

A FRAGILE BALANCE

Re-examining the History of Foreign Aid,
Security, and Diplomacy

Louis A. Picard
and
Terry F. Buss

POINT FOUR, USAID, AND THE COLD WAR

Americans not only don't know much about the rest of the world, we don't care.

Mark Hertsgaard, *The Eagle's Shadow*

In retrospect, however, foreign aid reached its peak in 1960s.

Larry Chang, "Foreign Aid and the Fate of Least Developed Countries"

We aid other countries with whom our relationships may be more nearly correct than cordial, because we believe that it is in our interests to maintain friendly contacts with their governments and their people and to keep them from going behind the Iron Curtain.

Arthur Z. Gardiner, 1960 speech at the Saigon Rotary Club

Origins in the Cold War

Foreign Assistance to Lesser Developed Countries

Foreign aid to developing countries after 1945, as we have seen, did not develop in a vacuum. There was a 200-year legacy of state and nonstate action preceding it. Two themes have emerged as we examine the first decade of institutionalized foreign aid. First, there was a long history of financial transfer and exchange that defined diplomacy. Second, between 1500 and 1950, increasingly global colonial empires defined a system of international governance, including aid that affected international assistance for the past sixty years.

International assistance following World War II was intended to be humanitarian and temporary—supposedly completed in two to three years. Early foreign aid fell to postwar Europe and her colonies, China, Japan, and the Philippines, and a few others, members of the informal

client-state system. US assistance was to finance the transition to peace throughout the world.¹ The international aid system gradually changed with the decision to expand foreign assistance worldwide after 1948, though its initial developers continued to view assistance as temporary.

After 1945, the United States developed "rules of the game" for its foreign aid.² Operations and commodity procurement rested on those rules developed in wartime and through Interim Aid Group operations in State and the Office of International Trade in Commerce. Much of the contracting mirrored military models, originating from World War II. Likewise, the grants process, which provided money for NGOs working internationally, had its roots in the early 1900s.

The Truman administration created the Economic Cooperation Administration (ECA) on April 3, 1948, to administer foreign aid under the Marshall Plan. The Plan relieved deficits in war-torn countries of Europe and Asia. Two aspects of foreign aid policy had their origins in the ECA: there would be strict scrutiny of all individual transactions and foreign aid regulations would require agencies to "buy American." ECA originally was to end in 1952.

International assistance would be humanitarian, providing at least minimum amounts of consumers' goods and raw materials, so that countries could reactivate agricultural and industrial production and restore communications systems. Secretary of State Dean Acheson promoted linkages between foreign aid and foreign trade.

After 1948, there were many components to foreign aid and technical assistance that were perhaps more naïve than growth-oriented approaches to foreign aid,³ including the debates for and against the thought that development occurred through self-help, private enterprise, and individual initiative. Some development theorists focused on state-led development; however, to many development theorists, it was the absence of individual initiative that caused underdevelopment. Humanitarian aid needed to incorporate developmental principles for it to be successful. Wise guidance to indigenous peoples on the part of the change agent was built into this principle.

Prior to 1950, large-scale economic aid was only available to a few non-European countries, excluding China and the Philippines, in the form of loans provided by the Export-Import Bank, established in 1934, and from the International Bank for Reconstruction and Development (aka the World Bank) created in 1946.⁴ By 1950, however, Allied policymakers began to hear clamors for foreign aid from the "underdeveloped nations of the earth who were already blaming their poor circumstances on the exploitation by the colonial powers and the industrialized countries."⁵

Assistance to the Philippines began again in 1946 in support of its independence. Other countries receiving foreign aid just after World War II included Morocco, Libya, Ethiopia, Tunisia, and Somaliland. In South

America, Colombia and Venezuela were early recipients. Taiwan, Korea, Thailand, and Indochina in Asia received support. US attitudes in the late 1940s and early 1950s "expressed a sense of omnipotent capacity with which the United States emerged from World War II."⁶ As foreign aid policy developed, "what U.S. officials did in the reconstruction of Europe [and after] continued to follow the American's impulse to address other people's problems by concentrating on one-shot solutions, usually by applying their own experience to them."⁷ It was an optimistic beginning.

