The FOREIGN AID SIEVE

By Robert Donlevin

For ten years, American taxpayers have shelled out an average of $5 billion annually for grants and loans to foreign countries without once getting a full and frank accounting of how their money is being spent. No end is in sight for this pay-as-you-go plan, slated to continue until the Cold War ends or hell freezes over, whichever comes first.

Yet, let anybody criticize it and he is accused, with suspicious dispatch, of being an isolationist who would, in his antediluvian blindness, deliver us all into the arms of Moscow.

The reasons for this extreme sensitivity on the part of governmental foreign aid partisans is found, logically enough, in their own very weak position. For the fantastic truth is that the very countries that assert the duty of the United States is to help them with capital investments have been pouring hundreds of millions of dollars a year into the politically and economically secure United States capital market. The total amount of capital that has fled from countries receiving our aid or that has been invested by their nationals in private gold hoards may even exceed the total amount of our foreign aid since 1945 — a whopping $50 billion.

In the early postwar days, nobody could argue with the principle of helping destitute and war-ravaged peoples, although methods of distribution often left something to be desired. But when our officials had the hard facts of the Kremlin's plans for expansion rammed down their reluctant throats by Stalin himself, they reacted in the only way they knew how, by appropriating money. The Marxian doctrine of economic determinism was re-angled and made the basis of the Marshall Plan. The principle: combat Communism by combating poverty. And the best way to do that is to help Communism's target nations build up healthy prosperous economies by intelligent investment which would renovate or develop their industries.

Why couldn't these countries do that for themselves? Because of the "dollar gap," a new euphemism meaning that the nations in question did not earn enough through their exports to the United States to pay in dollars for the necessary capital equipment. At least that was the story of the proponents of the foreign aid program. The warnings of the few opponents — that the program would only encourage stifling controls, promote inefficiency, and finally perpetuate itself — were shouted down.

When the Marshall Plan was launched in 1948, we were told that it would last four years and that by that time Europe should be able to take over for itself. But when those four years came to an end, the Korean War was on. There was a new accent on military build-up which, we heard, recipient nations could not afford. Among other things, they lacked the dollars. So the aid continued under a new name, Mutual Security.

None of the aid program proponents bothered to point out that it really added up to the same thing. The United States was, in effect, easing the burdens of a heavy military budget for the recipient nations, which meant they could spend their own money for other things. The whole foreign aid situation has become so familiar to us that our officials are no longer afraid to admit, if in hushed tones, that aid will have to continue as long as the Cold War lasts. The taxpayers have been well broken in.

But at the same time, some rather disquieting evidence has appeared. It is getting more and more difficult to hide the fact that the whole $50 billion structure has been erected on a foundation of quicksand. The higher it's built, the faster it sinks. In the July 25, 1953, issue of the New York *Times* (a consistent friend of foreign aid), there appeared buried near the bottom of a Geneva dispatch from able correspondent Michael L. Hoffman, the following shocker:

"However, it is considered very likely that even on the reduced scale of the postwar period, when stringent exchange controls sought to cut it down, much more capital escaped from Europe than has been put into Europe by United States aid loans and other postwar efforts to help European recovery."

Hoffman went on to say that if there should be a real end to this "economic hemorrhage," Western Europe might rather quickly regain its former capacity to make income-yielding investments and to face the "world of the dollar" on a more even footing and with less fear.

Because this movement of capital is largely through hidden and illegal or semi-legal channels, it is difficult to come up with hard and fast statistics. An official of the French Ministry of Foreign Affairs with contacts in the banking world told the writer in Paris three years ago that, from the end of the war up to that time, the flight of capital from France to Switzerland, Montevideo, the United States or into gold hoards amounted to more than $9 billion. Another more conservative unofficial estimate placed the rate of flight of capital from France into gold hoards and foreign investments at $400 to $600 million per year.

