Bilateralism versus Multilateralism in Foreign Aid
A Qualitative Appraisal

By

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I. INTRODUCTION

"The promotion of economic growth and political stability in the less developed regions of the world has gradually become the central objective of foreign assistance policy. The course that should be followed to reach this objective is far from obvious, however..."

(Robert E. ASHER)

For several years the need for a switch from bilateral to multilateral foreign aid has been stressed by both donor nations and aid recipients. Yet in 1968 as much as 89 percent of the total contributions of the O.E.C.D./D.A.C. countries was made on a bilateral basis. Although some increases in multilateral commitments have taken place, they have also shown wide fluctuations. (see Table 1 and Chart 1).

It is noteworthy that the four most important Western aid donors (U.S.A., France, West Germany and U.K.) committed to official multilateral assistance as little as 4 to 6 percent of their total 1967 aid. Interestingly, with smaller donors this percentage was more than twice as high and came to 16 per cent in the case of Belgium.

The above relationships between the two methods of granting development assistance may be explained in different ways and by different motives with each individual O.E.C.D. aid donor. This paper investigates the relative merits and drawbacks of bilateralism and multilateralism to enable us to draw a conclusion in favor of latter method. The extensive experience of the United States is most frequently in focus.
### Comparison of Aid Disbursements in

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>Austria</th>
<th>Belgium</th>
<th>Canada</th>
<th>Denmark</th>
<th>France</th>
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<tbody>
<tr>
<td>Total Official and Private, net (I-IV)</td>
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<tr>
<td>I. Total Official Bilateral, net</td>
<td>147.1</td>
<td>14.3</td>
<td>73.8</td>
<td>170.3</td>
<td>15.8</td>
<td>816.7</td>
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<td>(a) Grants and grant-like contributions</td>
<td>147.1</td>
<td>2.9</td>
<td>67.6</td>
<td>97.8</td>
<td>9.5</td>
<td>711.3</td>
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<td>(b) Government long-term capital, net</td>
<td>11.4</td>
<td>6.2</td>
<td>72.5</td>
<td>6.3</td>
<td>105.4</td>
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<td>II. Total Official Multilateral, net</td>
<td>9.7</td>
<td>13.6</td>
<td>19.2</td>
<td>42.6</td>
<td>12.9</td>
<td>38.5</td>
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<tr>
<td>III. Private Investment and Lending, net</td>
<td>28.7</td>
<td>2.9</td>
<td>22.3</td>
<td>67.0</td>
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<td>388.3</td>
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<tr>
<td>Direct Investment</td>
<td>27.1</td>
<td>0.1</td>
<td>7.0</td>
<td>(46.0)</td>
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<td>372.1</td>
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<tr>
<td>Bilateral portfolio investment and other</td>
<td>1.6</td>
<td>2.8</td>
<td>15.3</td>
<td>(8.0)</td>
<td></td>
<td>16.2</td>
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<tr>
<td>Multilateral portfolio investment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>13.0</td>
<td></td>
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<tr>
<td>IV. Private Export Credits, net</td>
<td>1.7</td>
<td>42.9</td>
<td>127.7</td>
<td>26.6</td>
<td>45.0</td>
<td>239.4</td>
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Source: These statistics have been furnished through the

## II. FUNCTIONALITY OF BILATERALISM

*Strategic Implications.* The bilateral approach to economic assistance is favored by those who would consider themselves political realists; they take a pragmatic or practical view of foreign affairs and consider that strategic or political objectives should be gained as a result of the foreign aid given. On the other hand are the internationalists, who have a more idealistic outlook and support economic assistance through multilateral channels; they tend to feel that foreign aid should be strictly humanitarian in nature, motivated by a desire to help fellow man.

The main strategic consideration of bilateralism is related to the containment of Communism and is what Pincus calls the «square
Flows by Type, 1968
millions of dollars

