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J. E. MERRIAM

BACKGROUND PAPER

Background Paper
No. 10

Meeting of
April 17, 1973

COUNCIL ON FOREIGN RELATIONS

Discussion Group
on

The American Interest in the Third World

AID-GIVING AND AMERICAN PUBLIC MORALITY

John E. Merriam

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April 5, 1973



AID-GIVING AND AMERICAN PUBLIC MORALITY

Public opinion polls have shown over the years that in the United States the strongest argument in favor of foreign assistance is the moral one. Individual Americans give annually \$600 million in voluntary foreign assistance, or about 75% of all private donations from rich to poor nations. Americans seem to want to do right.

Public morality is what the public considers good and right to do. It operates among groups, often as the unassimilated sum of individual views of morality. Its components include authority, judgment, intent and action. Action is the visible aspect; authority and judgment are often obscured by history and tradition. The problem of intent and motivation is from the outset a constant nemesis.

Broadly speaking there are three sources of authority for public morality:

The first is religion with its deep roots in human experience and a time and space horizon going well beyond.

Second are group or national behavior codes, judgments on behavior based on a national or cultural authority, tradition, precedent and political leadership. Group morality may be tied to religious ethics. But it also has a force of its own, for example, in defending national "honor" or racial solidarity.

Third are rationally determined systems, world views, utopias and secular views of ethics and the needs of the spirit. Such moral concepts include the ethical codes of an independent philosopher as well as the values implicit in the rationale for bureaucratic or professional behavior.

In defining public morality as it affects an issue, a simple pragmatic test is applied. Only those aspects are considered which have an effect on public policy. The scope is nevertheless broad. It matters not whether Bergson thought that "universal love" was an imperfect philosophical perception or that Camus at times was critical of "hope." Both "hope" and "universal love" are part of the political scene and affect the political process. They are real though imperfect.

The other half of the subject, aid-giving, is defined as the provision of resources to poor nations by private Americans or official agencies (a) on a concessional basis and (b) for development purposes. This definition includes most concessional economic assistance and voluntary agency work but excludes resource flows which are self-serving in the economic or political sense. Flows passing through a "soft loan window" of the Export-Import Bank for example would fit the definition only to the extent they serve "development purposes" as seen by the donor.

Intent is part of the definition. For purposes of this discussion the act of aid-giving is counted in the first instance as good, even if the effect on the recipient is not benign. Public acts are seldom the result of simple motives. Moral aspects are frequently stressed when other self-interest motivations are hidden. On the other hand aid may be given with pure goodwill and later perceived as not good. But this takes nothing away from such acts qualifying "good" in terms of motivation. Intent is the essential connection between authority, judgment and action.

The problem is to analyze (a) what the American public considers right to do in providing resources on a concessional basis for development purposes, and (b) the political effects of these attitudes. We proceed with a description of the component parts of the public morality as applied to aid-giving.

1. The concept of charity

Charity is the oldest and simplest of humanitarian acts and, consequently, the most commonly (a) recognized as "good" and (b) used as a cover for hidden motives.

The Christian tradition has provided American culture with conflicting concepts of how charity is given. The traditional Catholic view was related to the doctrine of "good works." Giving to the poor was seen as an act of gaining grace, and therefore could be done with the intent of benefit to the donor. The later Calvinist concept was also related to doing right in the sight of the Lord and also to helping the "deserving poor." Is charity given today for its own sake, for the sake of one's own spirit, or for the sake of helping others? What little is known about popular attitudes suggests that all these ideas exist side by side in the American mind.

In public action a leader's statements are meant to appear as "good." A great deal of rhetoric is uttered by opposing sides to show the rightness of their cause, and, indeed, to define what is "good." President Nixon's comment that the phrase, "law and order" is not an evocation of "bigotry" but of "goodness and decency" provides a recent example. Nietzsche foresaw at the end of the last century that the process of theorizing may inevitably lead to a reversal of definitions. Public debate in the United States, aided by the modern media to whom goodness is as saleable as sex, has borne out this prophecy.

Charity, the oldest of motivations in terms of doing right by the poor, is the most distorted. Charity as an individual act may follow from a purely "good" motivation, but in the aggregate sense it is likely to lose this pristine quality. Because charity is so widely recognized as a moral act at the individual level it can be bent to rhetorical purposes by politicians. Public opinion polling on this point is clear; people want to do good or appear to be good. They may hide their true motives. This matters not to the politician, so long as the motivation has real political impact.

It is possible to subdivide the aspects of charity as a force in public morality. On the positive side are (a) helping the poor and (b) doing good for its own sake.

As moralists point out, there is a negative side including (a) the "guilty conscience" which utilizes charity as a means of paying a reparation by the rich to the poor; (b) paying the poor to get them out of sight, and finally (c) security or forestalling violence by, in effect, bribing the poor to keep their place. The reader may wish to test the incidence of these reactions on himself by recalling his or her own reactions to the approach of a beggar.

The negative aspects, more than the positive, seem to come through in translation from individual to public motivations. The question of the guilty conscience or payment of indemnity has been a consistent element in the anti-poverty program in this country, although it does not figure in the literature of development assistance, a fact which suggests that reparation is only needed for those groups with whom a people has had relations about which they feel guilty. The distant poor are not seen by the public as coming within this ambit.

