Introduction

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If nations are to work together with dignity
. . . the gap between the rich and the poor must not widen.
George Ball

The history of the foreign assistance policy of European countries has received comparatively little attention from economic, political or diplomatic historians. There is a remarkable lack of archive-based historical studies of intergovernmental and intra-governmental discussions about the aims, methods and priorities of foreign aid and its compatibility with national interests and capabilities. This is the more surprising since the 'aid question' constituted the third major field of international relations during the Cold War, and was tightly interlinked with the fields of security, finance and economics. In short, the Europeans' positions on development policy in relation to themselves, the United States and the Third World and between themselves have yet to be analysed. The only significant analysis so far of the inducements offered by the West to the Third World is the book by David K. Fieldhouse, *The West and the Third World*.[1]

Archival sources are now open up to 1972 under the thirty years rule to which most west European governements adhere, and therefore cover the period known as the 'First Development Decade'. This was the formative period for post-Second World War development aid policy. Principles were defined, and the direction and methods were chosen that broadly shaped the subsequent institutional patterns of foreign aid.

The aim of this theme issue is to stimulate interest in the study of this crucial area of European and international history. The articles cover six European donor countries, including the four major contributors, France, the United Kingdom, Germany and Italy. The authors consider themselves to be pioneers in the field of historical analysis of development aid policy, and although the contributions are the outcome of quite extensive research of primary sources, these articles should be seen primarily as a point of departure for further research.

The attempt to create a new international order after the Second World War, based on the global institutions of the United Nations and the Bretton Woods system

[1] Oxford: Blackwell, 1999.

Contemporary European History, **12**, 4 (2003), pp. 387–394 © 2003 Cambridge University Press
DOI: 10.1017/S0960777303001334 Printed in the United Kingdom

https://doi.org/10.1017/S0960777303001334 Published online by Cambridge University Press

unravelled within a few years of the end of the war. The colonial powers, with increasing support from the United States, tried to prevent the crumbling of the old colonial structures from unleashing powerful forces that potentially threatened the Western World. This was because the security of the West was to a significant degree conceived as being based on the resources of the vast empires.

The process of decolonization partially changed the nature of the Cold War. To the East–West conflict was added a North–South confrontation – a struggle over who would influence 'the rest of the world', representing two-thirds of the world's population. The mainly uncommitted newly independent states were less interested in alliances than in securing economic growth based on industrialization and in export markets for their industrial goods and raw materials. Offering support for economic growth and development was the crucial element in gaining the allegiance of the Third World in the systemic conflict.

In 1955 the Western powers were alarmed when the Soviet Union started a diplomatic and economic offensive with the aim of gaining the support of the Third World, claiming that it would succeed in replacing the West as the main influence in the developing world once the colonial empires dissolved. The Atlantic community reacted by urging its members to coordinate their efforts to strengthen their own economies as well as maintaining international economic and financial stability. It was important for the West to persuade the new and newly independent states in south and south-east Asia and in Africa that the economic system of the Western world was indeed superior to the communist system as had been demonstrated by the impressive recovery of Europe and Japan. More importantly, the Western world should also provide the means to enable them to participate in the international economic system as sovereign states and to achieve the growth rates necessary for them to close the gap between the developed and underdeveloped world. The granting of economic aid was to be a primary tool for gaining influence among the newly independent countries.

But even without the real or imagined communist threat, it was in the interests of the West to promote economic development in underdeveloped areas and provide incentives for their increased participation in world trade through economic growth. The Western powers had to consider ways of steering the new states away from pursuing a nationalistic economic policy which would, they believed, disturb established economic relationships, hold back the economic development of these regions and create turmoil in international trade patterns. The established trade patterns between the metropolis and the colonies had proved themselves of great significance in helping the European recovery process after the Second World War. Insofar as the industrialised states were also imperial powers, it is necessary to analyse the extent to which their development policies envisaged the newly independent states as integral parts of their trade and currency areas.

For the countries of the West it was important that their concept of a free world economy would be accepted by the developing nations as working to the benefit of both groups of states. To meet the challenges posed by the developing world it was necessary for the West to marshal its economic resources in the most effective

https://doi.org/10.1017/S0960777303001334 Published online by Cambridge University Press

manner possible. This required close collaboration between the United States and the West European states, since economic aid on a large scale was only possible within the framework of a coordinated effort.