<table>
<thead>
<tr>
<th>Germany</th>
<th>Italy</th>
<th>Japan</th>
<th>Netherlands</th>
<th>Norway</th>
<th>Portugal</th>
<th>Sweden</th>
<th>Switzerland</th>
<th>United Kingdom</th>
<th>United States</th>
<th>Total D.A.C. countries</th>
</tr>
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<tbody>
<tr>
<td>1,663.7</td>
<td>550.4</td>
<td>1,049.3</td>
<td>276.1</td>
<td>57.7</td>
<td>48.1</td>
<td>128.8</td>
<td>241.8</td>
<td>845.1</td>
<td>5,675.7</td>
<td>12,903.6</td>
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<td>495.3</td>
<td>141.6</td>
<td>458.3</td>
<td>110.1</td>
<td>12.5</td>
<td>34.5</td>
<td>41.7</td>
<td>14.2</td>
<td>383.2</td>
<td>3,354.0</td>
<td>6,283.4</td>
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<tr>
<td>158.4</td>
<td>33.6</td>
<td>117.0</td>
<td>54.2</td>
<td>11.4</td>
<td>9.3</td>
<td>30.9</td>
<td>12.4</td>
<td>223.9</td>
<td>1,730.0</td>
<td>3,418.0</td>
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<td>336.9</td>
<td>108.0</td>
<td>341.3</td>
<td>55.1</td>
<td>1.1</td>
<td>25.2</td>
<td>10.8</td>
<td>1.8</td>
<td>159.3</td>
<td>1,624.0</td>
<td>2,865.4</td>
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<tr>
<td>99.9</td>
<td>7.9</td>
<td>48.8</td>
<td>24.3</td>
<td>10.5</td>
<td>(0.3)</td>
<td>29.7</td>
<td>4.7</td>
<td>45.1</td>
<td>251.0</td>
<td>658.7</td>
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<tr>
<td>821.2</td>
<td>130.7</td>
<td>122.6</td>
<td>153.5</td>
<td>4.4</td>
<td>13.3</td>
<td>36.8</td>
<td>116.5</td>
<td>228.0</td>
<td>2,036.1</td>
<td>4,172.3</td>
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<tr>
<td>192.1</td>
<td>118.4</td>
<td>122.6</td>
<td>89.9</td>
<td>4.4</td>
<td>5.6</td>
<td>25.9</td>
<td>79.2</td>
<td>200.4</td>
<td>1,470.0</td>
<td>2,760.8</td>
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<tr>
<td>334.7</td>
<td>12.3</td>
<td>—</td>
<td>45.6</td>
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<td>7.7</td>
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<td>311.3</td>
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<td>18.0</td>
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<td>0.3</td>
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<td>247.3</td>
<td>270.2</td>
<td>419.6</td>
<td>11.8</td>
<td>30.2</td>
<td>—</td>
<td>20.6</td>
<td>106.4</td>
<td>188.8</td>
<td>34.6</td>
<td>(1,789.2)</td>
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mile » theory(1). The theory is that the United States cannot allow even one square mile of the so-called free world to fall victim to Communism. U.S. foreign aid programs must be oriented toward strengthening the economic systems and military posture of free and independent nations so that they can resist Communist advances. The theory continues that if any one nation does succumb, then the security of the neighboring countries would be affected. They would become increasingly vulnerable to external influences, and a chain reaction would occur in which the Communists would take over one country after another until the very shores of the U.S. are reached. The name of the game is to keep the first « domino » from falling, such

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CHART I
Flows from all sources to developing countries 1960-1968

as the U.S. did in Korea and is attempting to do in South Vietnam by active intervention.

Whether or not the « square mile » or « domino » theory has any validity is not important at this juncture, since the United States by a system of alliances and bilateral treaty obligations has put its national prestige on the line with commitments to assist in the preservation of the territorial integrity and sovereignty of numerous allied and other friendly nations. Whether preservation of the independence and sovereignty of a particular friendly nation is essential to the security interests of America becomes academic; the reality of the situation is where the U.S. has a commitment, the foreign aid program reflects this commitment.

A significant aspect of bilateralism is that the donor retains control over the funds. He can determine to whom he will grant aid and who will not receive any. He can determine the conditions under which aid will be forthcoming, and the type of behavior the recipient must exhibit if aid is expected to continue. No doubt is left in the mind of the recipient as to the identity of the benefactor. The donor can discriminate among recipients using non-economic criteria regarding the terms of loans, interest, and repayment requirements.

Since the visible reason for foreign assistance is to foster economic development, economic considerations do enter into the conditions for granting aid. However, the primary considerations of the bilateral approach are political. In order for one nation to realize political gains through foreign aid, the recipient must be directly obligated to the donor. This is one of the major differentiating characteristics of bilateral and multilateral programs. The outspoken proponent for the use or foreign aid as an instrument of foreign policy, Hans Morgenthau, believes that the political effects of foreign assistance are lost if the source of aid is not obvious to the recipient(2).

To be politically useful, foreign assistance must further foreign policy objectives in some manner. Two aspects of this concept found in United States practice are (a) the granting of foreign aid with the expectation of getting something in return — a quid pro quo, and (b) the threat or actual suspension of aid in an attempt to get the recipient to acquiesce to certain demands.

_Aid as a Quid Pro Quo._ One use or foreign aid is for the securing of military base rights in the recipient country. In return for a specified amount of economic and/or military assistance, a strategically

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located country may agree to permit the construction and continued use of military bases within its territory. Sometimes these agreements are pursuant to treaty or alliance agreements such as with Thailand. The Saudi Arabians allowed the building and use of Dahran Air Base by the U.S. in consideration of foreign aid allocations(6). A typical arrangement is the one between the U.S. and Spain for the rights to the air bases at Torrejón, Morón and Zaragoza, and the naval base at Rota. The original pact was signed in 1953 for a ten-year period to be followed by two five-year periods, with negotiations for each extension.

In 1963, Spain received $100 million in arms grants for the extension. For the 1968 negotiations, Spain started by demanding over $1 billion in aid over the next five years. However, in ten days of haggling, the demand was cut to $700 million, which is still far in excess of what the U.S. thinks the base rights are worth. Over the years, the U.S. has given over $2 billion in economic and military assistance to the Franco government. An additional $40 million per year is spent in Spain by U.S. servicemen connected with the bases, maintenance of the facilities, wages to Spanish nationals, and so forth(4). In addition to foreign aid, Spain wants herself removed from the list of industrialized Western European countries to which the flow of dollars for direct private investment abroad is barred as a measure to shore up the U.S. balance of payments position. The Spanish view is that the bases will be nuclear targets in the event of a total war. Their strategic value is diminished due to Spain's pro-Arab policy which might preclude their use if the U.S. were to become involved in a future Middle East conflict on the side of the Israelis(5).

