

# Introduction

Out of every dollar of federal spending in the United States, only a little more than a penny now goes to foreign aid. By contrast, overseas assistance accounted for about a nickel of every federal dollar at the beginning of the Kennedy Administration, and over a dime during the Marshall Plan years--an era bearing certain resemblances to today in that the United States had just prevailed in a major geopolitical struggle and was trying to "shape the peace."

Today's aid dollars--about \$18 billion a year--fund a broad range of activities. They include security-related operations such as U.N. peacekeeping, elimination of weapons and defense conversion in the former Soviet Union, as well as activities intended to serve economic and humanitarian goals such as family planning, child immunizations, and agricultural development. (See Box 1 for a discussion of different definitions of foreign aid.)

Current federal expenditures on defense are about 15 times larger than those on aid, constituting about 19 percent of federal outlays. But defense spending has also declined considerably from its level during previous years and is expected to continue to decline. Having constituted over half of all federal spending during most of the early Cold War decades, defense spending will be only about 14 percent of the budget by the time President Clinton's planned cuts in U.S. military forces are fully in place. As measured in constant 1994 dollars, outlays for the national defense function in the federal budget (function 050) will be \$231 billion in 1999--after a Cold War average of more than \$275 billion and a recent peak of \$355 billion in 1989 (see Figure 1).

The rationale for significant declines in defense spending is fairly persuasive to many analysts and policymakers. After almost a century of either world war or geopolitical competition with the Soviet Union, the basic security position of the United States and its allies has improved greatly. War between major powers appears quite unlikely in the near future--given that most of the world's great powers are friendly to the United States, more intent on economic success than on conquest of territory or resources, and currently unable to rival the United States militarily.<sup>1</sup>

In many ways, however, the world is unimproved from its Cold War state--and some indicators of the future are ominous. The ongoing push of technology and of human civilization have frightening dimensions: growing populations tax education and health resources in developing countries and contribute to widespread underemployment; agricultural practices damage forests and soils and appear increasingly untenable in many parts of the world; industrial emissions and the rapid exploitation of resources harm the quality of air, water, and soil in many places; and weapons of advanced capability and mass destruction proliferate.

In addition, there are still enough traditional grievances and unresolved contests over territory, wealth, and power to foster conflict in several parts of the world--even if not necessarily among the wealthy powers. Sometimes these conditions have

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1. For a good example of this point of view, see Richard H. Ullman, *Securing Europe* (Princeton, N.J.: Princeton University Press, 1991), especially pp. 3-42, 107-137.

**Box 1.**  
**Defining Foreign Aid**

Foreign aid can be defined in several different ways. The most common measure is "official development assistance," or ODA, used by the Development Assistance Committee of the Organization for Economic Cooperation and Development. It encompasses official transfers of money, goods, or services intended to further human welfare. The transfers can take the form either of grants or of loans with a concessional (below-market) element of at least 25 percent. ODA does not include aid intended to promote political development, such as international broadcasting; nor does it include military assistance or funding for United Nations peacekeeping. By this definition, the United States gave about \$11 billion in foreign aid in 1991.<sup>1</sup>

This study, with its broad focus on a variety of activities contributing to national security, employs a broader definition. It includes most of the \$19 billion found in the budget function for international affairs (function 150) in 1994--excluding only funding for State Department salaries and expenses and the nonbroadcasting functions of the U.S. Information Agency. These organizations and activities, while also contributing to foreign aid programs in some cases, are intended to serve a broader range of U.S. interests and as such are not included in this study's framework. But military assistance, funding for U.N. peacekeeping, and funding for international broadcasting are included since their primary purpose is to help other countries (even if, as with many things, they also provide indirect benefits to the United States). Department of Defense (DoD) contributions to U.N. peacekeeping and humanitarian operations, DoD "Nunn-Lugar" funding for cooperative reduction of threats in the former Soviet Union, and some food aid not in function 150 are also included in this study's definition of foreign aid.

1. See Alexander R. Love, Chairman, Development Assistance Committee, *Development Cooperation: 1992 Report* (Paris: Organization for Economic Cooperation and Development, 1992), p. A-99.

implications for the security of the United States, its overseas interests, and its military forces. Terrorism rooted in extremist movements caused hundreds of U.S. military casualties in Lebanon in 1983, hundreds of civilian deaths in the Lockerbie explosion in 1988, and further casualties in the World Trade Center bombing of 1993. The Persian Gulf War was fought not over great-power rivalry but rather over economic interests, specific concerns about the Mideast region, and to some degree worries about nuclear proliferation.

