ECONOMIC AID RECONSIDERED

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P-2217

February 14, 1961

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I

Three years ago, Professor Milton Friedman, of the University of Chicago, wrote a sharply critical article on the subject of foreign aid. Entitled "Foreign Economic Aid: Means and Objectives," (Yale Review, Summer, 1958), the article argued that "despite the intentions of foreign economic aid, its major effect, insofar as it has an effect at all, will be to speed the Communication of the underdeveloped world." Coming from an economist as deservedly distinguished as Professor Friedman, these are inflammatory words. They are accompanied by many others of a similar intensity. But there is a wide gap in the article between the vigor of its criticism and the rigor of its analysis. My main purpose in writing this paper is to suggest just how wide the gap is. Moreover, the subject is perhaps even more timely now than it was when the Friedman article was published. The U.S. balance-of-payments deficit, and the adverse turn of political events in Laos--a heavy aid recipient in recent years--, have given arguments concerning the unwisdom of economic aid a new, and I would say ill-advised, palatability and respectability in some quarters.

In the course of these comments, I will be less concerned with "making a case for" foreign economic aid than with dispelling some of the general arguments against it which the Friedman article advances. Beyond this, I hope to suggest what I think are reasonable objectives of economic aid--"reasonable," in the sense that there is a significant
probability that aid programs can really contribute to them--and to suggest, as well, the distinct limitations of aid as a means of accomplishing other objectives.

Economic aid is, after all, just one instrument of foreign policy. Diplomacy, the positioning and composition of the armed forces, military aid, public information and cultural relations, commercial and trade policy are other foreign policy instruments. But this does not mean that all foreign policy instruments are applicable to each foreign policy objective. Some instruments are, in fact, quite inapplicable to particular objectives simply because there is no predictable relationship between these instruments and the particular objective. The point is obvious, but it is especially relevant to economic aid. Disenchantment with aid often arises from judging it by quite unrealistic objectives in the first place. People who start out from the premise that aid should do more than it realistically can be expected to do, frequently end up convinced that it can do nothing of value at all.

II

Basically, Friedman's criticisms are not ostensibly concerned with the question of objectives at all. He acknowledges at the outset that it is an appropriate objective of U.S. foreign policy that the less-developed countries "satisfy their aspirations for economic development as fully as possible in a democratic framework." If economic aid can make a contribution toward this end that is sufficient relative to its costs, it presumably would be justified for Friedman, as it would for me. In fact, if the marginal contribution were sufficiently great, the inference would follow that U.S. resources devoted to economic aid
should be expanded—a proposal which has been made by two "task force" reports on the subject to President Kennedy. The burden of Friedman's argument is not that the objective is unsuitable, but rather that economic aid is an ill-suited means for attaining the objective. And his verdict that aid is ill-suited rests on the emphatically negative answers he gives to two questions: (a) is government aid "likely to promote the economic development of the countries to whom it is granted?", and (b) will its "political effects in those countries promote democracy and freedom?"

The second question, he asserts, is "easy to answer and admits of little dispute." Friedman's own answer is based on the following propositions: (1) Aid is extended on a government-to-government basis, and hence tends "to strengthen the role of the government sector relative to the private sector"; (2) "Democracy and freedom have never been either attained or maintained except in communities in which the bulk of economic activity is organized through private enterprise"; and, therefore, (3) Aid reduces prospects of political evolution along democratic lines in underdeveloped countries.

I believe Friedman's argument is incorrect on two counts. Its factual assertions are inaccurate; and the conclusion drawn wouldn't logically follow even if the factual assertions were assumed to be accurate.