Spain is a good example of the use of aid to achieve a specific political objective; there is plenty of room for bargaining and negotiation, much the same as would be between any buyer and seller of a good or service. Interesting is the 1963 recommendation of the Clay Committee that aid given in exchange for base rights should not be viewed as economic assistance, but should be charged off as defense costs(6).

Some individuals, including Congressmen, feel that recipients of U.S. aid should support the U.S. position in the United Nations in exchange for economic assistance.

On this, Professor Morgenthau stated: «If the recipient continues to disapprove of the political philosophy of the giver, despite the aid that he has received, the political effects of the aid are lost.»(1) As far as U.N. voting records are concerned, it is hard to believe that economic aid influences the vote of any nation, any more than treaty and alliance relationships affect the U.S. vote. Nations will vote in the U.N. in accordance with their national interests. The fact that the recipients of U.S. aid have national interests in harmony with those of the U.S. may be not only coincidental but understandable, for it is difficult to envision the United States providing aid to nations that do not have some interests in common.

The policy of the U.S. has been that its foreign assistance program promote «free, secure, and prospering» nations. By «free and secure» is meant «independent» in the sense of free from external domination. This is so that the policy would refer to Yugoslavia or Poland as well as South Korea or India. Noteworthy were therefore Congressional reactions when France, under the leadership of General de Gaulle, embarked on a course divergent in many respects from that of the United States. NATO and the U.S. were invited to remove military installations from France; France continued to develop a «force de frappe» against U.S. advice, and pursued international financial policies detrimental to the U.S. gold flow situation. Senator Fulbright displayed irritation that France, which had received the largest portion of Marshall Plan aid, would be so ungrateful in return as to spurn U.S. advice and not share U.S. views on matters of concern(2). Senator Fulbright’s reactions only indicate that political indebtedness is expected in return for foreign assistance.

A unique situation in which foreign aid has been given in payment of an obligation is the 1962 agreement whereby the West German government would pay the government of Israel $822 million over a period of fourteen years as reparations for losses sustained by Jews at the hands of the Nazis.

Suspension of Aid. Closely related to giving aid in exchange for a commitment on the part of the recipient, is granting aid to incur an obligation for future political payoff and using the possibility of discontinuance of the aid as leverage to insure that the recipient will meet his obligation. Of course, the more dependent the recipient is on the assistance, the more leverage the donor has in exercising his will.

U.S. aid to Israel provides a case in point. For example, after

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(1) Morgenthau, op. cit., p. 309.
the 1956 victory over Egypt, Israel was hesitant to unconditionally evacuate the Sinai Peninsula and Gaza Strip. The U.S. brought pressure to bear by suspending economic aid and Israel finally withdrew. As soon as the forces had been withdrawn, the U.S. quietly but promptly resumed the flow of its economic aid to Israel.

A country such as Israel which depended upon U.S. official assistance for between 10 per cent and 20 per cent of its budget was extremely sensitive to follow the dictates of U.S. foreign policy interests. The United States did not hesitate to use the leverage of aid suspension to accomplish its objectives.

The political instability prevalent in Latin America has manifested itself in numerous military coups. With few exceptions, the United States feels that it is in the interest of hemispheric peace and order that violent changes of government be discouraged. The reaction of the American government to these coups has almost always been the same. Recognition of the new regime has been withheld and economic aid suspended until the new regime has given an indication that a return to government by consent is contemplated and assurances have been received that free elections will be held in the near future(9).

Reportedly, the Kennedy administration had decided in 1962 to suspend the flow of economic aid to South Vietnam if the Ngo Dinh Diem regime did not «change its attitudes drastically»(10). The administration was referring to the dictatorial methods of Diem, the suppression of the Buddhists and other factors that were causing the government to lose popular support. This is a case of a threat to suspend aid if the recipient did not conduct his internal affairs to the liking of the donor. (However, it was an empty threat because the overriding consideration was the Communist insurgency).

The Aswan Dam loan exemplifies another situation where economic aid and politics are woven together. The Aswan Dam construction in the U.A.R. was to be a long-term development project. The United Strates had pledged assistance to help finance the project but withdrew the offer after Egypt «stepped up her campaign to overthrow the pro-Western governments of Iraq and Jordan, recognized Red China, and intensified the virulence of her verbal onslaught against the West in general »(11). This case in particular points up a political fact of life, namely, that economic aid to countries whose

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foreign policies are significantly out of step with those of the United States is extremely unpopular with the American people.

In the 1960's, there have been a number of legislative proposals to amend the Foreign Assistance Act with the objective to turn foreign aid into a lever to force compliance by recipient nations with U.S. foreign policy objectives. Not all of these proposals were incorporated into law, but the fact that they were made is in itself significant in that it gives an indication of how members of Congress view the inter-relationships between foreign aid and foreign policy. The following are some of the situations where foreign assistance would be suspended if the proposals were law:

a. Ships of the recipient are carrying strategic goods to Cuba.

b. The recipient is delinquent in his U.N. dues.

c. The recipient nationalizes or expropriates U.S. private investments without adequate compensation.

d. The recipient country is «known to be dominated by Communism or Marxism».

e. The recipient has not taken steps to prevent goods from being shipped to North Vietnam.

f. The recipient seizes U.S. fishing boats in international waters. Aid can be withheld at the discretion of the President.

g. The recipient devotes an undue portion of his ressources to military expenditures at the expense of development.

