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FOREIGN ECONOMIC AND FINANCIAL ASSISTANCE

History:

Economic assistance became a major part of U.S. foreign policy in the aftermath of World War II. Its object was to contain the spread of international Communism by strengthening the economies of free world nations.

Assistance of this type may be said to date from the Marshall Plan, which was launched in 1947 to rebuild war-devastated Western Europe. During the 1950s and 1960s, the geographic focus of economic aid ~~was~~ shifted from Europe to the developing nations of Asia, Latin America, and Africa.

The U.S. has supported the efforts of many countries to move from poverty to relative prosperity. ~~Our~~ M~~m~~ore obvious successes in this area include the countries of South Korea, Taiwan, and Brazil.

The Program~~:~~

-- Currently, more than 60 developing countries receive U.S. bilateral aid, while many more receive U.S. assistance through multilateral aid.

-- Bilateral aid is rendered directly by the U.S. to the recipient country, principally through:

* The Agency for International Development (AID), which makes loans and grants to countries in Asia, Africa, and Latin America, for projects aimed at improving food production, health, energy, and human resources development.

* P.L. 480 food aid, through which con~~gr~~cessional loans and humanitarian grants provide U.S. agricultural commodities to developing countries for humanitarian purposes and also to help develop export markets for the U.S.

* The Peace Corps, which places volunteers abroad to promote better understanding between peoples and assist in small-scale development activities.

* Refugee assistance, which provides humanitarian aid to refugees in foreign countries, and finances transportation and initial placement of refugees coming to the United States.

-- Multilateral assistance is provided through international organizations to which the United States belongs. There are two major channels for this kind of assistance:

* Multilateral development banks, comprising the World Bank and its affiliates, and the regional banks for Asia, Africa, and Latin America.

  - These banks make loans at near-market terms and long-term low interest loans to finance development activities.

  - Industrialized countries support these banks with direct contributions and borrowing guarantees. The U.S. is the largest single contributor to the World Bank, providing about 20 percent of the bank's capital.

* International organizations and programs, which make grants for development, humanitarian, and other activities.

  - The United States supports these efforts through voluntary contributions; i.e. through donations over and above the annual assessments this country pays as a member of various international organizations.

- Examples include contributions to the United Nations Development Program, and the United Nations Children's Fund (UNICEF).

Costs:*

-- ~~The growth of budget authority for this program in recent years may be represented as follows:**~~

-- * Budget authority for economic and financial aid totalled $2.7 billion in FY1970, including:

~~* FY 1970~~

* $1.9 billion for bilateral aid

* $810 million for multilateral aid.

~~- Bilateral $1.9 billion~~

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* Over the years, various foreign aid programs have been reported under different budget headings. For the purpose of comparision, all figures given above reflect the funding levels of all programs presently reported as bilateral and multilateral economic aid, even if certain programs were reported under different headings in earlier years.

** ~~Budget authority is used here instead of actual outlays because this program frequently involves long-term loans, loan guarantees, and other commitments extending beyond a given fiscal year.~~

~~- Multilateral $ .81 billion~~

~~* FY 1980~~

-- Budget authority ~~totaled~~ approximately doubled by FY1980, totaling $5.3 billion, including

~~- Bilateral --~~ $2.7 billion for bilateral aid.

~~- Multilateral --~~ $2.6 billion for multilateral aid.

o Administration Action ~~to date~~ :

-- For FY 1982:

* ~~The~~ President Carter ~~Administration~~ requested total budget authority of $6.7 billion, including:

~~- Bilateral --~~ $4.0 billion for bilateral aid.

~~- Multilateral --~~ $2.7 billion for multilateral aid.

* ~~The~~ President Reagan ~~Administration reduced this~~ requested ~~to:~~ a total budget authority of $5.1 billion, including:

~~- Bilateral --~~ $3.4 billion for bil. aid.

~~- Multilateral --~~ $1.7 billion for mult. aid.

* Congress approved a total budget authority of $4.8 billion, including:

~~- Bilateral --~~ $3.1 billion for bil. aid.

~~- Multilateral~~ $1.5 billion for multilateral aid.

For FY 1983:

* ~~The Reagan Administration~~ President requested total budget authority of $4.7 billion, including:

~~- Bilateral~~ $2.9 billion for bil. aid.

~~- Multilateral~~ $1.8 billion for mult. aid.

* Congress approved these amounts.

~~- Bilateral $2.9 billion~~

~~- Multilateral $1.8 billion~~

The President's Proposals for FY 1984

o Increase total budget authority to $4.9 billion,

~~The Administration is proposing budget authority of~~ ~~including~~

~~$4,868 million, an increase of $113 million,~~ or 2% above

the amount requested for FY 1983, including:

-- $ ___ billion for bilateral aid.

-- $ ___ billion for multilateral aid.

~~o Increases are requested for:~~

o Increase budget levels for:

-- AID bilateral programs, from — to — to which contribute importantly to

o Specific program changes:

-- Increase

-- Reduct.

-- Su

developing nations in building roads, bridges, dams, both political and development goals.

-- Multilateral banks, where Congress has failed to appropriate the amounts needed to comply with previous funding commitments agreed to by the United States.

o Reduce budget levels for:

~~o Reductions from prior levels will be sought for:~~

-- Refugee assistance programs, where the number of people who require aid is declining.

-- International organizations, which are judged of lower priority than other programs that address the same goals.

o Fund P.L. 480, Peace Corps, and smaller aid programs ~~will be financed~~ at or near the 1983 levels.

Justification (General).

o Aid alone is insufficient

-- wasteful projects with self help initiatives.

o ~~Dependence~~ Aid ~~should be~~ provided only for those programs that work

it should be

Where Justification (Specific).

o Major

o The Reagan Administration position on foreign aid:

o Create a new, more effective app—

-- Past have empha—

-- RR emph—

-- In contrast to previous administrations, President Reagan has emphasized free market solutions to the problems of developing nations.

o Elements

o ~~self-help~~ Recog that aid alone is insuff

o Self-help

* His administration has urged these countries to

o Aid to prog that work

adopt free trade and other policies designed to

Specific — Just.

encourage foreign investment.

* In the future, American aid will be directed toward promoting self-help among the developing nations, rather than toward propping up failed socialist experiments.

o Increases are proposed only for those programs that have proved effective.

-- AID bilateral assistance programs are designed to encourage appropriate economic policies:

* Expanding the role of the private sector.

* Sharing appropriate U.S. technology and know-how.

* Building indigenous institutions that will foster economic growth.

-- Multilateral banks have an important role to play in promoting sound economic policies in recipient countries.

* "Soft" loans (long-term, nominal interest) from the World Bank and regional development banks assist developing nations in building roads, bridges, dams,

and other projects that will lead to greater economic growth.

o The P.L. 480 program, which will grow modestly in 1984, permits the use of U.S. agricultural products, especially those which are surplus to domestic requirements, to assist American farmers and to relieve hungar around the world.

AID 5

Questions and Answers

o How much aid? Other industrialized nations -- Sweden, West Germany, Japan, and Great Britain among them -- devote higher percentages of their respective GNPs to foreign aid than the U.S. Shouldn't this country be doing more?

-- U.S. is providing a significant share

~~-- Other countries are able to do more in the way of foreign aid for either or both of the following reasons:~~

-- U.S. is taking the lead in other areas ~~steps~~ that ~~helps~~ are especially beneficial to third world

~~* The U.S. spent millions to rebuild their economies after World War II.~~

* Open markets
* Lower energy prices
* Support stability (both globally + regionally)

~~* The U.S. shoulders the heaviest share of the burden of defending the free world.~~

-- To measure just by dollars is a mistake.

~~Need more pro-U.S.~~

~~-- Given its present circumstances, the U.S. is doing all~~

~~that it reasonably can.~~

o <u>Free enterprise for everybody</u>? But how will encouraging free enterprise policies help the Thrid World? President Reagan's approach to foreign aid sounds like a glib excuse for doing as little as we decently can.

-- Free enterprise works as well for the developing countries as well as ~~for~~ it does for the developed countries.

* Hong Kong, for example, is a rock that doesn't even have its own water supply; yet it has prospered without massive infusions of foreign aid.

* Singapore has succeeded on much the same terms.

* Taiwan and Korea, ~~the~~ other two success stories among the developing nations of Asia, were forced to adopt realistic economic policies by the impending withdrawal of American aid in the early 1960s.

-- Still, Foreign aid will ~~still~~ be provided in significant sums ~~but~~ But It cannot be the sole source of development.

-- Most effective use: link with emerging free-enterprise policies.

