

ENHANCING U.S. SECURITY THROUGH FOREIGN AID

The Congress of the United States
Congressional Budget Office

NOTES

Unless otherwise noted, all U.S. budget data is presented by fiscal year and expressed in constant 1994 dollars.

Numbers may not add to totals because of rounding.

The possible cuts in military forces and spending that are discussed in this study would be in addition to those that are already planned by the Clinton Administration and due to be completed later in the decade. The possible increases in U.S. foreign aid, by contrast, are assumed to be additional to current (1994) levels of funding since detailed data for later in the decade are not available.

Cover photo shows a farmer at a "miracle rice" project in the Philippines sponsored by the U.S. Agency for International Development. (Photo courtesy of AID)

Preface

As part of reshaping foreign policy for the post-Cold War era, should the United States increase its support for programs to enhance economic development, conflict resolution, and demilitarization in other countries? This study explores that question and its potential implications for the federal budget. The study was conducted at the request of the Chairman of the Subcommittee on Europe of the Senate Committee on Foreign Relations.

Michael E. O'Hanlon wrote the study with the assistance of Kent Christensen, Geoff Cohen, Rachel Schmidt, and Joseph C. Whitehill. The study was prepared under the supervision of Robert F. Hale, R. William Thomas, and Neil M. Singer. Robert Dennis, Nicola O. Goren, Victoria Greenfield, Roger E. Hitchner, Michael A. Miller, and Elliot Schwartz provided significant guidance and numerous comments. William P. Myers and Elizabeth Chambers provided certain budget data, and Victoria Farrell supplied data about the Russian economy.

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Paul L. Houts edited the study, and Christian Spoor provided editorial assistance. Judith Cromwell aided in the production of tables. Kathryn Quattrone and Martina Wojak-Piotrow prepared the study for publication.

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Summary

In recent years, the perceived threats to U.S. security have changed in fundamental ways. Over the four decades of the Cold War, deterring the threat of Soviet aggression in Europe and containing the spread of communism in other parts of the world dominated the security agenda. Since the collapse of the Soviet Union and the Warsaw Pact, other security threats have become primary concerns--for example, the proliferation of nuclear weapons, attempts by one country to dominate others in its region, and activities of terrorist organizations.

Regional conflict around the world has already begun to affect U.S. interests. In cases such as Somalia, to resolve regional conflicts and mitigate their human costs, the United States has put its own soldiers at risk. In other cases, U.S. citizens have been endangered by terrorism and war.

The squalor and lack of economic opportunity that remain in parts of the developing world, if not mitigated, could intensify political schisms and instability. When combined with the ongoing proliferation of weaponry, including nuclear, biological, and chemical arms, they could produce volatile conditions. U.S. overseas interests, and perhaps even U.S. territory and citizens, might be threatened on a large scale.

To respond to some of these threats, the United States may want not only to retain a strong military but also to consider increased funding for foreign assistance programs that can help meet national security goals. Certain types of foreign aid--including monies for U.N. peacekeeping operations, international arms control efforts, and aid to the former Soviet republics--may in some cases be more effective than military weapons in dealing with problems

such as arms proliferation and territorial disputes. Selected types of development assistance may help greatly in stemming the rapid population growth and economic deprivation that, especially over a period of years, can provide a breeding ground for extremist groups that cause political instability and violence--or that make it more difficult for governments to take politically difficult yet responsible steps in pursuit of peace.

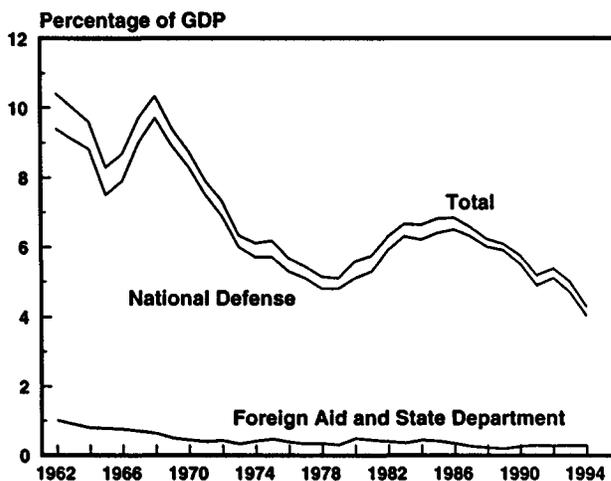
Relying more on foreign aid to enhance national security would parallel the decision that followed victory in an earlier and quite different geopolitical conflict. In the late 1940s, the United States initiated the Marshall Plan, which helped rebuild the economies of Western Europe after World War II. In the first postwar decade, it also began large aid programs for several developing countries of Asia that became strong military and political allies. More recently, the United States has begun to budget large amounts of money for the newly independent states of the former Soviet Union--a total of about \$6 billion in the last two years. Should the United States continue to provide aid at those levels, a host of programs and projects might be supported in those countries. With more funding, a social welfare net might be put in place to cushion the effects of economic reform--and perhaps improve its political prospects.