The visible poor, however, are no longer those in the local community. The television tube and the motion picture are bringing Calcutta to Biloxi. The strong response of American private charity to the Managua earthquake was testimony to the power of the TV image. TV brings human suffering up close; "charity" may in part be given to turn off image.

In the past generation security has been a dominant theme in the American dialogue, at home and abroad. Violence by the poor has also been brought home by urban unrest. It is not clear, however, how this threat is seen in international events or whether the average American feels any particular threat from the starving masses in Asia. Polling data does not show this to be a significant factor, although the emerging use of violence by such groups as the Black September Movement could eventually change the public perspective.

Charity is the most difficult aspect of the morality of aid-giving because it has been so modified by other influences. The remaining factors, while they may all operate together with, and derive some strength from, the traditional motives of charity, are more precise.

2. Social Interdependence

This factor operates on the authority of behavior codes of ethnic or religious groups toward counterpart communities in the developing world. Social interdependence has been a part of American foreign affairs from the beginning. Strong ties of Anglo Saxons to Great Britain, the various Deutsche-Americaner Bund are older examples. In this century are the American role in the creation

of Israel and, more recently, the interests of Black Americans in Africa. The reaction of Americans has changed with their increasing wealth toward a growing concern for the overseas poor.

Group identification of this kind is selective; in most instances its impact is limited solely to foreign counterparts. But this is not always the case; the U.S./African movement at this point identifies generally with the cause of development. As it matures, however, it may follow the previous pattern of increasingly turning its attention to Black Africa and the Caribbean.

Is such support for development assistance from this quarter a matter of public morality? The pragmatic test is met -- aid-giving is seen as a public good by the members of groups and by the society as a whole. The impact on policy is strengthened by the feeling of these groups that they are minorities competing with others for resources, a feeling which intensifies their efforts to effect public policy.

3. Integrity

This is another group factor, determined by a group code, in this case national ethics. Its operation is at both the public and individual level. The integrity factor can be defined in several ways. Perhaps the most direct expression is found not in the U.S. but in a remarkable publication of the Canadian Secretary of State for External Affairs in Ottawa in 1970. In explaining the Canadian rationale for development the Ministry said:

" One basic value of Canadian society is the importance of the individual person, and of his rights and welfare. This value has a long heritage in our culture; it can be traced from one of the central tenets of the Greco-Judeo-Christian ethic. During medieval and early modern times, this ethic was adopted and translated into the legal and political systems which Canada has inherited. Those systems, imperfect though they may be in practice, are based on the tenet that all individuals in a society have both rights and obligations toward other citizens in that society, because the potential of that society cannot be realized unless the potential of each of its members is also realized . . .

" The increasing awareness of poverty in the developing countries will thus be imposed upon a Canadian society in which concern for the welfare of others is one of the central values. To ignore that awareness would therefore be tantamount to a regression to a form of society in which the values of that society are inverted at its boundary. On the other hand, to recognize and act on the awareness would, in a real sense, reflect, extend and reinforce those values which are central to the creation of the kind of society which Canadians wish for themselves . . .

" We could not create a truly just society within Canada if we were not prepared to play our part in the creation of a more just world society. Thus our foreign policy in this field becomes a continuation of our domestic policy."

A second formulation was stated by President Nixon in his Second Innaugural when, after discussing foreign policy, he made this transition to domestic affairs:

"Let's accept that high responsibility (of building peace) not as a burden, but gladly -- gladly because the chance to build such a peace is the noblest endeavor in which a nation can engage; gladly also because only if we act greatly in meeting our responsibilities abroad will we remain a great nation and only if we remain a great nation will we act greatly in meeting our challenges at home."

Another expression of this factor is described in the actions of the Senator who votes on international issues in order to be a "statesman" and to set himself apart from his colleagues who may be governed by special interests. This can be a case, like charity, of mixed motives. Being "good" serves the politicians' self-interest.

The integrity factor often appears with regard to aid-giving. Foreign aid bills have more often than not passed the Congress when the tenor of debate and political pressure stood against them. The integrity of the nation or the approach to statesmanship, particularly in response to Presidential leadership, has been an effective counter-weight.

The integrity element is particularly important because it fits easily into American policy formulations. It gains strength, moreover, since it also serves the practical need to be consistent in policy design.

Integrity, however, is not always dominant, e.g. the earlier issue of whether "the Constitution follows the flag" and some of the later agreements over Vietnam. Nevertheless in the hands of a strong President who has established his moral authority it can be decisive.

4. The Ethics of the Professional Elite

The technocrat does not live in a moral vacuum even if his calculations make no allowance for such factors. The development professional is usually well aware that his job is intended to do good. He draws psychic income from this awareness, which in turn may increase the intensity of his own efforts and the moral authority with which he states his case.

This development professional is not alone. The conservationist, soldier, policeman, all have such views of the work, expressed not solely in terms of individual behavior but in terms of the group effort -- or even a "movement." These ideas are frequently associated with implicit faith in technical processes and material progress, both ideas sustaining the moral authority of the profession and very often turning the viewpoint of the group inward. In the development process it may easily lead to less concern with the moral value of outcomes than with inputs. It is interesting to note that among development specialists there is more talk about the morality of aid-giving (a fund-raising device) than the morality of aid-receiving.