Between 1958 and 1962 the major international institutions – the International Monetary Fund (IMF), the World Bank with the International Development Agency (IDA) and the International Finance Corporation (IFC), the General Agreement on Trade and Tariffs (GATT), the Organisation for Economic Co-operation and Development (OECD) with its Development Assistance Committee (DAC), and the European Economic Community (EEC) with its Development Fund – developed special aid agencies. These institutions were the outcome of intensive intergovernmental discussions between potential donor countries at the highest political level. During the 1960s the DAC acted as a forum to co-ordinate bilateral aid policies, to formulate criteria for the level and terms of aid and to review the performance of the member states according to the agreed aid policy. Attempts to evaluate on the impact of aid and the relative contribution of different countries comparability of aid was a constant topic of discussion among the donor countries.

For obvious reasons the less developed countries (LDCs) preferred the United Nations as a forum for advancing their claims on the 'rich' countries. From 1947 to 1965 there was a substantial increase in the membership of the United Nations as well as in the membership of international monetary and economic institutions such as the IMF, the World Bank and GATT. During the 1950s the LDCs, supported by the findings of four independent studies, used their majority in the United Nations to push for vastly increased transfers of capital under multilateral supervision. In 1953 a UN resolution proposed setting up a Special UN Fund for Economic Development (SUNFED) as a concessional lending authority. This proposal was flatly rejected by the executive and legislative branch of the US government; the United States was largely supported by most other actual and potential donor states. Their taxpayers would have to foot the bill with little or no control over end use as the majority of states decided on the dispersal of funds provided by a few countries. The one-flag-one-vote system of the United Nations was considered inappropriate when the recipients would always control the majority of the votes. The systemic problem was compounded by the prior commitments of many of the donors. The United Kingdom and France had by legislation reserved 90 per cent of their development aid for the countries of their former empires. Adding to the problem was the fact that West Germany, potentially an extremely important donor country, was not even a UN member. Furthermore, it did not count in favour of SUNFED that the Soviet Union favoured the proposal. The United States suspected that the Soviet Union, associating itself with the interests of the LDCs, would gain political advantage by sharing in the control of Western funds while they lagged behind in making their own UN contributions.

Nonetheless the states of the Atlantic community shared the conviction that concessional lending to the LDCs was crucial, since conventional bank loans were hardly available for the poorest countries, either from the World Bank or in the form of private investments. The United States practised soft-loan lending under its Public

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Law (PL) 480 programme and under the Development Loan Fund from 1959; they now pressed the other major donor countries to switch to soft-loan lending (interest rates set far below the level demanded by market conditions, long-term maturity and long grace periods) in their bilateral aid operations and to increase considerably the amount of capital available to LDCs. Surplus countries in particular, such as Germany and Italy, were targeted by the United States to do more in the aid field as it became increasingly worried about its balance of payments.

As a consequence of the increasing pressure for multilateral concessional lending and in order to undermine support for the SUNFED proposal, Western countries and the World Bank agreed that a programme for multilateral concessional transfers of capital to LDCs should be run under the supervision of the World Bank. The key questions were in essence those concerned with at what level and in which forum the problems of the LDCs were to be handled. In November 1960 the International Development Association began operations as the 'soft-loan window' of the World Bank, after the West European countries agreed to provide major contributions to the new institution in accordance with their World Bank quotas. With the IDA the World Bank turned into an agency for multilateral aid that would collect data which would vastly improve available information on the economic situation of the underdeveloped countries, compare the data over a span of time and make them available to donor countries to support effective bilateral aid. As the IDA was supposed to administer development loans with the same vigour as the World Bank, it was assumed that multilateral aid would achieve its objectives.

Because it was established at the level of international financial institutions, foreign economic assistance became an important component of the international economy. It was based – at that time – on the belief that the state was the most important agent of development. It was claimed that this form of international aid, to be provided by the developed countries and administered by international organisations, would not be hampered by political affiliations and patron – client relationships (in the form of tied loans). This form of aid did not go undisputed, especially by European countries, which argued that they were asked to provide the money and at the same time to forego control over how and where it was spent.

Until the late 1950s most development aid was granted bilaterally, mostly by the former imperial powers and the United States. The substantial amounts of bilateral economic aid provided to their former colonies by the United Kingdom, France and the Netherlands during the decolonisation process and afterwards were intended to secure continued economic and political influence. While France was able to shift part of the financial burden to the EEC, Britain favoured an increase in multilateral aid, which – in addition to the bilateral aid – to a large extent went to Commonwealth countries such as India and Pakistan.