Ethiopia as an Example

The early years of foreign aid continued patterns established in the inter-war period. In Ethiopia, for example, prior to World War II the United States had assigned a financial adviser, Everett A. Colson, who served from 1931–1935 and later assisted Emperor Haile Selassie in his unsuccessful appeal to the League of Nations after the Italian invasion of Ethiopia. The United States and Britain assisted Haile Selassie financially as he returned to power as part of the Anglo-Ethiopian agreement on December 19, 1944. There was a modest US assistance program to support the Ethiopian military during World War II.

By 1946, financial assistance and aid-related tax reforms allowed Ethiopia to double the size of its budget and professionalize its public administration. Ethiopia hired American and European teachers with the freed-up funding. In addition, in 1946, there was a Mennonite missionary group working in Ethiopia.

By 1948, foreign aid to Ethiopia still remained modest; however, despite good relationships between the United States and the monarchy, democratization faltered, even as the United States and Britain supported the incorporation of the former Italian Eritrea into Ethiopia. By the mid-1950s, though, the kingdom was a staunch ally in the fight against communism.

Assistance in health, education, and public administration continued until a Marxist-Leninist military junta, the "Derg" led by Mengistu Haile Mariam, overthrew the monarchy in 1974. After that, the United States isolated Ethiopia until a revolt brought Meles Zenawi and the Ethiopian People's Revolutionary Party (EPRP) to power. Meles, supported by US foreign and military assistance, became an American ally in the Horn of Africa, and in 2007, acted as a surrogate for the United States in occupying Somalia.

The Cold War and Point Four

Modern foreign aid policy began after World War II with an eye to contain communism and ultimately "win" the Cold War. In 1950 this was a realistic

strategy for a real concern, even if it sometimes distorted aid's technical goals. Foreign aid policies, until 1989, kept military assistance and aid to less developed countries (LDCs) within the context of Cold War competition and sometimes subordinated economic assistance to US security needs.

The Point Four Program originated under President Truman as the fourth point in his January 20, 1949, inaugural address. Truman "called for a 'bold new program' for making the benefits of American science and industrial progress available to 'underdeveloped' countries."⁸ Early assessments of Truman's Point Four speech made clear that "United States foreign aid has been a powerful instrument for strengthening orderly social processes in an era during which the exploitation of poverty, of bleak economic horizons, and of frustration of even modest national aspirations threatens both our own national security and the peace of the world."⁹

In 1953, in addition to Japan, the United States aided Taiwan, South Korea, Thailand, Indonesia, the Philippines, Indochina, and Burma. Direct assistance continued to Germany, Austria, and Japan until the mid-1950s. US-administered territories, including trust territories in the Caribbean and the Pacific, also received assistance.

Origins of Asian foreign aid lay in aborted Chinese and Korean rehabilitation programs. China had fallen to the communists in 1949. Of \$230 million available by 1950, only \$139.5 million was expended in Korea and Taiwan, and only \$81 million when the mission to Korea ceased to function following the outbreak of the Korean War. The remaining \$44 million funded new assistance programs in Burma, Indonesia, Thailand, and, of course, Laos, Cambodia and Vietnam. The United States would renew aid to South Korea and Taiwan after the Korean War.

In Formosa and the three Associated States of Indochina, Thailand, and the Philippines, ECA funding accompanied military assistance administered by Military Assistance Advisory Groups. To "operate the program in the field, ECA organized country staffs known as Special Technical and Economic Missions (STEMS). More than twice this amount (\$535 million) was concurrently allocated for military assistance to the general area of China (including the Philippines and the Republic of Korea)."¹⁰

Concerned about the menacing spread of communist influence, the State Department, in the early spring of 1950, sent a survey mission to Southeast Asia to examine the potential for a US program of economic and technical aid. Unlike Western Europe after the war, Southeast Asia did not need support for imports, its capacity to absorb capital being limited. Rather, its needs lay in technical and managerial resources that would focus on reconstruction, rehabilitation, and development. This would be combined with military assistance for the French-controlled Vietnamese (Indochina) army.

Technical assistance, in its contemporary form, began with Point Four in 1950. As Paul Mosley points out, "It is in the early 1950s that one sees the beginning of aid in its present-day sense, as a transaction between sovereign states, with the beginning of the U.S. development program in Southeast Asia."¹¹ During the next twenty years, this program defined foreign policy and foreign aid in the postwar world and provided some success in Asia. In its first decade, foreign aid became a broad construct.

Aid-sponsored reform efforts inhibited new communist revolutions in Asia, Africa, and Latin America. The theory was that it would afford friendly leaders an opportunity to maintain their authority and legitimacy by delivering better services to their own citizens.¹² The intended outcome was greater political stability in Third World countries.