In one of the few studies of the phenomenon, Dr. Arthur I. Bloomfield, senior economist with the Federal Reserve Bank of New York, noted last year that "it is still a melancholy fact that speculative and flight capital movements on a notoriously large and disturbing scale have been a prominent feature of postwar international finance."

Dr. Bloomfield's study, which was prepared for a Princeton University series on international finance, gives some of the gimmicks used by international operators who seek to circumvent exchange controls. One of the best known is the currency black market. An American tourist, GI, or businessman in France has dollars he wants to convert into francs for local spending. If he goes to a bank, he will get the artificially high official rate of 350 francs to the dollar. But his dollar will buy 400 on the black market. Dollars obtained this way are smuggled out of the country to Switzerland, Tangier, or some other international marketplace where they may be sold for dollars or Swiss francs.

Then there is the cross-banking system. An American living in Italy on a dollar salary has a bank account in the U.S. When he needs lire, he goes to an Italian friend who gives them to him against dollars which the American deposits to his friend's account in New York. Cross-banking arrangements are often set up by brokers in Switzerland. Other more complicated systems involve gold smuggling, exchange deals worked through three countries, and the over-and-under invoicing of exports to dollar markets.

Open foreign assets in the United States, up 63 percent since the end of World War II, now stand at $26 billion. But what the hidden holdings are in this country and other hard-money centers of the world is anybody's guess. About the best-informed guesser in this business is Dr. Franz Pick, publisher of the *World Currency Report* and the *Black Market Yearbook*. Dr. Pick, who lives in New York, estimated that, in 1953, black and gray market operations accounted for roughly $13 billions' worth of the world's trade and was carried on mostly in

Paris, Zurich, Amsterdam, Vienna, Tangier, Cairo, Tokyo, Hong Kong, Bangkok, Beirut, Montevideo, Buenos Aires, and Rio de Janeiro. He put the world's private gold hoard at $12.5 billion calculated at $35 an ounce, with $4 billion of it in France.

Where does the money come from? Dr. Bloomfield says that "a significant part of the foreign aid of the United States Government has, in effect, gone to finance 'hot money' movements from the recipient countries to the U.S. and elsewhere." The "in effect" means that while the U.S. aid dollars were not necessarily directly involved, by taking care of some of the recipient nation's most vital needs they freed earned dollars for speculation and flight.

Economists don't always agree on the reasons for these hot-money movements. One is a fear of the future. Too often Europeans have seen their savings wiped out by inflation or invasion. While the fear of war has lessened since the truce in Korea, the restrictionist and inflationary policies of many European governments have certainly not encouraged investors to keep their money at home.

America learned during the Prohibition experiment in the roaring twenties what happens when you put up artificial barriers to normal human functions. Sharp operators move in to get around or simply break the law. That is what has happened in most of the countries of the world where a rickety maze of man-made barriers try to regulate the ebb and flow of international commerce and finance.

Getting around or through these barriers has become a business in itself, and a pretty big one if Dr. Pick's $13 billion figure is anywhere near correct.

NEW STUDIES of this phenomenon now being made by the secretariat of the General Agreement on Tariffs and Trade (GATT) in Geneva reportedly contain so much political dynamite that New York *Times* man Michael L. Hoffman considers it "highly unlikely" that they will ever be published. It appears from Hoffman's report that the flight of capital to the U.S. is not new and therefore should have been known to our policymakers before they embarked on their massive foreign aid programs. As Hoffman puts it, "the irresistible urge of foreign capital to employ itself in the United States emerges as the chief cause of whatever dollar shortage there may have been since 1926 (leaving out of account the war-dominated years, 1938–45)."

The GATT studies also throw considerable doubt on the thesis that lowering American tariffs is essential to the establishment of a better balance of world trade. Larger American imports would, of course, make more dollars available for whatever purpose the world wanted to use them. But if that purpose is merely to invest them in the United States, then the American taxpayer and American industries menaced by foreign competition may well wonder what all the shouting is about.