First, on the facts. It is true that aid is extended on a government-to-government basis, but it is not true that economic aid tends to "strengthen the government sector relative to the private sector." Leaving aside for the moment the conceptual ambiguity of the
quoted phrase, the facts are more complex, and less conclusive, than Friedman's assertion implies. Often the effect of aid has been to reduce the encroachment by government on the private sector. The point isn't whether government projects receive aid, but whether, in the absence of aid, the pinch would fall on public or private projects. Probably it would fall on both, but there are two reasons why pressure on the private sector would very likely be greater than on the public sector. The first reason is that the zeal of governments and peoples in many of the less-developed countries for the development of sectors in which private investment has traditionally been negligible would result in a strenuous effort to sustain public investment at the expense of the private sector, in the absence of aid. The étatisme which understandably worries Friedman would very likely be greatly increased in a country like India, if foreign economic aid were eliminated or sharply reduced, by drastic efforts to capture private savings for public investment projects. This isn't to say that some efforts to increase private savings may not be warranted and desirable anyhow. There seems to be fairly widespread agreement, for example, among both Indian and American economists who have studied the problem that additional taxation, even of a mildly regressive sort, would be both feasible and desirable as a way of increasing the resources available for economic development. But, in the absence of aid, measures to capture additional resources for public projects would very likely become so intense and authoritarian that pressure on the private sector would rapidly erode it.

The second reason is that, in the absence of aid from the U.S., the underdeveloped countries would be very likely to receive increased
aid from the Communist bloc. The fact that the Communist bloc would become the only major source of inter-governmental aid would be as important as the increased amount of Soviet aid. One could argue that, given substantial and efficient U.S. aid programs, additional Soviet bloc aid programs need not be feared and might even be welcomed by the U.S., as well as by the recipient countries. But, in the absence of U.S. aid, the Soviet bloc could exploit the additional influence which its monopolistic position would provide. This influence would surely not be directed toward the growth of a vigorous private sector.

There are other ways in which U.S. aid to government projects helps the private sector. One way is by widening the market for private sector output as a result of the increased public-sector demand. Another is by increasing the supply of inputs which are complementary to private enterprise. Consider, for example, U.S. aid for projects like community development, or irrigation, or fertilizer distribution, or river valley development. These are, typically, government-to-government projects, but they generally have the effect of providing inputs which raise the productivity of privately-owned agricultural and industrial enterprise. Would their diminution more seriously weaken the private sector or the public sector? On balance, I would say the private sector. At the least, Friedman's general assertion to the contrary is quite untenable.

Next, consider his assertion that democracy depends on the bulk of economic activity being "organized through private enterprise." I can think of no historical example that obviously negates it, although the assertion does leave open how much comprises "the bulk" of
economic activity. But granting this assertion, and even if it were true
that aid tends to increase the relative size of the government sector,
it does not logically follow that the effect of aid will be adverse to
democracy and freedom.

It is a tricky business to estimate how much economic activity is
"organized through private enterprise," to use Friedman's term. It can,
for instance, be measured in terms of how much of the national product
is produced by private enterprise and how much by government; or by how
much of the final product is purchased by private individuals or
institutions, and how much by government; or by how much is expended
by private income earners and how much by government. The first measure
will yield a higher figure for the government sector than the second
since, in all non-Communist countries, some of what is purchased by
government is produced by the private sector. And the expenditure measure
will show the highest share for the government sector, because part of
government expenditures represents income transfers (like veterans'
bonuses, unemployment benefits, interest on the public debt, etc.) which
are not included in government purchases of goods and services.

If one is concerned loosely with the question of the extent of
government "influence" or "intervention" in the economy, as Friedman is,
the third measure is probably the best of the three simply because it is
the largest.¹ Considering the underdeveloped country with the best statistics,

¹Clearly, government influence can be exercised by legislative and ad-
ministrative controls which don't carry a direct monetary cost. But if the
extent of these controls is not generally correlated with government ex-
penditures, purchases or product, it is not clear that any precise meaning
can be given to such terms as the amount of "economic activity organized
through private enterprise," or the strength of "the government sector rela-
tive to the private sector."
India, which is also one with a relatively active government sector, the proportion of central government expenditures in gross national product in 1958 and 1959 was 12.6 per cent and 12.9 per cent, respectively. In the U.S., by comparison, the corresponding share of federal government expenditures in the national product was 18.8 per cent and 19.7 per cent, respectively. If we add to federal government outlays those by state governments, the resulting share for the U.S. was 25.1 per cent and 25.7 per cent for 1958 and 1959. In India, the share of gross national product represented by central and state government expenditures was 18.1 per cent and 18.5 per cent for the two years. If the extent of government activity were instead to be measured by product or by purchases rather than expenditures, the figures would be smaller still. However one looks at it, the overwhelming "bulk" of economic activity in India, and to an even greater extent in most other underdeveloped countries, is "organized through private enterprise." The above figures could be doubled and the statement would still be valid.