Not all developing country political leaders were happy with this. The United States considered left-wing movements to be threatening to ruling elites, and in some recipient countries substantial resistance to donor demands and conditions arose. There was also increasing resentment in recipient countries about the administrative mechanics of foreign aid that LDC policymakers felt were very cumbersome.

From the beginning, the major powers distributed aid to achieve short-term security and diplomatic objectives. A statistical analysis of aid disbursement by the United States, Britain, France, and Germany clearly demonstrated that the only significant pattern of distribution was the US foreign policy interests.¹³ There were those who opposed aid as an instrument of foreign or military policy; however, foreign aid was "meant to influence the international behavior of the recipient."¹⁴ Foreign crises almost always produced either a demand for foreign aid, or for critics of policy, a demand for the end of aid activities.

Point Four borrowed from prewar precepts of international assistance espoused by missionaries, private agencies, and State offices that administered aid prior to 1948.¹⁵ The big difference after Point Four was the United States, and eventually most developed nations, would create huge aid bureaucracies to implement programs.¹⁶ In 1950, in recognition of the need for specialized expertise in non-Western countries, the Truman administration established the Technical Cooperation Administration (TCA) to fund technical assistance.

Point Four emanated from the Marshall Plan experience. Policymakers linked assistance to ECA, but Point Four legislation created TCA to administer aid outside of Europe, European colonies, and former enemies of the United States. There was to be no duplication between the two programs.

Overall, the foreign aid industry was well developed by 1950. A bibliography of international administration published shortly thereafter noted

that there were 215 organizations involved in international development work in 1950.¹⁷ By 1951, foreign aid grants totaled \$34 billion. Foreign aid employed 630 Americans and more than 800 Europeans in development and administration.¹⁸ Supporters of Point Four suggested that missing from many developing countries were professional skills and that technical assistance should be the new program's focus. Only American know-how would fill the skills gap.¹⁹

Point Four shifted assistance from postwar Europe to the developing world. Foreign policy focused on the principles of modernization of the countryside which were, "an important part of so-called nation-building throughout the post-war period."²⁰ It also committed the United States to a policy of "enlightened self-interest" and moved the foreign aid system toward a more permanent and coordinated set of institutions. As Walter Sharp asks:

What are the underlying assumptions of Point Four? First, that the United States should assume leadership in a cooperative effort to raise the living standards of more than a billion of the earth's peoples who are now the victims of undernourishment, disease, and ignorance. Second, through such an effort the economies of both advanced and underdeveloped countries can eventually be strengthened. Third, that technical assistance and capital investment can be combined in a program which will help the underdeveloped areas to attain a balanced economic development while avoiding the evils of exploitation and social disruption. Fourth, that the peoples of such areas can thereby be rallied to the cause of democratic freedom and against Soviet communism.²¹

Congress approved final legislation for Point Four on June 5, 1950. Initially, Point Four was intended to provide only technical assistance. Developing countries were to seek development financing from capital markets and the World Bank. Only a limited amount of nongovernment capital was available for Indochina and a number of dependent overseas territories. This proved unworkable, so development funding became a part of the TCA mandate.

The Cold War prolonged the tenure of ECA, and it merged with TCA and security assistance agencies to form the Mutual Security Administration (MSA) in 1951. The International Development Act of 1950 portended the centralization of military, economic, and technical assistance programs, entrusted to the MSA director under the Executive Office of the President. This reform reflected lack of confidence on the part of Congress in the ability

of State to manage programs. MSA was initially designated the Foreign Operations Administration (FOA) under President Dwight D. Eisenhower.

By 1953, foreign aid policy stressed both political and military considerations and minimized purely economic and humanitarian motivations of aid. As a result of the Cold War, and, particularly, intervention in Korea, foreign aid increased significantly under Eisenhower. In July 1955, FOA became the International Cooperation Administration (ICA). In September 1961, the Foreign Assistance Act of 1961 created the US Agency for International Development (USAID).²²

* Assessing the First Decade

By the early 1950s, in addition to the Cold War, world leaders inherited the twin legacies of colonialism and imperialism that had defined technical assistance for more than a century. Entry of the United States into institutionalized foreign aid coincided with the disintegration of the old European empires and proliferation of newly independent Asian and African countries. A new alliance system, the North Atlantic Treaty Organization (NATO), appeared to challenge the Soviet Union.²³