-- Foreign aid is frequently wasteful and counterproductive.

more to justification

* Huge sums are lost through official corruption or else are squandered on costly "show" projects that have little to do with the recipient country's real economic needs and potential.

* Worse yet, foreign aid breeds dependence by discouraging recipient countries from facing up to their economic problems.

-- What President Reagan has proposed is a judicious combination of short-term humanitarian aid and development assistance geared towards promoting self-help.

o Bank bailouts. Isn't the proposal that the U.S. contribute more to international lending institutions aimed more at helping those U.S. banks that have made large loans to developing countries than at helping those countries themselves?

-- Loans to assist developing countries in meeting their financial obligations will be "hard" loans from the International Monetary Fund (IMF).

* In other words, these are short-term loans

that must be repaid at near-market interest.

* Those countries who borrow will have to adopt economic ~~austerity programs and other~~ measures designed to put their financial houses in order so as to ~~insure~~ ensure repayment.

-- U.S. participation in the IMF is ~~not really "foreign aid,"~~ not really "foreign aid," but part~~icipation in~~ of a joint effort to promote international financial stability -- something in which all developed nations have a stake.

* Developing countries benefit by being able to pay their bills, preserve their credit ratings, and ~~having~~ receiving help in putting their economic affairs in order.

* Developed countries are spared the financial shocks that might occur through massive defaults on loans.

* If major banks benefit, the benefits are incidental to the achievement of these other objectives.

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o Costs.*

-- Budget authority for economic and financial aid totaled $2.7 billion in FY 1970, including:

  - $1.9 billion for bilateral aid.

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-- Budget authority approximately doubled by FY 1980, totalling $5.3 billion, including $2.7 billion for bilateral aid and $2.6 billion for multilateral aid.

o Administration Action to Date.

-- For FY 1982:

* President Carter requested total budget authority of $6.7 billion, including:

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* President Reagan requested total budget authority of $5.1 billion, including:

- $3.4 billion for bilateral aid.

- $1.7 billion for multilateral aid.

3.1 + 1.57 4.8 check!

* Congress approved a total budget authority of $4.~~8~~6 billion, including:

- $3.1 billion for bilateral aid.

- $1.5 billion for multilateral aid.

-- For FY 1983:

Check!

* The Reagan Administration requested budget authority of $4.7 billion, including:

- $2.9 billion for bilateral aid.

- $1.8 billion for multilateral aid.

* Congress approved $4.5 billion ~~these amounts~~, including:
- $ ___ billion for bilateral aid.
- $ ___ billion for multilateral aid

The President's Proposals for FY 1984.

o Increase total budget authority to $4.9 billion, or 2% above the amount requested for FY 1983, including:

-- $3.1 billion for bilateral aid.

-- $1.8 billion for multilateral aid.

o Specific program changes:

-- Increase budget levels for AID bilateral programs and multilateral banks.

-- Reduce budget levels for refugee assistance programs and international organizations.

-- Maintain budget levels at or near 1983 funding for P.L. 480, Peace Corps, and smaller aid programs.

Justification (General)

o Create a new, more effective approach to foreign aid.

-- In the past, foreign aid programs have been wasteful and counterproductive.

* Huge sums have been lost through official corruption or else squandered on costly "show" projects that have little to do with the recipient country's real economic needs and potential.

* Worse yet, foreign aid has bred dependence by enabling recipient countries to avoid facing up to their economic problems.

-- In contrast to previous administrations, President Reagan's program emphasizes free market solutions to the problems of developing nations.

* The President has urged these countries to adopt policies free trade and other policies designed to encourage foreign investment ~~and development.~~ INSERT A

* Under this Administration, American aid will be directed toward promoting self-help among the developing nations, rather than toward ~~promoting~~ dependency or propping up failed socialist experiments, through these mechanisms: INSERT B (attached)

-- The foreign aid programs will accomplish these goals with a budget only slightly higher than last year's.

Justification (Specific).

o Increases are proposed only for those programs that have proved effective.

-- AID bilateral assistance programs, where properly designed, can be used to encourage more beneficial economic policies through:

* Expanding the role of the local private sector.

* Sharing appropriate U.S. technology and know-how.

* Creating indigenous institutions, such as banks and other lending authorities, that will foster economic growth.

-- Multilateral banks.

* "Soft" loans (long-term, nominal interest) from the World Bank and regional development banks assist developing nations in building roads, bridges, dams, and other "infrastructure" projects that will support economic growth.

o Reductions.

-- Refugee assistance.

* The number of people who need refugee assistance is declining.

-- International organizations.

* Those organizations presently supported by the U.S. are frequently less effective than other programs that address the same goals.

o Maintain at or near current levels.

-- The P.L. 480 program, by transferring surplus U.S. agricultural products, helps both to support American farmers' incomes, and to relieve hunger around the world.

-- Current levels of support are adequate to fulfill this function.

Bf (

Questions and Answers.

o How much aid? Other industrialized nations -- Sweden, West Germany, Japan, and Great Britain among them -- devote higher percentages of their respective GNPs to foreign aid than the U.S. does Shouldn't this country be doing more?

-- The U.S. is already providing significant amounts of direct aid. ~~for either or both of the following reasons:~~

-- But U.S. assistance to developing nations cannot be measured simply by the number of dollars devoted to "foreign aid."

* The U.S. market is one of the most open in the world

  - For developing countries, trade is more effective than aid in stimulating their economies.

  - U.S. trade with non-OPEC developing countries is twice their total aid from all other sources.

* President Reagan's decision to deregulate oil prices was a major factor in reducing the price of oil worldwide.

  - The dramatic surge in oil prices during the 1970s was the ~~major factor in~~ principal reason for the great increas~~ing~~ in the developing countries' external debt.

  - Lower oil prices will provide more help to developing nations than any expected amount of aid could provide.

* U.S. defense expenditures support stability both globally and regionally.

  - Stability is essential for development.

  - Furthermore, many of those nations that contribute a higher respective share of their GNPs to foreign aid are able to do so because the U.S. shoulders the largest share of the free world's defense burden.

o Free enterprise for everybody? But how will encouraging free enterprise policies help the Third World? President Reagan's approach to foreign aid sounds like a glib excuse for doing as little as we decently can.

-- Free enterprise works as well for the developing countries as it does for the developed countries.

* Hong Kong, for example, is a rock that doesn't even have its own water supply; yet it has prospered without massive infusions of foreign aid.

* Singapore has succeeded on much the same terms.

* Taiwan and Korea, two other success stories among the developing nations of Asia, were forced to adopt realistic economic policies by the impending withdrawal of American aid in the early 1960s.

-- The U.S. is actually providing more aid in FY 1984 than during the previous year, but is making sure that the recipient countries adopt effective economic ~~economic~~ policies so that the aid has maximum beneficial effect.

o Bank bailouts. Isn't the proposal that the U.S. contribute more to international lending institutions aimed more at helping those U.S. banks that have made large loans to developing countries than at helping those countries themselves?

-- Loans to assist developing countries in meeting their financial obligations will be "hard" loans from the International Monetary Fund (IMF).

* In other words, these are short-term loans that must be repaid at near-market interest.

* Those countries who borrow will have to adopt measures designed to put their financial houses in order so as to ensure repayment.

-- Commercial banks, both U.S. and others ~~which~~ that are major lenders to developing countries, are being asked to increase their exposure to developing countries as part of the overall effort to restructure their economies without creating undue economic hardship.

-- U.S. participation in the IMF is not really "foreign aid," but part of a joint effort to promote international financial stability -- something in which ~~all~~ both developed and developing nations have a stake.

* Developing countries benefit by being able to pay their bills, preserve their credit ratings, and receiving help in putting their economic affairs in order.

* Developed countries are spared the financial shocks that might occur through massive defaults on loans.

* If major banks benefit, the <u>benefits are incidental</u> to the achievement of these other objectives.

Even if deep seabed mining did come about under LOS, ...te the treaty's onerous restraints, there is no reason ...assume that the people in the developing countries would ...e any improvement in their lives. That part of the wealth from deep seabed mining taken by the Authority would first be used to fund the Authority's operation and bureaucracy, and there would be little if any left over. Moreover, by restricting the rational development of seabed mining, the LOS treaty could force up the future prices of ocean minerals to consumers in developing countries and thereby hinder these countries' economic advance. Developing countries could thus be worse off under the LOS treaty.