5. Human Identification

Alongside the virtues of charity as determined by tradition or religion there are moral values derived from the perception of human sameness. This perception has a religious basis in the Fatherhood of

God. It is found frequently in poetic expressions; "No man is an island," and it is an essential element in socialist thinking, i.e. the unlimited brotherhood of workers. The identification factor is often separable from the broader idea of charity because (a) it rests on existential authority without prior teaching, and (b) it may effect aid-giving even when there is no perception of the donor as rich and the recipient as poor, and (c) the idea can be transferred instantaneously by television. Identification, operating via the transmission of images, may well precede the urges of charity since it is often a psychological or subconscious response. Identification may apply in aid-giving as much to donors (like Tom Dooley) as recipients. It can work wherever one person puts himself in another's place. In the broad philosophical sense, identification may include a large component of self-interest in the sense that the human species seeks to preserve itself. The Apollo view of the earth from the moon has undoubtedly heightened such perceptions.

6. The World as a Common Home -- Global Awareness

Related to identification is the view of the planet Earth a home to be preserved from destruction and kept healthy by a balanced process of development. As the ecology movement in the United States has shown, there is a strong spiritual aspect to this idea, again reminiscent of the concept of the Fatherhood of God who created the earth. Perhaps the clearest expression comes from turning the idea around (per St. Thomas Aquinas) -- the existence of the earth is one of the proofs of the existence of God and consequently its careful preservation as His creation serves a fundamental need of the human spirit.

The global aspect has also been brought into focus by the Apollo view. It is at the heart of many of the arguments about economic

interdependence. Its importance to public policy is probably related to emergence of a global, as opposed to national, awareness of international problems.

The cosmic view takes its authority from religious and poetic tradition as well as from existential attitudes and philosophy. Its authority in public policy is not strong, and its effects may not run much beyond the UN and other international organizations. Its potential, however, is very large, and it is likely to be a much stronger force as future generations gain a global perspective.

The Effects of Public Morality on Development Policy

Having identified the various aspects of public morality related to aid-giving, the next step is to see how they operate. Evidence is not easy to come by. There are but a few places where these effects can be observed.

(a) Capitol Hill

Charity is rarely regarded as a virtue in the halls of Congress. A common though conservative view is that of Mr. Robert Price of Texas who said:

"But I believe one point is paramount in importance -- namely, the time has come for America to stop playing Uncle Sam -- let our foreign policy, and in particular whatever foreign aid program we henceforth fashion, truly reflect an "America First" policy. No nation in history has ever matched the generosity we have shown to others."

(Congressional Record, November 3, 1971,
page E-11742)

Politicians after a generation of foreign assistance programs are inclined to overstate the amount of U.S. official aid. In 1971 Chairman Passman cited a figure of \$13.5 billion in new requests with \$24.5 still in the pipeline. Senator Proxmire estimated that the figure was in excess of \$10 billion, though he made a distinction between flows for development and other purposes. The OECD Development Assistance Committee in 1971 put official U.S. flows for development at \$3.3 billion.

"American generosity" is seen historically as large and currently as much greater than it is. This has created a treasury of grace. There often seems to be no immediate need to satisfy the moral call for charity. But there are occasions when it appears:

"Mr. Gross -- How about the program which UNICEF is said to be starting with North Vietnam? Is there anything like that ...

Mr. Passman -- I am not going to quarrel about UNICEF. That is for little children. I do not know where all the little children are but I know that a child in Louisiana is just about as important as a child in Iowa, and I also think that maybe a little baby is entitled to as much help in one poor country as in another. This is for the little children, the crippled children, and I am very proud that this committee always recommends the full amount. I don't know where all of it may be going.

Mr. Gross -- I am talking about UNICEF in North Vietnam whose principal ...

Mr. Passman -- I defend babies everywhere. "

But the uses of charity, as Mr. Passman would agree, are few. The conflict between helping the poor abroad and helping the poor at home has not only reduced potential aid flows but undercut the charity and identification arguments as well. There are the poor at home to be considered, and for the same reasons. The national integrity argument which might provide an effective counterweight may not prove strong enough to retrieve the moral balance -- or rather, when faced with strong economic arguments, none of the moral ones are likely to produce an effective response.

A recent exception is Bangladesh, for which, despite political difficulties with the Administration and all the constraints mentioned above, aid has been regularly voted in sums of \$200 million per annum in the past two years. The explanation seems to lie in public response to TV reporting and subsequently to public pressure on Washington on humanitarian grounds. This suggests the workings of traditional motives of charity plus a good bit of identification. Public responses of this kind are typically short-lived. To effect policy they must be quickly directed into an institutional frame; otherwise they die out. In the case of Bangladesh a very effective lobby was able to bridge the gap quickly and to lead the program into public policy before moral fervor evaporated.