In addition, the Congress has legislated criteria which the President must take into account when administering aid to the less developed countries. These criteria include the extent of favorable climate for private investment (both foreign and domestic), the role of the people in developmental efforts, intervention in the affairs of "other free and independent" nations, and the degree of self-help(12).

Aid for projects that are to be state-owned and would compete with private industry are bound to be criticized by the Congress. The charge is that the U.S. is financing Socialism when it gets involved in this sort of venture. The refusal of the U.S. to assist in the proposed Bokaro steel mill project in India is a case in point. However, the huge size of the capital investment required was probably a factor also. The Clay Committee was opposed to any U.S. aid for government-owned enterprises that would compete with existing private endeavors(12).

(13) U.S. Committee to Strengthen the Security of the Free World, op. cit., p. 5.
West Germany, which conducts sizable bilateral aid programs has had a traditional requirement that aid be used to dissuade countries from recognizing the Democratic Republic of Germany (East Germany) and has insisted that the aid be used to promote West German exports(14).

The foregoing cases illustrate why foreign economic assistance given on a bilateral basis is preferred by most donors. Aid givers desire to control disbursements and use aid as necessary to manipulate both the internal and foreign affairs of recipients in so far as they can in order to further the national interests of the donor.

*Surplus Production.* For years the United States has been burdened with excess agricultural production resulting from farm crop subsidies. Under Public Law 480, the so-called «Food for Freedom» program, the surpluses may be given or sold to less developed countries. When these commodities are sold to LDC’s, they are sold for local currency and the funds accumulated are used to pay official obligations in the country, or loaned back to the recipient for developmental projects, or just allowed to accumulate. It can be seen that both the recipient and the donor benefit from this program. The donor benefits because his farm labor and land are kept employed, and the expense of storage of surplus commodities is eliminated. P.L.480 has been successful in using up American farm surpluses. Now that the surpluses have been expended, more acreage is being planted to provide commodities for P.L. 480 since the program has been so well received.

*Reducing Unemployment:* Where the donor country has an excess labor or industrial capacity, it can make strides toward alleviating this situation by exporting his unemployment and excess capacity. With aid tied to donor country commodities, the donor is, in effect, using the aid to create jobs and increase exports in his own country. As Pincus points out, where there is excess capacity and unemployment, the export of goods is the same as export of unemployment; the opportunity costs of producing the export goods are zero. The real costs of the economic assistance are very low(16). If the funds were made available to the recipient through multilateral channels on an unrestricted basis so that required imports could be obtained on a competitive basis, there is no assurance that these funds would find their way back to the donor again. It is clear that an unemployment problem and a balance of payments problem have some characteristics in common, in that increases in exports are a palliative for both.

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(16) Pincus, op. cit., p. 68.
Balance-of-Payments. When a country is experiencing balance of payments difficulties, tying of foreign aid loans should assist in alleviating the problem over the long run, as the loans are repaid. Grants tied to purchases in the donor country have a generally neutral effect. However, exports may be further stimulated by both tied grants and loans to the extent that foreign markets become better acquainted with donor products. If the exported commodities contain a high proportion of imported components, then the balance of payments drain will still exist, and if the donor is experiencing full employment, then tying of aid will induce inflationary pressures which will affect the balance-of-payments situation adversely.

Tying of aid to U.S. goods and the use of American products by technical assistance personnel in the less developed countries causes what is known as the «demonstration effect». As U.S.-produced goods become better known to the people in the LDC's, an increased demand for these products is generated. In addition, as the GNP of the LDC's increases with economic development, the rate of imports increases and the U.S. shares in this increase. This is called the «market expanding effect».

Critics of aid-tying suggest that many of the so-called benefits are lost due to substitution. They point out that the aid is used to acquire goods that would have been purchased from the donor anyway, without aid. The funds released can then be used for something else, such as the financing of imports from a third country(16). However, A.I.D. economists estimate that losses due to substitution only amount to approximately ten percent, and that fifty percent of the exchange thus freed is respent in the U.S. by third country beneficiaries(17). If this were true, then the maximum loss that could be sustained due to substitution would be five percent of the tied aid total.

As with the political implications of foreign aid, the domestic considerations make using the bilateral approach much more attractive to the holders of the donor's purse strings, than do multilateral methods. If the donor can control how the aid funds will be spent, he is more agreeable to making funds available.

Competitive Factors. Competition between donors is due solely to political and ideological considerations. If all nations were to agree to provide aid through multilateral channels, then competitive factors

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(17) U.S. Congress, House, Committee on Foreign Affairs, p. 1180.
would no longer exist. The main competition in the foreign aid area is between the USSR and the United States, and the USSR does not show any inclination to get involved in multilateral programs. It is predictable that the USSR will continue to avoid any multilateral economic assistance agencies and that the U.S. will avoid any multilateral agency where the USSR has a voice in the disposition of funds\(^{(18)}\). Indeed, one recommendation of the Clay Committee was that the U.S. should shift to multilateral funding only where the Soviet bloc is not involved.

