

The Multilateral Turn in U.S. International Economic Policy—Internal U.S. Government  
Assessments of the Bilateral-Multilateral Choice

Timothy J. McKeown  
tim\_mckeown@unc.edu

University of North Carolina, Chapel Hill

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## Introduction

At the end of World War II the United States government was the world's only significant provider of foreign assistance. Although it had helped to launch the World Bank, the International Monetary Fund, and the Organization for European Economic Cooperation (the OEEC – which later became known as the Organization for Economic Cooperation and Development), until the second half of the 1950s the U.S. strongly preferred to distribute its aid through its own national agencies. Although the Bank and the Fund were going concerns, they initially had little work to do. The one international organization that the U.S. did heavily involve in distributing aid was the OEEC, an organization composed primarily of aid *recipients*. It was as if Edison, having invented the electric light, continued to use candles in his own household.

The situation began to change in the mid-1950s as Washington became increasingly involved in the creation of international organizations devoted to regional economic development or “soft” loans and provided its own funds to many of these organizations. The U.S. began to consider incorporating regional economic cooperation into the CENTO and SEATO military alliances. It coopted pressure from less developed countries for a stronger United Nations role in economic development by helping to form the United Nations Development Program. While watching from the sidelines, the U.S. encouraged the cooperation of Asian nations in the Colombo Plan for regional economic development in South and Southeast Asia. It supported the expansion of the World Bank to include the International Development Association and the International Finance Corporation. It formalized cooperation among non-Communist aid donors by spurring the creation of the Development Assistance Committee of the OECD. It was instrumental in launching the Inter-American Development

Bank and the Asian Development Bank, and later sought to strengthen the African Development Bank. Finally, it created or participated in the creation of several consortia of aid providers, each one focused on an important individual recipient country (the first, for India, was created in 1957-8) that involved the bilateral donors and often included a representative from the World Bank. Taken together, these new organizations effectively converted much of the development assistance undertaken by the non-Communist world from a bilateral to a multilateral basis, increased the involvement of other countries in governing and financing the provision of foreign assistance, and perhaps increased the degree of coordination among bilateral aid programs.

How and why this all came about is currently not well understood. Various historical studies tend to focus on individual organizations and concentrate on the World Bank and the IMF. More generally, we know that US officials were concerned about the Soviet Union's post-Stalin decision to begin to supply a limited amount of foreign assistance, concentrated on a few recipient countries important to the Soviets. The development of US balance of payments deficits after western European countries returned to full convertibility in 1958 also contributed to a greater interest in multilateralism: a U.S. deficit translated into balance of payments surpluses for important allies and trading partners. These countries had by this time largely recovered from war-time devastation, and had relatively large and growing national incomes. They also shared the US interest in ensuring that the less developed world would evolve along liberal rather than nationalist or Leninist lines.

While these general factors help to explain why the US at this time wished to expand aid from the non-communist world, but in a way that resulted in more burden-sharing with allies, they are too general to explain why the institutional form within which this policy was pursued

was often a formal multilateral organization, why it was pursued at this time, and exactly what costs and benefits the US anticipated in opting for multilateral solutions.

I seek to illuminate the US focus on multilateral solutions in this period through a study of how US officials assessed the relative merits of bilateral and multilateral paths to their policy objectives. In doing so I rely on archival documents covering these decisions. My aim is to recover decision-makers' "definition of the situation" (Snyder, Bruck and Sapin 1954), to see the world through their eyes and identify the factors and relationships that they believed to be important. When I have done so, I then can compare the way that decision-makers evaluate their decision problem with the theoretical arguments about how governments make such a choice.

## II. Extant theory and its empirical implications

The theoretical literature that seeks to explain "why multilateralism" has burgeoned in the last twenty years and is now a lengthy catalogue of hypothesized variables and relationships.