Politicians have also responded well to the social interdependence factor although results have been uneven. Political support for Israel has been shown in recent weeks to be just about equal to an agreement with the Soviet Union. As for development assistance flows the impact is less apparent though it seems to be growing. Members of

the Black Caucus are showing an increasing interest in Africa and, indeed, a very intelligent one. Their understanding of development issues in many cases seems to be more extensive than many Members of responsible committees. A similar thrust toward Latin America may also be in the offing. There is ample preparation; many Members are supporters of "hemispheric solidarity."

The professional view of foreign assistance is heard by those interested in development but by few others. One or two Members have tried to become experts on assistance in their own right, but this is rare. The impact of the professional is probably much stronger on the Hill staff man who has a recurrent need for information on legislative issues.

Finally, in the Senate, and to a lesser extent in the House, a legislator sees himself at his best as a statesman who takes a broader view of world affairs than mere constituent interest. There is no organized lobby against development. Opposition accrues largely from Members who see in it a good instrument for demonstrating such tried and true political virtues as "fiscal responsibility" and protection of national priorities. The Senator with his six-year term, his ready access to television on issues of all kinds and his awareness of possibilities for advancement onto a broader scene (e.g. the Presidency) is more inclined to appreciate the values of the integrity argument.

Until recently there has been a strong consensus behind foreign assistance based on such factors. This view was buttressed by

the President's position as an international leader and the idea that development assistance was intended to bring to the rest of the world the benefits enjoyed in America -- another vagary of the integrity principle. In recent years the contradictions of Southeast Asia policy have eroded this base. But it has not altogether disappeared and may well reappear.

(b) Polls

Recent polling data made available by ODC again confirms that among reasons given by Americans favoring development assistance moral and humanitarian factors predominate. Among 1076 Americans interviewed last fall, 532 said they supported aid because (a) they feel the U.S. is wealthy, (b) they have a sense of obligation to the poor, or (c) they feel a need for a better world. There were only 34 negative responses. The remainder were scattered among a wide variety of ideas of all kinds. When asked which countries should be helped, 70% chose countries they thought were poor, overpopulated or otherwise in need of help.

Statistically significant responses to the question, "Why support foreign assistance?" included the following:

<u>Reasons</u>	<u>Percent choosing this among several choices</u>
Moral/humane/ought to/they need it	29%
To help countries gain self-sufficiency	18%
We have so much wealth	13%
Friends/allies	10%
Help them achieve a better life	8%

Among responses not significant statistically were such views as to gain from trade, to fight communism, to reduce violence and to keep down pollution. On the whole, the moral issue, for which the poll was not necessarily designed, came through very well. The motives of charity in the sense of consciousness of superabundant wealth and feelings of obligation come out along with more positive reasons. Pro-aid and pro-humanitarian responses seemed to be closely tied to income, i.e. morality is income elastic. When asked whether budget constraints should lead to reduced aid, upper income respondents were 51-48 opposed to the idea, while lower income were 51-33 in favor.

(c) Pattern of private aid-giving

As mentioned at the outset Americans give through private channels over 75 percent of the total world-wide flow of private development assistance. This figure, however, is misleading. Of the total sum of \$615 million available to voluntary agencies for overseas aid purposes in 1971, \$205 million was received in various forms of direct support from the U.S. Government and the remainder was subsidized to the extent of tax deductibility. A high portion (about \$195 million) was sent to Israel, an aid-giving nation whose per capita income ranks between that of Austria and Japan. Applying an average tax rate of 30% against income from which donations were made, a balance remains of \$150 million in net private contributions to developing countries.

This figure is subject to a little more deflation. AID's official accounting of Voluntary Foreign Aid Flows" includes the following items:

American Fund for Czechoslovak Refugees	\$ 215,578
American Relief for Poland	9,624
Boys' Towns of Italy	1,050,521
Polish American Immigration and Relief Committee	47,817
United States Foundation for International Scouting	442,535

A number of organizations qualify as aid-givers on the basis of philanthropy somewhat broader than "development purposes" as defined by OECD/DAC. The social interdependence factor seems to play a role. Private flows are clearly influenced by government policy and by what is acceptable in the American political process.

The figures again suggest that Americans are not as generous as they might think they are. Only about 25% of the \$615 million officially listed as private aid-giving involves real transfers to the developing world (a problem in deflation not confined to the private sector). Even so, the image of American generosity is sustained by the OECD/DAC figures, which some Americans believe understate US aid flows.

While private American aid-giving appears to be well ahead of other nations in terms of per capita income shares, this may not be the case. Although little data is available on net flows from other countries, they are probably less heavily subsidized. The U.S. contribution may be below its relative share in terms of income distribution among donor countries.

The amount of resources contributed privately for development purposes amounts to about 1% of total annual charitable contributions

in the United States -- a significantly lower proportion than the amount of official U.S. development assistance as a portion of all Federal expenditure on all forms of social and economic development.

Finally, the figures above do not include contributions made by foreign corporations to development efforts in poor countries or net contributions of foundations. Just how these flows would fit the mold of public morality is not clear, although certainly the efforts of the foundations are akin to charity. But even if these flows were the equal of net private contributions listed by AID, the relationships described above probably would not change very much.

(d) Lobby Groups

Where the moral factor has its strongest effect is among highly motivated lobbies, organized by women's groups, churches, labor unions, co-ops and business groups, to sustain official foreign assistance flows. There is almost no counter-lobby to aid but there is, and has been annually for almost a generation, a regular effort made on Capitol Hill to make the moral case for development.