But even though the use of foreign aid as a tool of national security policy has continued throughout the post-World War II era, its budgetary share has declined sharply. By this study's definition of foreign aid, the United States will provide roughly \$18 billion to other countries in 1994. That amount includes aid for development, security assistance, demilitarization funds for the former Soviet Union, and funds for international broadcasting. It repre-

sents slightly more than one penny out of every dollar of federal spending, and less than the United States gave out in the 1960s when its economic base was less than half as large. Today's amount represents about 0.27 percent of gross domestic product (GDP), compared with considerably higher levels earlier in the postwar period (see Summary Figure 1). Despite certain steps the Clinton Administration has taken in the realm of development assistance, including a proposal for a new foreign assistance act, declines in funding are expected to continue under its watch.

The foreign aid initiatives in this study illustrate those that the Congress might consider if it decides that a shift in budgetary emphasis would enhance U.S. security. The increases are assumed to be part of a global effort to which other countries would make contributions commensurate with their means. Because this study's options are premised on the notion that foreign aid can serve some of the same goals as the Department of Defense, any increases in foreign assistance would be financed by reductions in spending for lower-priority aid programs and traditional military programs.

Summary Figure 1.
U.S. Foreign Policy Budget, 1962-1994
 (As a percentage of gross domestic product)



SOURCE: Congressional Budget Office based on data from the Office of Management and Budget.

The scope of this study has certain important limits: it focuses only on budget matters, and it is centered on a relatively traditional and literal view of national security--the security of the United States and its citizens, together with the physical security against direct attack of its overseas interests and its deployed military forces. Thus, the study does not examine instruments of U.S. national policy--such as trade--that may be even more important than aid to many developing countries. Nor does it give detailed consideration to other important goals of foreign aid such as improving the global environment, except where strongly linked with U.S. national security.

Despite those limitations, the scope of this study is broad, and it does illustrate one possible approach to carrying out the Administration's apparent intent to revitalize foreign assistance. As part of its proposed rewriting of the foreign assistance act, the Administration suggested that all funding for international affairs focus on six objectives: building democracy, promoting peace, promoting sustainable development, providing humanitarian assistance, promoting prosperity, and advancing diplomacy. Although this study focuses on using foreign aid to enhance national security, the options it sets forth would help to meet several of the Administration's goals.

If all of the options were put in place, this study's illustrative set of ideas for expanding foreign assistance could cost the United States up to \$12.5 billion a year above 1994 levels during the next decade (as measured in constant 1994 dollars). Some types of funding--such as monies for U.N. peacekeeping and assistance for the newly independent countries of the former Soviet Union--might be large early in this 10-year period but would then decline. By contrast, most development aid would tend to increase over time.

If increased by as much as \$12.5 billion, the total aid budget could reach \$30 billion a year, representing nearly 0.4 percent of U.S. GDP as projected by the Congressional Budget Office for 1999 (still considerably below the United Nations' goal of 0.7 percent). A more narrowly focused initiative, such as one that emphasized security-related aid or that increased funding more gradually,

would add substantially less to spending. A broader one that included treatment of global environmental issues could cost more--as discussed in Appendix D to this study.

Possible Increases in Security-Related Assistance

Today, the United States provides about \$10.9 billion in security-related assistance, defined as funding for activities directly tied to weapons, arms control, the resolution of conflicts, or the support of reform and demilitarization in the newly independent countries of the former Soviet Union. This aid flows primarily to Israel, Egypt, and Russia. The U.S. share of the cost of U.N. peacekeeping missions is also included in this category. Certain types of increases in security-related assistance might enhance U.S. security--particularly increases in funds for peacekeeping operations, aid to the former Soviet republics, and arms control and peace initiatives. Were all of the examples discussed in this study adopted, annual U.S. spending on security-related assistance might increase by as much as \$6.5 billion.

Aid to the Newly Independent States of the Former Soviet Union

The United States has begun to provide substantial levels of funding to Russia and the other countries of the former Soviet Union. It authorized spending of roughly \$3 billion in the 1993 budget and again in the 1994 budget.

Although large, this amount of money is not as great as some individuals advocate and may not be particularly great given the stakes involved. A number of analysts and policymakers across the ideological spectrum have argued that helping the process of reform in Russia and the other former republics is the great geopolitical challenge facing the United States in the 1990s.

