July 1973
U.S. ISSN 0084-0793

LTC No. 90
THE LAND TENURE CENTER
310 King Hall
University of Wisconsin
Madison, Wisconsin 53706

UNITED STATES FOREIGN ASSISTANCE POLICIES: A COMMENT*

BY

Peter Dorner**

* Statement prepared at the request of Senator J.W. Fulbright, Chairman, United States Senate Committee on Foreign Relations.

** Professor of Agricultural Economics and the Land Tenure Center, University of Wisconsin-Madison.

UNITED STATES FOREIGN ASSISTANCE POLICIES: A COMMENT*

Peter Dorner**

While I appreciate very much the opportunity of making my views known to this Committee, I wish also to issue a general disclaimer. I do not present myself as a critic with all the answers. Nor should this statement be viewed as an attack on the many individuals who have worked at the difficult task of international assistance--most of them receiving little praise while taking part in a process that has come under increasing criticism. The generally critical tone of the present statement results from an attempt to highlight the problems, and not from any effort to completely evaluate and provide a balanced view of all international assistance. In these matters, there are no "right" answers for all nations for all times. To a considerable degree, foreign assistance policies must retain open, flexible, and experimental qualities.

One's view of international assistance programs is influenced by his conception of the development task and how it should be confronted. Given my own background of training and experience, I must deal primarily with the agricultural sector and its development--with full awareness, however, of the many sectoral interdependencies involved in economic and social change.

Many countries have more illiterate adults today than they did twenty years ago, and the income gap between rich and poor has often widened (both within the less industrialized countries and between those countries and the more industrialized ones). There has been insufficient expansion of economic opportunities and too little enhancement of the human capacities needed to exploit them. Development has been rationalized, and international assistance has been justified, on the grounds that it would improve the general conditions of life for the masses and not just for the few. Despite considerable economic growth, the poor and the underprivileged have reaped few benefits.

What went wrong? I do not subscribe to the view that the persisting and deepening unemployment--distributional crisis can be attributed to some malicious plan of the industrial world to keep the predominantly agrarian nations dependent and in poverty. As may be expected in a vast international assistance effort, there has been the normal amount of fumbling and uncoor-

---

*Statement prepared at the request of Senator J.W. Fulbright, Chairman, United States Senate Committee on Foreign Relations.

**Professor of Agricultural Economics and the Land Tenure Center, University of Wisconsin, Madison. Without attributing any responsibility to them, I am happy to acknowledge the helpful comments received on an earlier draft from Carl Bögholt, Don Kanel, Daniel Bromley, Carl Gotsch, and William Thiesenhusen. I am indebted also to John Bielefeldt for his editorial assistance.

dinated effort, even some cases of outright malfeasance and corruption. Basically, however, the failings seem attributable to other factors: a misconception of the development task; a confusion in identifying economic growth with development; and the economic and political power within both the less developed nations and the United States, of those who feel that present foreign assistance policies are working to their advantage.

In criticizing foreign assistance efforts, we should be fully aware that the problems of employment creation and income redistribution also represent basic developmental issues within our own borders. We have not been entirely successful in resolving these issues at home despite the fact that we have more direct control over our internal programs than we can or should have in the development programs in other countries. Our internal task should also be much simpler since the excluded poor represent only about 15-20 percent of our population and we have the wealth to resolve this issue if we can find the will and the organizational means of doing so. In many of the less developed countries, by contrast, 70-80 percent of the people live on the fringes of the growing points of the economy. Furthermore, their total population and labor force is growing very rapidly. These countries are therefore on a different historical track than were the present more developed countries at a comparable stage of industrialization--when populations were smaller, growing less rapidly, and when all production processes were more labor using than they are today.

Most would agree that the reduction of poverty and unemployment are requisites of development, but there is an abiding faith in a trickle down theory of distribution--that one can help the poor by aiding the rich. As a consequence, it is too often assumed that job creation and a more egalitarian income distribution are automatic concomitants of economic growth. In assuming a close positive correlation between output expansion and employment, economic planners have emphasized increases in the rate of capital accumulation, including capital transfers from the industrial nations to the less developed ones. Expanded capital imports are accompanied by technical assistance in order to increase the effective capital absorptive capacity of the less developed countries.

Without question the less industrialized countries must incorporate new techniques of production if they are to raise their levels of output and their factor productivity. But technology is not all of one cloth; it must retain an organic, functional relation to the existing factor proportions and endowments of a nation. The factor proportions (especially the proportion of labor to capital) in the industrial nations, where most of the new technical innovations occur, differ greatly from those in the less developed countries to which this technology is exported.