From the early postwar period, the assumption continued to be that technical assistance was temporary. As a result, aid underwent almost continuous reorganization. Agencies dispersed loans separately from grants and technical assistance, each of which also had different organizational structures. Special international jurisdictions were defined for the departments of Agriculture, Labor, Commerce, and Health, Education and Welfare.²⁴

Throughout the Cold War, foreign aid, though low in terms of per capita assistance, remained large in absolute terms and often set the policy agenda among multilateral and bilateral organizations outside of the United States. The end of the Cold War in 1989 had an impact on the nature of the international system and foreign aid. As Madeleine Albright asserts:

In colonial times, conflicts in Africa [and elsewhere] were settled through negotiations among the European powers. During the Cold War, outcomes were influenced by military assistance and proxy troops provided by one bloc or another. In the new era, there were no similarly potent external forces seeking to maintain order.²⁵

Critics warned of impossible promises made in the Point Four speech; some called it both foolish in the modesty of the amounts promised and a "hoax" played on the poor nations of the world.²⁶ As the United States approached Point Four's implementation, Curti and Birr warned

policymakers to learn from the past: "[If] American experience in the past is neglected or overlooked and the mistakes of previous missions are repeated, Point Four may turn out to be merely one more grand scheme that failed."²⁷

By the late 1950s, foreign aid served as an extension of the ideological division between the East and the West. To its critics, "Western donors . . . [used] conditions attached to their aid as a means of forcing non-aligned developing countries with mixed economies away from socialism and public ownership and towards free market capitalism."²⁸ Criticism, at its most extreme, explained foreign aid as expanding the international capitalist system. Those of a more realist bent, saw international security as the primary motive.

Critics of foreign aid began to look back in history for lessons. There was the prewar experience with Latin America in the 1930s. Foreign assistance in Latin America was a disappointment. Among Latin Americans, by midcentury there were both disagreeable memories, as well as perceptions of continued US interference and political pressure in the hemisphere's internal affairs. Both were often cited as reasons for aid failures.²⁹ Everett and Helen Hughes, were blunt: "The exportation of technical skills and capital to unindustrialized areas is not a new thing under the sun. In the past its characteristic form has been the exploitation of colonial territories by imperialist powers."³⁰

Despite these warnings, an optimism existed that defined foreign aid. "In an atmosphere of freedom and goodwill," Curti and Birr argued, "Americans can, through Point Four and its successive programs, be of great help in bringing some of the blessings of liberty and well-being to needy peoples of the world."³¹

In the early 1950s, ECA expanded its operations to Asia by combining commodity grants with specific technical assistance projects. These were, given the nature of the developing Cold War, not targeted just at economic development but also at production of strategic materials needed for security. With the United States' vastly superior bargaining power, it would be able to induce LDCs to accept economic aid on conditions designed to promote its foreign policy objectives, including increased production of strategic raw materials, favorable trade conditions, and an open investment climate. Needless to say, elites in LCDs resented this.

The early foreign assistance period was seen as a success. Despite criticisms, especially those linked to Latin American sensitivities, a broad consensus developed around foreign aid goals. Intellectually, as Barbara Ward noted in her classic lectures in the 1960s, foreign aid after Point Four "assumed progress." From this assumption came another: that developed country experts had unlimited ability to cope

with LDC problems. By the end of the 1960s, however, the assumption of progress was no longer a given.

The early postwar world, as Stephen Browne points out, was thoroughly Keynesian. The goal under Point Four and subsequent aid programs was promotion of state-led economic growth and creation of a skilled labor force. As the Cold War evolved, however, foreign aid went from being a tool, though benign, of anti-communism, to include, as one Washington insider put it, a "social evangelism forming around the idea of American-financed economic development in the Third World. . . . Gradually, it dawned on wiser heads that our military assistance provided far less influence and leverage . . . than did our economic aid."³²

Foreign aid policy became a part of the Cold War struggle. At the time, nearly all democratic theorists expected social reforms to preempt social revolution. Foreign aid became a weapon rather than a resource. As in World War II, the United States requested bases and staging areas in return for assistance.

During its early years, foreign aid had a state-centric focus among donors and aid recipients. The goal of international aid was to assist LDCs in what was called the "breakthrough," or takeoff stage, to higher levels of wealth creation.³³ In countries targeted for breakthrough, foreign aid and technical assistance would fill the gap. Concern overall was for capacity building, especially development administration. The private sector, however, was available to do some development work but often not incorporated in the development planning process.