Direct economic aid to the LDCs, whether bilateral, regional or multilateral, was seen as the most important factor for stimulating economic growth in the Third World and satisfying the demands of LDCs. But to achieve self-sustained growth, the developing countries in the longer run needed to be able to do without the concessional transfer of foreign capital and to finance their investments from export

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trade earnings, domestic savings and the international flows of private capital. The slogan 'trade not aid', which first gained popularity in the mid-1950s, pointed to the fact that integrating LDCs into the world market system represented a major challenge to the industrialised states in general and the established world trading powers above all. Although the developed countries and especially the United States would have preferred to expand intra-regional trading among the less developed states, it was the received wisdom that only access to the markets of the rich world would produce the desired economic gains in the LDCs. This would mean maintaining the traditional trade patterns that still predominated after the Second World War to the advantage of European economic recovery. The dilemmas inherent in this trade structure surfaced when the newly independent nations opted for industrialisation to escape their dependence on raw materials and tropical agricultural products for trade. Market access for the products of LDC manufacturing industries would mean competition for the most labour-intensive and protected domestic market industries of the developed countries, and was likely to cause further demands for protection. Indeed, their demand for preferential access to Western markets was as likely to result in stronger protectionist measures.

In the United States the intensive discussions about 'trade and aid' or 'trade not aid' subsided when economic assistance to the Third World was implemented at the international level by the IDA, the aid consortia and the substantial increase of bilateral aid by the OECD donor group. The consensus reached was that integrating LDCs into the world economy would not imply bending international trade rules in their favour, but would help them become competitive in international markets. When US President Kennedy made the 'Decade of Development' a slogan of his administration, he not only highlighted the widespread conviction that the developed world had a political and economic interest in, and a moral obligation to modernise, the Third World, but he relied on the new development theory which argued that an annual per capita growth rate of 2 per cent would provide the basis for the internal changes and adjustments in the underdeveloped countries that were needed to achieve self-sustained growth within a calculable period. The growing borrowing and lending capacity in the international financial markets as well as technical and institutional capabilities boosted confidence that the problems of the Third World could be handled and the living conditions of two-thirds of the world's population could be improved. The 'can do' approach was very quickly frustrated by the widening gap between the developed and underdeveloped countries; while the latter recorded adequate levels of GNP growth, per capita growth barely outpaced that of their rapidly increasing populations, a development which began to place pressure on food supplies.

The increasing indebtedness of many developing states was of major concern to donor states. Although the transfer of capital was welcome as a means of building and improving infrastructure and financing capital investments, the resulting gap between export earnings and the resources needed to service increasing debts was seen as serious threat to the development process. Confronted with a worsening of their terms of trade, a group of non-aligned states led by Yugoslavia and India

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forced the problem onto the international agenda. At conferences held in Belgrade in 1961 and Cairo in 1962 they decided to pursue the idea of a World Trade and Development Conference at UN level, which materialised as the first United Nations Conference on Trade and Development (UNCTAD) in 1964. The group was supported by the Soviet Union in the expectation that UNCTAD would turn out to be a rival organisation to GATT, in which eastern bloc countries were not represented (except Czechoslovakia). For political reasons the DAC states did not block the conference, but they made it clear that they would not approve another organisation with operational and financial competence.

Again there was disagreement concerning the appropriate level and forum for discussing the issues relating to the development of the LDCs. The United States and the European states insisted that the IMF was the forum for the discussion of monetary problems and balance of payments issues, just as GATT was considered to be the appropriate forum for mediating trade problems not only between the developed countries but also between developed countries (DCs) and LDCs. GATT was seen by the developed world as a relatively flexible framework for universally applicable trade rules to prevent the introduction of self-serving nationalist measures which would hurt the whole system of world trade. The idea was that trade liberalisation and competitive production should lead to an increasing share of LDC trade in world markets and inhibit protectionism. However, the level of protection covering particular products and commodities of the DAC countries still posed major barriers to LDC exports. The trade problems of LDCs thus also required structural adjustments in the DAC states. A considerable adjustment process in the domestic production of the DCs was necessary. They needed to shift their resources from relatively unsophisticated and labour intensive products to more advanced products where they enjoyed a comparative advantage over the cheap labour force of the Third World. Leaving light industrial production to LDCs would increase the level of their exports, facilitate the training of their labour force, improve organisational skills and encourage domestic savings. The problem was that light industry was highly protected in most DAC states, and exposing it to competition would not only cause temporary economic disruption but would also imply significant economic and social costs. In addition, unskilled or low skilled-jobs were still needed in the DCs, especially in the United States.