The point is simply this: even if the effect of economic aid were to increase the relative size of the government sector in underdeveloped countries substantially (a premise which, as we have seen, is highly doubtful), it would still be true, over a wide range of such an increase, that the "bulk of economic activity" would remain "organized through private enterprise." For Friedman's reasoning to hold, we would have to accept the hypothesis that any increase in the relative share of the government
sector somehow reduces the degree of freedom, or raises the probability that the government sector will eventually encompass the "bulk of economic activity", even if the increase still leaves the government sector small relative to the economy as a whole. This is a much stronger hypothesis than the one he explicitly advances. It is one thing to say that democracy requires the bulk of economic activity to be in private hands, and quite something else to say that democracy also requires that there be no decrease in the share of economic activity in private hands, or that any such decrease reduces the degree of, or prospects for, democracy. As far as I know, there is absolutely no empirical justification for the stronger hypothesis, and Friedman offers none. Some examples seem quite inconsistent with it. In West Germany and Italy, for instance, the private sector was relatively smaller in 1959 than it was in the early 1950's, and yet I doubt that Friedman would argue that democracy and freedom have been correspondingly weakened. International comparisons make the stronger hypothesis look still more absurd. The United Kingdom, with a relatively large government sector, would emerge as "less democratic" than West Germany or Italy or India; and the U.S. itself as less democratic than West Germany!

The common-sense of the matter would appear to be that, in most underdeveloped countries, there is plenty of room for growth in the absolute and relative size of the government sector without compromising prospects for democracy and freedom. Moreover, if expansion in the government sector is itself a response to widespread popular aspirations for accelerated economic growth, the consequence is very likely to be a strengthening, rather than a weakening, of prospects for democratic political
evolution in the underdeveloped countries.

To summarize what has been said: A good case can be made for the contention that, as a result of economic aid, the private sector in most underdeveloped countries is very likely to be absolutely and relatively larger than it otherwise would be. Moreover, even if the government sector were to grow relative to the private sector as a consequence of aid, rather than independently of aid, within fairly wide limits such growth would be quite consistent with a maintenance of the bulk of economic activity in private hands, simply because the government sector in underdeveloped countries is so small to start with. Finally, whether some growth in the government sector relative to the private sector strengthens or weakens prospects for democracy, is apt to depend on what political, economic and social changes are accomplished by that growth, and on how responsive the government is to the will of the people—neither of which can be inferred simply from the growth of the government sector alone. Proponents of foreign economic aid shouldn't claim more than this.

III

Whether or not economic aid results in an expansion in the relative size of the government sector, it remains legitimate to ask, as Friedman does, if such aid is "likely to promote the economic development of the countries to whom it is granted." Friedman again answers, "Emphatically, no," for three reasons: first, the developmental effect of adding to a recipient country's resources is more than offset by the stimulus provided by aid to wasteful use of both the aid and the country's own non-aid resources, as well; second, if a developing
country wanted to develop badly enough, it could extract sufficient savings from its own economy to meet its capital requirements without aid; and third, aid tends to sustain or strengthen government planning of economic development, and government planning is the surest way to stifle develop-
ment. To save space, I have paraphrased his arguments, without, I hope, distorting them. But no matter how they are put, they should be recognized as statements of ideology and doctrine, not of factual or logical analysis.

