372, pt. 2, 1961, p. 818.