How to help the Third World prosper

Recognizing this, President Reagan from the outset has sought a more effective means for the industrialized countries to aid the developing nations of the Third World. He has found that solution in a combination of judicious assistance and self-help. As he told the Boards of Governors of the World Bank and the International Monetary Fund on September 29, 1981:

> We who live in free market societies believe that growth, prosperity, and, ultimately, human fulfillment are created from the bottom up, not the government down. Only when the human spirit is allowed to invest and create, only when individuals are given a personal stake in deciding economic policies and benefitting from their successes -- only then can societies remain economically alive, dynamic, prosperous, progressive and free.

Two weeks later, before departing for a summit meeting on relations between the developed and the developing worlds at Cancun, Mexico, the President outlined his administration's strategy for global growth in an address to the World Affairs Council in Philadelphia. The President set forth *five specific guiding principles:*

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> 1-5
> ~~First,~~ stimulating international trade by opening up markets, both within individual countries and between countries;
>
> 1-7
> ~~Second,~~ tailoring particular development strategies to the specific needs and potential of individual countries and regions;

A

L-6

~~Third,~~ guiding assistance toward the development of self-sustaining productive capacities, particularly in food and energy;

L-7

~~Fourth,~~ improving in many of the countries the climate for private investment and the voluntary transfer of technology that comes with such investment; ~~and,~~

L-8

~~Fifth,~~ creating a political atmosphere in which practical solutions can move forward ~~-- rather than founder on a reef of misguided policies that restrain and interfere with the international market or foster inflation.~~

It is on the basis of these principles, rather that the redistributionist scheme exemplified by the LOS treaty, that all nations can expect to grow and prosper in peace.

Alternatives to the LOS treaty

Ratification procedures provide that 60 nations must approve the treaty for it to go into effect. At this time, it remains to be seen how many states will ratify the LOS convention. For while representatives of more than 117 nations have signed the document, this does not mean that ratification is a foregone conclusion. The U.S. and some other key industrialized countries have not signed it. Under the circumstances, many of the countries whose delegates signed the LOS treaty may defer ratification until they see what the developed nations intend to do.

Fortunately, there are attractive and beneficial alternatives to the seabed mining provisions of the LOS treaty. Some developed nations might well opt for this type of arrangement. Indeed, individual sovereign states possess the requisite authority to authorize and regulate the ocean mining activities of their citizens, and to enter into reciprocal agreements with one another -- including mutual recognition of mining operations conducted by their citizens.

Conclusion

The Law of the Sea Treaty's seabed mining regime is thus hopelessly flawed. It will not produce a positive consensus that would enrich international law, nor contribute to economic development that can benefit all peoples. It also violates some of the United States'fundamental principles, and would exacerbate rather than reduce global tensions.

U.S. Role in the World Bank Faces New Tests

The United States used its influence to found the World Bank following World War II and has been the bank's main supporter ever since.

Now the Reagan administration is proposing to reduce future U.S. contributions to the bank and is pressing the bank to place tighter conditions on its loans to developing nations.

In an irony of timing, President Reagan also is asking Congress to increase funding for the always controversial bank in fiscal 1983.

The future cutbacks were proposed in a report, issued Feb. 18 by the Treasury Department, assessing the U.S. role in the World Bank and other multilateral development banks.

The report was initiated at the urging of several of the banks' critics in Congress, who said the United States should reconsider whether to continue supporting the banks. The World Bank long has been the target of many conservatives, who dislike what they see as its "giveaway" lending policies. *(Box, p. 454)*

Although proposing reduced U.S. contributions to the multilateral banks in the future and demanding several changes, the report generally endorsed the banks' goals and operations. Even with the cutbacks, the report suggested continued large contributions to the International Development Association (IDA), the most controversial arm of the World Bank.

Impact on Congress

The Treasury report provided encouragement for both critics and supporters of the development banks.

Critics in Congress can be pleased that the report proposed substantial reductions in U.S. contributions to the banks and demanded some changes in bank policies.

Supporters of the banks saw their views vindicated in the report's endorsement of most of the banks' operations and policies.

The combination led Frank Vogl, a World Bank spokesman, to predict that the Treasury report will have a "neutral" political effect in Congress.

Congressional aides said members of Congress had suggested numerous changes in a draft of the report circulated last fall. Many of the changes were incorporated in the final version.

Sources in both congressional and executive offices said congressional handling of this year's budget requests will determine in large part the Reagan administration's success in pursuing its policy goals. If Congress were to reject or sharply cut Reagan's requests for IDA, one Treasury official said, the administration initiative might "fall flat" at the World Bank.

Still unclear is the impact of personal lobbying by World Bank President A. W. Clausen, who has been meeting with influential members.

A leading bank supporter, Rep. Matthew F. McHugh, D-N.Y., said he would back administration initiatives on the bank — up to a point. "If they reduce our [IDA] funding to below a meaningful level or if they try to alter the fundamental purpose of the bank, people like me will not support the administration," McHugh said. "And we will not support *any* money for the bank — to bring this issue to a head."

Rep. C. W. Bill Young, R-Fla., a vocal critic, said he sought "positive changes" in the bank; with the report and with Clausen in charge, he said: "I see definite indications that they are coming or have already been made."

But Young said it may be "too much to ask me" to support funding for the bank this year.

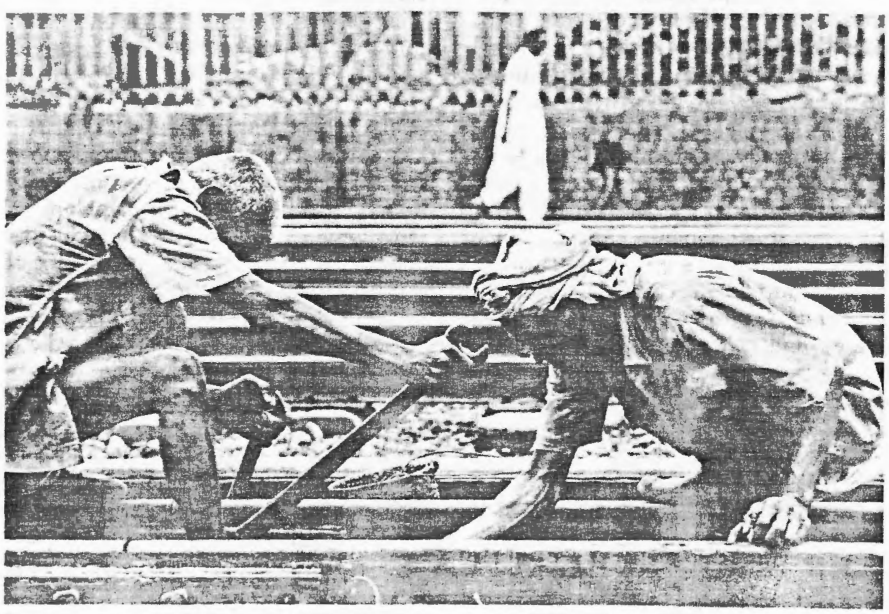
Rep. Mickey Edwards, R-Okla., another staunch opponent, said he believed Congress will sharply reduce funding for IDA this year.

Bank Response

Even before the Treasury report was released, Clausen and bank officials were armed with two responses.

First, they said, the bank already was moving to meet U.S. concerns. Vogl said the bank had taken steps in line with some U.S. proposals, such as improving efficiency, targeting more aid to the neediest countries (especially in Africa), and helping countries get along without bank loans.

Second, Clausen said the bank needs more, rather than less, support from the United States and other rich nations. The day before the Treasury report was released, Clausen called on the United States to increase its con-



World Bank loans helped India improve its railway system.

—*By John Felton*

tributions. A U.S. delay in making promised IDA contributions was "a heavy blow" to the poorest nations of the world, he said.

U.S. Dilemma

The Treasury report admitted that its recommendations could create a dilemma: The United States is campaigning for changes in the banks at the same time it is cutting back its own contributions.

U.S. influence in the banks "has been directly related" to its contributions and leadership, the report said. "Drastic or precipitous reductions in U.S. financial support for the [banks] could undermine our ability to influence [bank] policies and practices in the future."

But in releasing the report, Treasury Under Secretary Beryl W. Sprinkel said the proposed cuts would not reduce U.S. influence because "we will undoubtedly remain the biggest contributor. We do have a lot of influence and we expect to preserve that influence," he said. "Would you have even more influence if you spent a lot more money? Maybe, but that's not a realistic possibility."

C. Fred Bergsten, who was the Treasury assistant secretary responsible for the banks in the Carter administration, warned that the United States may run into resistance from other donor nations in its campaign to force changes in the banks.

"It is a little hard for the U.S. or any country, on the one hand to cut way back on the resources it contributes, and on the other hand say, 'Make the following dozen changes I want you to make,' " Bergsten said in an interview. "That's a little hard to swallow."

