the portion of our development assistance which is tied to procurement in the United States. However, the fact the aid is tied does not necessarily mean that there will be no adverse impact upon the balance of payments of the donor country. Even if we were to insist that every dollar made available under our aid programs be spent for U.S. exports, we cannot be sure that these exports represent a net addition to our total exports; and to a considerable degree, the aid that we provide releases other dollar income accruing to the developing countries which they can then use for purchases outside of the United States. Hence, Secretary of the Treasury Dillon's statement that "Our objective will be to insure that at least 80 percent of our foreign economic assistance will be spent on U.S. goods and services" [14] does not necessarily mean that the adverse effect on our balance of payments arising from our foreign economic assistance program will be no more than 20 percent of the value of our aid. It could be less than 20 percent, and it might well be a good deal more, depending upon the competitiveness of our exports in world markets.

Ideally all financial assistance should be untied in the sense that within the purposes of the project to be financed the foreign recipient should be permitted to purchase goods and services in any part of the world on the basis of price and quality. This would not only increase the efficiency of our aid dollars, but is also in harmony with free market principles for the allocation of resources which we in free enterprise economies believe to be highly desirable for ourselves and will produce the most efficient allocation of resources within the developing countries. If the principle of buying in the cheapest market is valid for internal economic relations, it should be equally so for the free world as a whole. Moreover, if all capital exporting countries were to make available their development assistance on an untied basis, we would have an equal opportunity to supply the commodities purchased with the aid funds, whatever the source of the funds might be. Since the developing countries are not likely to accumulate substantial amounts of foreign exchange reserves, competition for markets in the developing countries—and hence for a portion of the aid dollars—would be on much the same basis as if there were no aid dollars being made available except for the fact that the markets are larger. Thus, given a reasonably equitable distribution of the aid burden from the standpoint of the total funds to be made available, the existence of aid in an untied form should constitute no special burden or drain upon the U.S. balance of payments. Aid or no aid, we must balance our international accounts by becoming sufficiently competitive in international markets to match our outflow of foreign exchange payments with our inflow. Part of our difficulty in the past has been that while much of our own aid has taken an untied form, nearly all of the bilateral, and some of the multilateral, assistance provided by other countries has been tied. In addition, we have been making large military expenditures abroad for commodities and services that do not ordinarily enter into international trade.

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[14] "International Development and Security," pt. 1, op. cite pp. 94–95.