Consider the first point. Friedman contends that economic aid conduces to wasteful "monument-building" because it makes resources available to underdeveloped countries "at little or no cost." But clearly there are appreciable "costs" attached to aid. I am not thinking here simply of the "hardness" or "softness" of interest and repayment terms, which in most cases I would argue are quite properly lenient, and perhaps should be more so. As long as one accepts the obviously valid assumption that the quantity of aid available isn't unlimited, there are always appreciable costs attached to aid. Freshman economics tells us that the "real" cost of using any limited resource for a particular purpose is the returns that are foregone by not employing that resource in its best alternative use. From the standpoint of any recipient country, these "alternative" or "opportunity" costs are positive and large, even if the aid is an outright gift.

Moreover, recognition of the reality of "opportunity costs" doesn't require that the populations or governments of underdeveloped countries attain a high degree of economic literacy. All it requires is that one government ministry be able to recognize that the use of scarce aid
resources to build a "monument" desired by another ministry means that much less available for investing in the productive projects desired by the first ministry. And it requires, further, that people outside the government be able to recognize that wasteful use of government resources—whether derived from foreign or domestic sources—means that much less available for meeting the compelling needs of the public itself. Neither of these minimal requirements is unrealistic. Typically, both are actively operative, and their joint effect is generally to conduce toward economic use of the aid that is provided to underdeveloped countries.

There is another incentive toward efficient use, as well. The relationship between aid-source and aid-recipient is a continuing one. To the extent that the recipient's anticipation of future aid depends on his efficient use of current resources, he will have a strong incentive to limit monuments and waste. As in the case of opportunity costs, the "future-flow" incentive can operate regardless of whether or what repayment terms are incorporated in government-to-government agreements.

In practice, of course, there are many slips and inefficiencies. Anyone familiar with U.S. or international aid programs can't ignore them, and shouldn't defend them. But to say, as Friedman does, that aid is typically wasted because it is costless, is not only bad economics, from a theoretical point of view; it is also a wrong-headed characterization of the actual record of government aid programs.

His second point is based on the contention that external aid is really superfluous. The underdeveloped countries are not too poor to
provide capital for their own development. After all, "currently developed countries were once underdeveloped," and they managed to eke out a surplus above subsistence requirements in order to provide capital for their development. The currently underdeveloped countries could do likewise, simply by offering sufficient incentives to domestic saving and to foreign investment. Their failure to do so results from a lack of will, rather than an absolute lack of resources. If they had the will, foreign aid would be superfluous. Moreover, Friedman contends, aid is even worse than superfluous, because it tends to "reduce the pressure on government to maintain an environment favorable to private enterprise." Consequently, he concludes, "the final result of our grants is therefore likely to be a reduction in the amount of capital available from other sources both internally and from the outside."

There is an 18th century nostalgia to these arguments, but they deserve reply, both because of their source and because of the extent to which they diverge from currently accepted views. Consider, first, the analogy between currently underdeveloped countries, and the currently developed countries before they developed. From an economic viewpoint, probably the main imperfection in the analogy is that the relationship between income and natural resources on the one hand, and population on the other, is tighter in the currently underdeveloped countries. The physical hardship accompanying self-financing of development in the presently less-developed countries would thus be more acute than it was in the 17th and 18th centuries in Western Europe, or the 19th century in the U.S. To some extent, this may be offset by the fact that the currently underdeveloped countries are "late-comers" and hence can draw on technological possibilities that were not available
to the early arrivals. But the offset is probably only partial. The economic problems of the currently underdeveloped countries are just harder.

None of this touches the core of what is wrong with Friedman’s analogy. The big differences aren’t economic, but psychological and political. The currently underdeveloped countries live in a world populated by countries which have already developed, and which display the fruits of their development in higher living standards and greater power. The effect of this demonstration is to heighten the aspirations of the currently underdeveloped countries, and intensify their impatience for development. The acceptable time period for development is consequently much shorter than in the classical examples of development. Diffusion of suffrage in the underdeveloped countries means that governments which tolerate the pace or the inequalities of 17th and 18th century European development will probably not survive. The crucial political difference characterizing the present development context is the obvious one that the currently underdeveloped countries live in a world in which communism is a tangibly real alternative route to economic development. Hence, the risk of delayed development is just much greater in the currently underdeveloped countries. In effect, Friedman’s analogy is misleading because the urgency of development is greater and the available resources smaller in the currently underdeveloped countries than in the classical examples he has in mind.