Ironically, administration pressure on the World Bank coincides with a temporary loss of the U.S. veto over changes in the bank charter. Such changes — which are rare — require a vote of 80 percent of the bank's subscriptions. Until recently, the United States had at least 20 percent of the voting power, giving it a veto.

As of Feb. 23, the U.S. share had fallen to 19.29 percent. A bank spokesman said the share would rise over 20 percent again when the United States made its fiscal 1982 contribution. According to Treasury projections, the U.S. share will fluctuate around 20 percent for the next few years.

A temporary loss of the veto has little technical importance because U.S. allies probably would help block any changes opposed by the United States. But Thomas C. Dawson, a Treasury official, admitted that loss of the veto could be seen as a symbol of reduced U.S. financial support.

A Changing Role

The World Bank is owned by its 141 member governments. It makes a profit ($610 million in fiscal 1981), most of which is put into reserves.

The bank has gone through several phases since its founding in 1945. Its early role was postwar reconstruction, as indicated by its formal title: the International Bank for Reconstruction and Development (IBRD). Austria, Belgium, France and Italy were among the first borrowers. *(Congress and the Nation, Vol. I, p. 172)*

World Bank

IDA was founded in 1960; in the following decade the bank and IDA both focused on creating "infrastructure" — such as roads and power plants — in developing countries.

Under Robert S. McNamara's presidency in the 1970s, the bank grew rapidly and directed more lending toward agriculture and rural development projects. The bank also helped developing nations make economic reforms to respond to oil price rises.

Clausen, who had been president of BankAmerica Corp., succeeded McNamara last June. Clausen must steer a delicate course between the developing countries — which want more aid with fewer strings attached — and the industrialized countries, which have their own economic woes.

He acknowledged in a Jan. 13 speech that the bank's mandate can be carried out only if the bank "retains the support of the governments and private markets" that support it.

The pressures on the bank are especially intense because it appears to be at a crossroads. The enormous expansion of bank resources and lending almost certainly will end. The question now is whether the bank will continue as before, but in a reduced role, or set off in some new direction.

The Reagan administration is firmly on the side of a new direction.

Treasury Recommendations

The Treasury report dealt with the World Bank and the three development banks serving Africa, Asia and Latin America, but the bulk of the report concerned the World Bank.

The basic thrusts of Treasury's recommendations were to:

- Slow and eventually stop the expansion of lending by the banks.
- Eliminate "paid-in capital" to the banks as soon as possible. Paid-in capital is the money that donor nations pay directly to the banks to back their finances. Donors also subscribe "callable capital," which is not directly paid to the banks and is similar to loan guarantees. Both forms of capital support lending by the "hard-loan windows," which charge near-market interest rates.
- Limit future U.S. contributions to the "soft-loan windows" of the banks, which make low-cost loans to the world's poorest nations. IDA is the largest and most controversial soft-loan window. Although the report did not cite a specific number for IDA, Treasury officials have discussed a $750 million annual limit on U.S. donations to IDA starting in fiscal 1985. The current U.S. contribution is $700 million, but Reagan has requested $945 million for fiscal 1983.
- Move aggressively to wean borrowing nations off bank financing.
- Emphasize the role of the private sector in economic development. The administration endorsed "co-financing," under which private banks make joint loans with the development banks. The report also supported Clausen's plans for a major expansion of the International Finance Corporation, the World Bank agency that lends directly to private businesses in developing countries.
- Exercise U.S. influence in the banks to direct loans to nations willing to change their economic policies to strengthen private enterprise.

The underlying goal of Reagan policy is to play down the development role of official agencies such as the World Bank and to emphasize the role of private markets.

In a speech to the bank last Sept. 29, Reagan offered his prescription for poor countries: Follow the example of the United States. The road to economic improvement is not through foreign aid and government spending, but through the "magic of the marketplace," he said. "Unless a nation puts its own financial and economic house in order, no amount of aid will produce progress."

A Treasury official said it may be two or three years before the success of the administration initiative can be measured. "What we're doing is evolutionary, not revolutionary," said Dawson, deputy assistant secretary of the Treasury for developing nations.

Top World Bank Borrowers, 1979-81

The following table shows the top 20 recipients of World Bank lending for the past three fiscal years, along with one measure of wealth in those countries: the per capita gross national product (GNP).

"Bank" indicates loans by the International Bank for Reconstruction and Development; "IDA" indicates credits by the International Development Association. Some countries receive lending from both agencies.

Nation	Loans and Credits Fiscal Years 1979-1981 *(in millions of dollars)* Bank	IDA	Total	Per capita GNP 1979
India	$ 855.0	$4,008.0	$4,863.0	$ 190
Indonesia	1,957.0	300.0	2,257.0	370
Brazil	2,213.0	—	2,213.0	1,780
Mexico	1,933.0	—	1,933.0	1,640
Turkey	1,634.5	—	1,634.5	1,330
Colombia	1,379.5	—	1,379.5	1,010
Philippines	1,340.5	—	1,340.5	600
S. Korea	1,331.0	—	1,331.0	1,480
Thailand	1,093.0	60.0	1,153.0	590
Yugoslavia	1,053.0	—	1,053.0	2,430
Egypt	483.0	547.1	1,030.1	480
Romania	980.0	—	980.0	1,900
Bangladesh	—	872.0	872.0	90
Nigeria	789.3	—	789.3	670
Morocco	776.0	—	776.0	740
Kenya	364.0	212.0	576.0	380
Pakistan	—	531.0	531.0	260
Argentina	401.0	—	401.0	2,230
Algeria	398.0	—	398.0	1,590
Sri Lanka	—	386.5	386.5	230

(Sources: World Bank Annual Reports, 1979-1981; World Development Report, 1981)

Financing the Banks

The Treasury report said the banks can and must get along with less money from the United States. Treasury officials cited budget constraints as the major reason, but they insisted that cutbacks would be justified in any event.

Other donor nations almost surely will follow the U.S. lead, thus forcing the banks to stretch their resources when demand for them is increasing.

The report called for reductions in contributions that the United States pays directly to the bank and that contribute to the U.S. deficit.

Another type of contribution — callable capital for the hard-loan windows — is not directly appropriated.

IDA. The $750 million level suggested for IDA would take effect with the seventh replenishment of IDA funding, which is expected to begin in fiscal 1985. Negotiations among donors on IDA VII may start this year.

Congress has authorized a $3.24 billion contribution to the sixth replenishment of IDA. An agreement by President Carter called for appropriations of $1.08 billion a year for three years, but in 1981 Congress limited the fiscal 1981-83 installments to $500 million, $700 million and $945 million, respectively. *(1981 Weekly Report pp. 2492, 1514)*

Reagan requested $945 million for the third installment in fiscal 1983. If Congress approves that amount, the United States will still owe IDA $1.095 billion. *(Weekly Report p. 255)*

The report also proposed reduced contributions to the Fund for Special Operations (FSO), the soft-loan window of the Inter-American Development Bank. U.S. donations to the FSO have averaged $175 million annually in recent years. The administration reportedly would reduce that to about $125 million.

The report suggested nominal increases in U.S. contributions to two other soft loan agencies. Contributions to the Asian Development Fund would be increased to $130 million a year, compared to a recent average of $111 million; contributions to the African Development Fund would be increased to $50 million, compared to the recent $42 million average.

The report said the United States would press for the adoption of two priorities for all soft-loan agencies: The poorest countries, especially those unable to borrow privately or from the hard-loan windows, should have the first claim on loans; only after their needs are met should soft loans be made to other countries with problems paying their bills.

Paid-in Capital. Treasury officials said they face tough negotiations with other donor nations in the bid to phase out the requirement for paid-in capital to the hard-loan agencies.

In the hard-loan windows, each donor nation makes a percentage of its contribution as paid-in capital and the rest as callable capital. For current contributions to the IBRD, 7.5 percent of donations must be paid-in capital.

The Treasury report cited estimates that the IBRD, the Inter-American Bank and the Asian Development Bank could get along in the future without paid-in capital.

But the report admitted that reducing direct financial backing for the banks could lower their standing in the private credit markets where the banks borrow the money they in turn lend to developing nations. Such a result could force the banks to put more lending into projects with high economic rates of return and less into projects that might benefit large numbers of people but turn less profit.

Report Endorses Development Banks. . .

For years the World Bank and other international development banks have been derided on Capitol Hill as socialistic enterprises running wildly out of control. Complaints about World Bank loans to Vietnam and India have been exhibits No. 1 and 2 in speeches by conservatives who oppose the banks.