These lobby groups are effective because they represent voting constituencies of independent strength whom Members have learned to respect. There is probably no more powerful force on the Hill than the AFL-CIO, which until recently has been a strong supporter of development because of its view of "worker solidarity" throughout the world -- another aspect of the social interdependence principle. Even now at the height of protectionist pressures on trade issues vestiges of this support remain.

The main force today comes from the humanitarian viewpoint of organizations like the American Association of University Women and the League of Women Voters and the strong appeal to "conscience" of groups like the Friends Committee on National Legislation. The Friends are particularly important as a Hill barometer on moral issues. Their consistent advocacy of peaceful action, particularly during the Vietnam war, has gained them respect on all sides, and their interest in development, recently expressed as "the rights sharing of the world resources" has helped keep the moral aspect of development in the foreground.

Womens organizations bring to bear a steady activism combined with broad rational perspective of public issues. Their emphasis on studying the issues has expanded argumentation for development on moral grounds well beyond the traditional aspects of charity or national integrity to rational concerns of interdependence and global awareness. They have moreover proved to be an important surrogate for the development professional, who, lacking a constituency, is not always welcome in political circles and whose approach to policy problems is often at odds with that of the politician.

The role of economic groups, such as the U.S. Chamber of Commerce and some trade associates, is often to provide a nexus between self-interest and public morality. In groups of this kind, as well as with labor and the co-ops, there is an overlap between professional solidarity, social interdependence, and economic motivations. These groups have a way of welding the moral argument with other pro-aid pressures. This point can be made by asking how much stronger will a

major corporation's interest in development be if it perceives that what is good for everybody also happens to be good for itself.

In sum the moral argument gives the development lobby energy and intelligence, but this is only an initial fermentation which permits other and perhaps more significant political forces to be deployed.

Concluding Thoughts:

The moral argument as applied to public policy is chimerical. An analogy to the relationship of sex to commercial advertising is irresistible. It promises much and is frequently perverse. Its rhetoric is overstated. Reality is considerably different than the appearance -- indeed, more striking where less apparent -- and frequently disappointing. Nevertheless in knowing and sympathetic hands it is a potent force particularly when buttressed by depth of understanding.

The older aspects of public morality associated with charity and social interdependence are the most consistently distorted. Their impact on policy is less than expected. Social interdependence in policy terms may be no more than a vector of charity giving it a geographical direction and determining priorities among scarce development resources both official and private.

The middle principles, integrity and professional ethics, are also established elements of the political process in one form or another. Both are elitist and behavioral in the sense that they influence decisions taken by relatively small groups of insiders. The integrity principle can also operate in the mass when propelled by a

national authority figure such as the President, and, once this authority comes into play, it opens up avenues for political work on a broader stage by the development cadre itself. Without such backing the professionals may find themselves helpless before the inconstancies of powerful politicians, who seldom listen to rational arguments that don't match their immediate needs.

Finally among the six factors above are two, identification and global awareness, whose strength lies in their potential. Public morality has been traditionally determined within a local American, as opposed to global, perspective. This worked well when the beneficiary of humanitarianisms were within America itself as in the eventual emergence of European immigrants. No matter how much they may have suffered in coming to America, no one can deny that they were ultimately better off. Acting within the scope of the national political conscience, they were sustained, and "good" results followed. Much of America's claim to moral stature in the world is based on the treatment of these people.

But development aid has gone to people beyond this perspective. If aid is given for a good purpose, its intent is sufficient to satisfy the moral criteria, seemingly no matter what the outcome.

The working of the principles of global identification and awareness, if they were to be generalized as part of American public morality, could reduce the gap between what Americans think they are doing and what the rest of the world sees. These concepts also have virtues of a certain honesty since they work equally on the donor and recipient and are free of the paternalism and invidiousness of that

relationship. These two ideas could be given currency and become understood by means of public education. If this were to happen much of the difficulty now encountered with charity principles might be overcome.

In general the moral argument when it comes to bear on policy serves the following functions.

First, it provides a benign atmosphere for the operation of more direct political forces involving self-interest.

Second, it stimulates small cadres of activists who can be effective at short range with decision-makers.

Third, it keeps alive the still small voice of conscience, and

Fourth, it provides a basis on which public authority, specifically the President, can rewrite policy.

Moral force, however, has not in the past been strong enough to effect aid-giving when it comes into conflict with larger forces, such as the call for national security or economic "self sufficiency," which are better established in the American political system. It is an interesting question whether moral force would be stronger if the public were better educated to its value. Polling information suggests that the public may be uneducated about the values implicit in a global perspective but that it has a fairly good perception of where the poor are.

The President, a Senatorial statesman, a Secretary of State with access to TV, are all likely to want to speak in moral terms in discussing public issues, but, without an educated audience, they may quote scripture as they like. As the experience of the League of Women

Voters and the AAUW suggests, the moral argument is much better used when combined with a deeper as well as broader perception of the issues.