Some policymakers maintain, for example, that the Western world should provide what amounts to

a financial cushion to help pensioners, the unemployed, and other individuals particularly hurt by the high inflation and economic restructuring now occurring in the states of the former Soviet Union. Certain Administration officials, including Deputy Secretary of State Strobe Talbott, support the idea of a cushion but lament the lack of funding available for such purposes. Other advocates of aid point to the need for effective arms control activities, such as a major effort to improve the control of militarily sensitive exports leaving the territories of the newly independent states. Still others propose giving more aid to Ukraine--even before it gives up its nuclear weapons--as a way to reassure that country about its sovereignty and induce it to support policies consistent with the national security interests of the United States.

In this light, the Western world may elect to step up its aid efforts. Or, perhaps more realistically at a time of wavering commitment to reform by governments in Russia and elsewhere, it may decide how much more it would be prepared to help should future policies in those countries warrant additional support. Holding out the prospect of a large aid increase may help influence political trends in the former Soviet republics.

Social Welfare Net. Together with other donors and the governments of some of the newly independent countries, the United States may decide to provide social welfare nets for pensioners, the unemployed, and the poor. Costs might be up to \$10 billion a year for several years. The United States' contribution to such an effort, given its special security interest--shared also by Europe and Japan--in ensuring a successful reform process in the countries that made up the Soviet Union, might be about \$3 billion a year. Averaged out over a 10-year period, the U.S. contribution to this program might approach \$1.5 billion a year.

Improved Export Controls. During the communist era, the flow of goods and people into and out of the Soviet Union was tightly controlled. But this totalitarian approach to government had certain advantages from a Western perspective: there was little fear that a rogue military commander or profiteer could slip dangerous technologies across state borders without approval from Moscow. With the

breakup of the Soviet Union, fewer military goods are being shipped around the world for political reasons--but a much greater risk exists that weapons or sensitive technologies may make their way out surreptitiously.

Although outside powers cannot impose a strong organizational framework on the customs duties of the newly independent states, they may be able to play a constructive role. If customs officers are not receiving sufficient training or adequate salaries, the United States may choose to improve their compensation levels and thus--it is hoped--reduce their temptation to permit the unauthorized export of weapons or weapons-related technologies. Depending on the scale of the effort, such a program to enhance export controls might cost the United States \$200 million a year.

Other ideas may call for greater external funding as well--especially if economic reforms in Russia, Ukraine, and elsewhere would make such aid a wise investment. For example, the Fund for Democracy and Development has recently argued for channeling more money to the grass-roots level to help develop agriculture and small business. Should macroeconomic conditions improve in the former Soviet republics, more aid for heavy investment in the oil sector and other parts of the economy may make sense as well. The outside world may also consider helping Russia and other former republics service their debt during the first few years of tough reform measures. Taken together, these and other steps could boost overall aid levels to as much as \$6 billion a year on average.

Clearly, however, a number of caveats and counterarguments about aid to the former Soviet republics need to be borne in mind. As has recently been emphasized in Congressional debates, Russia--while undoubtedly having changed greatly in recent years, and generally for the better from a U.S. perspective--is not a close ally of the United States at present. Moreover, its commitment to economic reform remains in serious doubt--especially after the strong showing of Russian nationalists and ex-communists in parliamentary elections in December 1993 and the resignations of several key reformers from President Yeltsin's cabinet shortly thereafter.

In this light, Western donors may elect to condition much of their aid on Russia and the other former republics adopting policies that are consistent with economic reform and other U.S. interests. Especially in regard to economic aid, any help provided by individual Western governments and the international financial institutions might be linked to adopting and continuing policies that emphasize privatization and are consistent with low inflation rates and a convertible currency. (However, some demilitarization, arms control, and humanitarian activities might be worth pursuing even if macroeconomic policy deteriorates somewhat.) Without such policies, even aid for grass-roots development may bear little fruit--as the Chairman of the House Committee on Foreign Affairs, Lee Hamilton, has argued recently.

Peacekeeping Operations

In calendar year 1993, the United Nations spent about \$3 billion on activities generally referred to as peacekeeping operations. Traditionally, U.N. peacekeepers have monitored cease-fires. But today they are taking on many new tasks intended to help countries at various stages of conflict, conflict resolution, disarmament, and political reconstruction.

The scale of U.N. efforts has been rising very rapidly in recent years. In mid-1993, large peacekeeping operations were under way in Bosnia, Somalia, and Cambodia, and about 10 smaller operations were also being conducted. Had the mid-1993 tempo of operations been sustained over an entire year, official U.N. peacekeeping expenses paid through the office of the Secretary General would have amounted to \$4.2 billion.