But now, following a yearlong study, the Treasury Department has published a 194-page report debunking nearly all the criticisms. The report was written by conservative Republicans, including several officials who had long supplied intellectual and factual ammunition for the congressional critics.

What happened?

Some Treasury officials admit that, in examining the policies and operations of the banks, they found the critics to be wrong on most important counts.

"Many of us came in skeptical about the banks, because many of the criticisms came from people we knew and respected," said Thomas C. Dawson, deputy assistant secretary for developing nations. "We learned that the facts did not always support the criticisms."

But one of the harshest critics of the banks has another explanation. Rep. Mickey Edwards, R-Okla., blames the State Department for pushing its pro-bank views on the Treasury Department. If the State Department had its way, Edwards said, it "would give away everything" to the banks.

In spite of Edwards' complaint, sources on Capitol Hill and in the executive branch agreed that the Treasury report may change the character of congressional debate on the subject.

"It's already had an impact," said James C. Orr, Republican staffer on the House Banking subcommittee on the international development banks. "This report is forcing the critics to be more responsible in what they say, and the supporters to be less doctrinaire."

The Treasury report examined 19 major criticisms, many of which originated in Congress. The report found some basis in fact for several criticisms, but broadly supported only two: that the banks, especially the World Bank, tend to emphasize the quantity of loans over the quality of loans, and that the banks have not done enough to get borrowing countries off the dole.

The report gave little credence to complaints that the banks are giveaway programs promoting socialism in developing countries, and that the United States cannot influence policies of the banks.

IDA As 'Giveaway'

On Capitol Hill, most criticism is directed at the International Development Association (IDA), the World Bank agency that lends to the poorest nations.

In an interview, Rep. Edwards, a member of the House Appropriations Foreign Operations Subcommittee, summarized his complaints this way: IDA is "a concept of aiding the poorest of the poor through a giant worldwide welfare program." IDA does little for private business in developing countries, he said, and instead subsidizes unstable governments, allowing them "to spend their own funds on things like sports complexes in New Delhi."

Bank President A. W. Clausen has launched a vigorous campaign to dispute that view and to persuade the world that the bank is not merely a welfare agency.

Clausen said in Tokyo Jan. 13 that IDA "is not in the business of redistributing wealth from one set of countries to another set of countries. It is not the Robin Hood of the international financial set, nor the United Way of the development community."

The Treasury report clearly backed Clausen. Although noting that IDA loans are virtually grants, the report said most IDA money goes for necessary development in countries that are too poor to borrow in international financial markets. Even IDA's programs aimed at improving "basic human needs" such as schooling and food production "are not redistributional or 'welfare' projects," the report said.

Lack of U.S. Influence

Perhaps the most effective congressional argument against the World Bank is that the United States has little say over its day-to-day operations.

"I don't really feel that we have any control," Edwards said. "In fact, everybody would agree that we don't have any control over what happens at the World Bank."

But the Treasury report did not agree.

The main evidence cited by Edwards and other critics in support of that charge is IDA's lending, in August 1978, of $60 million to communist Vietnam for an agricultural irrigation project.

The Treasury report used the Vietnam case to dispute the Edwards view. Congressional reaction to the loan was so negative that Robert S. McNamara, then World Bank president, was forced to sign a highly unusual letter to Congress promising not to make new loans to Vietnam. Vietnam has not received any World Bank loans since.

Another example of U.S. influence was the Reagan administration's success last year in killing a proposed World Bank affiliate to make loans on energy projects.

The Treasury report said the United States is without question the major influence in the bank, in spite of setbacks on some specific issues. "On the whole," the report said, "the policies and programs of the World Bank group have been consistent with U.S. interests."

The report examined 70 cases over the last 10 years in which the United States attempted to influence World Bank policy. The United States was successful in about 80 percent of those cases, with major success coming on such issues as halting lending to Afghanistan following the Soviet invasion and resuming lending to Southeast Asian allies of the United States.

Bilateral vs. Multilateral

A related issue raised by Edwards and others is that the United States has more influence over foreign aid it gives directly (called "bilateral" aid) than over aid given through multilateral agencies such as the banks. According to that argument, the United States directly controls bilateral aid but has to fight to influence how aid is

. . .And Rejects Congressional Complaints

handed out by the banks.

Edwards said U.S. aid should go to countries that support U.S. policies around the globe, not to countries that consistently oppose the United States. For example, he said the heavy World Bank lending to India "has not done anything whatsoever to bring the Indian government more in line with our government in terms of policy. The Indians consistently align themselves with the Soviet bloc in the U.N., as opposed to our bloc."

In an interview, McNamara admitted that it is politically difficult to justify aid to countries, such as India, that oppose the United States on foreign policy matters. But he said Americans should look beyond the anti-U.S. rhetoric of some of the developing nations.

"I don't think you can buy, by development assistance, a country's support of U.S. policies with which they have a deep and fundamental disagreement," he said. "But on balance, the developing countries are not anti-U.S. There are occasional differences of view between the U.S. and its NATO allies, for example, but we don't stop providing support for NATO ... simply because the French or the Germans or the British voted against us in the U.N. And I don't think we should treat the developing nations any differently than we treat the NATO nations."

The Treasury report said both bilateral and multilateral aid benefit the United States.

Bilateral aid has the advantage of being readily identified with the United States, Treasury said.

But funneling aid through the development banks can be more efficient, since each dollar contributed by the United States is combined with money from other countries to produce about $50 worth of aid.

The Bank and the Private Sector

In recent years, some critics have questioned whether bank lending helps or hinders private enterprise in developing countries. The critics answer their own question by charging that the banks undermine private enterprise by placing too much emphasis on public sector development.

Edwards said bank projects do little to directly help private business. The economies of some countries probably have benefited from World Bank lending for projects such as roads and dams, but that "doesn't necessarily help the private sector," he said.

"I have yet to see an example of a country, or several countries, where in fact because of all this money that we have put into these nations, they now have a thriving, growing, widely distributed private enterprise system," Edwards said. "And that is what develops an economy."

Rep. Jack F. Kemp, R-N.Y., also has charged that the banks have not done enough to encourage borrowing countries to adopt policies that Kemp claims would spur private enterprise. The author of the Kemp-Roth tax cut, Kemp is especially concerned about what he views as unnecessarily high tax rates in some developing countries.

The Treasury report said the banks do enhance private enterprise in developing countries, but it agreed with Kemp that they must do more toward that end.

The report classified 383 projects funded in recent years by all the development banks according to whether they would have been handled by the public or the private sector in the United States. Overall, 42 percent of the projects clearly would have been handled by the U.S. public sector, 26 percent would have been handled by the private sector, 32 percent would have been handled by a mixture of the two, and only 8 percent would have been competitive with the private sector.

Officially, the World Bank is ideologically neutral in the private vs. public debate. In his first speech to the bank last September, Clausen said the bank "has no political axes to grind, and no ideological banners to wave. It concerns itself exclusively with pragmatic economics."

But Clausen's list of policies that poor nations must adopt in order to improve their economies could have been lifted straight from the Republican Party platform: reducing obstructions to private enterprise; encouraging exports; and reducing the drain on government budgets caused by subsidies and ineffective social programs.

U.S. Share Too Big?

The United States always has been the largest single contributor to the World Bank. The United States contributed 34 percent of the first capitalization for the World Bank, and 41 percent for the first funding of IDA.

But the U.S. share has steadily declined in recent years, largely due to congressional pressure. The current U.S. shares are 22 percent for the bank and 27 percent for IDA. Donations from new economic giants such as Japan and Saudi Arabia have increased to take up the slack.

In spite of that history, bank critics maintain that the U.S. share is still too large. Edwards, for one, said it is time to cut back on foreign commitments.

"We're cutting back on food stamps, school lunch programs and every other conceivable social benefit program that we've offered to our people," Edwards said. "When we're cutting back on all those things, it would take some imagination to say we have enough surplus to be able to distribute it through the World Bank to the rest of the world."

While calling for cutbacks in U.S. contributions to the banks, the Treasury report said it is important for the United States to remain the largest single contributor. One reason is to preserve U.S. influence in the banks.

Pressure to 'Push' Loans

There has been widespread criticism that the enormous expansion of the World Bank in the 1970s was possible because the bank "pushed" loans on developing countries and moved so rapidly in some cases that it failed to make adequate plans for projects.

The Treasury report lent some support to this complaint, noting that the bank has set annual targets for the amount of loans and has pushed to make sure those targets are met. The pressure to meet lending goals had two negative results, the report said: the quality of individual projects often was reduced, and the bank squandered some of its leverage in getting borrowing countries to adopt policies that would promote economic growth.