The main approaches are

(1) to treat the creation of a multilateral organization as a delegation from single or multiple rational principals to a rational agent, and then to argue that

- (a) transaction costs are reduced,
- (b) limited but real agent independence is intentionally created;
- (c) national governments' capacity to make credible their commitments and more generally other self-revelations is strengthened;
- (d) information provision and monitoring services are improved when turned over to the organizational agent;

- (e) economies in the use of specialized expertise are provided to members and perhaps to others, and
  - (f) principals are freed from the task of processing these decisions and can turn their attention to more important matters.
- (2) to create a bargain between strong and weak states in which the weak are given whatever status and legal rights their membership entails, as well as more influence over the behavior of strong states. In exchange the strong obtain greater compliance from the weak states and their explicit assent to arrangements that formalize the informal bargaining advantages enjoyed by strong states.
  - (3) for states who create these organizations or who join early, to trade the start-up costs of these organizations for the increase in long-run benefits that continued operation of the organizations will provide;
  - (4) to use multilaterals as devices to “launder” certain transactions by providing partial concealment of the nature of influence relations at work in the relations among nations, to appear to shift responsibility and to avoid blame when things go wrong;
  - (5) to “lock in” benefits from a given pattern of rules and procedures so that neither shifts in international influence nor in domestic dominance will undo arrangements that deliver a stream of benefits to those who established the pattern;
  - (6) to achieve other advantages in domestic politics, such as securing special benefits to an interest group, or giving a legislature more influence over international outcomes,
  - (7) to preempt alternative solutions of a bilateral or unilateral nature, or even other multilateral solutions that are less attractive to the organization’s founders;

(8) to “socialize” individuals (and governments?) into appropriate standards of behavior and concomitantly shape the content of international norms of national conduct, and

(9) to “entrap” those who do not join initially by presenting to them a situation in which they can escape significant deterioration in their position only by joining an organization whose operations are less damaging to their interests.

Most of the time governments are implicitly or explicitly deemed to be aware of these various benefits and to be consciously choosing multilateral organizations over other alternatives because they are postulated to be rational, utility-maximizing decision-makers. The only obvious exception to this array of intended outcomes is found in the argument about socialization, where it is not necessary to posit that the socialized are aware of what is happening to them in order for them to be affected by their experiences. Conceivably those performing the socializing also might not be aware that they are having this effect, but this seems less likely, simply because the early joiners are often strong states who take for granted their leadership role and who have shown that they are not at all reluctant to tutor the small powers. Although in principle one could treat the international system as a selection mechanism that punishes governments that make inappropriate organizational design or membership choices by reducing significantly their survival chances, thus far nobody seems to have argued that the ecology of international organizations is the product of selection forces acting on a population of organizations that have sprung up randomly.

Like rational choice arguments in general, those theories not relying on a selection mechanism to create an equilibrium population with the characteristics predicted by a theory must make at least implicit claims about the decision-making process within governments

(McKeown 1986). Variables identified by a theory must be considered by the decision-makers; their conceptions of relations among the variables must be broadly similar to that which is embedded in the theory, their evaluation of the relative desirability of various outcomes must be consistent with preference orderings specified by a theory, and any other concerns of decision-makers that are omitted by the theory must have effects on their choices that are orthogonal to the effects explicitly generated by a theory.

Unfortunately, as Thompson (2005) notes, case studies of multilateral organizations typically are limited to what George and McKeown (1984) called “congruence analysis” – the observation of initial conditions and terminal states to determine whether the two are related in the way a theory predicts. Such an approach does not attend to decision-making processes, contenting itself with the observation that if its assumptions about the process were inaccurate, then its hypothesized relations between inputs and outputs must also be incorrect. While this is a reasonable assumption when data relatively abundant and they can be observed and measured without undue difficulties, it is not much of a safeguard when these conditions are absent. And if the conditions were present, it is much less likely that the analyst would rely on case studies, preferring instead to proceed via a statistical approach.

Choice-theoretic claims could be more readily evaluated if evidence about the decision-making process could be obtained. Odell (2000), Lake (1999), Oatley (2001) and Richards (2001) provide some evidence on processes, but they are limited to material that is mostly public. While that is certainly an advance over relying exclusively on a congruence procedure, researchers who limit their observations to what is on the public record must cope with two validity threats that are especially acute when they attempt to link a game-theoretic argument to empirical studies.