Although the U.S. and the USSR would both probably admit that the primary objective of their respective aid programs is to promote the economic development of the recipient, their objectives are quite divergent from each other. The objectives of the U.S. programs have been discussed. The Soviet Union attempts to increase the recipient’s economic dependence upon the Soviets, encourage political and economic systems that minimize the role of private capital, and extend government ownership and control. Therefore, Soviet aid will always be found to be extended on a government-to-government basis. When the opportunity presents itself, the Soviets are not adverse to promoting chaos and revolution, if it helps attain their political aims\(^{(19)}\).

The Soviets have several advantages over the U.S. in their aid programs. Unhampered by legislative constraints, they can make longer term commitments, can provide assured markets for primary product exports of the recipient, and they have the ability to mobilize their best talent for technical assistance. The long term commitment allows the Soviets, in India for instance, to capture the bulk of the glamorous impact projects and industrial showpieces\(^{(20)}\). Soviet ability to absorb primary products was demonstrated after the U.S. applied economic sanctions to Castro’s Cuba and Cuba lost its primary sugar market. The USSR took the Cuban sugar crop to prevent a complete collapse of the Cuban economy. Where the U.S. is limited to recruiting personnel for its aid programs by the wage incentives available, the USSR does not require incentives; it merely orders the personnel where required to best accomplish its policy objectives.

Where the Soviets are trying to lessen Western influence, the U.S. is trying to prevent the recipients from becoming too dependent upon the USSR. This meeting of forces usually occurs in the so-called non-aligned nations, where the foreign aid competition is the keenest.


The non-aligned nations are in a position to take advantage of the competition to play one donor against the other in order to maximize the total aid received. Nasser's Egypt tried this in the years prior to 1956. India and Indonesia have also taken advantage of donor rivalry to maximize aid. The newly emerging nations find it profitable to remain non-aligned from the economic assistance point of view. An author described the aid competition in this humorous vein:

«By remaining non-aligned, the new state maximizes its attractiveness to the Soviet and Western blocs, both of which woo the neutral nation. Particularly the Soviet Union and the United States act like suitors hoping to win the hand of the beautiful, but still unattached young maiden. By occasionally seeming to promise herself without ever making a commitment, the new nation in turn makes the most of her bargaining strength. For each suitor is thereby compelled to show his ardor and «prove his love»—with his pocketbook»(21).

Related to the competitive factor is the phobia that is evident regarding the expansion of Communist influence. It seems that one appeal that gets a sympathetic ear faster than any other is that unless economic assistance is forthcoming or increased, as the case may be, the Communists will gain strength in the country concerned. A number of nations have taken advantage of this fear and used the tactic of claiming a Communist threat to get more aid, whether a genuine threat existed or not(22).

III. THE PROS AND CONS OF MULTILATERALISM

Giving aid through multilateral channels means giving aid through an international agency, so that the recipient is obliged to the international agency and not to the original provider of the funds. Unrestricted subscriptions to the World Bank Group or U.N. agencies for economic assistance to less developed countries would be multilateralism under this definition. The U.S. Congress and the Agency for International Development (A.I.D.) ascribe a different meaning to the term. They consider consortia arrangements and regional efforts such as the Alliance for Progress, to be multilateralism. Accordingly, multilateral programs are those where the International Bank for Reconstruction and Development (IBRD) or the Organization for Economic Cooperation and Development (OECD) as head of a con-

sortium or consultative group decides what the recipient policies should be, what self-help measures should be taken, and what is the size of the requirements. Then each donor country in the consortium or consultative group «decides for itself how much aid it is prepared to give against those requirements »(23). Ninety percent of the aid development loan fund and the Alliance for Progress loan fund, are loaned in what the U.S. calls a «multilateral framework». In reality, however, this type of aid-giving loses very little of its bilateral nature.

With the consortium or consultative group, each donor maintains control over his funds, determines what projects or programs he is willing to support, specifies the conditions and restrictions of his aid, and so forth. Some advantages over strictly bilateral assistance are gained, however. Efforts are coordinated to a certain extent, and duplication of effort is avoided. The recipient’s development program is evaluated in total and his dignity is preserved to the extent that he does not have to make appeals for aid to many donors individually. Aid is mobilized from many quarters and gives the appearance of being somewhat non-political in nature.

The World Bank has established consortia for India and Pakistan, and consultative groups for Colombia, South Korea, Malaysia, Sudan, Thailand, and Tunisia. The OECD has consortia arrangements in effect for Greece and Turkey(24).

Although the U.S. Foreign Assistance Act of 1967 allowed transfer of up to ten percent of AID’s development loan fund to multilateral lending agencies, the World Bank, for one, would not accept any of the available funds because AID insisted that the funds be tied, and the World Bank wanted them on an unrestricted basis(25).

*The Welfare World*. Most of the proponents of aid through multilateral channels would fall into the internationalist camp. They believe that the only way to have peace the world over is to have a world government or a supranational body that controls the sources of power and ends nationalistic competition and rivalry.