This international technological dualism is directly and causally related to an internal dualism of the less developed countries, which often have two sub-sectors of agriculture: (1) a large farm, more commercialized sub-sector, and (2) a small farm, less commercialized one. The latter

usually holds the overwhelming majority of the rural population, although it has much less than a proportionate share of the farm land. Farm operators in the small farm sector are often tenants and sharecroppers with insecure rights to the land they operate. Generally, only the larger farms can gain access to and utilize effectively the agricultural machine technology from the industrial countries, and even divisible inputs such as improved seeds and fertilizers (the Green Revolution technology) may not be neutral to scale if the benefits of public credit and service agencies are directed mainly to the larger farmers. Much advanced technology, when imported into a less industrialized country with widely different circumstances of factor proportions (that is, redundant labor and scarce capital), fails to generate spread effects and linkages. Only a modern enclave prospers from using this technology, leaving most of the population in poverty, with income differentials between those in the modern and those in the traditional sectors widening in much the same way that these differentials are growing between the rich, industrial and the less developed countries. Capital and technology transfers do increase the prospects of profits in farming for those able to take advantage of such transfers. But without land reforms and related institutional changes, the concentration of economic opportunities leads to displacement of small farmers from their insecure position as tenants, as landlords seek to exploit the new opportunities on their lands.

A focus on production (with the aid of imported capital and technology) without explicit attention to income distribution and the creation of more employment opportunities may yield increased output of certain commodities and growing labor productivity for a part of the labor force. Yet such policies tend to widen income disparities and throw the burden of adjustment on the disadvantaged, who join the ranks of the landless, continue to crowd into existing small farm areas, move out to rapidly shrinking frontiers, or join the underemployed in the cities. The capital intensive (labor saving) nature of imported technology does not permit the expansion of the industrial sector at a rate sufficiently rapid to absorb these growing numbers.

Until the mid-1960s, it was often assumed that agriculture would continue to serve as a vast reservoir automatically holding redundant labor until industry needed it. But the rapid population growth rates of the past several decades are now resulting in equally high rates of growth in the labor force. Since the opportunity structure in agriculture in a pre-land-reform system has often been defective, this growth in numbers has led to massive rural-urban migrations. In many of the less developed countries, the agricultural sector could provide productive employment opportunities for many more people than it does at present, providing that the land ownership pattern is re-structured along the lines of a family farm (small ownership) system, agricultural production cooperatives, or a combination of these forms.

Even if it were possible, in the absence of land reform, to avoid this mass movement to the cities, people cannot simply be placed "on ice" until such time as they are needed. They must be engaged in worthwhile, productive

activity in order to develop their individual, human capacities and thereby develop the skills and the discipline which both a modern agriculture and industry require. Perhaps an even more important impact of idleness is the depression of hopes, aspirations, and self-respect, especially among the young, who look to adults of their own social group and community for models to emulate. The development of human capacities is not likely to be achieved when large numbers are forced to rely solely on the public dole--even if it were possible to administer the necessary tax and welfare policies to accomplish this.[1] Land must be viewed not merely as a resource to be efficiently combined with scarce capital so as to maximize agricultural output, but also as a vehicle for employing people and for developing their skills and experience. Indeed the manner in which increased production is achieved, and the number of people who participate in and reap benefits from the experience, may be as significant as the short-run production increase itself.

It is in trying to combine output with employment and distribution goals in the same general policy, rather than in their separation, that land reform becomes strategic. This combination cannot be achieved without redistribution of property rights in land from those owning (or claiming) much to those owning little or none. Land resources are usually insufficient within existing small farm, subsistence areas to deal with the problems without such redistribution. Poverty cannot be eliminated by working only with the poor. The poor need resources now controlled by others.

The separation of production policies from distribution policies is frequently defended by pointing out that unless and until production is increased, there is little to distribute. This argument is not convincing; indeed it is often a rationalization of the well-to-do who are trying to protect their privileged position. Given the circumstances existing in many of the less developed countries (a redundant labor supply, a lack of bargaining power, the inability to finance and administer massive social welfare programs, and a concentration of property ownership), those who own the means of production also receive the income from their use. Increased output is more or less automatically distributed, in the very process of its production, to these owners. Under these circumstances, the institutions of private property, freedom of contract and competition may well accentuate the existing inequalities. These institutions cannot perform in the public interest until there is a more equal distribution of wealth, power, and opportunity. A rigid commitment to and a blind protection of the existing structure of property rights may lead to the complete elimination of these institutions. A more flexible, reformist approach will often lead to mixed systems of private, state, and cooperative enterprises which may be much more appropriate for meeting developmental needs. The argument for separating production from distribution policies also fails to take account of the fact that the resulting product mix may be inappropriate to begin with.