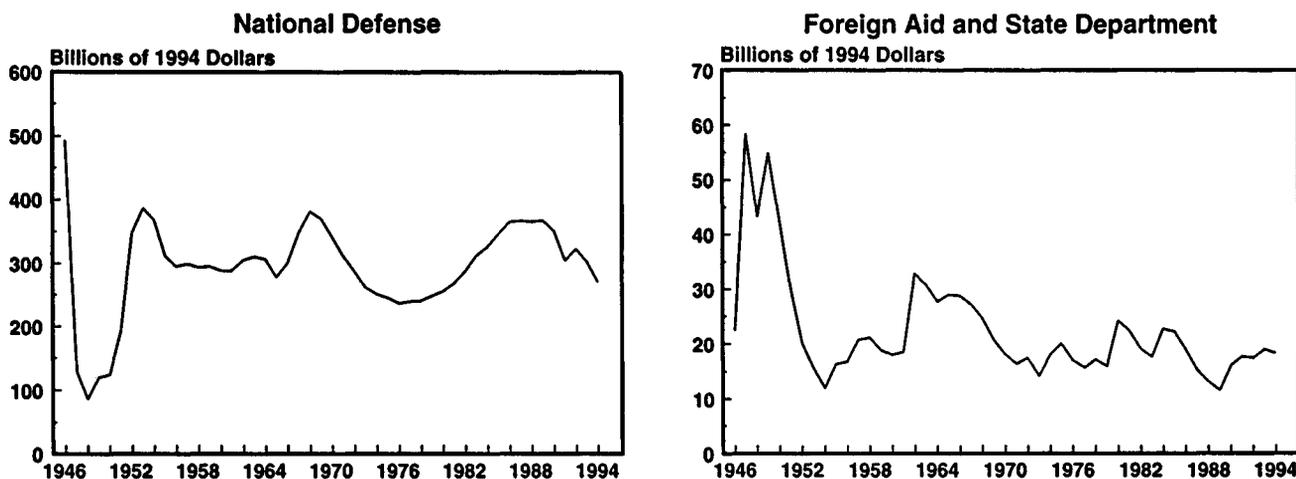
In many of these cases, even small groups or renegade regimes have become able to kill large numbers of people--and have acquired the communications and transportation networks needed to play havoc virtually anywhere on the globe. In some parts of the world, economic and political progress may be contributing to a more peaceful future. But in other regions, problems show little sign of resolution. Consider, for example, the Balkans or parts of the Middle East, Africa, or South Asia.

Most of these trends were well under way during the Cold War. But its end may provide an opportunity to address them more effectively. Clearly, military force is likely to remain an important element of the U.S. approach to thwarting threats and enhancing global stability. But selected types of foreign assistance may in some cases yield a higher payoff on the dollar for problems that are imminent, such as Russia's nuclear weapons, as well as for those more likely to have effects over time, such as global population growth.

One apparent goal of the Administration is to place greater emphasis on foreign assistance as an instrument of promoting global economic development, political stability, and security. Together with the Congress, the Administration has formulated such a policy in regard to Russia and the other newly independent states: it pieced together a total of about \$6 billion for these countries over 1993 and 1994.

Will other types of programs and other countries be the subject of new efforts as well? The Administration has created a new high-level position for global issues in the State Department, initiated an effort to reinvigorate the Agency for International

**Figure 1.**  
**U.S. Foreign Policy Outlays, 1946-1994**



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

Development (AID), and has now offered the Congress a proposal to rewrite the U.S. Foreign Assistance Act (see Box 2). But it is not yet clear if the Administration will be able to devise the specific policies--and find the budgetary resources--that may be needed in order to make these other changes effective (see Table 1). The Administration's own chief development expert, AID Administrator Brian Atwood, was recently quoted by *The Washington Post* as saying, "We think we can scrape enough out of the old pipelines to have an impact for a few years. But we won't be able to do nearly as much as we would like if we had more money."<sup>2</sup>

This study asks whether certain types of foreign assistance activities that have considerable implications for U.S. security would accomplish significantly more if funded at a higher level. The study employs a framework similar to that in the Administration's plan--and uses the four organizing objectives of promoting sustainable development, promoting peace, building democracy, and providing humanitarian assistance to discuss what might be

accomplished if foreign aid is given higher priority as a policy tool for national security.

## Arguments for Giving Higher Priority to Foreign Aid

Several factors argue for giving a higher priority to foreign aid within the overall foreign policy budget.

### Aid Can Help Meet New Threats

Selected increases in foreign aid could yield high payoffs in addressing issues such as the proliferation of nuclear weapons and the implementation of arms control agreements. Aid may also be able to help many of the world's poor to improve their lives. As Brian Atwood recently argued, the alternative may be a greater likelihood of humanitarian disaster or violent conflict--with costs to the United States that can be much greater than the costs of programs to address poverty in the first place.<sup>3</sup>

2. John M. Goshko and Thomas W. Lippman, "Foreign Aid Shift Sought by Clinton," *The Washington Post*, November 27, 1993, p. A1.

3. See Dick Kirschten, "Crisis Prevention," *National Journal*, December 11, 1993, p. 2,945.

**Box 2.****The Clinton Administration's Proposal for a New Foreign Assistance Act**

In 1961, the Congress passed the U.S. Foreign Assistance Act, which guides annual foreign aid appropriations and disbursements. Since then, it has been amended several times, adding potentially useful policy goals but reducing the act's clarity in the process. Recently, the Administration submitted a proposal to the Congress for a complete rewriting of this act that would attempt to provide a new and simpler legislative framework from scratch.

The Clinton plan would replace the current act's 33 goals and 75 "priority areas" with fewer objectives. Budget function 150 would be oriented around six principles: building democracy, promoting peace, promoting sustainable development, providing humanitarian assistance, promoting prosperity through trade and investment, and advancing diplomacy. In the process, it would move away from country-by-country budgetary allocations--instead providing the Administration with flexibility to try to put money where it might do the most good.