John E. Merriam

REMARKS

Dons

I thought that you might like to have in your file a copy of Mr Merriam's statement to the Forum of Financial Journalists, New Delhi, India on Jan 8. Here are two copies
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Statement of John E. Merriam to the Indian Press - January 8, 1973

Among the member countries of the World Bank, India is exceptional because of its size, its diversity, the scope and difficulty of its development problems, and because of the scale of the Bank's activities here. Since 1949 the Bank Group has made 98 loans and credits to India with a total value of \$3,558 million. Of this amount and in response to India's special needs, two thirds of this was from IDA which makes loans on minimum terms. In the past five years (1968-1973) the Bank has lent \$210.5 million and IDA has made \$1,529 million available in credits. In 1973, the Bank lent \$ 70 million and IDA \$494 million; 1973 loans and credits are more than double that of 1971.

World Bank and IDA lending in India
During Fiscal 1973

(Amount in U.S. \$ millions)

<u>Purpose</u>	<u>Bank</u>	<u>IDA</u>
<u>AGRICULTURE</u>		
Agricultural Credit in Madhya Pradesh	--	33.00
Agricultural Credit in Uttar Pradesh	--	38.00
Agricultural Marketing in Mysore	--	8.00
<u>INDUSTRY</u>		
Development Finance Company (IDBI)	--	25.00
Development Finance Company (ICICI)	70.00	--
Fertilizer (Nangal)	--	58.00
<u>INDUSTRIAL IMPORTS</u>	--	100.00
<u>EDUCATION</u> (Agricultural Universities)	--	12.00
<u>TELECOMMUNICATIONS</u>	--	80.00
<u>ELECTRIC POWER TRANSMISSION</u>	--	85.00
<u>WATER SUPPLY AND SEWERAGE</u>	--	55.00
TOTAL	<u>70.00</u>	<u>494.00</u>

According to a recent history of the World Bank by Edward Mason and Robert Asher, "it is no exaggeration to say that India has influenced the Bank as much as the Bank has influenced India." In the evolution of the Bank as a world development agency, a number of new initiatives were first taken in response to India's needs.

... The Bank's experience in coordinating development assistance from several sources to a single recipient country began, for instance, in India in 1958 when the Bank organized the India Consortium.

... The Bank's first financing for a project to grow more seeds of high-yielding varieties of foodgrains was made in India in 1969.

... The Group's first operations in direct support of development of market centers for farm products was undertaken in India in 1972.

... ~~The Bank's~~ first integrated multi-sector urban development project was made this year in India in cooperation with the Calcutta Metropolitan Development Authority.

Perhaps it should be noted at this particular time that with the Government of India, the Bank was able for the first time in 1971 to lend for the procurement of tankers to reduce the transportation costs of petroleum supplies to a developing nation.

In recent years a large component of Bank lending to India has financed local costs. In the case of the Madhya Pradesh and Uttar Pradesh credits the local currency financing was over 50%. In other projects such as agricultural credit generally, credits for family planning and for agricultural education the local currency financing has been ever higher.

The critical factor in providing effective development assistance is the continuing availability of funds for IDA. At the Bank's annual meeting in Nairobi in September 1973, 25 donor countries agreed to a replenishment of \$4,500 million for IDA over the next three years. Unless these funds are approved by the parliaments of these countries by July 1, 1974, or unless stop gap measures are successful, IDA's commitment authority for new credits will end. At present parliaments are moving toward ratification.

The need for concessionary assistance to developing countries is highlighted by the worldwide increases in petroleum prices. As a result of the October price increases alone, the World Bank estimates that the oil import bill for non petroleum producing developing countries will increase from \$5,200 million in 1973 to \$27,000 million in 1980.

Toronto

F. Merriam
(Spetch)

Letters to the editor

OPEC

I wish to make several comments in response to your editorial, Help the Needy of OPEC (Jan. 11), which discussed World Bank lending to members of the Organization of Petroleum Exporting Countries.

The relation between the OPEC members and the World Bank is essentially a positive one—and one that helps the Bank to channel funds to poorer nations. Since Jan. 1, 1974, the oil-exporting countries have lent the World Bank about \$2.2-billion, substantially more than they have borrowed. In this way, they have benefited the poorer nations, and the world development process as a whole.

The amount of lending involved is not great in relation to total lending. Excluding Nigeria, Indonesia and Algeria, the Bank clearly is in surplus in respect to members of OPEC. Loans to OPEC countries—if one excludes these three nations—will run at less than \$200-million a year starting in fiscal year 1976. And if Iran is deleted, this figure would run at less than \$80-million a year. Bank Group lending for fiscal 1974 was \$4.5-billion.

Some OPEC countries have already indicated a willingness to pay for the technical assistance they urgently desire. It should be remembered that most members of the Organization of Petroleum Exporting Countries are still developing nations. Some consider they need the technical assistance and the expertise that come with a World Bank loan. As the net transfer of funds has been in favor of the World Bank, it is therefore in support of developing nations that depend upon the Bank for a large part of the concessionary funds they require to assist them in their economic progress. It is expected that in due course Bank lending to some of the OPEC countries will be phased out. Already some OPEC members—Saudi Arabia, Kuwait, Libya, and United Arab Emirates—are lending to the bank without applying for loans.