Estimating Future Costs. Were official U.N. peacekeeping costs to range from \$3 billion to \$4.2 billion in future years, and the United States to pay fully its assessed share of nearly 32 percent, U.S. contributions made directly to the United Nations would range from \$0.9 billion to \$1.3 billion a year. Compared with funding in 1994, that would represent an annual increase of \$400 million to \$800 million. In addition, the United States is building up large arrears again in calendar year 1994. Were

the United States to make a one-time contribution to make good on these debts in a timely fashion, the average increase in U.S. funding over a decade might be \$500 million to \$900 million a year (see Summary Table 1).

It is, of course, impossible to know the level of future U.N. peacekeeping costs with confidence. Those costs depend on the number of conflicts that occur around the world and increasingly contentious decisions about where and how the world community should intervene. These budgetary increases do, however, illustrate the potential for added U.S. costs should operations continue at recent, ambitious levels.

Summary Table 1.
Possible Increases in U.S. Foreign Assistance
(In millions of 1994 dollars)

Category of Aid	Average Annual Increases
Security-Related Aid	
Additional aid to FSU	Up to 3,000
U.N. peacekeeping budget	500 to 900
Sanctions relief fund	Up to a few hundred
Arms control and peace funds	Up to 2,000
Subtotal	Up to 6,500
Aid for Health, Basic Human Needs, and Family Planning	
Family planning	500 to 600
Child and maternal health	1,400
Education	200 to 500
Agriculture	2,000
Refugee support	300
Debt forgiveness and relief	750 to 1,400
Subtotal	5,000 to 6,000
Total	Up to 12,500

SOURCE: Congressional Budget Office.

NOTES: The numbers in this table are approximate and are intended to be illustrative.

FSU = newly independent states of the former Soviet Union.

Costs Could Be Greater. Increases in U.S. costs for U.N. peacekeeping could possibly even reach or exceed \$1 billion a year. Most notably, an expanded operation of the type recently considered for Bosnia--especially if combined with several operations like the recent ones in Somalia and Cambodia--could easily lead to a doubling of peacekeeping costs. As much as the scope of United Nations peacekeeping has grown in recent years, as of February 1994 only some 70,000 peacekeepers were under U.N. auspices--well under 1 percent of the total number of soldiers in the world in national armies. Thus, regrettably, there is much room for new conflict and potentially for growth in the scope of peacekeeping operations.

Modest levels of funding might also be provided to cushion the hardship of countries hurt economically by U.N. sanctions imposed against a neighbor. The international community may need to make such funds available if it wishes such countries--often highly dependent on trade with just a handful of nearby countries--to cooperate effectively with sanctions that impose disproportionate costs on them. This type of idea, whether funded as official U.N. peacekeeping costs or some other way, could increase costs associated with peacekeeping by up to a few hundred million dollars a year.

Costs Could Be Lower. Alternatively, U.S. contributions might not increase as much--or even at all. In a speech before the U.N. General Assembly, the President recently argued that the U.S. share of U.N. peacekeeping costs should be reduced from about 32 percent to 25 percent, which would be consistent with the U.S. share for other U.N. activities. In its 1994 bill providing funds for U.N. operations, the Congress also endorsed this idea for bringing peacekeeping "assessments" more in line with standard scales for other U.N. activities. At the 25 percent level, costs to the United States from maintaining recent levels of peacekeeping operations would still go up, but by less than indicated above.

The total cost of U.N. peacekeeping might also decline. Armed conflicts, no longer exacerbated by the superpower rivalry as they sometimes were during the Cold War, might become less prevalent or less intense. If festering conflicts in such places as Afghanistan and Angola were eventually resolved

successfully, and ethnic and nationalist conflict in other parts of the developing world were mitigated or mediated more successfully, probably fewer wars would be attracting outside attention.

Perhaps more likely, the world community may decide to scale back peacekeeping operations because some are deemed ineffective. The current problems in Somalia, and the apparently failed U.N. role in building a peace in Angola, make it clear that success is not assured. Resolving conflict is a difficult undertaking, made all the more so by the multiple centers of decisionmaking and varied types of military forces that characterize U.N. operations.

In the future, the world community--or even just one or two of its important members with vetoes on the U.N. Security Council, such as the United States--may cast a more skeptical eye on peacekeeping operations, as the U.S. Congress has already begun to do in recent months. In situations where the major parties to a conflict do not agree to a real cease-fire and a meaningful timetable for disarmament and political reconciliation, member states as well as the U.N. Secretary General may determine that it makes little sense for outside players to attempt to bring peace or even to intervene for humanitarian reasons. Such a discriminating approach might be necessary if the international community is to retain confidence in multilateral peacekeeping--even if it means that some conflicts will be left unaddressed.