The Administration's proposed principle of building democracy consists of aid to the former Soviet republics as well as international broadcasting and related activities. Promoting peace mainly includes all types of aid given to Egypt, Israel, and other participants in the Mideast peace process. It also includes contributions for peacekeeping operations paid out of the budget of the State Department. In this study, these two principles are grouped under the general heading of security-related assistance. According to the Administration, 1994 discretionary funding levels (slightly different from the overall funding levels) for these two areas are \$3.7 billion and \$6.8 billion, respectively. The requests for 1995 total \$2.9 billion and \$6.4 billion (as measured in nominal, or current, dollars).

Promoting sustainable development involves programs for health, education, family planning, water and sanitation, roads, ports, agriculture, and environmental preservation in developing countries. Providing humanitarian assistance entails funds for refugees, disaster assistance, and other, related activities. These principles, grouped in this study under the general title of assistance for development, are receiving 1994 discretionary budget authority of \$4.4 billion and \$1.7 billion, respectively (\$5.0 billion and \$1.6 billion are requested for 1995).

Promoting prosperity encompasses the activities of the Export-Import Bank and the Overseas Private Investment Corporation; it also includes agricultural credit programs. Advancing diplomacy consists primarily of funding for the State Department and related activities. These goals are now funded at \$1 billion and \$4 billion, respectively (with 1995 requests of \$1 billion and \$4.1 billion).

In reality, the Administration's plan may not be such a fundamental reorientation of aid as it appears. The six broad principles may serve merely to repackage existing aid programs. In addition, the general idea of moving away from country-by-country allocations does not change the fact that Israel, Egypt, and the former Soviet republics will remain major beneficiaries of U.S. assistance. These countries, in fact, have two of the six main objectives of the new legislation devoted to them--in practice if not in the letter of the bill. Nevertheless, the Administration's proposal may provide a somewhat different emphasis to U.S. overseas activities and perhaps represent the first step in a period of new thinking about foreign aid.

More insidiously, squalor and economic inequity can create receptive ears for the rallying cries of extremist groups. Some of these groups could have the organizational skills and financing necessary to turn their radicalism into real threats to U.S. overseas interests and sometimes even to parts of the United States itself. Secretary of State Warren Christopher made precisely this argument when lobbying for aid to the Palestinians in the fall of

1993.<sup>4</sup> Even where extremism does not cause violence, it can politically hamper leaders from taking responsible steps for peace.

4. See, for example, Elaine Sciolino, "U.S. to Contribute \$250 Million in Aid for Palestinians," *The New York Times*, September 21, 1993, p. A1.

Indeed, a brief survey of the world's trouble spots shows a fairly striking correlation between economic malaise on the one hand and domestic unrest and political instability on the other. A number of countries in the Middle East, on the Indian subcontinent, and in Africa are especially prone to civil strife and violence. Some of these could, or already have, caused direct damage to U.S. interests. Parts of the world where broad-based economic progress has occurred tend to be more stable politically--notably much of East Asia and several countries in Latin America.

Combating terrorism and political extremism around the world clearly requires more than foreign aid. Indeed, it can also demand military tools, suggesting that any cuts in defense intended to help fund foreign aid programs must be made judiciously. But a key element must be providing a positive vision for the potential radicals of the developing world and helping them advance economically and politically, while defusing the domestic political clout of those who already have taken up extremism and violence. Foreign aid may be able to play a greater role in this endeavor than it does now.

### Aid Can Support America's Global Vision

Philosophically, a shift in priorities in favor of foreign aid could be grounded in the belief that long-term peace is possible only if most of the world's peoples see the international system as fair. As the English scholar E.H. Carr wrote several decades ago:

. . . In the national community, we assume that in this process of self-sacrifice and give-and-take the giving must come principally from those who profit most by the existing order. In the international community, the assumption is commonly made by statesmen and writers of the satisfied powers that the process of give-and-take operates only within the existing order and that sacrifices should be made by all to maintain that order. . . . [But] the process of give-and-take must apply to challenges to the existing order. Those who profit most by that order can in the long run only hope to maintain it by making sufficient concessions to make it tolerable to those who profit by it least . . .<sup>5</sup>

Indeed, this type of theory of international economic development and political stability has been at the core of U.S. foreign policy for 50 years.

**Table 1.**  
**U.S. Foreign Policy Budget**  
**(In billions of 1994 dollars of budget authority)**

	1990	1994	1999 <sup>a</sup>
National Defense <sup>b</sup>	344	259	231
Foreign Aid <sup>c</sup>	18	18	14
Remainder of International Affairs <sup>d</sup>	<u>3</u>	<u>3</u>	<u>3</u>
Total	365	280	248

SOURCE: Congressional Budget Office.

- a. Figures for 1999 assume that the Clinton Administration's plans for defense and for international affairs will be implemented.
- b. This category leaves out portions of funding for budget function 050--Nunn-Lugar aid to Russia and money for Department of Defense peacekeeping and disaster relief operations (as, for example, in Somalia). The same amount of funds is removed for both 1994 and 1999. The national defense total includes Department of Energy weapons programs.
- c. International affairs, less spending for the State Department and parts of the U.S. Information Agency (USIA) budget, plus funds for foreign assistance that were subtracted from the national defense function above, plus some Department of Agriculture food aid not part of budget function 150.
- d. Primarily State Department and some USIA funding.