Since May of last year, the World Bank has borrowed almost \$900-million from Saudi Arabia, \$500-million from Venezuela, and \$16-million from United Arab Emirates without lending these nations a cent. It would not be in the global interest for the World Bank to suspend all lending to OPEC members. Therefore, for the time being, these lending activities are still considered highly important by the management of the World Bank.

John E. Merriam
Director, Information and Public Affairs
International Bank for Reconstruction and
Development
Washington, D.C.

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NEWS SERVICE

INFORMATION AND PUBLIC AFFAIRS DEPARTMENT

This news story appeared on page 1 of the 2/3/75 issue of:

- THE NEW YORK TIMES
- THE WALL STREET JOURNAL
- THE JOURNAL OF COMMERCE
- THE WASHINGTON POST
- THE CHRISTIAN SCIENCE MONITOR
- THE TIMES
- THE FINANCIAL TIMES

Note date

Five-year deal agreed between EEC and former colonies

Forty-six developing countries, most of them former colonies, will benefit under a new five-year agreement with the European Community concluded in Brussels over the weekend. Described as revolutionary, it could, in the opinion of Mrs Judith Hart, the British Minister for Overseas Development, be 'a forerunner of its kind on an international scale'.

Markets assured for 46 nations

From David Cross
Brussels, Feb 2

After 18 months of almost continuous negotiations, the final pieces in the intricate mosaic of an entirely new relationship between the European Community and 46 developing countries, mainly former colonies, were put into place in Brussels this weekend. At the same time, a deal between the Community and Commonwealth producers should secure the future of Britain's sugar supplies until the end of the decade. (Full report, page 4.)

The five-year relationship agreement, to be known as the Lomé Convention (after the capital of Togo, where it is due to be formally signed on February 28) covers trade, aid and cooperation links between the Nine and the 46 developing countries in Africa, the Caribbean and the Pacific (ACP).

In British political terms, the successful conclusion of the talks represents another important milestone in the Labour Government's EEC renegotiation campaign. Mr James Callaghan, the Foreign Secretary, called for "generous terms of access" to the EEC for agricultural and industrial products from some 20 Commonwealth countries when he started the renegotiation ball rolling last April.

When she emerged from a final 24-hour session of bargaining at breakfast-time yesterday, Mrs Judith Hart, the Minister for Overseas Development, was unable to conceal her delight. "The British end came out extremely well", she told reporters.

"The agreement could well be a forerunner of its kind on an international scale." As one of her aides pointed out with some pride, Mrs Hart had spent about 200 hours of her time negotiating the deal.

When asked what would happen to the convention if Britain should leave the Community, Mrs Hart said it would be up to the 46 to decide whether they wanted to retain links with Britain. Some of the Common-

wealth countries at least could still have links with Britain, along the lines of the trade and aid deal, but others—mainly the former French colonies—might not want ties to continue.

Mr Garret Fitzgerald, Foreign Minister of the Irish Republic, spoke for the Nine when he said that no group of nations had ever before worked out solutions to such concrete and specific issues concerning mutual relations.

For the 46, Mr Babacar Ba, the Senegalese Finance Minister, described the agreement as revolutionary in some of its aspects. He said it was extremely important that the traditional close relationship between Europe and an important part of the developing world should continue for the next five years at least.

The developing countries have secured a very attractive deal, as most of them concede. On nearly all counts the Community went a long way towards meeting their legitimate demands in effect for free access for their farm and industrial exports.

At the same time, the developing nations have, thanks largely to the efforts of the Commonwealth countries among them, retained control over the way in which they run their economic policies. They also have severed some of the more paternalistic links foisted upon the former French colonies among them under the Yaounde Convention, which the new agreement replaces.

The most important innovation in the whole package is the Community's agreement to help to stabilize the developing countries' foreign exchange earnings from 12 prime commodity exports, including iron ore, tea, cocoa, coffee, bananas and cotton.



Mrs Hart: "British end came out extremely well."

Under this so-called Stabex scheme, any of the 46 countries which depend for more than 7.5 per cent of their export earnings on one of these basic products will be eligible for financial help totalling nearly £200m over the next five years. The 24 least developed countries in the group—among them Commonwealth nations like Tanzania, Botswana and Swaziland—will qualify for help in lean years if their export earnings from these products drop by a mere 2.5 per cent.

The developing countries had asked for a total of about £4,000m in aid compared with the £1,700m finally agreed.

In the more general trade sector, the industrial exports of the 46 will be entirely free of customs duties and levies. There will also be tariff-free entry for practically all their agricultural exports.

The Commonwealth sugar producers won important concessions from the Nine on their EEC rum exports which will rise by up to 30 per cent a year.

All the details of the new conventions still have to be put to a plenary meeting of ministers from the 46 in Accra on February 11; but no one in Brussels expects this to be more than a formality.

STATEMENT OF JOHN E. MERRIAM, DIRECTOR
INFORMATION AND PUBLIC AFFAIRS
WORLD BANK



Dacca, February 26, 1975

In August 1972, Bangladesh became a member of the World Bank and IDA. Since that time the Bank Group, through IDA, its concessional lending arm, has extended to Bangladesh a total of \$369.9 million in credits. Of this amount, \$219 million is for new programs established since Independence.