Terms of Bank/IDA Loans

Nowhere is the dual role of the World Bank — as a bank and as a development agency — more visible than in discussions about the terms on which it lends its money.

To conservative critics, the hard loans are not hard enough, and soft loans are much too cushy.

To some borrowing countries, the reverse is true, at least for hard loans. India, for one, has complained that it cannot afford the 11.6 percent interest rate now charged on IBRD loans.

The future seems to be on the side of the critics. To maintain the support of donors, as well as to strengthen its own finances, the bank is charging more on its lendings. The bank on Jan. 5 imposed new service charges on IBRD and IDA credits, both of which were described as revenue-raising measures for the bank.

There is little talk of charging actual interest on IDA credits, which are for 50 years. Dawson of the Treasury noted that many of IDA's heavy borrowers in Africa and Asia "are so poor that I don't think anyone would consider requiring harder terms."

The administration has suggested that the IBRD (like commercial banks) make loans with variable interest rates, under which the interest fluctuates with market rates.

Clausen said the bank is considering such a move, but he told a Brookings Institution seminar Jan. 7 that the bank "should avoid even the appearance of a commercial bank."

Clausen also has suggested a procedure for speeding up loan payments from countries that could afford to do so. That would free money for loans to more hard-pressed nations.

Getting Off the Dole

Almost everyone agrees the banks must do a better job of easing countries off the dole. But cutting off a borrower is about the touchiest task facing the bank.

The administration has served notice that it would make improving that process a high priority.

There are two parts to the issue: "maturation," the act of moving countries from soft loans to the hard loans; and "graduation," which is moving countries from hard loans into the commerical marketplace.

In addition to the obvious result of reducing demand on the banks' resources, both processes free loan money for nations most in need of it.

Under the IBRD graduation policy, when a nation whose per capita gross national product reaches a "trigger" level of $1,750 in 1977 dollars ($2,650 in 1980 dollars) it undergoes a series of analyses to determine when it can get along without hard loans. Recent graduates from the IBRD include Iceland, Finland, Israel, Ireland, Spain, Singapore and Greece.

After a reportedly hot debate Jan. 26, the bank board essentially decided to continue that policy because members could not agree on changes.

The Treasury report cited 10 "potential" graduates, including some major borrowers. Argentina, Portugal, Romania and Yugoslavia already are above or near the trigger level. Algeria, Brazil, Chile, Korea, Malaysia, and Mexico probably will cross it in the 1980s, the report said. *(Box, p. 453)*

The Treasury report also said the United States would push to reduce IDA lending to countries that can afford to borrow from the IBRD.

Twenty-four nations that once received credits only from IDA now borrow from the IBRD. Among them are several countries with strong ties to the United States, such as Egypt, Morocco, South Korea, and Thailand.

IDA policy says nations with per capita incomes above $680 in 1979 dollars are ready for IBRD loans.

Conditionality

Another administration priority is "conditionality" — imposing conditions under which the banks make loans to developing countries.

Page after page of the Treasury report argued that the banks must be tougher in telling borrowing countries to adopt free-market policies.

The report did not specify exactly what those policies should be. It did list broad goals for developing nations, such as minimizing government competition against private business, limiting price subsidies on consumer products, and encouraging private investment.

Treasury's Dawson said the banks already embrace those policies. "It's just a matter of enforcement."

The report repeatedly said the banks have had little success in using force — such as the threat of withdrawing loans — to get borrowers to make economic changes. The World Bank, it said, has had more success by trying "to resolve policy differences without rupturing relations with its borrowers. . . ."

In spite of that warning, Treasury officials made it clear that they intend to push the banks to adopt tougher attitudes toward borrowing countries. Although insisting that the United States is "not trying to dictate domestic policies of borrowing countries," Treasury's Sprinkel said the administration is serious in its goals.

"This is not a game we're playing; it's for real," Sprinkel said.

The U.S. offensive began last fall, when the United States vetoed an Inter-American Development Bank (IADB) loan to Guyana because of that country's economic policies. In January, the United States opposed loans to the leftist government of Nicaragua on the same grounds: The United States killed a loan by the IADB and unsuccessfully voted against a $16 million World Bank loan.

Working With Private Banks

In recent years the bank has moved to share its burden. Using a procedure called "co-financing," both IBRD and IDA are making loans in conjunction with other agencies.

Most such loans are made in conjunction with official agencies, including other development banks.

An increasing number of loans are co-financed with private banks. The Reagan administration is pressing for even more, saying up to two-thirds of bank projects could involve private co-financing by the late 1980s.

Although bank and U.S. officials have proclaimed co-financing to be the wave of the future, some observers are worried that co-financing eventually could undermine the fundamental purposes of the bank.

Robert C. Ayres, a fellow at the Overseas Development Council, said he was concerned that co-financing could become merely a tool for promoting the exports and investment schemes of American businessmen.

"I think it's very dangerous if you just turn the World Bank into sort of an underwriter of schemes and initiatives of American private business, which is what I think some of the more extreme people would like to do," said Ayres, who is writing a book about the bank.

His worries were dismissed by Marc E. Leland, Treasury's assistant secretary for international affairs. "I would rather have someone with something at stake involved in these lending programs," he said in an interview. ∎

pointed out we don't think this is the time for such a thing."

U.S. Positions Questioned—Spokesmen for a number of developing countries voiced doubt about the U.S. call for reliance on private enterprise and also indicated they would favor a larger role for the U.N. in the global negotiations. These views, however, were generally expressed in moderate terms, and the leaders of the developing countries seemed to be at pains to avoid using strident language that would alienate the U.S.

Brazilian Foreign Minister Ramiro Saraiva Guerreiro argued that private enterprise could not always deal with the problems of development, it was reported Oct. 23. Even in Brazil, Guerreiro said, "It has been necessary for the state to pragmatically take over considerable responsibilities in important sectors."

Mexican President Jose Lopez Portillo voiced doubt about the U.S.'s expressed preference for conducting negotiations through the specialized agencies. Such organizations, Lopez Portillo said Oct. 22, had "deepened resentment and frustration." "They tended to become mere sounding boards" for the countries that dominated the voting, he added.

Nevertheless, the developing countries generally insisted that they had not come to Cancun to engage in recriminations of the U.S. or other industrialized powers. "The idea is not to review the past 200 years and see who is responsible for the state of the developing countries," said Mexican Foreign Minister Jorge Castaneda, according to a report Oct. 22. Castaneda added, "The idea is not to put a group of nations in the chair of the accused."

Reagan Calls Meeting a Success—In a statement Oct. 24, Reagan described the Cancun summit as a "substantial success," saying that it had "dealt with hard issues and yet succeeded in finding many areas of shared priorities and of common ground."

The conference participants, Reagan said, "succeeded in creating a spirit of new hope which we want to translate into progress to revitalize the world economy and accelerate the growth of developing countries."

The summit, Reagan continued, "did not waste time on unrealistic rhetoric or unattainable objectives." Instead, it took up practical questions of growth, agricultural development and measures to improve food security. Other leaders, Reagan said, had agreed with the U.S. proposal "that task forces should be sent to developing countires to assist them in finding new agricultural techniques and transmitting to farmers techniques now in existence."

For Reagan, the summit also served the purpose of enabling him to meet a number of foreign heads of government. Secretary of State Haig said Oct. 24 that the President "established a personal relationship with each and every head of state" at the conference. Indian Prime Minister Indira Gandhi and Chinese Premier Zhao Ziyang were among those Reagan met Oct. 21 for the first time.

Other participants at the conference also generally took a positive view of the outcome, although they were less effusive than Reagan. Lopez Portillo said Oct. 24 the summit would "move global negotiations forward." A similar point was made by Mohammed Bedjaoui, the Algerian delegate to the U.N., who commented, "A real political push has been given. It is a matter of starting the global negotiations. A commitment to start these negotiations has been taken here."

French President Mitterrand said Oct. 24, "I personally consider that we have moved forward." Among the industrialized countries, France was noted for voicing strong support for action to assist the developing countries, including global negotiations.

The vagueness of the final summary that was issued and the lack of a definite agreement on what would be the next step in the negotiating process led some participants to question whether much had been accomplished, although these doubts were usually expressed off the record.

Soviets Criticize Summit—The Soviet Union, which had turned down an invitation to attend the conference, criticized the meeting as a ploy by the advanced capitalist countries to divide the Third World. The U.S., for its part, criticized the Soviet absence.