During the first decade of the modern foreign aid era, technical assistance was very hands-on and "the administrators of the Technical Cooperation Administration programs [expected] most of their field employees to work with foreign people in villages and rural areas."³⁴ Modernization of rural sectors was important because "the spread of technology to economically backward regions of the globe [was] a by-product, if not a direct aim, of the overseas activities of religious, philanthropic, business and governmental organizations for a long time."³⁵

Foreign aid institutions were still viewed as temporary by many political leaders, and they continued to function on a year-by-year basis. Even after the creation of USAID in 1961, policymakers considered foreign assistance as temporary. Because of uncertainties about the future, the foreign aid maxim within aid agencies such as USAID was to move money quickly.

The Eisenhower Legacy and Continued Criticism of Foreign Aid

By the end of the Eisenhower administration, foreign aid incorporated a series of contemporary (and security-focused) norms. Security assistance

was on the ascendancy under MSA and its successor organizations. South-east Asia was already of concern.

Eisenhower put his stamp on foreign aid when he established the ICA in July 1955. Aid under USAID became institutionalized. For the next forty years, there would be few structural changes.

By 1958, critics again noticed the self-serving nature of bilateral foreign aid. Indeed, in that year, almost 76 percent of all expenditures of ICA were spent in the United States. There was little evidence, according to State, that assistance programs directly built up economic enterprises or supported US economic activity, though it did often promote US marketing, expand trade opportunities, and protect US economic interests.³⁶ Leaders in the developing world shared this perception.

Debate about the utility of international assistance had become serious. As early as 1963, Edward Banfield warned against the fog of moralizing about aid³⁷; however, doing nothing was not an option. As Mary Anderson would later put it "[I]t is a moral and logical fallacy to conclude that because aid can do harm, a decision *not* to give aid would do no harm. . . . By failing to support people engaged in a battle for justice, we support the status quo of injustice."³⁸

As it evolved, foreign aid was much more complex than postwar aid to Europe. Donors, led by the United States, embarked on a vast program of international social engineering. In style, and sometimes in substance, the missionary model persisted into and beyond the Cold War period. Truman called US foreign aid workers, "technical missionaries," and according to James Thompson, "technocracy's own Maoists . . . have given new life to the missionary impulse" of US foreign policy.³⁹ There were similarities in background and worldviews of missionaries and colonial officers and the first generation of Peace Corps volunteers in the early 1960s.

It was in the late 1950s that a Republican-backed "Retrenchment in Aid" campaign began to criticize it as romantic and at a time when the economy was in recession claimed that, "American taxpayers [were] being fleeced to placate ungrateful nations."⁴⁰ The answer for advocates was to recognize the role economic assistance played as a tool of national security policy and to support commercial policies but also to argue it could and should be done more effectively and efficiently to promote development and support the national interest. By the end of the Eisenhower administration, foreign aid also suffered from lack of a domestic constituency. There was only a vague belief among some academics and practitioners that foreign aid was a quick fix to stimulate rapid and predictable economic growth.

There were two false assumptions predominating among advocates of foreign aid in retrospect. First, foreign aid is likely to lead to economic

growth. Prior to 1960, observers identified the self-sustaining growth of economic institutions as a goal. Second, economic growth can and often will lead to politically developed and stable democratic societies. Both of these assumptions proved to be increasingly problematic.

Aid policy after 1960 was often characterized by fragmentary and contradictory goals. It was possible to distinguish between elite projects that allowed only an indirect impact on development and grassroots activities that would directly affect disadvantaged peoples. The latter were more difficult to implement successfully and difficult to support financially.

During the first decade of the foreign assistance era, development planners accepted macroeconomic planning theories as the basis for action. Conservative critics suggested that this brought command economics to development thinking. The assumption was a rationale for economic stability and growth, the twin goals of foreign aid, could be identified.

Economic growth assumed that countries ready for economic take off could be decisively influenced by massive amounts of foreign aid. Techniques included macroeconomic interventions. These new strategies assumed that economists could measure a country's needs by calculating capital investment opportunities and gaps in foreign exchange.