---

[1] A vast public welfare system is itself impossible in poor countries where from one-half to two-thirds of the population is at the margin of subsistence.

Mahbub Ul Haq, former chief economist of the Pakistan Planning Commission, has stated the point eloquently, "Once you have increased your GNP by producing more luxury houses and cars, it is not very easy to convert them into low cost housing or bus transport....In my own country, Pakistan, the very institutions we created for promoting faster growth and capital accumulation later frustrated all our attempts for better distribution and greater social justice. I am afraid that the evidence is unmistakable and the conclusion inescapable: divorce between production and distribution policies is false and dangerous. The distribution policies must be built into the very pattern and organization of production."[2]

It might make sense to separate employment-welfare-income distribution policies from production policies if the rules governing the ownership of property were considered fixed, sacred, and unchangeable. If the large farm owner is to be provided with the necessary incentives to increase output efficiently (according to private decision-making criteria of efficiency rather than efficiency criteria appropriate to society), he must not be required to support a labor force he does not need and does not wish to manage. But it is precisely the rules of property ownership (land tenure) that must often be changed in order to make increased output and improved access to economic opportunities for the underprivileged a unified and consistent goal of policy. The technological gap is too wide, the internal disparities too great, and the population growth rates too high to continue a policy course which separates production from employment creation and distribution. The performance records of the past several decades in those countries where major land reforms have been implemented indicate no incompatibility between these two policy objectives of increasing agricultural output and increasing employment with a more egalitarian income distribution.

Of course land redistribution by itself, even though it may eliminate the traditional economic power of present landlords, will not result in broad based rural development nor prevent aimless migration to the cities. Special programs are needed to create and improve deliviery systems for credit, farm inputs and outputs, and health and educational services so that they reach the present small farmers and the beneficiaries of land reform programs. The newly won equity in land following a land reform must, through these programs, be converted into market opportunities.

These, then, are some of the basic issues. Economic growth has not been too disappointing--during the 1960s growth in GNP in many of the developing countries averaged over five percent per year. Although there is not always a high degree of correlation between outside assistance and growth in GNP, assistance did contribute to this performance. While it would undoubtedly be desirable to increase this rate of growth, there is no assurance it would lead to more employment opportunities and a better distribution of income unless and until changes in development strategies make it possible for the mass of poor people to benefit. Without such changes, unemployment and poverty will continue to be growing ills--even with a more rapid rate of economic growth.

---

[2]Mahbub Ul Haq, "Employment in the 1970's: A New Perspective," International Development Review, 1971/4, pp. 10-11.

Before addressing the specific questions of re-directions in United States foreign assistance programs, several misleading notions should be corrected.

1. In this difficult process of development, we cannot blame all the failures on the outside assistance agency. The effort of the host government will always be the most crucial factor in effectively utilizing assistance.

2. With all its wealth, the United States can and must play a major role in providing appropriate capital and technical assistance to the less developed countries. It cannot withdraw from the world, nor can it take the simple way out by shifting responsibility elsewhere, that is, by channeling all assistance through international agencies. The United States must continue to give full support to the United Nations and the international development banks, but on these key issues of employment and distribution, the record of United States bilateral assistance has been no worse, perhaps even better, than that of the multilateral agencies.[3] There is need for better communication and coordination among the various multi- and bilateral assistance agencies in any given country. Ideally such coordination should be accomplished through the country's own planning process, but there should be enough similarity in development goals that international assistance agencies are not operating at cross purposes.

3. Although extricating the United States from the Southeast Asian war must have top priority on the nation's agenda, we should not conclude that bilateral assistance efforts are the root cause of that mistaken policy.

4. The development process presents some baffling intellectual and analytical problems and issues. There is no generally accepted doctrine nor fully adequate theory dealing with these complexities of the real world. As mentioned earlier, failures in this

---

[3] I have discussed these issues at some length in "Problem and Prospects of Multi- and Bilateral Assistance for Agricultural Development," a statement prepared for the United States Senate Appropriations Subcommittee on Foreign Operations, June 2, 1972. (Available as LTC Reprint No. 81.)

process are due not to ill-intent but to misconceptions and the inability of those managing development and assistance programs to influence the necessary political decisions.

5. United States foreign assistance cannot be based and defended on "what's in it" for the United States in the short run. While individuals might take a shorter-run view, the nation cannot. In the longer run there are certainly many advantages to be expected: less tension in international affairs, higher and better distributed incomes in the less developed countries leading to more trade and cultural interchange among all peoples, greater international monetary stability, and improved prospects for world peace. It has often been said that the United States moved into foreign economic assistance on the basis of expectations created by the successful recovery programs of the Marshall Plan. These recoveries, however, were made in largely industrialized nations devastated by war. These nations had experienced a century or more of industrialization, they had the technical personnel and the institutional structure to move ahead quickly with the help of outside capital. Furthermore, the capital and technology which the United States provided matched quite well their factor proportions. The cold war issues that developed during the same period unfortunately carried over into our development assistance efforts in the less developed, largely agrarian countries. These countries, many of which emerged from colonialism only within the past two decades, and which now face population growth rates never experienced by the industrial countries, present altogether different economic and political issues.