Indeed, the United States and many other countries already appear to have adopted a more wary attitude toward U.N. peacekeeping. In this light, the real question may be whether the United Nations and its member states can learn from its successes and failures to improve future operations. If they can, the United Nations may remain activist; if they cannot, the scope and number of peacekeeping operations are likely to decrease in the future.

Arms Control

In the hands of rogue political leaders or terrorist organizations, nuclear and chemical weapons pose serious threats to the security of the United States

and its allies. U.S. and allied security might therefore be enhanced by devoting extra funds to support agreements that seek to control those weapons.

For example, the U.N.-affiliated International Atomic Energy Agency (IAEA) might benefit from added resources to improve the monitoring of technologies that can be used to build nuclear weapons. Expanded inspections might limit the types of violations that recently occurred in Iraq, if countries that refused to comply with the new inspection requirements were categorically denied access to technologies that could be used for nuclear weapons. Precise cost estimates are not available, but U.S. contributions for improving IAEA monitoring would be unlikely to amount to more than \$50 million a year.

Providing funds to help countries comply with the recently completed Chemical Weapons Convention might also enhance U.S. security. The convention requires that all chemical munitions be eliminated within a decade of its coming into force (probably in 1995). The United States has developed a good deal of useful technology for eliminating chemical munitions, some of which it is now attempting to share with Russia as that country seeks to destroy its chemical weapons stocks.

If detailed analyses show that this sophisticated technology is useful in countries where chemical stockpiles are small, and if the United States elects to help other countries destroy their chemical weapons, added U.S. funding might amount to a few hundred million dollars a year.

Peace Funds

To induce continued cooperation, the United States might also decide to help those nations willing to work with it to resolve deep-rooted and serious conflicts that concern them. Such types of aid--which might be dubbed peace accounts or "peace funds"--have been advocated for the Middle East by the Washington-based Overseas Development Council and figure in the Administration's proposal for a new foreign assistance act. Peace funds would not necessarily be tied to specific projects, but might be made available for general economic assistance.

Peace funds would be similar to assistance now provided through economic support funds. Such assistance is currently given primarily to Egypt and Israel, under an aid policy begun in the mid-1970s. In the future, peace funds might, for example, be extended to countries elsewhere in the Middle East, on the Indian subcontinent, or in other parts of the world now characterized by conflict or by unresolved political disputes. It is difficult to estimate the cost of any such peace funds, since they probably would not be linked to specific projects and programs. But to provide sufficient leverage in a country with a moderately large population and economy, a few hundred million dollars a year probably would be needed. If the peace initiative involved several countries, costs could rise and could exceed \$1 billion a year.

Using peace funds to induce cooperative behavior is a tricky business, however. Modest amounts of outside money may not be enough to influence momentous decisions by other countries about whether or not to go to war. Offering such funds only makes sense when a government seriously committed to reform is inclined to try the path of peace on its own, but needs help in winning over domestic critics in order to do so successfully.

Illustrative Increases in Development Assistance

In 1994, funding for U.S. development assistance totals about \$6.8 billion. This assistance is intended to promote general economic and political development in poorer countries around the world. Development assistance is disbursed through bilateral channels such as the U.S. Agency for International Development and multilateral organizations such as the World Bank.

This type of aid generally does not have direct and immediate effects on U.S. security. But over the long run, development assistance arguably contributes to U.S. security by giving more people a stake in existing political and economic structures, thereby reducing the appeal of extremist groups. The initiatives illustrated in this study--which range

from family planning to agricultural assistance--could add as much as \$6 billion a year to U.S. spending.

Family Planning

Demographers estimate that, under current policies, today's world population of 5.5 billion might increase by 100 percent or even more by the middle of the next century. Particularly in those parts of the developing world where resources have already been eroded by excessive clearing of forests, overfarming, and overgrazing, such population growth may lead to further declines in already low standards of living, increased vulnerability to natural disaster, and a greater likelihood of conflict over scarce resources.

Demographers also estimate that modest increases in the use of contraceptives--specifically, from about 50 percent of the developing world's couples to 60 percent (an increase that should be achievable by making contraceptives generally available around the world)--might help limit the increase in population to the lower end of this scale. According to estimates by the World Bank and several nongovernmental organizations, which generally support the idea of increasing the availability of family planning services, achieving such an increase in the use of contraceptives might cost \$6 billion to \$7 billion more a year. If donor nations paid one-third of the total costs, and the United States bore 25 percent of the foreign contribution, the added U.S. costs would be about \$500 million to \$600 million a year--roughly a doubling of current funding levels.

Although there is much to be said for an increased availability of contraceptives, it is important to bear in mind their limitations. Extra funds can make contraceptives more available, but doing so may not always limit population growth significantly. In many cases, people have large families because of economic incentives or simply because they want to. Developing countries also have limited financial resources, and it may be difficult for them to pay a substantial portion of the total costs as they are assumed to do in these estimates.