Early in 1972 the Bank assigned nine staff members to serve with a special mission mounted by the United Nations to help estimate the full extent of Bangladesh's requirements for relief and rehabilitation. A separate Bank mission also visited Bangladesh in July/August 1972 to review the economic situation. In the light of this mission's findings, a \$50 million IDA credit was extended to Bangladesh in November 1972 to help finance imports of items which were urgently needed for the rehabilitation of the Bangladesh economy. The credit was used principally to finance the import of items for agriculture, communications, and industry. Two further similar \$50 million credits, aimed at increasing the productivity of Bangladesh's existing agricultural and industrial capacity, were extended in February and October 1974 respectively out of resources of the Third Replenishment of IDA.

In addition to this assistance, the Bank began shortly after Independence to prepare the way for the resumption of lending for development projects in Bangladesh. Much of this work initially concerned the reactivation of unfinished IDA projects which were interrupted by the events of 1971. At that time, IDA funds totalling about \$100 million were still undisbursed for projects for the development of agriculture, education, industry, transportation, telecommunications, public utilities and cyclone reconstruction. Arrangements for these projects were reviewed jointly by the Government and IDA and modifications made where considered appropriate. Eleven new agreements for the completion of the projects were signed. Pending the resumption of IDA operations, Sweden extended an interim credit to Bangladesh of \$11 million to permit urgent work on the IDA projects to be resumed.

While the reactivation of unfinished projects in Bangladesh was moving forward, the Bank initiated steps, in close consultation with the Planning Commission, to formulate other projects and programs for Bank/IDA assistance. Attention has been and is continuing to be focussed particularly on the key sectors of agriculture and water resources, rural development and population planning.

In January 1975 the Fourth Replenishment of IDA came into effect adding a total of \$4.5 billion to the resources of the Association. Bangladesh has been IDA's second largest client in recent years and should benefit considerably from this action. For example, on Tuesday, February 24, the Bank's Board approved an IDA credit of 15 million for a population planning project.

A description of the project and a background note on the Bank's activities in Bangladesh is attached.

From: J. E. Merriam:
Promised at Mar. 2 Staff Meeting.

Mrs. Bonstein
Mongue
Feb 27, 1976

INTERNATIONAL DEVELOPMENT ASSOCIATION



Purpose and Work

1. IDA credits are made to the poorest nations, 55% of the total population of the developing countries. In FY75 and FY76 90% of IDA credits will flow to countries with per capita incomes of less than \$200. In the current year 60% of IDA's projects are aimed directly at the poorest in those target countries, the largest target being the rural poor. In FY75 and FY76 IDA lending will benefit approximately 18 million of the rural poor, at least doubling the income of project participants and substantially increasing food production.

2. IDA seeks via effective deployment of capital to make the poor more productive. In FY75 IDA projects had an average rate of return of 24.4%. Higher yields (average 28%) were gained in the agriculture sector. The amount of food generated by IDA lending over the past two years, given continuing favorable conditions, is projected at 6 million tons of food grains with a value of \$1.5 billion annually. One project in Bangladesh alone will increase grain production by 400 thousand tons.

3. The IDA process is succeeding, as shown above, in reaching a significant portion of the 700 million rural poor in the developing countries, increasing their standard of living, making them active participants in the world's economy, and cutting into the local food deficit, which can no longer be covered solely by transfers from North America. Other aid agencies in the United Kingdom, Canada, Germany, Sweden and elsewhere are following IDA's lead in reaching out to the rural poor.

4. IDA was created with the initiative of the United States as a means of sharing the aid burden with all developed countries. 25 nations now participate in IDA (including Switzerland). Discussion of a Fifth Replenishment is now beginning and includes representatives of capital-surplus oil exporting countries. Other nations have consistently expanded their efforts in IDA, now providing 67% of IDA funds. They have allowed the U.S. to delay and to stretch out its payments under the Fourth Replenishment.

The U.S. Share

5. The U.S. share of IDA at 33-1/3% (to be paid in four instalments of \$375 million each) represents an aid effort on a per capita income well below that of other donors. Based on 1975 GNP figures other donors are contributing .043% of GNP to IDA, while the U.S. contribution comes to .034%, i.e. the U.S. share in IDA would be nearly 30% larger were it sharing the burden equitably in terms of GNP.

6. Unless the United States is able to deposit its first instalment of \$375 million, the agreement on the Fourth Replenishment negotiated in 1973 calling for contributions totalling \$4.5 billion, could well unravel. The United States cannot honor its obligation without reasonably timely appropriation of the full first instalment. The consequences of a failure to do this on IDA, as an international burden sharing effort, would be substantial.

7. In the last three replenishments (since 1968) other governments have come forward repeatedly to make it easier for the United States to participate: first, by allowing U.S. payments to be made after all others are in (Second Replenishment); second, by making advance contributions to keep the Association going pending U.S. ratification and deposit of funds (Second and Third Replenishments); and, third, by allowing a reduction of U.S. share to 33-1/3%, a year's delay in making its first instalment, and a stretching out of payments (Fourth Replenishment). The U.S. is now in default of the Fourth Replenishment. Failure to honor its responsibilities might well dissuade other donors from continuing to participate in IDA.

February 27, 1976