5. E.H. Carr, *The Twenty Years' Crisis, 1919-1939* (New York: Harper & Row, 1964), p. 169.

That policy was heavily influenced by the belief that the harsh terms of the Versailles Treaty produced circumstances that helped lead to Hitler's rise in Germany, and perhaps also by a U.S. inclination toward idealism. Articulated by many of the great statesmen of the 20th century, such as George Kennan, modern American foreign policy has emphasized strengthening other countries' economies and political systems--in other words, tapping into humanity's common aspirations for liberty, security, and economic progress--as the best way to combat hostile ideologies and build the long-term foundations for peace.<sup>6</sup> (See Appendix A for an overview of post-World War II U.S. foreign aid and its relation to U.S. national security goals.) Modern social science research also supports the propositions that economic development often contributes to democratization and that democratic countries tend not to fight one another.<sup>7</sup>

Some people differ with this philosophy, arguing that governments in other parts of the world have different conceptions of societal and human progress that the United States cannot easily fathom or address.<sup>8</sup> But much evidence suggests that other peoples of the world--as opposed, sometimes, to their governments--share many U.S. values and aspirations. These values include economic betterment; devotion to family and community; cultural and spiritual meaning; and a significant (if not necessarily Western) sense of individual freedom, peace, and security. Global trends toward democracy, the continuing appeal of the West throughout the world, and the widespread quest for economic growth all suggest that human beings around the world tend to agree on basic values much more than they disagree. As U.N. Secretary General Boutros

Boutros-Ghali put it, "It is possible to discern an increasingly common moral perception that spans the world's nations and peoples, and which is finding expression in international laws."<sup>9</sup>

A better counterargument might focus on the question of whether or not aid is a useful way to help other countries. As discussed below, most developing countries probably have even more to gain from a Western world that opens its markets and keeps its own economies healthy and innovative than from foreign aid (though there is no reason why the West could not do all of these things simultaneously). But at specific stages of development, and for specific purposes, aid may make important contributions.

## Public Goods Are Often Scarce in Developing Countries

But why is aid even relevant to the goal of improving economic well-being and political stability around the world?

On economic grounds, individual citizens and sometimes even individual ruling regimes do not have great incentive--or sufficient means--to provide certain so-called public goods. Yet without them, society generally suffers serious consequences. Classic examples of public goods include national defense, roads, ports, schools, hospitals and health clinics, police forces, and the like.

Where the consequences of not providing public goods can include significant human suffering, lasting and serious damage to ecosystems, and ultimately political instability, donors may elect to get involved rather than simply wait and hope that the problems will work themselves out quickly enough that no great harm is done.

6. John Lewis Gaddis, *Strategies of Containment* (New York: Oxford University Press, 1982), pp. 54-65; Barton Gellman, *Contending with Kennan* (New York: Praeger, 1984), pp. 136-138.

7. Evelyne Huber, Dietrich Rueschemeyer, and John D. Stephens, "The Impact of Economic Development on Democracy," *Journal of Economic Perspectives*, vol. 7, no. 3 (Summer 1993), pp. 71-85; Michael W. Doyle, "Liberalism and World Politics," *American Political Science Review*, vol. 80, no. 4 (December 1986).

8. For two cogent recent examples, see Samuel P. Huntington, "The Coming Clash of Civilizations, Or, the West Against the Rest," *The New York Times*, June 6, 1993, p. E19; Paul Lewis, "Splits May Dampen Rights Conference," *The New York Times*, June 6, 1993, p. A1.

9. Boutros Boutros-Ghali, *An Agenda for Peace* (New York: United Nations, 1992), p. 8.

## Aid Has Often Been Effective

There are no panaceas for the afflictions facing many developing countries today. And ultimately they must bear responsibility for their own future; outside countries can play only a secondary role at best. But with a half century of experience in trying to help other countries develop economically and politically, the United States and other donors have a great deal of knowledge about how to use foreign aid to address such problems--and also about how not to. They have a number of success stories under their belts: many of the countries enjoying high rates of growth since World War II, such as South Korea, Taiwan, and Thailand, benefited from aid programs at one point or another in their development or reconstruction (even if aid generally played only a supporting role in their economic success).

**Development Assistance.** If targeted carefully, aid can help create technologies, human capital, and infrastructure that then spark broader development and lead to self-sustaining economic growth. To take specific examples, aid can support research to develop new strains of crops that are hardier and more productive, enabling countries to develop an agricultural base important both for human survival and for economic growth. Aid can help build roads, ports, and other basic infrastructure that can catalyze broad-based economic activity. In the aftermath of war, it can help countries rebuild these types of basic physical foundations for economic development. Foreign aid can extend basic human services to poor people--thereby reducing infant mortality, slowing birthrates, improving access to good water, and teaching basic skills that provide people with the underpinnings for self-reliance.