But what of the argument that the net effect of foreign aid is to reduce the capital that is available by reducing ”the pressure on (recipient) governments to maintain an environment favorable to private
enterprise?" Implicit in this assertion is the view that in the absence of aid, the "environment" would be more favorable to private enterprise. This prognosis seems to me quite unsupported, and, for reasons I've already mentioned above, unsupportable. In general, the effect of foreign aid, as I have seen it operate in South and Southeast Asia, has been to make foreign exchange more readily available to private enterprise, to lower the cost and increase the supply of publicly-provided inputs to private enterprise, and probably to lower the taxes that otherwise would be levied on individual and corporate incomes. In this connection, it is notable that during the past ten years of India's foreign-aided development plans, private enterprise has been more buoyant and expansionist than ever before. I am not denying that private domestic and foreign enterprises have their troubles in underdeveloped countries, or that governmental bureaucracy accounts for much of these troubles through capricious allocations of foreign exchange and through discriminatory collection of taxes from honest firms. What I am suggesting is that, in the absence of aid, these troubles would probably be more acute. Pressures on private enterprise would intensify, not abate. It is, of course, almost as hard to substantiate this prognosis as Friedman's. But beside the Indian example, I would also note that in every underdeveloped country I am familiar with, private business organizations strongly support the need for and desirability of foreign aid. If their interests were adversely affected by aid, it is quite unlikely that they would do so.

Friedman's third reason for asserting that aid does not in fact promote development is that aid sustains and propitiates centralized
government planning, and planning is inherently counterdevelopmental. Planning is counterdevelopmental because it tends to be rigid and inflexible while effective development requires experimentation and flexibility. These characteristics are more likely to be obtained under a system of private enterprise, than under government planning, because private enterprise provides strong incentives toward careful choice and toward rapid correction of mistakes.

There is an element of truth in Friedman's argument. (In fact, I have elsewhere argued that India's economic development would be helped by less government control of interest rates and import prices—although, in the case of interest rates, private capital users in India are actually benefited by government controls.) But the argument is overstated and incomplete. There are powerful reasons why the case for planning is much stronger than Friedman allows. Some of these reasons concern what economic jargon refers to as "external economies" and "decreasing costs." "External economies" relate to the social benefits produced by a particular activity which are not recoverable or appropriable by the project's owners or investors. The usual examples include education and training, public utilities like roads and river valley development, and public health. Since these benefits are "non-appropriable," they will obviously not enter into private investors' calculations of the profitability of alternative investment opportunities. The consequence will be underinvestment in external-economy-generating activities, and a need for compensating government investment to offset the deficiency. "Decreasing costs" relate to activities which result in lower costs as the scale of the activity increases. Often the scale required for
realizing "decreasing costs" entails investment outlays far beyond what
is accessible to private enterprise in the underdeveloped countries.
And even if the investment requirements were met, "decreasing costs" would
preclude the continued existence of many firms and competitive markets.
Without going into the technical ramifications of either "external
economies" or "decreasing costs", the relevant point is that both con-
siderations will result in underinvestment in potentially high-priority
activities under a regime of private enterprise. Government initiative
to compensate for these deficiencies will be necessary if available
resources, domestic as well as foreign, are to have maximum effect on
economic growth.

These reasons for active government planning in the underdeveloped
countries are supplemented by other strongly practical considerations.
Imperfections and rigidities in the market mechanism are many and
notorious in underdeveloped countries. Although improvements in the
flow of information and the mobility of capital and labor are possible
and desirable in the underdeveloped countries, these rigidities are
deep-seated and durable. The real alternative to some government
intervention in these countries is not a smoothly functioning free
market, but a market pervaded by barriers and rigidities. The distortion
in Friedman's argument arises from comparing an ideal model of a free
market regimen with casual observation of the worst features of govern-
ment planning. In the real world of the underdeveloped economies,
private enterprise and the free market are neither as flexible or
adaptive as Friedman suggests, nor is government planning as rigid and
inefficient. Both the market and planning have their justifications
and shortcomings. As Edward Mason has put it: "The really good
arguments for planning lie in the obvious inadequacies of the market, and the really good arguments for the market rest on the deficiencies of planning."