These macroeconomic assumptions replaced the technical assistance and bottom-up style of aid characterized under Truman and to some extent under Eisenhower; however, as John Franklin Campbell points out, "To preach a doctrine of minimum conflict and constant political stability on the one hand and fast economic growth and social change on the other is to insist on the most jumbled self-contraction."⁴¹ This was so when resources were spread thinly around the world.

Following from this, and crucial to development, was the need within societies to reduce social tensions, mediate conflicts, and where possible, foster understanding between and among groups. Conflict resolution was at the center of discussions about political development and later governance. These have been constants for USAID policy since the 1960s.

There has long been support for private sector development within foreign aid circles; however, no strategy developed to stimulate growth for private sector in LDCs. Throughout the 1950s and into the 1960s, it was the philosophy of science that seemed to point the way for foreign aid. What was needed were technical people, engineers, and architects, not interested in politics but who could provide technical solutions to a country's development problems. For many practitioners, foreign aid was to be apolitical.

As foreign aid programs expanded, skepticism about implementation strategies grew, especially among program managers and planners in

LDCs as well as, for different reasons, conservatives in the business community in the United States and among international professionals. As a UN official put it, "No one [working in foreign aid programs] is seeing the forest from the trees in either UN or AID. Technicians are being sent over to do particular jobs, but these jobs do not have any relation to a meaningful whole."⁴²

Institutionalizing Foreign Aid

The Situation in 1960-1961

ICA, created in 1955, became USAID in 1961. That name stuck. Earlier organizations were temporary and functionally specific. ICA/USAID operated on the assumption that the national interest required a longer-term international development program with greater operational flexibility.⁴³ Despite the creation of ICA, however, a negative image of foreign aid developed among political conservatives.

By 1960, aid programs included: military assistance, defense support, development and technical assistance, and the provision of mutual security funding. Foreign assistance also included the Public Law 480 (food security), the presidential contingency fund, nonmutual security foreign aid programs, and Export-Import Bank loans.⁴⁴ There were three components to PL 480: Title One, where US-produced, inexpensive (submarket-priced) food is sold on the private sector in LDCs; Title Two, emergency free food; and Title Three, food for development provisions, where food was delivered as part of development projects.

Of the whole, approximately 50 percent of US aid went for military assistance, 33 percent for defense support, 7 percent for development assistance and 14 percent for the rest, including administration. Coordination of foreign aid was at issue for policymakers from the beginning. There were several overlapping programs of varying geographical and substantive scope that reflected a mixture of emergency, midterm, and long-range objectives implemented by, at best, a loosely arrayed set of administrative arrangements. Some of the arrangements were of a "rather makeshift character."⁴⁵

By 1960 foreign aid faced difficulties. From the beginning, there was little appreciation of what a foreign aid program was supposed to do in the minds of recipient country officials.⁴⁶ Not surprisingly, aid met up with the vagaries of political obstacles and "[d]ivergent views emerged as to where and how the line should be drawn between the exchange of technical knowledge and skills and the provision of capital investment (a kind of chicken and egg problem). Which should come first? Or should they go hand in hand?"⁴⁷ One of the factors slowing the foreign aid process

related to congressional delays in appropriating funds. Walter Sharp comments:

The difficulties, added to the regrettable delay with which Congress appropriated initial funds for Point Four operations, led to disillusionment over what were regarded as "unfulfilled" American promises. The sense of disappointment was heightened by the decided modest amount of money made available for the first phase of the program.⁴⁸

During this period before mass communications, "the knotty problems of any headquarters-field relationships [were] multiplied by distance and compounded by cross-cultural misunderstandings."⁴⁹ A report submitted by the International Development Advisory Board under the chairmanship of Nelson Rockefeller, supported a similar thesis: "A unified agency with a new point of view is needed. A mere on-paper shift of existing agencies and functions will not suffice. Nor will it do simply to transfer additional functions to ECA."⁵⁰

The decade between 1951 and 1961 became the high watermark of idealism for aid in what it would achieve in international development. In 1961 President Kennedy stated that the United States would give aid to the Third World, (the term normally used to describe the developing world at this time) "not to contain the spread of communism, not because other nations are doing it, but because it is right."⁵¹ Kennedy's Alliance for Progress for Latin America appeared to represent a new dynamic in foreign aid.⁵² Foreign policy claimed a moral component, resting on

action rather than in the profession of remote, if high minded goals. . . . But the influence of the [policymaker] interventionist's naïve historicism is so large today that we see are increasingly ruthless with the obstacles we see as standing in the way of our irreproachable but distant goals."⁵³

The Creation of USAID

The Foreign Assistance Act of 1961 created USAID. The agency is still in existence in 2009, forty-seven years later, perhaps a minor miracle. USAID, a "temporary agency," has managed the bulk of development assistance, with primary focus on support for health, education and training, transportation and agriculture, and economic development. Legislation called for the use of domestic federal agencies to support these activities.