The progress of some developing countries since World War II has been impressive and provides hope for those poorer countries that have not yet enjoyed extended periods of significant economic growth. For these accomplishments, those countries can be proud, as can the West--which helped build an open global trading and investment system, international financial institutions, and an apparatus for grass-roots development. In words found in the 1993 annual report of the United Nations Children's Fund:

The necessary task of drawing attention to human needs has unfortunately given rise to the popular impression that the developing world is a stage upon which no light falls and only tragedy is enacted. But the fact is that, for all the set-backs, more progress has been made in the last 50 years than in the previous 2,000. Since the end of the Second World War, average real incomes in the developing world have more than doubled; infant and child death rates have been more than halved; average life expectancy has increased by about a third; the proportion of the developing world's children starting school has risen from less than half to more than three quarters (despite a doubling of population); and the percentage of rural families with access to safe water has risen from less than 10% to almost 60%.<sup>10</sup>

Indeed, in the world today, a number of countries can be accurately labeled "aid graduates" because they have now reached levels of wealth and self-sustaining growth at which foreign assistance is no longer necessary--and, in some cases, they now give aid to others.<sup>11</sup>

**Security-Related Assistance.** In the realm of security, aid can fund peacekeeping operations that can help quell conflict, as in such places as Cambodia, El Salvador, and Mozambique. It can help countries improve their export controls, as is now being attempted in the former Soviet republics. It can strengthen their militaries, contributing to a self-defense capability--notable success stories here include Israel, Taiwan, and South Korea. Not least, it can provide a political and economic boost to regimes willing to try to resolve conflicts, such as in the Middle East.

Aid can also be of critical importance in monitoring peace accords, encouraging elections, and

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10. James P. Grant, *The State of the World's Children 1993* (New York: Oxford University Press, 1992), p. 21.

11. John P. Lewis, *Pro-Poor Aid Conditionality* (Washington, D.C.: Overseas Development Council, 1993), pp. 9-12; World Bank, *World Development Report 1990: Poverty* (New York: Oxford University Press, 1990), pp. 127-130.

generally allowing political reform and democratic governance to germinate--provided that recipients themselves genuinely prefer to take these steps. Given in response to positive reforms in military and security spheres, it can help countries move beyond policies that the United States might find threatening to its security interests--as in Germany and Japan after World War II, or in Israel and Egypt before the signing of the Camp David Accords in 1979.

## The Aid Portion of the Foreign Policy Budget Is Relatively Low

The total U.S. foreign policy budget--including both traditional military spending and foreign aid--is high by world standards. In fact, as of 1990 and 1991, the United States devoted a higher fraction of its gross domestic product (GDP) to the sum total of aid and defense than any other Western country (see Table 2). Even though U.S. defense spending is

**Table 2.**  
**A Comparison of the Aid Spending of Donor Countries, 1990-1991**

	Approximate Foreign Policy Spending as a Percentage of GDP	Aid as a Percentage of GNP	Military Spending as a Percentage of GDP
Australia	2.6	0.36	2.2
Austria	1.3	0.29	1.0
Belgium	2.8	0.44	2.4
Canada	2.5	0.45	2.0
Denmark	3.0	0.95	2.0
Finland	2.5	0.70	1.8
France	4.2	0.61	3.6
Germany	3.2	0.41	2.8
Ireland	1.4	0.18	1.2
Italy	2.0	0.30	1.7
Japan	1.3	0.32	1.0
Netherlands	3.6	0.90	2.7
New Zealand	2.1	0.24	1.9
Norway	4.4	1.15	3.2
Portugal	2.5	0.28	2.2
Saudi Arabia <sup>a</sup>	31.0	2.57	28.5
Spain	2.0	0.21	1.8
Sweden	3.4	0.91	2.5
Switzerland	2.0	0.34	1.7
United Kingdom	4.3	0.32	4.0
United States	5.8	0.20	5.6

**SOURCES:** Congressional Budget Office, "Assessing Future Trends in the Defense Burdens of Western Nations," CBO Paper (April 1993), p. 7; International Institute for Strategic Studies, *The Military Balance 1993-1994* (London: Brassey's, 1993), pp. 224-225; Alexander R. Love, Chairman, Development Assistance Committee, *Development Cooperation: 1992 Report* (Paris: Organization for Economic Cooperation and Development, 1992).

**NOTES:** Aid refers here to the Organization for Economic Cooperation and Development's definition of official development assistance, which is different from the definition used elsewhere in this study.

GDP = gross domestic product; GNP = gross national product.

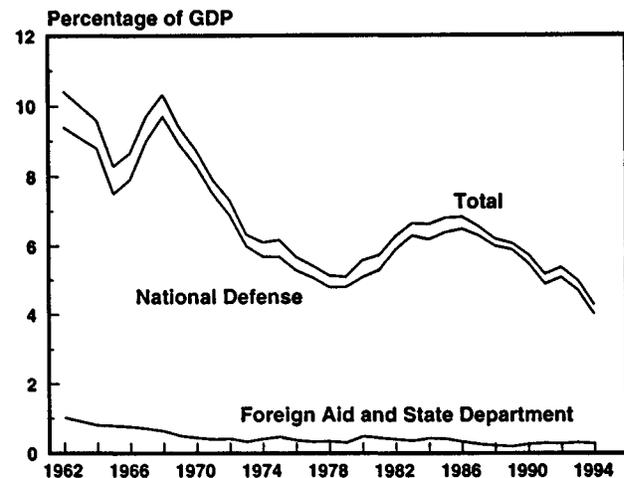
a. The data for Saudi Arabia's military spending include contributions to coalition partners from the Persian Gulf War.

declining, the U.S. foreign policy budget is likely to remain high by world standards as other countries also cut their budgets.