The Soviet Union had declined to attend the meeting on the grounds that Western colonialism was responsible for Third World poverty. An article published Oct. 19 in Pravda, the newspaper of the Soviet Communist Party, said that "the experience of the past shows that such meetings cannot produce positive results unless capitalist states radically change their approach to the developing countries."

The Western powers, the article said, calculated that they could offer concessions on secondary issues and thereby "not have to admit a complete breakdown of the international economic relationships built up in the colonial era."

The British foreign secretary, Lord Carrington, observed at the conference Oct. 22 that the Soviet contention that all the ills of the Third World were the result of colonialism was losing plausibility. Britain by itself gave more aid than all of Eastern Europe considered together, Carrington said.

Haig also took the Soviets to task. The fact that the Soviets had "unleashed an increasing crescendo of criticisms of Cancun," Haig said Oct. 24, pointed up "a keen sense of inadequacy in the sense that they refused to participate and are now extremely self-conscious about it. They smarted greatly at the criticism that came from, not the United States at this conference, but from other participants. . ."

Tass, the official Soviet press agency, carried a response to Haig's comments Oct. 25. The Cancun summit, according to the Tass article, "developed into a confrontation between 'civilized' plunderers and the plundered peoples which have never put up with such a state of affairs, and the real state of affairs is exactly such, no matter what Mr. Haig has to say about it."

The Soviet Union, the article said, favored a "new international economic order." Soviet aid was not used as a means of advancing political or military interests, the article maintained, nor was it used to gain concessions. The U.S. and Western countries, on the other hand, were separated from the Third World by an "insurmountable chasm" of debts, "exorbitant

Cancun Summit Participants Profiled

The South	Per capita income (1979)	Energy imports as a % of exports (1978)	Energy, per capita consumption (1979)	Total debt, in billions (1979)	Debt as % of G.N.P. (1979)	Military, per capita (1978)	Education & health, per capita (1978)
Bangladesh	$90	35	41**	$2.8	$29.6	$1	$2.3
India	190	27*	242	15.6	12.3	5	7
China	260	N.A.	835	N.A.	N.A.	26	21
Tanzania	260	N.A.	53	1.1	25.3	10	17
Guyana	580	N.A.	N.A.	N.A.	N.A.	10	61
Philippines	600	32	356	5.2	17.3	11	15
Nigeria	670	2	83	3.7	5.0	28	38
Ivory Coast	1,040	10	234	3.6	40.3	11	78
Algeria	1,590	2	671	15.3	49.1	36	133
Mexico	1,640	4*	1,673	28.8	24.5	8	78
Brazil	1,780	39	1,062	35.1	17.7	18	82
Yugoslavia	2,430	25	2,440	3.7	5.2	105	236
Venezuela	3,120	22	3,055	9.8	20.0	44	232
Saudi Arabia	7,280	0	1,554	—	—	1,004	647

The North	Per capita income (1979)	Energy imports as a % of exports (1978)	Energy, per capita consumption (1979)	Total development aid given, in millions (1980)	Development aid as a % of G.N.P. (1980)	Military per capita (1978)	Education & health, per capita (1978)
Sweden	$11,930	15	8,502**	$928	.76	$365	$1,810
W. Germany	11,730	14	6,627	3,512	.43	350	1,082
United States	10,630	31	12,350	7,091	.27	499	906
France	9,950	21	4,995	4,041	.62	350	1,058
Canada	9,640	9	13,534	1,035	.42	174	1,157
Japan	8,810	32	4,260	3,300	.32	80	878
Austria	8,630	14	6,975	174	.22	93	814
Britain	6,320	13	5,637	1,776	.34	262	565

*Figures for 1977 **Kilograms of coal equivalent

Sources: World Bank, World Priorities, New York Times, 9/20/81, 10/18/81

Q&A

Other countries give higher % of GNP than U.S.

Shouldn't U.S. Do more

A. Since WW II U.S. has done more. (Other countries can give because U.S. rebuilt their economies.)

Also, one reason why other developed countries can give more is because U.S. shoulders part of their defense burden.

Q. How will President's policies ~~to~~ help Third World?

A. Aid has been wasted on "show" projects. etc.

Q Multilateral Banks

aid 5

Program

~~Budt~~ Outlays

Justification

Recoupment

Program levels

Foreign Economic and Financial Assistance (As structured now); budget structured differently in previous years)

BA (in millions)

	FY 1970 ~~FY 1980~~	FY 1980	Carter FY 1982	Reagan FY 1982	Actual FY 1982	Request FY 1983	Actual FY 1983
Bilateral	1842 ~~1892~~	2770	4025	3370	3075	2988	2964
Multilateral	815 ~~815~~	2568	2747	1738	1477	1776	1791
TOTAL	2124 2707	5338	6772	5108	4552	4764	4755

OUTLAYS

Bilateral	2036	2656	3212	2985	2532	2850	2821
Multilateral	337	1047	1512	1363	1324	1477	1514
TOTAL	2373	3703	4724	4348	3856	4327	4335

Separate bilateral + multilateral figures

FOREIGN ECONOMIC AND FINANCIAL ASSISTANCE

History:

Economic assistance became a major part of U.S. foreign policy in the aftermath of World War II. Its object was to contain the spread of international Communism by strengthening the economies of free world nations.

The Marshall Plan, launched in 1947 to rebuild war-devastated Western Europe, was followed by similar assistance to friendly Asian states after the fall of China in 1949 and the outbreak of the Korean War in 1950.

During the 1950s, economic aid to countries on the rim of the Soviet and Chinese Communist empires was firmly established as part of U.S. foreign policy. In the decade that followed, the scope of this policy was expanded to include the emerging nations of Africa and Asia as well. The establishment of a Communist regime in Cuba during this same period gave rise to a foreign aid program for Latin America.

o The Program:

-- Foreign economic aid is both bilateral and multilateral.

* Bilateral aid is rendered directly from the U.S. to the recipient country.

* Multilateral aid is rendered indirectly, through U.S. contributions to international organizations like the United Nations.

-- Bilateral development assistance programs are carried out by the Agency for International Development (AID), which was established by the Foreign Assistance Act of 1961. AID provides both economic and international security assistance.

* Economic development assistance is provided in the form of loans and grants designed to improve the condition of the poorest people of the less-developed countries through programs in agriculture, rural development, family planning health, education, and energy.

-- Multilateral development assistance is carried out through organizations like the World Bank and its affiliates, the regional development banks (the U.S. is a member of the Asian Development Bank and the Inter-American Development Bank), the United Nations, the International Fund for Agricultural Development, and others.

* Multilateral assistance usually takes the form of low-interest loans to developing countries.

* The World Bank is representative of this type of assistance.

  -- The U.S. Government provides about 20% of the bank's capital, which is in turn lent by the bank's directors.

  -- The U.S. is the largest single contributor to the World Bank. As such, it participates in shaping the bank's policies, but the bank itself is an independent international organization, not an arm of U.S. foreign policy.

o <u>Costs</u>:

-- Bilateral and multilateral assistance combined came to

* $2.8 billion in FY 1970~~,~~ ~~and~~

FY 1970
Bilateral. ___
multilateral ___

FY 1980
Bilateral ______
multilateral ______

* $5.6 billion in FY 1980.

o Administration Action:

-- FY 1982

* The Carter Administration requested $7 billion for foreign economic assistance.

Bilateral ______
Multilateral ______

* President Reagan reduced that request to $5.4 billion.

Bilateral ______
Multilateral ______

* Congress voted $4.52 billion for that year.

Bilateral ______
Multilateral ______

-- FY 1983

* The Reagan Administration requested $4.3 billion for foreign economic assistance.

Bilateral ______
Multilateral ______

* Congress (through continuing resolution and supplemental appropriation) voted a total of $4.89 billion.

Bilateral ______
Multilateral ______

-- The Reagan position on foreign aid:

* In contrast to previous administrations, President

Reagan has emphasized free market solutions to the problems of developing nations. His administration has urged these countries to adopt free trade and other policies designed to encourage foreign investment. In the future, American aid will be directed toward~~s~~ promoting self-help policies in the developing world, rather than toward~~s~~ propping up failed socialist experiments.