After the creation of USAID, foreign aid took three forms:

- direct dollar aid to supply foreign exchange for the purchase of imports
- funds for economic and social development in the form of either loans and grants
- technical assistance provided by skilled professionals in residence for varying periods of time

Missions negotiated bilateral agreements with host countries either delivering support directly or increasingly through contractors and grantholders. USAID initially preferred large infrastructure projects. These allowed funding to be quickly expended, and results could be seen by the public.

USAID emphasized encouraging popular participation in democratic public, private, and local institutions that promoted economic and social development. USAID's goal was to support friendly foreign countries by promoting the development of their productive capacity and free market economic institutions and by eliminating or minimizing barriers to the flow of private investment capital.

USAID's creation reflected an upgrading of foreign aid, placing it in the hands of what the late David Halberstam ruefully called the "Best and the Brightest" of the foreign policy establishment.⁵⁴ By 1962 a basic mode of operation evolved that would change little through the present. Within the structures of USAID, the system operated on a virtual master plan, having standard organization systems, personnel systems, and procurement mechanisms. Unfortunately, the system came to operate with a rigidity that made adjustments to local situations difficult.

By 1963 USAID managed a \$3.6 billion per year program, up from just under \$1 billion in 1960⁵⁵; however, the mid-1960s were a peak in foreign aid spending, tied as they were to the growing crisis in Southeast Asia. All too often, from 1961 through 1967, project grants and loans made by both bilateral and multilateral organizations were not part of an obvious coordinated development strategy.⁵⁶ By 1967 the foreign aid budget dropped to below \$2 billion for the first time since 1960, and by 1968 it was down to \$1.4 billion. By 1970, support for foreign aid had fallen off significantly with little protest from business, academics, or the public.

Kennedy Policy Reforms

Ideologically, advocates of foreign aid were divided between self-defined realists and moralists. There were increasing numbers of critics of foreign aid on both the left and the right. Domestic critics also expressed concern

about whether foreign aid had a positive or negative impact upon the economy. Government reports often justified foreign aid because it helped the economy and international trade.

Foreign aid grew 24 percent under Kennedy. Though Kennedy projected an image of idealism, the aid goal became to resist Communist aggression in Asia.⁵⁷ After fifteen years of postwar foreign aid, Americans had a political mission under the new president. The goal was to ensure the security and welfare of the United States by educational, political, or even military methods.

Realists had become dominant at the policymaking level, linking foreign aid to the Cold War issues. Despite congressional criticism, the United States saw the Third World as an ideological battleground. Foreign aid's critics saw political actions, technical assistance, and aid projects as manipulative and interference in other people's business.

Beginning with Kennedy, the tone of speeches about the Soviet Union and communism became "much more secular, humanistic, scientific, and negotiable."⁵⁸ The goal was to use foreign policy to negotiate an end to the Cold War. The Kennedy administration became identified with a realist approach to security and foreign aid. As incoming Secretary of State Dean Rusk put it, "I think the principal point is that a change in administration gives us a chance to take a fresh look at a good many of our policies, to make fresh approaches, and to see whether we are going in the direction in which we as a nation really want to go."⁵⁹

Though there were critical reappraisals of foreign aid during the Eisenhower administration, it was the Clay Report that jolted the international assistance community. In December 1962, Kennedy appointed General Lucius D. Clay, hero of the Berlin airlift, to head a "Citizens' Committee" to investigate foreign aid. Many described the report as "draconian," as having a "shock-effect" and as an attack on the romantic notions motivating international assistance.

The Clay Report raised crucial questions about aid, which led to increased focus on market economics. In augmenting the role of the private sector and free enterprise, the report introduced development loans, investment guarantees, and small business provisions. It also introduced a contracting process to utilize private enterprise in policy implementation. More than anything else, it recommended an agency machinery (through USAID) that defined foreign aid as an instrument of the State Department, with an implementation process modeled on the contracting that dominated defense and security agency practice.