While providing more development aid for the Third World, most of the DCs blocked market access for LDC products where the latter held a comparative advantage. As a result tension between the two groups of states increased, despite the rising volume of capital transfers. UNCTAD was to be the forum where the LDCs could confront the developed countries with their complaints regarding trade and demand structural changes in the international economic system or even larger transfers of capital.

Within UNCTAD the DCs were for the first time confronted with a group of developing countries which – although heterogeneous – joined together effectively to put pressure on the Western countries which they were unable to exert bilaterally. They succeeded in having the DAC states accept as an UNCTAD resolution the

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claim that 1 per cent of GNP should be provided in foreign assistance. The demand for preferential access to the protected markets of the industrialised countries and the alternative request for automatic concessional financing of balance of payments deficits caused by falling commodity prices were rejected as incompatible with trade rules and the criteria of development financing. The LDCs had yet to learn that majority voting against donor countries did not necessarily result in getting more aid or concessions, particularly as UNCTAD resolutions had the character of recommendations and were left to the members to enforce. Although the implementation of DAC resolutions was also optional, the DAC donor countries were exposed to joint political pressure by a system of reviewing country aid programmes and through the agreement of common aid strategies.

Above all UNCTAD was a forum for the LDCs to press their demands. At the same time it forced the DAC countries to try to harmonise their positions and also offered them an opportunity to criticise what they saw as the major deficiencies in the development programmes of the recipient countries. While in bilateral aid relationships criticism was politically sensitive, the World Trade Conferences were used by the DCs to focus on what they considered to be the domestic obstacles to the development process in LDCs: lack of self-help, government corruption and mishandling of aid money, ethnic, political and military conflicts, lack of regional co-operation and population growth. At the second UNCTAD in 1968 the same problems and possible solutions were subject to discussions as fruitless as those in 1964. The 1 per cent target was confirmed, but, as the Pearson Commission stated in 1969, 'so far, this target has had little operational significance'.

The two Trade and Development Conferences in the 1960s provided a new impetus to the DAC. Despite growing frustration at the modest achievements in the development field, the OECD countries, confronted as they were with a unified and assertive group of underdeveloped countries, agreed to harmonise their financial terms and conditions and to soften the financial terms of aid. The improvements in terms of aid embodied in the concept of 'Official Development Assistance' (ODA) and the increase in multilateral aid by IDA replenishments in 1964 (for the period 1965–68) and 1968 (for the period 1969–72) were clearly influenced by the fact that the UNCTAD kept the development issue at the forefront of the international agenda.

In the course of the 1960s European donor countries outperformed the United States in the field of development. The US share of the net flow of financial resources from the DAC countries to the less developed countries and multilateral organisations shrank from 50 to 35 per cent, and the percentage of GNP provided for economic assistance annually was less than that contributed by most European countries. When the 'Second Development Decade' was declared in 1970 to indicate that the problem of underdevelopment was far from being solved, the optimism of the 1960s that underdevelopment could be overcome by joint efforts had subsided. Since then politicians and social scientists and other development experts have continuously reinvented development strategies and policies. Historical analysis may help to uncover the continuities and discontinuities in the evolution and implementation

https://doi.org/10.1017/S0960777303001334 Published online by Cambridge University Press

of development strategies, and temper the episodes of optimism of those who still think that there are short-term solutions and quick fixes to be found.

The editors would like to thank Professor Gustav Schmidt for hosting a workshop in March 2003, where early drafts of these articles on West European development aid were discussed. We gladly acknowledge funding from the Rektor of the Ruhr-University Bochum and extend our thanks to Professor Klaus Tenfelde for providing the conference facilities in the 'Haus der Geschichte des Ruhrgebietes'. The workshop gave the authors, who largely encountered one another's work for the first time, the opportunity to exchange views and tentatively incorporate comparative points of view. The editors saw the workshop as a crucial step towards putting together the theme issue, and as a step on the way to creating a network of development aid historians who may be able to develop a comparative framework for the study of development aid, from the perspective of both the donor countries and the developing states. Without the efforts of Professor Schmidt and the contribution of Ruhr-University Bochum both tasks would have been far more difficult.

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