- Multilateral $ .81 billion

  * FY 1980

    - Bilateral $27.7 billion

    - Multilateral $25.6 billion

o <u>Administration Action:</u>

-- <u>FY 1982</u>

  * The Carter Administration requested budget authority of:

    - Bilateral $4.02 billion

    - Multilateral $2.74 billion

  * The Reagan Administration reduced this request to:

    - Bilateral $3.37 billion

    - Multilateral $1.73 billion

  * Congress approved:

    - Bilateral $3.07 billion

- Multilateral $1.47 billion

-- <u>FY 1983</u>

* The Reagan Administration requested budget authority of:

    - Bilateral $2.98 billion

    - Multilateral $1.77 billion

* Congress approved:

    - Bilateral $2.96 billion

    - Multilateral $1.79 billion

-- Reagan position on foreign aid

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"FAIRNESS"

FOREIGN ECONOMIC AND FINANCIAL ASSISTANCE

Background

o History

Foreign economic assistance became a major part of U.S. foreign policy in the aftermath of World War II. Its object was to contain the spread of international Communism by strengthening the economies of free world nations. During the 1950's and 1960's, the geographic focus of economic aid was shifted from Europe to the developing nations of Asia, Latin America and Africa. U.S. assistance programs, which address a range of security, economic and humanitarian objectives, have supported the efforts of many countries to move from poverty to relative prosperity. Successful instances of U.S. economic aid include Korea, Taiwan, and Brazil. Currently, more than 60 developing countries benefit from bilateral U.S. economic aid while numerous others receive multilateral aid from institutions to which the United States contributes.

o Programs

Economic aid can be divided into the major categories of bilateral and multilateral assistance.

-- Bilateral assistance is given directly to developing countries. Major program elements are:

- o The Agency for International Development (AID) which makes loans and grants to more than 60 countries in Asia, Africa and Latin America for projects aimed largely at food production, health, energy, and human resources development. AID programs are increasingly concentrated on the development of active private sectors in recipient countries.

- P.L. 480 food aid, through which concessional loans and humanitarian grants provide U.S. agricultural commodities to developing countries for security, developmental and humanitarian purposes as well as to develop export markets for the United States.

  - The Peace Corps, which places volunteers abroad to promote better understanding between peoples and assist in small-scale development activities.

  - Refugee assistance, which provides humanitarian aid to refugees in foreign countries and finances transportation and initial placement of refugees coming to the United States.

-- Multilateral Assistance is provided through international organizations to which the United States belongs. There are two major multilateral channels:

  - Multilateral development banks, comprising the World Bank and its affiliates and the regional banks for Asia, Africa, and Latin America. These banks make loans at near-market terms and long-term low interest loans to finance development activities. Industrialized countries support these institutions with direct contributions and borrowing guarantees.

  - International Organizations and Programs, which make grants for development, humanitarian and other activities. These programs are supported by voluntary contributions.

Proposals

- For 1984, the Administration is proposing budget authority of $4,868 million, an increase of $113 million, or 2%, above the amount requested for 1983.

  - Increases are requested for AID bilateral programs, which contribute importantly to both political and development goals, and multilateral banks, where Congress has failed to appropriate the amounts needed to comply with previous funding commitments agreed to by the United States.

  - Reductions from prior levels will be sought for refugee assistance programs, where the numbers of people who require aid is declining, and international organizations, which are judged of lower priority than other programs that address the same goals.

  - P.L. 480, Peace Corps, and smaller programs in this category will be financed in 1984 at or near the 1983 levels.

Justification

o Continued substantial amounts of economic assistance reflect the importance accorded by the Administration to promoting economic growth in poorer countries abroad. President Reagan has emphasized free market solutions to the problems of developing nations. His Administration has urged these countries to adopt free trade and other policies designed to encourage foreign investment. American economic aid is directed towards promoting self-help policies in the developing world which will enable recipient countries to become economically self-reliant.

o Program increases are proposed for the most important of the economic assistance programs.

- AID bilateral assistance programs aim at encouraging appropriate economic policies, at expanding the role of the private sector, at transferring appropriate U.S. science and technology and at building indigenous institutions that will be able to carry out policies of economic growth.

- Multilateral banks have an important role to play in promoting sound economic policies in recipient countries. The magnitude of funding available to the banks provides substantial leverage in encouraging balanced growth.

- The P.L. 480 program, which will grow modestly in 1984, permits use of U.S. agricultural products, especially those which are surplus to domestic requirements, to encourage agricultural development and to satisfy humanitarian goals abroad.

Surprise Action:

Caribbean Basin Trade Plan Wins Ways and Means Nod

A bill that would provide duty-free entry into the United States for the products of most Caribbean nations was pushed through the House Ways and Means Committee Dec. 9.

The bill (HR 7397) is a portion of President Reagan's Caribbean Basin Initiative, designed to improve the security of that multi-nation region by boosting its economic health. Reagan said last month the initiative was one of his top priorities for the lame-duck legislative session. *(Background, Weekly Report p. 2304)*

Speaker Thomas P. O'Neill Jr., D-Mass., said Dec. 8 the Caribbean initiative did not have the votes to pass the full House. But Ways and Means Chairman Dan Rostenkowski, D-Ill., said that prediction was based on "very preliminary counts."

"A strong vote today, combined with an energetic bipartisan campaign, I think, will turn the House our way when the bill reaches the floor," Rostenkowski said. His committee responded by approving the bill on a 27-6 vote, and requesting that the Rules Committee bar amendments to the measure on the House floor.

In spite of that show of strength, the bill will have a difficult time making it through the House and the Senate before Congress adjourns.

The measure includes one prong of the trident with which Reagan intended to attack the problems of Caribbean countries. Congress enacted a $350 million aid plan earlier in the year. *(Weekly Report p. 2104)*

The third part of the package, a proposal to grant tax credits to U.S. firms that invest in the region, was ignored by Ways and Means. Trade Subcommittee Chairman Sam Gibbons, D-Fla., said the tax credit was too complex and controversial to be dealt with in the lame-duck session.

The committee leadership successfully fought back amendments by members who were afraid the duty-free Caribbean imports would harm industries in their districts.

Attempts to exclude various products — including tuna, processed steel and mushrooms — from the tariff exemptions were defeated, as was an amendment by Richard T. Schulze, R-Pa., to exempt for five years all products that have been found to be "import sensitive" by the U.S. International Trade Commission.

Committee members also voted to eliminate a provision restricting the amount of duty-free Caribbean rum entering the country. That amendment had been added by the Trade Subcommittee, which approved its version of the bill (HR 5900) May 5.

Compromise Bill

The compromise bill, worked out in a caucus before the committee's meeting, does provide protection to U.S. leather goods, textile and sugar industries by excluding those products from the measure. The textile and sugar exemptions had been recommended by the administration, and the leather goods exemption was added by the Trade Subcommittee.

The committee also added petroleum and petroleum products to the list of exempted products.

The bill includes a provision allowing tax deductions for the expense of attending conventions in the Caribbean. Gibbons said that would promote the region's tourist industry.

Most products of the Caribbean region already are exempted from U.S. tariffs under the "generalized system of preferences" (GSP), which provides preferential treatment to the exports of impoverished countries.

The new measure, however, encompasses some products not covered by the GSP, and would ensure that duty-free status continue for 12 years, through Sept. 30, 1994. The GSP program is subject to congressional reauthorization by 1984. Given the current protectionist sentiment in Congress, it is likely to come under heavy attack. *(Background, 1974 Almanac p. 554)*

To prevent exports from other nations gaining duty-free access to the U.S. market by simply "passing through" the Caribbean, the bill requires that 35 percent of the labor and parts going into duty-free exports come from the Caribbean. That "domestic content" ratio would drop to 20 percent if at least 15 percent of the parts and labor were of U.S. origin.

As proposed by the president, the bill would have required only 25 percent domestic content. But confronted with fears that developed countries would build final assembly plants in the region and flood the U.S. market with tariff-free imports, the committee raised the percentage.

The GSP program also requires 35 percent domestic content.

Under the bill, the president may exclude a Caribbean nation from the program if it is a communist country, if it has nationalized U.S. property, if it has not acted in good faith in recognizing arbitration awards in favor of U.S. citizens, or if it offers special trade preferences to other nations that it does not offer the United States.

At the request of Marty Russo, D-Ill., the bill also excludes countries whose governments broadcast copyrighted films or television shows without the consent of the owner. And it contains an amendment by Andrew Jacobs Jr., D-Ind., excluding countries that have not signed an extradition treaty with the United States.

A provision added by Thomas J. Downey, D-N.Y., also requires that each country submit a "stable food production plan" to ensure that land needed for basic foodstuffs is not being converted to export industries.

To help shelter Puerto Rico and the Virgin Islands from the consequences of the measure, the bill requires that all excise taxes collected on foreign rum be transferred to those U.S. islands. That provision would cost the United States an estimated $13 million in revenue in fiscal 1983.

Rostenkowski, who was initially skeptical of the Caribbean proposal, was one of seven committee members who toured the region in November. He gave an enthusiastic endorsement of the bill Dec. 9. ∎

—*By Alan Murray*