On the national level, industrialized democracies have become acutely aware that redistribution of income is a necessity to preserve economic order and maintain domestic tranquility. Thus a large percentage of the U.S. national budget is dedicated toward income equalization. Progressive taxation takes larger percentages from the

wealthy while programs such as social welfare programs redistribute resources to those less fortunate. The proponents of the multilateral approach ask why social welfare programs cannot be developed on a world basis so that the wealthier nations would be progressively taxed for economic development funds, and the resources distributed to those nations that are less developed. One author has stated that more intensive international coordination or integration is needed wherein proven social instruments can be applied to the world level.

«More intensive international coordination or integration may be said to mean the application of our own principles — i.e., those applied at home — to the world at large, or at least to the world of non-communist nations.»(26)

With a redistribution of income, international tensions would be reduced, and thus with a world economic order, we will have international peace.

Gunnar Myrdal contends that international solidarity is required to enable the less developed countries to develop. He suggests that Marx has been proven wrong on the national level because nations have developed social institutions to prevent the economic chaos that Marx predicted for industrialized capitalist nations, but that Marx still has a chance of being right on the international level.

«The concept of the welfare state, to which we are now giving reality in all advanced nations, would have to be widened and changed into a concept of a "welfare world".»(27)

The problem with this concept of transferring the welfare state mentality to the world, is that the welfare state method of redistribution of income presently exists only in democratic societies. The same problems exist in transferring the welfare state to the world as there are in transferring a system of democratic government to the world. We know that international power politics prevent even the United Nations from operating effectively. Nationalistic attitudes — the desire for national independence and sovereignty — will prevent a world government from operating because national interests would have to be sacrificed and subordinated to world order. For the same reason, nations will not allow a welfare world philosophy to prevail because individual nations will zealously guard their resources and will not subordinate the independence and freedom to allocate these resources to an international system.


In spite of the fact that the welfare state concept cannot in the foreseeable future be transferred to a welfare world, there still remains a good case for multilateral economic assistance. Individuals, no matter what the national or international system, have a certain compassion for others. Although politics is deeply intertwined with foreign aid, the mere fact that foreign aid is clothed and presented to the public as aid for economic development, attests to the fact that the populace desires to feel that they are achieving some humanitarian good with the aid. Human conscience no longer tolerates affluence for the few while many are deprived of the necessities; compassion for fellow man does not stop at political borders.

Advantages and disadvantages of the Multilateral Approach. The primary advantage of the multilateral approach is that it is non-political in character. An international agency can administer funds on a truly impartial basis using the same standards for all recipients. When aid is given on a strictly bilateral basis, the criticism will always be made that the donor has ulterior motives. It is much more difficult to make charges such as these when the aid is administered by an international agency. This is not to say that the charges will not be made. The World Bank in Turkey, the International Monetary Fund in Brazil, and the International Atomic Energy Agency in India have all been accused of attaching unreasonable conditions or meddling unwarrantedly in the internal affairs of the recipient country. When appropriate accounting and disbursing procedures, and other business practices are introduced, the recipient complains that it is a national humiliation that the donor is implying that the nation cannot be trusted. When economic changes are called for, such as new taxes, tax reform, stronger monetary policy, exchange rate changes, etc., international organizations have been charged with having a patronizing attitude, denying the recipient his independence and sovereignty. The fact that acceptance of economic assistance entails an aura of political dependence is borne out by such countries as Burma, Indonesia, and Cambodia, which have declined U.S. foreign assistance at one time or another in order to preserve their «non-aligned» status and to make an effort not to antagonize Red China which may at some future date dominate Southeast Asia.

Moreover, if aid is given to a country that has an enemy with whom the donor is trying to maintain friendly relations, chances are that ill-will will be created. For instance, U.S. and West German aid to Israel antagonizes the Arabs. Aid to the Arab states angers Israel and arouses domestic criticism that the aid may strengthen the

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recipient in its possible aggressive acts against Israel. India and Pakistan use U.S. military aid against each other. The U.S. antagonized France when economic assistance was given to Morocco and Tunisia who in turn were helping the Algerian rebels against France. Aid was extended to Indonesia while they were trying to dislodge a NATO ally, the Netherlands. And the U.S. also found itself in a dilemma over the Cyprus dispute between Greece and Turkey, where the aid to either opponent incurred the hostility of the other.

If a recipient country is having internal difficulties, aid to that country brings charges from the dissidents that the donor country is trying to perpetuate the injustice and oppression of the regime in power. On the other hand, if aid is withheld, the charge will be made that the donor is supporting the overthrow of constituted government.

In all the above cases, the political criticisms could be eliminated if the economic aid were to be extended by a multilateral agency that does not have any political motivations and is interested solely in economic development. As a corollary, if all of a donor's foreign aid were extended through international agencies, then it would be serving notice that it was truly dedicated to economic development as an end in itself.

Another advantage of the multilateral approach closely connected with the absence of political implications, is that an international agency can lay down stricter conditions as a prerequisite for granting aid. Since the sole purpose of the aid is economic development, the international agency can demand that the proposed projects and programs be economically sound. Prestige projects can be easily vetoed. This does not hold true as much for bilateral aid. National pride may prevent a recipient from accepting conditions from another country because each country wants relations between countries to be relations between equals, and one nation imposing requirements on another as the basis for granting aid has a tint of presumed inequality.