As a fraction of the economy's size, however, the aid budget of the United States has become quite modest in comparison with those of other countries. The United States certainly remains a very important donor: along with Japan, it is one of the world's two largest contributors to overseas development as measured in dollar terms. But by standard definitions of overseas aid used by the Organization for Economic Cooperation and Development, U.S. aid relative to the size of its economy--0.2 percent of GNP--is well below the average among the wealthy Western countries (see Table 2). Indeed, it is the second lowest among them. Even by the somewhat broader definition of U.S. foreign aid used in this study, the United States would lead only Ireland, Spain, and New Zealand. Several donors devote on the order of 0.5 percent or more of their annual output to overseas aid, and some exceed 1 percent. The U.S. aid budget is well under the official U.N. goal of 0.7 percent of GDP--a goal reaffirmed (albeit tepidly) as recently as 1992 during the United Nations Conference on the Environment and Development in Rio de Janeiro.<sup>12</sup>

As a fraction of the nation's economic output, the U.S. aid budget has also declined historically. Having represented about 5 percent of the federal budget and 1 percent of GDP some 30 years ago, foreign aid has declined by both measures (Figure 2 shows U.S. foreign aid as a fraction of GDP over time). It is now about 1 percent of the federal budget and 0.27 percent of GDP, by the broad definition of foreign aid used in this study. Despite the Clinton Administration's concern over global issues and its efforts to reinvigorate foreign aid legislation and institutions, its recent budget request would continue this trend. After a nominal freeze at \$19 billion in 1995, budget authority for budget function 150 would decline to \$17 billion for fiscal year 1996 and remain essentially at that level through the rest of the decade. Real aid levels, as defined in this study and measured in constant 1994 dollars, would decline from \$18 billion today to \$14 billion in 1999.

**Figure 2.**  
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.

## Caveats and Arguments Against Shifting Priorities

For every lesson about what aid can or should be able to do, one can cite others about its limits and its potential failings. There are also arguments against shifting resources from defense to foreign aid.

### Overseas Economic Growth May Not Always Serve U.S. Interests

Some individuals question the basic premise of aid: that global development is advantageous to the United States. They argue that strong, rich countries have little incentive to help others close the economic (and thus, potentially, the military) gap separating them. Or they may question the economic benefits that accrue to the United States when other countries develop (Appendix B discusses some of the problems with this line of argument).

12. Paul Lewis, "Negotiators in Rio Agree to Increase Aid to the Third World," *The New York Times*, June 14, 1992, p. A1.

Others are skeptical of the basic presumption often used to argue for increases in development assistance--that economic growth tends to prevent war. The numerous historical counterexamples include much of the history of imperial competition involving the European powers, the United States, and Japan over the last 500 years.<sup>13</sup> Often, when economic and military growth changed prevailing balances of power between countries, the beneficiaries of those changes felt emboldened to initiate hostilities.<sup>14</sup> It is probably impossible for the United States to prevent such shifts in wealth and power. But should U.S. policy contribute to them?<sup>15</sup>

Moreover, as much as most economists feel that international trade has a good record of promoting global growth--including growth in the U.S. economy--further improvements in foreign economies may adversely affect some individuals in the United States. Even if consumers generally would benefit from more expansion in trade, and even if many individuals would gain new jobs in export-oriented industries, other people would lose out.

## Aid Does Not Always Work

In some cases, giving foreign aid may even be worse than doing nothing. It can undermine indigenous development by creating dependency. It can prop up corrupt or tyrannical regimes; it also can allow leaders to postpone needed economic reforms that would provide a sounder basis for true development.<sup>16</sup> Aid can go to ill-chosen projects in countries--possibly exacerbating regional, class, or ethnic

jealousies, or strengthening the hand of authoritarian regimes--and thus sometimes contribute to anti-U.S. sentiment. By giving only a glimpse of a better life, without providing full access, it can engender resentment and radicalism. Regrettably, evidence suggests that U.S. aid programs in places such as Iran, Somalia, Liberia, the Sudan, and Zaire have had exactly these effects.<sup>17</sup>

With myriad conflicting goals and different players trying to influence the policies of aid recipients, the aid-giving process can be confusing and distracting. Sometimes, if efforts are made to use aid both for developing other countries and for promoting U.S. exports, neither goal winds up being served very well.

Even where aid for development does little harm, it may also do little good. It may flow to countries with only a limited ability to absorb outside money and undertake technical projects efficiently. It can be siphoned off by corruption or simply be wasted on poorly conceived development schemes.

Moreover, the jury remains out on certain kinds of security-related aid. U.N. peacekeeping operations deserve credit for the difficult job of dampening conflict in a number of instances, but it is not yet clear that larger-scale operations will succeed in helping to end conflict. Nor is it yet clear that many of the aid initiatives directed to the former Soviet republics are correctly targeted and sufficiently timely.