It is possible that, in spite of all this, some form of foreign aid, whether through public or private channels, is necessary. But if the American taxpayer is asked to foot the bill, there is no reason why he shouldn't be given the full story. That includes the fact that as fast as his dollars are poured into the "dollar gap," recipient nations siphon them out and put them into gold hoards or reinvest them in the United States.

Answers for "SHARPEN YOUR TONGUE"

(*Questions are on Page 60*)

(1) C — Pejorism, from the Latin, *pejorare* (to render worse).

(2) C — Oviparous, from the Latin *ovum* (an egg) and *parere* (to produce or bring forth).

(3) C — Paginate, from the Latin *pagina* (a page).

(4) A — Renvoi, from the French form *renvoi* (sending away or dismissal).

(5) A — Orthodontia, from the Greek *orthos* (straight) and *odon* (tooth).

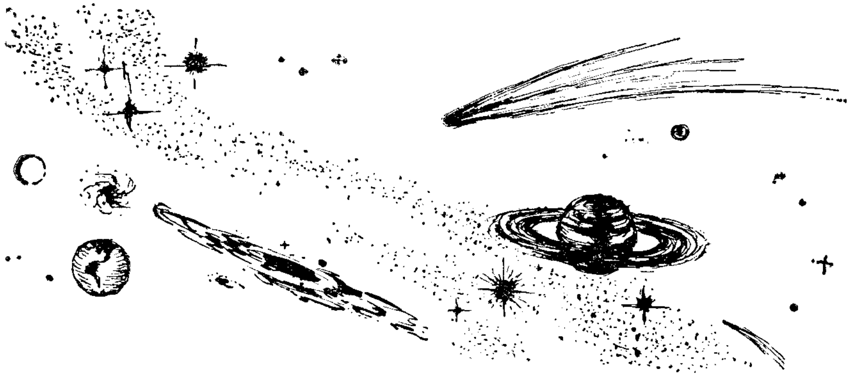
(6) D — Notorious, from the Latin *noscere* (to know). Example: "Many an adventurer seeking fame becomes notorious instead."

(7) D — Fastidious, from the Latin *fastus* (pride). Example: "Only a very fastidious customer would insist on making so trifling an alteration."

(8) B — Fiancée. A *fiancée* is a girl who is engaged. A *fiancé* is the man to whom the girl is engaged to be married. Both terms are derived from the French.

(9) D — Palette, from the Latin *pala* (a shovel). Example: "The modernistic painting reminded the onlookers of a well-used palette."

(10) B — Paddock, from the Anglo-Saxon *pearruc* (enclosure).



If Your Stars Are Lucky

By Junius B. Wood

OUR GOVERNMENT offers a string of bargains to the wage earner who was ushered into the world by farsighted parents in 1890 or a few months earlier.

As little as $4 paid in will bring the postman to his door each month with checks totaling at least $360 a year for the rest of his life. If the worker's wife or husband arrived in the same years of the last Indian Wars or the first high tariff, the annuity will be $540, or $602.40 if two lively young children and an eligible widow or widower survive. If they are lacking, a wedding and adoptions are permitted.

Bargains suit all purses up to one for $126 in eighteen monthly installments. For that, the worker born under the lucky signs of the zodiac receives $1,302 a year, or $1,953.60 if still married, or $2,400 when a surviving flock is added.

Only a recently insured worker who is within or past the lengthening shadows of retirement at age 65 is eligible for one of these bargain-priced annuities. The law is as complicated as an Einstein formula. To get the insurance, an employed worker pays 2% of his wages for 18 months and a self-employed pays 3% for 24 months. Each pays the same amount but the government gets an extra dividend from the employer who duplicates the amount paid by his employee.

A $126 member rates a $225 funeral while a $4 contributor passes on for $90. The worker who qualifies by paying only $4 — the old fash-