My conclusions from these remarks are in direct contradiction to Friedman's answer to the question of whether aid is likely to promote economic development. There have been examples of "monument building," but, in general, aid has been productively used, and the institutional mechanisms for extending aid have tended to increase the productive use of non-aid resources as well. It is, moreover, definitely not true that aid leads to wasteful use because it is "costless." The existence of alternative uses for aid means that there are always appreciable costs attached to its use in any wasteful activity. Although the bulk of capital requirements for development must be internally generated, the effect of complete self-financing would very likely be to induce the internal authoritarianism which Friedman wishes to avoid, and encourage the erosion of private enterprise which he wishes to protect. Finally, there are both strong theoretical and practical reasons for expecting and encouraging some degree of government planning in underdeveloped countries. True, planning by government can be rigid and inflexible, as can planning by private enterprise. But, more important, government planning that is rigid and inflexible can be improved. Economic aid is probably a much more appropriate tool for improving the quality of planning than it is for affecting the quantity.

IV

In his zeal to discredit foreign aid, Friedman criticizes two criteria that have often been mentioned by advocates of aid as tests
of the eligibility of a recipient country for additional aid. The eligibility criteria he criticizes are, first, whether a recipient is taking "measures to capture a good fraction of increases in income for the purpose of further investment," and, second, the extent to which the recipient has "worked out an overall development program."

His criticism takes the form of noting that the United States itself would not have been able to qualify for aid under these criteria during the period of its own initial development, that "the only countries that satisfy (these) tests...are the Communist countries," and that none of the Communist countries has in fact achieved a continuing "rise in the standard of living of the ordinary man."

Actually, I agree that the particular aid criteria he refers to are vulnerable to criticism. In fact, I have criticized them elsewhere at length for, among other reasons, giving absolutely no attention to the relative productivity or efficiency of resource use in recipient countries in determining aid allocations among them. But the particular criticisms advanced by Friedman seem to me either misleading or just factually wrong.

The assertion that the U.S. would not have qualified for assistance under these criteria is true, but pointless. The U.S. didn't receive intergovernmental aid, and the objectives which motivate aid to the currently underdeveloped countries were quite irrelevant to U.S. development in the 19th century. True, Communist countries would qualify under these criteria (though of course they would be disqualified under the implicit additional criterion that the objective of aid is to increase the chances of survival and success of non-communist political systems).

But it is palpably untrue that "the only countries that would satisfy
the tests are the Communist countries." Currently, India, Pakistan, Burma, among others, eminently satisfy the criteria; historically, Japan would have done so.¹ Moreover, we should be wary about falling into the trap of assuming that anything the Communist countries do or have done is necessarily something we should avoid, or encourage others to avoid. Even if the assumption is often warranted, it sometimes is not. If, for example, the Communists retain a consequential capability to wage war with conventional weapons, it doesn't follow that we should avoid doing likewise or encouraging non-Communist countries to do likewise. If the Communists have tried to plan their economic development and have adopted various measures to capture increases in income for further investment, it doesn't follow that we should discourage the underdeveloped countries from doing so.

Friedman's last point, that none of the Communist countries has achieved increased living standards, is just wrong. According to Janet Chapman's study of Soviet consumption, between the start of the first Soviet five-year plan in 1928 and 1958, real per capita consumption in 1937 prices rose by nearly 90 per cent. The percentage increase in consumption is much less than the percentage increase in Soviet national product as a whole, and the absolute increase in consumption is much less than the increase in, say, the U.S. during the same period. But

¹In the Japanese case, there was a complex interaction between the free market and government intervention. But governmental measures to mobilize increases in income for investment, and to guide private investment decisions along certain lines, played a sufficiently important role to satisfy the two general criteria to which Friedman takes exception. cf. William W. Lockwood, The Economic Development of Japan, Princeton, 1954, pp. 560-572.
this is not what Friedman says. Discussions of foreign aid, or of the uses and misuses of development planning in underdeveloped countries, are not advanced by erroneously asserting, as he does, that planned development in Communist Russia has not raised living standards for the mass of the people.