One of the conditions that may be imposed and is likely to incur favor with donor nations is that a certain degree of self-help measures must be taken in order for the aid to be forthcoming. International agencies can insist on reform of institutions retarding economic growth that entail some sacrifice on the part of the recipient commensurate with the aid to be received.

Coordination of effort is a strong plus for multilateral aid. The internationalists maintain that the less developed nations, in general, lack the expertise to plan an efficient development program. A donor nation is unable to plan for a recipient on a bilateral basis because
the political implications previously discussed prevent him from doing so. When several donors provide aid to the same country, each conducting their own bilateral programs, it is apparent that duplication and overlapping of efforts could occur. With a single agency responsible for the overall development program, overlapping and contradictions would be obviated. The coordinated effort would presumably have «the right kind of aid, to the right place, at the right time».

Multilateralism should be more efficient than individual bilateral efforts, since if all economic development assistance were conducted by an international agency, more funds could be devoted to development than to aid administration. In addition, technical assistance could be hired at wage rates in most cases lower than that required to induce, for example, U.S. citizens to work abroad, and because the U.S. presently furnishes the bulk of the technical assistance, more assistance per dollar could be obtained with the resulting savings. This would certainly be true in the short run, and in the long run competitive hiring by an international agency should be more efficient than cumulative bilateral programs using technical assistance available in the individual donor countries. Along this same line, the quality of assistance should be better with multilateral programs due to the pooling of knowledge and resources. That is to say that expertise in various industrial and agricultural sectors may be greater in one country than in another.

An undesirable feature of present-day bilateral assistance that would be eliminated if aid were to be given through multilateral channels is the tying of aid to purchases in the donor country. If the same amount of aid were made available to the recipient on an unrestricted basis, he could get more aid for his dollar through competitive purchasing than with the tied loan. There are several reasons why purchases from the donor country may be more expensive than if purchased elsewhere. There may be a factor of inflation that the donor is experiencing, or perhaps inefficiency in the production of the product. In addition, production techniques in the donor country may not be compatible with the recipient nation’s economy. The products may be too highly automated or less suitable than could be obtained elsewhere. The possibility of the tied aid including a seller’s monopoly position may cause higher prices than would be paid on the open market(28). Another provision of aid tying is stipulating that the aid commodities be carried in ships of the donor nation. This causes an even further reduction in the value of the aid, especially if the U.S. is the donor, because shipment

in U.S. boats sometimes runs three times higher than open market rates(30).

An international agency is more likely to be able to make long term commitments for developmental assistance. Experience has shown that bilateral programs can only be planned accurately from year to year because it is the nature of legislatures not to commit themselves for any extended period. Moreover, it should be easier for a legislature to make a long term commitment to an international agency than it would to an individual country, due to the absence of political considerations.

There are a number of projects that are now conducted on a bilateral basis that could be easily carried out through multilateral channels without prejudice to the motivations for bilateralism. Malaria eradication, educational improvement, and certain infrastructural projects certainly are non-controversial and there is no reason why this type of project should not more properly be assumed by international agencies.

A final advantage of the multilateral approach is that it is in the interest of world order to support and strenghten the healthy growth of international organizations. Internationalists argue that if world integration and coordination can be achieved on the economic level, then it is only one step further to transfer this cooperation to the political level. The stronger we make an international entity such as the United Nations in the social and economic realm, the greater its potential for preserving order in the political sphere. It has been suggested that if economic assistance were channeled through the United Nations, for instance, this approach would strengthen the U.N., broaden the foundation for international law, give all concerned a sense of community effort, and in general be a more satisfactory method for both donors and recipients.

Opponents of the multilateral approach emphasize that if aid is channeled through international agencies, the donor will not get credit for the assistance he has made possible. Be that as it may, some twenty years after the inauguration of the Marshall Plan, one continues to hear praise and gratitude expressed by Europeans regarding the effectiveness of the Plan and the role played by the United States in making Western European recovery possible.

Countries such as Denmark, Norway, Sweden, and the Netherlands actually command high esteem in international circles for their economic assistance efforts, of which 63 percent is made through multi-

lateral channels. For them it is the best route to take because of the size of the country, the difficulties that would be encountered in manning and staffing a sizable bilateral program, and most important, their genuine interest in international cooperation(31).

Another drawback to multilateralism is that less aid would probably be available than is now with bilateral programs (unless there is a substantial change in nationalistic attitudes). Presently the United States supplies approximately 60 percent of the total foreign aid funds transmitted via all programs. After experiences such as UNRRA, the U.S. is hesitant to get involved in any scheme in which the U.S. does not have a voice in the distribution of funds proportional to the amount it makes available. Therefore, it is clear that, to avoid a charge of dominance, the U.S. would not be prepared to go as high as 60 percent in participation in purely multilateral programs. On the other hand, it could be argued that if bilateral programs were deemphasized and multilateral programs took up the slack, more of the nations not presently providing foreign aid would participate and there might be a net gain in total funds available.

The direction the United Nations is taking today in regard to economic development — namely, the proliferation of agencies — is a serious deterrent to the use of the U.N. as a focal point for multilateral efforts. It is understandable that to be effective, economic development efforts require a well orchestrated effort, coordinating all the various sectors (agriculture, industry, infrastructure) so that development proceeds in an orderly fashion. In addition, the numbers of agencies competing for funds must be held to a minimum.