## Policies Other Than Foreign Aid Are Often More Important

More often than arguing against aid outright, critics of it might question the extent to which aid can help solve other countries' problems.

Economists generally agree that, before aid can be effective, developing countries need to have

13. For a good overview, see Paul Kennedy, *The Rise and Fall of the Great Powers* (New York: Random House, 1987).

14. Geoffrey Blainey, *The Causes of War* (New York: The Free Press, 1973), pp. 246-248.

15. Richard K. Betts, "Wealth, Power, and Instability: East Asia and the United States after the Cold War," *International Security* (Winter 1993/94), pp. 37-41, 55; Aaron L. Friedberg, "Ripe for Rivalry: Prospects for Peace in a Multipolar Asia," *International Security* (Winter 1993/94), p. 16.

16. For a recent example involving Central America, see Douglas Farah, "Look at Us Now--We Are Worse Off than Ever," *The Washington Post*, June 1, 1993, p. A1; Peter Maass, "Congressmen Charge Aid Effort Goes Awry," *The Washington Post*, July 29, 1993, p. A15.

17. Carol J. Lancaster, *United States and Africa: Into the Twenty-First Century* (Washington, D.C.: Overseas Development Council, 1993), pp. 25-26.

sound economic policies. They must avoid spending beyond their means in government payrolls and nonproductive construction projects and subsidies for consumers. They must invest in the infrastructure and human capital needed to promote growth in agricultural and entrepreneurial sectors, avoid discouraging these sectors with artificially low consumer prices, and try to engage actively in the global economy through trade and investment.<sup>18</sup> Countries that the World Bank judges as having appropriate policies have on average grown a full 2.5 percent a year faster than those countries without them--yielding quite impressive improvements in GDP and living standards over a period of several years.<sup>19</sup> Such economic growth in turn creates larger markets for U.S. exports than are found in less wealthy societies. And it ultimately makes aid unnecessary.

Critics may rightly argue that the broad economic policies of the major Western countries--trade policies, budget deficits, growth rates, and the like--generally exert greater influence on the economies of the developing countries than does aid. Foreign aid does represent more than half of the net foreign capital flows to developing countries.<sup>20</sup> But the total global development budget of about \$55 billion a year (as of 1991) is less than one-tenth of the combined export earnings of the developing countries, and only about one one-hundredth of their combined GDPs. Thus, in the grand scheme of things, aid--even if significantly increased--cannot rival the importance of the international economic system or the proper workings of developing countries' own economies. Even the relatively large increases in foreign assistance discussed in this study would not change the basic reality that aid, though important for poor countries, cannot be a leading source of revenue for most developing states.

This line of reasoning suggests that what the United States already does--deter major war, promote an open international economic system, work through the United Nations to address other matters of global concern, and give significant if not particularly large amounts of foreign assistance--is sufficient, especially if sustained and built upon. With time, it can lead to significant results, as many past successes in East Asia, Western Europe, and elsewhere attest. And if trade liberalization continues, the developing countries collectively might gain even more export revenues than they would receive in increased aid.<sup>21</sup>

Even if this somewhat hands-off approach to foreign policy is not perfect, one could argue, efforts to tinker unduly with it could cause more harm than good. In fact, new initiatives in foreign aid could be dangerous if they had the political effect of reducing incentives to improve trade policy. Developing countries might gain more from reform of trade policies in agricultural goods and textiles--which protect some farmers and workers in the industrialized countries at the general expense of their consumers and of farmers and laborers in developing countries who otherwise would stand to gain more of these global markets.<sup>22</sup>

## Shifts in Priorities Could Weaken U.S. Defenses

If financed by cuts in defense, large increases in aid could weaken U.S. military forces. The deep cutbacks that have already occurred in the defense budget and those planned for the next several years raise questions about whether the United States can countenance further reductions at this time. There are concerns about keeping a high-quality and well-trained military force during a period of rapidly declining defense budgets, maintaining a strong industrial sector for defense, and not giving the

18. Congressional Budget Office, *Agricultural Progress in the Third World and Its Effect on U.S. Farm Exports* (May 1989), pp. xxi, 55.

19. World Bank, *World Development Report 1992: Development and the Environment* (New York: Oxford University Press, 1992), p. 174.

20. Alexander R. Love, Chairman, Development Assistance Committee, *Development Cooperation: 1992 Report* (Paris: Organization for Economic Cooperation and Development, 1992), p. 25.

21. *Ibid.*, p. 45.

22. See, for example, "Fat of the Land," *The Economist*, May 29, 1993, p. 16; World Bank, *World Development Report 1990*, p. 121; John Porofret, "Poland's Ex-Communists Say West Aided Win," *The Washington Post*, September 26, 1993, p. A44.

appearance of weakness or isolationism to potential aggressors.

Any further defense cuts, and any reductions in existing assistance programs that might help to pay for new programs, should thus be carefully scrutinized to ensure they do not harm U.S. and world interests. Although the defense cuts necessary to make substantial increases in foreign assistance programs would be modest in percentage terms--no more than 6 percent of planned defense spending were all the ideas in this study for increasing aid put in place--they would come on top of a decade's worth of substantial reductions in defense spending.