The first threat is provided by a fundamental assumption of any game theoretic model: decision-makers are assumed to be behaving strategically. By this the theory generally means that decision-makers form rational expectations of the effect of their own choices on the choices made by others, and that their interactions with others are governed by their own self-interested desire to improve their own situation. Thus, researchers must contend with the possibility that they are witnessing strategic behavior designed to influence an audience that includes the researcher rather than a revelation of a decision-makers preferences. A prudent assumption for any journalist or academic researching decision-making is that the decision-makers being studied seek to lead researchers to conclusions that are the ones that the decision-maker wants them to make.

The second is based on a characteristic that occurs in some but not all game-theoretic models: decision-makers might have private information that is relevant to the choice being examined. The plethora of models in the last fifteen years that attempt to deal with the role that private information plays in various political situations has at least one implication for qualitative studies: researchers need to consider whether the decision-makers that they are studying might have relevant private information and how it might affect their decision-making or the way that they describe their decision-making to others. If they suspect that decision-makers do, then they face what is often a very difficult challenge when they attempt to obtain that information.

### **How Insiders Think about the Multilateral Choice**

By the mid-1950s, the US had been continuously operating large foreign aid programs for a decade. Despite the apparent success of the Marshall Plan in stabilizing and strengthening Western Europe, and similar successes in Northeast Asia, the existence of these programs long

after the immediate aftermath of war was sometimes viewed as abnormal, and as a state of affairs that should be ended as quickly as possible. Consider, for example, this discussion between one of Truman's aides and Secretary of State Acheson concerning a possible loan to Mexico for expanded operations by its state owned oil company,

Mr. Steelman said it was a little difficult to understand what [Congressman] Crosser does want; that he seems to want to *give* the Mexicans four or five million dollars. Mr. Steelman said he talked with Bermudez when he was here and advised him not to pay too much attention to the men on the hill, which might, if he did listen to them, waste time and cause embarrassment. He said what the President has told Crosser is what he has said to the press – that he hopes that a loan can be worked out.<sup>1</sup>

During the Eisenhower administration, a faction led by Secretary of the Treasury George Humphrey, along with others in the executive branch and many Republican and some Democratic members of Congress, remained deeply skeptical of aid programs as other than a temporary postwar measure. Humphrey and his allies saw multilateral organizations as even more pernicious than bilateral aid, because the US would be “out-voted and out-pressured” by other countries who would prefer “to spend somebody else's money and get the credit or benefit from doing so.” Humphrey was thinking in terms of curtailing rather than increasing the US aid effort: “Our balance-of-payments position continues to deteriorate, and it must be brought into line. Even the United States isn't rich enough to continue indefinitely to impair its basic reserves as we have been doing these past years.” Since he believed that no other countries had the financial resources to provide appreciable funding to such efforts, he did not take seriously the

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<sup>1</sup> Memorandum of telephone conversation, Acheson to Steelman, Pemex Oil Loan to Mexico, 8/11/49, HSTL, Dean Acheson papers, Box 65, 8-9/49, (emphasis in original).

arguments that such organizations could provide a way for the aid burden to be shared.<sup>2</sup>

On the other side of the debate were internationalists such as Harold Stassen, C.D. Jackson, Cabot Lodge, and – usually-- the President himself.<sup>3</sup> Given this line-up, it is not surprising that when Eisenhower early in his second term began to press for more aid expenditures and to move towards creating more multilateral organizations, Humphrey resigned and withdrew from the administration. Other aid skeptics soon followed.

The other high-level executive branch decision-makers were confident of the US capacity to shape the activities of these organizations in ways that would benefit US government interests, and they favored continued or even expanded US involvement in those organization. Why were they so confident that they would not encounter the problems that Humphrey foresaw?