Increasing access to contraceptives remains, however, an attractive policy. According to a recent World Bank review of a number of demographic studies, increased access does indeed help limit population growth to at least some degree. Expanding family planning efforts can also have other benefits, such as limiting transmission of the human immunodeficiency virus (HIV).

Child Health

One key to reducing birth rates is to raise parents' confidence that their offspring will survive childhood years. In countries where children effectively represent a family's social security system, parents understandably want to assure themselves of providers for their later years. Beyond these demographic arguments, there are also clear humanitarian motives for reducing the frequency with which young children die.

In many poor countries today, 90 or more of every 1,000 children die before reaching their first birthday. Some simple measures can markedly reduce early deaths. These measures include expanding immunizations for basic childhood diseases, providing more families with rehydration salts to reduce the mortality rates associated with diarrhea and other intestinal disorders, improving basic nutrition, and providing better sanitation and clean drinking water. The agenda put forth by the United Nations Children's Fund (UNICEF) at the 1990 World Summit for Children envisions providing such services to nearly all of the world's children.

UNICEF estimates that, if donor nations provide one-third of the funding for such an expansion, their costs might total nearly \$6 billion a year. If the United States pays 25 percent of the bill, its additional annual contribution might be \$1.4 billion.

Under these assumptions, the developing countries themselves would provide \$12 billion in annual funding as well as most of the people needed to expand clinical services. The requirements for substantial fiscal resources from the developing countries themselves may be the single greatest reason for skepticism about this idea.

Education

Over the long run, helping countries provide a basic education for all of their people is a highly beneficial investment. Education through the primary level provides basic competence in the skills needed for many jobs, thereby improving employment prospects and standards of living. Moreover, women who have benefited from a basic level of education tend to have lower fertility rates and lower child mortality rates. Both of these tendencies help hold down population increases.

Despite these attractive features of primary education, many children in developing countries--especially girls--do not receive much formal schooling. As a consequence, male literacy rates are often in the vicinity of 50 percent to 70 percent, with rates for women commonly 10 percent to 30 percent lower.

A number of individuals and organizations advocate rectifying these educational deficiencies. In one World Bank paper, economist Lawrence Summers recently argued that equalizing enrollment rates for boys and girls throughout the developing world could add about \$2.4 billion a year to costs. A more ambitious agenda that included improving enrollment rates in primary and secondary schools to levels characteristic of higher-income countries could cost at least \$5 billion a year. If donor nations paid for one-third of the total amount, with the United States contributing 25 percent of the foreign aid, U.S. funding for foreign educational assistance would have to increase by some \$200 million to \$500 million a year.

Substantial expansion of education would, however, require hiring many more competent teachers. Although primary education does not involve particularly sophisticated subject matter, it requires pedagogical skills that themselves must be taught. Thus, even if this idea was adopted, it might not be fully in place for a number of years--and it might have to compete for scarce fiscal and human resources with health and family planning programs, especially in the near term.

Agriculture

Economic development in poorer countries may eventually benefit U.S. security, and agricultural development is certainly a key to that growth. As a nation's agriculture becomes efficient and productive, nutrition improves. In addition, more labor and often more foreign currency become available for manufacturing and other types of entrepreneurial activity that help economies advance. Agricultural productivity, therefore, is among the single most important factors in determining the quality of human life in poorer countries.

In addition, the projections for continued rapid expansion of the globe's population--together with increasing loss of forest and damage to topsoils in many parts of the world--underscore the need for increased agricultural productivity. Although productivity has generally increased with new technologies and plant varieties, there are serious concerns that improvements in productivity will be insufficient to meet the needs of rapidly growing populations--particularly in Africa.

Improving agriculture is a multifaceted effort. It consists of research to develop new strains of crops, improved farming and soil conservation techniques, and increased access to markets. A World Bank proposal would focus new resources on research, roads, soil conservation, and reforestation. The approach carries a substantial price tag, however, of up to \$25 billion a year. If donor nations provided one-third of total funding, and the United States 25 percent of donor funding, added U.S. funding could reach \$2 billion a year.

Many agricultural improvements would, however, require substantial cooperation from the governments of developing countries. It does little good to build a new road, for example, if the government is not willing and able to maintain it. There must also be a realistic prospect that local farmers will take advantage of new ways to improve agricultural productivity. Thus, an agriculture initiative must be carried out at different paces in different countries and for that reason might well cost less than indicated above.