6. Partly because of the successes in European recovery, Congress perhaps expected too much--too many quick, short-term benefits from international assistance. The Agency for International Development (AID) and its various predecessor agencies have never been considered permanent, nor have they been given the long-term financing which development planning requires. There was thus a built-in tendency to make loans and grants for those projects that had a quick payoff with tangible, measurable results. As a result of the cold war ideology, both Congress and the Executive branch chose to combine military and internal security assistance with economic and technical assistance. Foreign assistance was expected to "save" a certain government regime, avoid its overthrow or ensure its re-election (or vice versa, at times to encourage

its displacement). These strictly political and/or military objectives are totally inconsistent with and inappropriate to foreign economic and technical assistance.

Some specific changes in United States foreign assistance efforts can help to avoid mistakes and misconceptions like those just noted, as well as to direct assistance toward the broader development objectives outlined earlier.[4]

1. Economic and technical assistance must be separated from military and security assistance. These should be subject to different criteria, decided on different grounds, and administered by different agencies. Although I would not wish to rule out categorically all military and internal security assistance, this whole area deserves a careful review by Congress. Building national police and military forces for internal security purposes may indeed at times be justified in terms of United States strategic national interests. But such assistance has too often resulted in repressive measures against internal forces working for constructive change. External threats may be real, but too often they are merely assumed to exist, based on outdated cold war ideology.

2. In its economic and technical assistance, the United States should insist on supporting those efforts designed to reach the broad mass of poor people. Criteria for project evaluation selection and design must be extended so that social, employment, and income distribution effects of development projects are accorded equal weight vis à vis the other variables in conventional benefit-cost analysis. This realignment will mean special focus on improved delivery systems for credit, farm inputs, health, education, and other services so that these reach the small farmers, the farm tenants, the landless and the city poor.

3. The United States must encourage and help to develop in-country research capacity for analyzing the problems specific to each nation. These problems and the techniques for their solution--including machine and biological technology as well as institutional change--will often be quite different from those based on the experience of the industrialized nations. International

---

[4]See also William C. Thiesenhusen, "Rich Land, Poor Lands,--A Perilous Gap Between," The Milwaukee Journal, 5 March 1972, Part Five, pp. 1 and 3.

research centers (such as the corn and wheat center in Mexico and the rice center in the Philippines) must also be expanded and multiplied to include additional crops as well as livestock, and to develop mechanical technology more appropriate to the surplus labor condition existing in most of the less developed countries. Research at United States universities--in full partnership with professionals and students at research and educational institutions in the less developed countries--requires more adequate and long-term support.

4. The United States has been much more willing and flexible in seeking accommodation over fundamental issues of ideology vis à vis the Soviet Union and Eastern Europe than in the so-called third world. A beginning has been made in establishing new contacts with mainland China. But thus far, it seems to me, the United States has been less open with respect to basic social and economic reforms in the less developed countries. This contradiction will continue to hamper U.S. foreign assistance efforts. The need to re-structure economic and social institutions is almost universal. Any time a government is able to muster the political will and overcome the forces of presently entrenched interests, United States assistance should make every effort to help such a government achieve its goal of restructuring its economic system, so long as the reforms will lead to a much wider participation by the presently excluded masses in productive labor and the fruits of increased output.

5. More of our assistance should take the form of grants which will not add to external debt burdens and balance of payments problems now plaguing most of the less developed countries. Grants are especially needed for the construction of social overhead capital and certain infrastructural projects where the benefits are widely diffused and accrue over many years in the future.

6. We must abandon the notion that we can help the poor by aiding the rich.

These changes of purpose, criteria, and philosophy in foreign assistance policies will, I believe, produce much more positive results and avoid many of the mistakes of the past. There is also some ground for optimism in that the U.S. Agency for International Development, as well as some of the international agencies and banks, have been showing greater flexibility in their response to developmental issues. There is a growing number of people within these agencies who are very much interested in

having international assistance directed toward these broader objectives--equalization of opportunities, creation of secure employment on the land, improved income distribution, and a reduction of mass poverty. Congress can strengthen and support these efforts by enunciating a clear policy position on foreign assistance and incorporating the proposed changes. Our policy should recognize explicitly that the human needs and objectives of the large majority of mankind must be the central concern of development.