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<sup>2</sup> Letter, George Humphrey to Henry Cabot Lodge, 12/20/56, RG 469, Ofc Dir, Subj File, B 46, Finance-investments. A contrasting view of the financial constraints on multilateralism was held by John Kenneth Galbraith, a balance of payments “hawk” but also a strong supporter of a large US aid program. (He described himself to John Kennedy in 1962 as someone who “repeatedly blocked proposed democratic-liberal attacks on the Eisenhower administration for tying the DLF outlays.”) “Multilateralism,” Galbraith argued, “has worked well in these last years because we have paid for it. It has not worked in this century unless someone was financing it with large capital exports like ours in the twenties and again in the fifties. Germany, France and Italy can now be multilateral as hell (though not as multilateral as we are) because our deficit eases all the strain and more. But as the establishment has yet to realize no country is multilateral if it has payments problems and no country, not even Switzerland, would be. These are questions to be decided not on high principle but at the low level of national policy.” For Galbraith, the US balance of payments deficits had removed the financial constraint that Humphrey had mentioned – the fact that the US was spending so much abroad was what made possible the participation of other capital export (and balance of payments surplus) countries in multilateral aid institutions. Telegram from the Embassy in India to the Department of State [relayed to the White House], 7/9/62, Document 146, *FRUS* 1961-63 IX.

<sup>3</sup> Burton I. Kaufman, *Trade and Aid: Eisenhower' Foreign Economic Policy, 1953-1961* (Baltimore; The Johns Hopkins University Press, 1982) provides a useful introduction and summary of the conflict. Also see the Dibacco dissertation.

## The 1957 GAO Study of Multilateralism

Part of the answer to that question is found in an originally classified January, 1957 General Accounting Office study on “Controllability of Multilateral Organization Activities.” Officially, the study was conducted “in order to analyze the frequently made assertion that the activities of multilateral organizations are largely uncontrollable by the United States and are less controllable than similar activities undertaken bilaterally;” unofficially, it probably was a weapon forged by internationalists to use against the aid skeptics. The core of the study were interview that the GAO conducted with personnel in executive branch agencies, principally the Department of State, who were involved with several international organizations.<sup>4</sup>

This study was focused primarily on the issue of how much U.S. control over outcomes could be obtained in bilateral compared to multilateral programs. Its most important overall conclusion was that the U.S. did not suffer any significant reduction of its control of outcomes when they shifted from bilateral to multilateral arrangements:

In experience to date, when the United States has used its available resources for control and influence, it has not suffered a major defeat on a major issue of policy in the organizations surveyed.

No characteristics of multilateral activities were found which imply that US control necessarily must be less than in comparable bilateral activities.

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<sup>4</sup> The organizations were WHO, FAO, IBRD, UNTA, UNRRA for Palestine Refugees, Intergovernmental Committee on European Migration, UN Refugee Emergency Fund, and NATO.

A variety of organizational, administrative, and diplomatic techniques and devices are available by which US control over the activities of multilateral organizations may be exerted. However, these techniques and devices are also available to the Soviet Union, which of late has shown increasing interest in multilateral activity. The potential of these devices has not been fully realized by the United States. ...

Multilateral and bilateral activities have important similarities as well as differences in both nature and controllability. In fact, multilateral activities from the US point of view can be analyzed into two sets of bilateral relationships. One is the single bilateral relationship between the US as a member and the international organization as an executive body or secretariat. The other set is the series of bilateral relationships between the US and the other member nations. The sum of this second set is the real multilateral relationship.

US control over multilateral program activities can be exerted through bilateral control over the secretariat and through bilateral influence over the voting of member nations and over project requests made by benefiting member nations. The latter influence can be effected by traditional diplomatic means plus the techniques of conference lobbying. Control over the secretariat can be exerted through the use of a wider range of means such as financial support, technical expertise, liaison, and employment of US nationals in key secretariat positions.

Thus the difference in controllability of multilateral and bilateral activities is primarily a matter of degree of complexity of technique. The similarities are perhaps more significant. In each case the implementation of a US program or policy ultimately depends on US ability to reach agreements bilaterally with recipient and participating nations. In both cases the theoretically free choice to terminate its support of programs is open to the US and in both cases that decision is governed largely by the same international political considerations. ... While problems of control are raised by multilateral organizations, they do not appear to be insurmountable given the dominant prestige and position of the US, the size and scope of the resources for influence at its command, and a determination by the US to interest itself on a continuing and active basis in the conduct of multilateral programs.