V

So much by way of rebuttal. As I mentioned at the outset, I have been less concerned here with making a case for economic aid than with dispelling some of the erroneous arguments against it which Friedman’s article presents. But in conclusion, let me add a brief comment on the objectives that seem to me reasonable to attribute to aid, and hence appropriate to apply in assessing its performance. Frequently, advocates of economic aid, and of increased appropriations, do themselves and their aim a disservice by claiming too much. The unrealistic hopes generated by such advocacy usually return to plague the advocate and weaken his case.

Before suggesting some "reasonable" objectives, it is important to be clear about the "unreasonable" ones. It is as important to recognize the effects that can’t (or shouldn’t) be sought by extending aid, as it is to recognize the effects that can. By "effects that can’t or shouldn’t be sought," I mean either that the effects aren’t predictably related to aid, or, if they are, that they are in general likely to be accompanied by disadvantageous side-effects at least as great as the advantageous effects themselves. From this standpoint, I would include as generally "unreasonable" objectives of economic aid most short-term political returns, such as winning votes in the U.N., weakening or eliminating "neutralism,"
buying the loyalties and support of particular groups of individuals in
the underdeveloped countries, creating and cementing meaningful inter-
national alliances, or preventing acceptance by underdeveloped countries
of aid from the Soviet bloc. In some cases these objectives may be
reasonable, but such cases require specially discerning judgment to be
identified and should be treated as exceptions.

There are many other things aid can’t do. It can’t reliably
affect decisions by recipients concerning the "mix" of public and private
enterprise they prefer, except perhaps in the negative sense of reducing
the resource pressures that would otherwise probably induce recipients
to crack down more severely on the private sector. (Incidentally,
though Friedman disclaims any divergence of views on objectives, and
asserts that his criticisms are confined to means, I wonder whether he
doesn’t mislead himself. What he seems to be most concerned with isn’t
whether aid can be used to stimulate development, but whether aid can be
used to stimulate free enterprise in the short-run.) Nor can aid be
expected to bring economic benefits to the U.S. in the form of greater
supplies of raw materials at given prices, larger export markets (other
than those financed by aid itself), or "national treatment" of U.S.
investors in their access to local investment opportunities. Finally,
economic aid can’t be expected to protect recipients against external
military threats, and may sometimes even result in increased efforts
by hostile forces to disrupt by military means the economic progress
that aid itself is furthering.

What remains for the "reasonable" objectives? Aid can provide
resources additional to those a country raises from domestic or other
foreign sources for its own development, and it can provide incentives
toward efficient use of the entire package by tying aid increments to
productivity. In so doing, it can help provide new opportunities and
options to enlist the enthusiasm, energies and loyalties of peoples and
governments in the underdeveloped countries. In addition, aid provides
a channel, a working relationship, through which the U.S. and other
developed countries can "illuminate choices" that are open to the
recipient countries—to borrow Eugene Black's term. The particular
decisions reached by an underdeveloped country—whether they concern
industrialization or agriculture, public welfare services or consumption,
taxation or price policy—will often be second- or third-best decisions
from the standpoint of economic growth alone. But the process of
"illuminating choices," of weighing the costs and benefits of alternative
actions, can exercise over time a pervasive influence on political as
well as economic development. Through its effects on more rapid develop-
ment, and on rational habits of thought, aid can provide a significant
contribution toward enhancing prospects for the survival and vitality
of free political systems in the underdeveloped countries. Even if
these "reasonable" objectives don't by any means touch some of the main
objectives of U.S. foreign policy, they nevertheless provide strong
justification for the economic aid we are extending, and, I would
suggest, for making a larger and more disciplined effort in the future.