To many advocates, the report created despair about foreign aid that began what would later be called "donor fatigue." There would be an increased emphasis on foreign policy and security as they relate to aid, as

well as a decreased role in large-scale transfer of capital for development to recipient governments and an increased role for the private sector in policy implementation. Development was de-emphasized as a goal. The report, with its heavy stress on security and relegation of development, stimulated mistrust internationally.

From a security perspective, Kennedy's Alliance for Progress also illustrated the new emphasis on realism. It proposed an accelerated aid program for Latin America to ensure there would be no more "Cubas" in the Western Hemisphere. Moreover, the Alliance also worked to strengthen Latin American armies and defend American business interests. US policy, according to Latin American critics, helped Latin American elites stave off political reforms.

Military assistance again featured in foreign aid legislation. Despite Kennedy's rhetoric of realism, foreign aid came to take on an increasingly ideological and moral dimension. According to Stanley Hoffman, during the 1960s, "Foreign aid like foreign policy more generally became the orphans of [the policy of] containment."⁶⁰ At the same time, foreign aid experts were less and less sure of the formula for social and economic development, particularly assumptions about economic growth. Democratization, ideologically, began to appear in foreign assistance.

Conclusion

There is a tendency among Americans to believe that their values and needs are universal. On the whole, Americans have remained an optimistic society. Internationalism since the 1950s meant historical commitment, compromise, and recognition of the inherently political nature of the international process. This remained difficult for many policymakers who may see moral choices in international interaction. This perception can lead to difficulties in distinguishing between that which a country declares and that which is real.

During the immediate postwar period, the purpose of foreign aid was to restore war torn countries, strengthen the military and political defenses of "free" nations, and weaken the appeal of communism. There was a messianic element to the enterprise. By the end of the 1960s, however, foreign aid as reform "had lost its evangelistic tone and taken on a legal flavor."⁶¹

The shift toward government-to-government aid represented a major change in international assistance after World War II and was defined in the period between 1948 and 1961. Now, at least in theory, governments assumed that some redistribution of wealth internationally was part of their responsibility. The goal of policymakers in the 1950s was to create a

foreign aid system that included a unified administration and policy formulation, long-term planning and financing, and integrated country-level programming.

Perceptions of foreign aid failure originated in strategic rather than developmental considerations during the Cold War. There may be a lesson here for those who see foreign aid as a part of a war on terrorism. As a result, it is not unlikely that there may be similar perceptions of failure in future as the US reaches into the twenty-first century.

Notes

1. See Jacob J. Kaplan, "United States Foreign Aid Programs: Past Perspectives and Future Needs," *World Politics*, 3, no.1 (October 1950), pp. 57-58. Entire article: pp. 55-71.
2. An important book on the origins of U.S. foreign aid is Steven W. Hook, *National Interest and Foreign Aid* (Boulder, CO: Lynne Rienner Publishers, 1995).
3. Edwin A. Bock, *Fifty Years of Technical Assistance; Some Administrative Experiences of U. S. Voluntary Agencies* (Chicago: Public Administration Clearing House, 1954), pp. 2-3 and 15.
4. Walter R. Sharp, *International Technical Assistance* (Chicago: Public Administration Service, 1952), p. 7.
5. Kaplan, "United States Foreign Aid Programs," p. 68.
6. Barbara W. Tuchman, *The March of Folly: From Troy to Vietnam* (New York: Alfred A. Knopf, 1984), p. 293.
7. John D. Montgomery, *Aftermath: Tarnished Outcomes of American Foreign Policy* (Dover, MA: Auburn House Publishing Company, 1985), p. 47.
8. David McCullough, *Truman* (New York: Simon & Schuster, 1992), p. 730.
9. Kaplan, "United States Foreign Aid Programs," pp. 55-71. Quote, p. 55.
10. *Ibid.*, p. 49.
11. Paul Mosley, *Overseas Aid: Its Defense and Reform* (Brighton, UK: Wheatsheaf Books, 1987), pp. 2-23.
12. Montgomery, *Aftermath*, p. 65.
13. Severine M. Rugumamu, *Lethal Aid: The Illusion of Socialism and Self-Reliance in Tanzania* (Trenton, NJ: Africa World Press, 1997), p. 61.
14. George Liska, *The New Statecraft: Foreign Aid in American Foreign Policy* (Chicago: University of Chicago Press, 1960), p. 127.
15. *A Reference Volume on Technical Assistance Programs with Particular Emphasis on the Work and Responsibilities of Voluntary*