The report treated “multilateral diplomacy” as a bundle of bilateral interactions, coordinated so as to achieve a specific outcome in a multilateral organization. This ensemble consisted of the bilateral interactions with the individual governments of the nations in the organization, as well as the interaction between the U.S. government and the staff of the organization in question. Described in this fashion, multilateral diplomacy appears to be little different from traditional diplomatic practice. While the addition of an organization with a staff created an additional interaction partner, the

situation in other respects seems quite familiar.

The report noted several ways by which the US could exercise control over the decisions of the organization -- none of them is mysterious, although a few might not be so obvious.

First, the US could shape the formal rules of the organization so as to maximize its control:

Although not all multilateral organizations have a parliamentary form of governance, in those that do, weighted voting arrangements, especially in conjunction with the availability of a veto, give the US considerable influence. Since the weights are typically based on budgetary contributions, the US in this period could easily secure a very large weight.

Second, the US had the resources to influence these organizations, and was willing to use them:

Normally in multilateral organization US financial support is dominant; US substantive technical competence is frequently preeminent; US nationals may be placed in responsible positions within the agency; the international agency may be held responsible for its actions and be required to open books and make a full accounting to its members; problems of national sensitivity, the prerogatives of sovereignty, and the other niceties of traditional diplomatic relationship are not present to the same degree; and finally, it is always open to the US, theoretically at least, to quit or not to join an organization. All of these factors, which are directly relevant to control, are either very difficult or impossible to duplicate in a bilateral relationship with another government.

Third, traditional diplomacy was viewed as highly successful in shaping the behavior of other national governments represented in a multilateral organization. "In fact, as one experienced official put it, the effectiveness of US control is amply demonstrated by the number of unreasonable positions the US has successfully imposed on international organizations."

Fourth, the conventional view of the greater ease of controlling bilateral programs is not incorrect, but it neglects what the report regarded as the more fundamental control problem -- the

control of specific activities abroad.

It is sometimes held that it is easier to control, for example, ICA [International Cooperation Administration] than UNTA [United Nations Technical Assistance]. Obviously, this is true in the sense that ICA can be changed or abolished by unilateral action of the US Government, or in the sense that the President or Secretary of State can issue orders to ICA in a way in which they cannot order the IBRD. This sort of control does not seem to be particularly relevant, however, since the real object of control is not the agency but its activities abroad. In this sense what the US through ICA or through other bilateral means can or cannot do abroad in the way of program is limited by the ability of the US to convince other nations of the desirability or inadvisability of the particular activity; UNTA or IBRD or WHO suffers under the same limitation. Similarly, once a bilateral program is under way, actual reduction or interruption and termination of it by the US is not necessarily the simple task it appears to be in theory; international political considerations may preclude such action. The question of abolishing ICA thus becomes academic. Examination of the situation indicates that the real difference between controlling the program of ICA and controlling the program of a multilateral organization is largely a matter of degree of complexity. .. The process is more complex but does not seem to be different in kind.

Far from being skeptical of the capacity of the US government to influence the behavior of multilateral organizations, the report argued that the US could easily *increase* its control.

One suggestion was to exploit more aggressively the possibilities for staffing these organizations with US citizens. In many instances, the proportion of the staff from the US was considerably less than the US proportion of the organization's budget. "With all due regard to the concept of a disinterested international civil service, in practice the US relies heavily for its influence on Americans placed in key positions within multilateral agencies. . . . The agencies in turn are generally eager to employ high calibre Americans." Because many of the foreign staff of these organizations were also educated or trained in the United States, "the initial draft segments of [these organizations' plans and programs] really can and often do bear a strong mark of US thinking, without the public battles of committee or conference discussion having

taken place.” Another proposed method of increasing US influence was to direct US representatives to take a more proactive role in shaping the agendas of these organizations, and to provide US delegations with more support from the State Department and other agencies.