Even the developing countries themselves might see drawbacks to a United States that cut military spending too quickly or too far. Important benefits accrue to all states when international peace and commerce are maintained. Because trade and overseas investment are so important for growth in the developing countries, the United States is arguably contributing to their well-being by maintaining a capable military establishment--at least to the extent that it uses its military power to ensure the general stability of the international system.<sup>23</sup>

In a more practical sense, further cuts in defense spending--even if rather modest--could make it difficult for the United States to retain its current military doctrine. That doctrine calls for global engagement and military presence, nuclear deterrence, and the capability to wage two large regional wars comparable to Operation Desert Storm nearly simultaneously.<sup>24</sup> The logic of this doctrine is that, without a two-war capability, an aggressor might attack a U.S. ally precisely when U.S. troops were engaged somewhere else--unless it knew that the United States could handle a second war at the same time if necessary. One can obviously argue that a margin of insurance is a wise investment, even though some analysts doubt the need to prepare for two such nearly simultaneous wars at a time when most

potential foes of the United States are weaker than Iraq was in 1990 and when the United States does not appear disposed to use its forces unilaterally in most parts of the world.

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## Limitations on the Scope of This Study

Although it has a rather broad scope, this study also has important limitations. To begin with its focus on the budget, this study excludes a number of other instruments of foreign policy that are arguably at least as important as foreign aid. Trade, the overall federal budget, and general economic policy are key, as they shape many of the economic opportunities available to developing countries. General research and development on health, agriculture, energy, and other fields have great implications for developing countries even if the United States undertakes them primarily for its own purposes. Also very important are the nonbudgetary elements of defense policy, such as alliances and military operations. The way in which the Western world prevailed in the Cold War underscores the importance of all of these tools of policy; economic and military aid were but two of many elements in its success.

Unlike many pundits and policymakers today, this study uses a fairly restrictive definition of national security. It is centered on the traditional principle of preserving the sovereignty and territorial integrity of the United States against foreign attack; it also encompasses the security of U.S. citizens, deployed military forces, and other interests that are located abroad. Notably, though the text does deal with the environmental matters of soil and forest conservation--undoubtedly critical to basic human survival and thus to population growth and long-term sustainable development--it does not treat other global environmental problems. Many of these problems arguably have less to do with long-term sustainable economic growth than with short-term quality of life in the developing countries or with still poorly understood environmental concerns such as global warming. Thus, they do not seem to be part of a core set of initiatives aimed at enhanc-

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23. See, for example, Robert Gilpin, *The Political Economy of International Relations* (Princeton, N.J.: Princeton University Press, 1987), pp. 72-80, 85-92.

24. Les Aspin, "The Bottom-Up Review: Forces for a New Era" (Department of Defense, 1993).

ing U.S. security. (Several of them are, however, discussed in Appendix D.)

This study does not represent a specific multilateral program that could be carried out in a step-by-step manner. Generally, the activities in Chapters 2, 3, and 4--aid to the former Soviet republics, U.N. peacekeeping, arms control, peace funds, and so forth--might receive a good deal of money in the short term and less later in the 10-year period. By contrast, most development activities of the type discussed in Chapter 5 (and Appendix D) would need to be phased in over time. What is not offered in these pages is more specificity about timing--or about which potential recipients actually would merit any new funds that might be made available to them. However, it is assumed that any increases in U.S. aid would be one piece of a global effort in which donor countries collectively would provide one-third of the funding for new aid projects and recipient governments would provide two-thirds. The possible increases in U.S. aid are assumed to constitute 25 percent of external funds (consistent with its share of global GDP), with other donors providing the remaining 75 percent. The increases in spending could be made through either multilateral or bilateral channels, or both, provided that they were furnished in the above proportions.

Any increases in certain types of planned U.S. foreign aid would be funded by cuts in other types of foreign aid or by further cuts in the defense budget. In other words, overall funding for foreign policy--consisting of the budgetary account for national defense functions of the Departments of Defense and Energy (function 050), as well as the account for international affairs (150)--would be

held constant. The main point of reference is the planned 1999 funding level for this aggregate budget. At that time, the Administration's planned cuts in defense spending will be completed, and budget authority for foreign policy will be \$248 billion (as measured in 1994 dollars). Foreign policy spending will represent 3.2 percent of projected GDP, or under half of the Cold War average.

Increases in foreign assistance clearly could be funded in other ways than those considered here--for example, through cuts in domestic spending, deficit financing, or increases in taxes. But given the current budgetary and political climate, none of those is likely. For that reason, and because this study's goal is to examine defense and foreign assistance within a common framework, it is assumed here that any increases in foreign aid would be funded by cuts in other foreign aid programs and in defense. This framework sets up a potential conflict between foreign policy priorities that requires careful attention and scrutiny: the importance of maintaining a strong and capable defense on the one hand, and the importance of dealing with the basic human and economic conditions that so influence the politics of many developing countries on the other. However, the notion of a foreign policy budget does not necessarily imply a new Congressional authorization and appropriation process or cooperative budgeting by the Departments of Defense and State.

Ultimately, a decision about whether or not to increase the emphasis placed on foreign aid should depend on the desirability of specific changes. It is to those specifics that this study now turns.