Another problem area is whether or not multilateral agencies can be kept free from politics. The newly emerging nations of Africa and Asia are determined to find their place in the sun. They seem overly obsessed with obtaining voting majorities in international organizations and exercising political power in excess of that warranted by their size or population. If recent experience is any indicator, it is difficult to conceive of an international organization maintaining neutrality where each nation has one vote on matters concerning distribution of economic aid funds. What provisions could guarantee that the same criteria would apply to Rhodesia and Kenya, Israel and the United Arab Republic, or Cuba and Bolivia? Yet the primary advantage of the multilateral method is that it is free from the taint of politics.

IV. CONCLUSION AND A PROPOSAL

From the foregoing it is obvious that there are certain advantages and disadvantages of each of the two aid channels. An ideal solution of the problem would be one where the advantages of both bilateralism and multilateralism are maximized and the disadvantages minimized. There need not be a clearcut distinction between the two efforts; there should be a middle ground that would satisfy the national self-interests of the donor (as in the bilateral approach) and yet benefit from the advantages of multilateralism.

The single most important consideration bearing upon economic development is the total amount of resources transferred from the more developed to the less developed countries. Any system of aid transfer to be acceptable, must maximize the total value of aid available for development assistance efforts. It has already been indicated that if all aid were to be distributed through strictly multilateral channels, the total amount of aid provided would probably decrease. Aid donors would want a voice in the distribution of aid proportional to the amount of assistance that they provide, yet as in the case of the United States, aid would have to be reduced from present amounts because the U.S. presently supplies approximately 60 percent of the total foreign aid from all sources. It would be politically unacceptable for any one country to have a 60 percent voice in the distribution of funds of a multilateral agency. In addition, fewer funds would be forthcoming if donors had to relinquish control over the resources provided. Historical experience seems to indicate that nations will make funds available to an international agency on an unrestricted basis only when the sums involved are insignificant relative to the national budget.

A method could be devised whereby the amount of funds provided by donors exceeds the amounts presently being made available, where commitments are made for providing future funds to enable long term planning, and where the benefits of the multilateral approach come into play.

Efforts similar to those which were required to establish the United Nations may be necessary to solve the economic development problem. The same type of motivations that led to the founding of the United Nations can be aroused to support establishment of an all-embracing international aid organization.

Its charter would include explicit target contributions based on the GNP of the member States. Ratification of the charter by the member governments would be tantamount to a long-term commitment for the annual provision of funds. Control over the direction of
operations would be on a proportional basis to the amount of funds contributed, with no single nation allowed majority control.

As a concession to national interests, contributions would be accepted in all the forms of aid instruments presently employed, i.e., unrestricted grants and loans, tied grants and loans, surplus commodities, and so forth. The various types of aid would be assigned values in accordance with specific formulae in order to insure equity and comparability in meeting target commitments.

This organization would establish and coordinate development planning efforts and act as a sort of economic assistance « exchange » where contributions could be matched with needy recipients using economic criteria as the basis for assignment. In short, all of the main advantages of purely multilateral assistance could be obtained while catering to the national interests of the donors.

The organization would take over the economic assistance functions of all the existing international agencies that have proliferated by combining their aid activities into the one organization. Regional organizations could be used as sub-units of the overall organization.

This type of proposal raises a host of questions regarding the total quantity of aid required, how the requirements will be apportioned among the donors, how national interests will be satisfied, how the various aid forms will be valued, and what will be done about nations that refuse to participate. Although all these questions are answerable, it is beyond the scope of this paper to undertake the task here. Nevertheless, it is essential that a workable definition of « aid » be agreed on. The preferable one considers aid as a net resource transfer requiring governmental action on the part of the donor. In other words, private investment in less developed countries should not be considered as foreign aid because it represents commercial endeavors.

Paul Rosenstein-Rodan stated that the ideal solution to the economic development problem is an all-embracing international agency which would integrate and fuse all sources of aid. But then he went on to suggest that the ideal solution is unrealistic and that we must settle for second best which would be bilateral aid in a multilateral framework — the consortium or consultive group arrangement(23). As has been pointed out previously, the consortium or consultative group approach does give us some of the benefits of multilateralism — namely, coordination of effort, but since each nation decides for itself what amount of the aid requirements for a particular country it is pre-

pared to meet, the results may be haphazard and surely not as efficient as they could be. The organization proposed here offers advantages over consortia in that it would be more efficient, allow total planning, provide better coordination of effort, long term commitments, and hopefully increased funds. In addition, some of the problems with existing arrangements, such as poor geographical distribution of aid funds, would be ameliorated as all recipients would be treated with economic parity.

John Pincus advanced a view similar to Rosenstein-Rodan's. His general theme is that the only way to stimulate aid transfer is to appeal to self-interest of donors. The world is not ready for true multilateralism yet; multilateralism will become the wave of the future only if donor self-interests are served. «The international community has not yet evolved to the point where a body of law, with sanctions applying to all, can be enforced»(38).

While economic development in itself is a worthy goal, there should, be no doubt that international control is the most efficient route, if economic development is the sole policy objective, due to the coordination of effort made possible and the avoidance of duplication. Aid can be mobilized from more sources and more expertise in planning and technical assistance is available than if these resources are drawn from a single country through a bilateral channel.