Refugee Support

Warfare over the past two decades has continuously and greatly increased the numbers of refugees and people displaced within their own countries. Globally, each category now includes at least 20 million people--almost 10 times as many as in 1970. By contrast, financial support has not grown as quickly--meaning that funds available to the U.N. High Commissioner for Refugees and related organizations fell by 50 percent on a per-refugee basis between the mid-1980s and the early 1990s.

Returning per capita U.S. aid for refugees and displaced persons to the 1980 level in real terms, and assuring more rapid crisis relief, might entail added U.S. spending of up to \$300 million a year. Though substantial, this added funding can contribute to U.S. security even in the near term. Without extra funding, refugees may lack basic human needs--a situation that could lead to instability throughout a whole region and that ultimately might entail a greater chance of U.S. military intervention.

Debt Relief

All of the above ideas require significant contributions from developing countries themselves. Unfortunately, some nations--particularly certain abjectly poor countries in Africa and a few other parts of the world--simply do not have the money. Their problems are often exacerbated by crushing foreign debt, in many cases incurred by previous regimes. In some cases, if donor nations are confident that true reform is taking place within a country, they may decide to ease the debt burden and make a serious new start on economic development efforts. They may also give small amounts of untied aid to governments of poor countries with less crushing debt if those governments prove serious about reform.

Although many of the debts owed by African nations to foreign governments are being reduced through actions of the Paris Club of major donor nations, they have not been eliminated. In addition, large debts to private and multilateral institutions remain. Under an ambitious approach to reducing

these debt burdens, the average annual payments by the United States for general debt relief to very poor countries could be as high as \$1.4 billion a year. Spending could be considerably less, however, if aid were limited only to governments that have made serious efforts to promote democracy, institute reforms that encourage private business, and avoid undue protectionism and subsidies for consumers. Using this instrument of aid judiciously could also improve the incentives for other countries to reform their economic policies.

Caveats and Cautionary Notes

Although increases in assistance for development have the potential to enhance U.S. national security, the policymaker should bear in mind several caveats. Some have already been mentioned in connection with specific aid proposals. Others apply more generally to all of the proposals.

Donor organizations have certain flaws that limit their effectiveness in many cases and that may call into doubt their ability to expand assistance programs significantly. Today, several major development organizations, including the Agency for International Development, are sometimes viewed as falling short of acceptable performance levels.

Aid can actually do harm if it is not provided with care. It can buttress corrupt or ruthless leaders, favor certain classes or groups in society at the expense of others, allow needed economic reforms to be postponed, and free up a country's own resources for wasteful or undesirable purposes such as excessive military spending. Such problems were fairly prevalent during the Cold War, when donors--and the superpowers in particular--often continued to support friendly leaders for geopolitical reasons, even when their policies were poor. Some of the very countries whose internal politics and foreign affairs cause the United States trouble today--Iran, Somalia, and Sudan being lead exhibits--were large aid recipients in the past. If it is to avoid these types of problems, any new effort to use aid more ambitiously must be more discriminating and do a better job of reaching people who are truly in need.

Most important of all, aid simply cannot do what the international economic system can. The

total global development budget of roughly \$55 billion a year (as of 1991), though representing more than half of the net capital inflow to developing countries, is smaller by about a factor of 10 than their combined export earnings. Moreover, the vast majority of all investment in developing countries comes from their own domestic savings. Thus, a country's economic policies, and the trade and fiscal policies of donor countries, hold the keys. In order to develop, recipient governments need to keep subsidies to consumers and producers in check, maintain open trade channels, and make sensible types of domestic investments. Industrialized nations, for their part, should place first priority on further trade liberalization and on economic policies that increase available private capital and spur imports. (This rule should not necessarily apply, however, to the poorest countries, which do depend heavily on aid.)

Paying the Bill

The bill for any increases in foreign aid must somehow be paid. The increases in aid outlined in this study, if all were actually made, would add as much as \$12.5 billion a year to the U.S. aid budget relative to 1994 levels, and perhaps even a little more relative to expected 1999 levels. These added costs could be financed through increases in taxes or cuts in federal programs. However, pressing domestic needs, a serious budget deficit problem, and a tax-averse public together make it unlikely that taxes, deficit financing, or cuts in domestic programs will fund new foreign aid programs. Moreover, the focus of this study is on shifts in priorities within the foreign policy budget. Thus, it is assumed that any aid increases would be paid for by cutting existing aid programs and by further reducing the defense budget.

Cuts in Today's Foreign Assistance

A number of the programs accounting for today's \$18 billion in annual U.S. funding for foreign aid might be viewed as obsolete, inefficient, or simply lower in priority than the initiatives presented above. Reductions in such programs could help finance increases in other aid programs.

One possible approach would reduce grant aid given to Israel and Egypt to about the level that prevailed immediately after the Camp David Accords, saving more than \$1 billion a year in budget authority by the end of the decade. Such a reduction might be acceptable in light of the end of the Cold War and the weakening of Iraqi military capability in the Gulf War. Another approach would cut assistance given by the Agency for International Development to perhaps 30 middle-income developing countries. These countries have in many cases become capable of addressing more of their own needs--and the United States probably does more for their ongoing development through trade and the workings of international capital markets than through aid anyway. Savings might reach \$400 million annually. Finally, streamlining the P.L. 480 food program to focus on disaster relief, as opposed to providing an outlet for surplus U.S. agricultural products, could save nearly \$500 million a year.

These program changes would, of course, involve some disadvantages of their own (see Chapter 6). If all were judged acceptable, however, they could reduce spending by about \$2 billion a year by the end of this decade.

Further Cuts in Defense Spending

Additional savings might be achieved by reducing the defense budget beyond what the Clinton Administration has planned. To permit such reductions, the United States could scale back its goal of being able to fight two major regional wars that occur nearly simultaneously. Such a decision might be consistent with the low likelihood of two simultaneous wars, judgments about the relative military weakness of potential adversaries, and greater reliance on allies. Also, some analysts believe that the United States is only likely to engage in conflict when close U.S. friends or important interests are at stake. In this event, making sure that the United Nations can function efficiently and effectively might be preferable to preparing for the unlikely event of two large and simultaneous regional wars rivaling Desert Storm in scope.

If goals were scaled back, the United States might be able to reduce the air and ground forces

designed to fight such wars below the levels planned by the Administration. For example, it might be possible to eliminate an additional active Army division (of the type equipped with heavy armored vehicles), a Marine expeditionary force, and three Air Force tactical fighter wings. Annual savings would be more than \$4 billion a year. Even if the Congress and the Pentagon chose not to undertake substantial additional force cuts, consolidating some roles and missions of the armed forces might permit substantial savings. For example, cuts in light Army units (those not equipped with heavy armored vehicles) might save up to \$3.5 billion a year.

The military might also be able to rely more heavily on new types of ships to carry out certain naval missions, such as the peacetime presence mission. If so, then the Navy's aircraft carrier fleet could be scaled back in size to 10 carriers, saving \$1 billion annually. In the post-Cold War era, the United States might also need less redundancy in its strategic nuclear forces. Without reducing its strategic warhead inventory below the 3,500 total allowed by the second Strategic Arms Reduction Talks (START II) Treaty, it could still change its force structure and reduce the Department of Energy's abilities to develop new types of warheads. In these ways, some \$1.5 billion a year could be saved.

Finally, cuts in some modernization programs could save substantial sums, even if additional force reductions were not pursued. Examples could include reducing the Navy's destroyer program, canceling further upgrades to Army tanks, delaying or canceling new tactical aircraft for the Air Force, and eliminating some tactical missile defense programs of the Ballistic Missile Defense Organization. Together these changes would reduce planned defense procurement budgets by nearly \$5 billion a year through the rest of the decade.

Further reductions in defense spending would, of course, result in a smaller, less modern military. Additional reductions would also come on top of substantial defense budget cuts already imposed or planned. Many lawmakers and defense analysts have begun to express concern about the pace and scope of cuts in defense spending. Since a peaceful global environment in which trade can flourish is

arguably the single most important thing that the United States can, as the world's greatest military power, offer other countries, it needs to be careful about cutting defense further in order to fund increases in aid--as the framework of this study would have it do.

Additional cuts in defense spending could also require further reductions in the number of U.S. military forces. A smaller military might not have the capability to carry out the Administration's strategy of being able to fight and win two major regional wars that occurred nearly simultaneously. The Administration argues, as did its predecessor, that this capability is important in order to keep the probability of two such wars at a minimal level. If U.S. forces again became involved in one major regional war such as Operation Desert Storm, and the military lacked the ability to prevail in a second one within a short period of time, a second aggressor might perceive an opportunity to attack.

There is no clear answer to the question of exactly how much force is needed to maintain a two-war capability; indeed, the Bush Administration planned to keep a military roughly 10 percent larger (in terms of manpower) in order to support a very similar strategy. But many analysts might already question the ability of the Administration's planned forces to prevail nearly simultaneously in two conflicts on the scale of Desert Storm.

These important disadvantages must be weighed against the potential benefits to U.S. security of increasing the policy and budgetary emphasis on foreign aid. In this post-Cold War era, some of the traditional defense programs may be less effective than selected types of foreign aid in countering certain potential threats to U.S. security--especially those insidious threats such as overpopulation and lack of economic opportunity and development in much of the world. These increases in aid may also be consistent with the Administration's apparent desire to revitalize foreign assistance as a tool of U.S. foreign policy.