Too often, the US has left program initiation to the international staff or to delegations of other nations. . . . It is also somewhat surprising to discover how small the backstopping staff resources are, particularly in the State Department. For example, on specialized agency affairs, there is only one person in State who devotes full time to problems of US participation in each agency. ... [T]here was no one in State who had a complete or accurate knowledge of the systems by which the various organizations control their funds. ... Under these circumstances it is surprising and tribute to the existing staff that the US has been as effective as it has in guiding and directing multilateral organization.

The report acknowledged the Eisenhower administration objectives of limiting the growth in these organizations’ budgets and the scope of their activities. However, it argued that “[b]y adhering to a single rigid position permitting only minimal program expansion the US has often 'forced' the majority of members to approve a greatly expanded budget backed by the underdeveloped countries instead of a compromise budget which would have won the support of European and Commonwealth countries.” Such a result does not suggest that US was as successful in obtaining its objectives as the study claimed, but the report’s authors did not see that as a troubling development, because they believed that it would be easy for the US to get better results. The easiest and most direct way for the US to do so was simply to increase the effort it devoted to bilateral contacts intended to influence the outcomes in these organizations. This would be relatively easy because of an agency problem existing in these organizations at that time:

Other delegations are frequently inclined to 'free-wheeling'; foreign ministries in a majority of governments are simply not equipped in staff or experienced to do the

necessary preparation or backstopping for their participation in multilateral affairs. US delegations find it very difficult to contact a large number of delegations in a limited time at international conferences or to spend the requisite time with them to be persuasive. Increased direct contacts either through US embassies abroad or with foreign embassies in Washington could well result in fellow-delegations being instructed along lines favored by the US. It could reduce the amount of unpredictable 'free-wheeling' by other delegations; and it should lessen the pressure on US delegations to undertake frantic last-minute efforts to swing votes.<sup>5</sup>

The verdict of the report was that, while the control relationships in multilateral diplomacy are more “complex” than in bilateral diplomacy, “[t]his . . . does not mean that control over the activity is therefore necessarily less. In fact, the very complexity of the problem of multilateral control gives the US many more avenues of influence which in summation as a network provide a degree of control comparable to the bilateral case and which eventually provide alternative means of influence lacking in simple bilateral relationships.”

Perhaps those conclusions should not be so easily accepted, even for the time period in which they were offered – one in which the arrival of numerous less developed countries on the international stage, was still not clearly foreseen. Even if the various interviewees were perfectly sincere, most probably had a vested interest in understating the difficulties involved in attaining success in multilateral diplomacy. The case for multilateralism is not so clear-cut if “more complex” is read as “more time-consuming and costly.” Then bilateralism might be preferred to the extent that bilateral policies can be shaped or re-shaped more quickly and cheaply. When decision-makers are concerned about the short-run (as the discussion below shows them to be), then they might prefer bilateral programs even if they accepted all of the conclusions of the GAO

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<sup>5</sup> Controllability of Multilateral Organization Activities, A study by the Bureau of the Budget staff (Jim Fowler), 1/15/57, HSTL, John Ohly Papers, Box 97, Channels & Sources - general. Ohly wrote "Excellent paper!" on the cover.

report at face value.

### Corroborating Views

The views of the GAO report were elaborated by the statement of Henry Cabot Lodge before the Draper Committee in 1958. Although Lodge believed that, "It would be most imprudent to give up our bilateral program," he attempted to persuade the committee that a modest multilateral program of economic assistance was in the interest of the US government. Such a program would concentrate on infrastructure investments, and avoid activities in which private capital might be found. Although he wished the program to generate economic development, his reasons for proposing it were rooted less in any intrinsic value he attached to development than in the political utility of such a program for the prosecution of the Cold War:

We should present this economic development fund not as a cold-war move but as a sincere effort to help meet the needs of the under-developed countries. This is the best way to gain maximum psychological advantages from the program. Our whole position relative to former colonial areas, self-determination and economic development is of paramount importance to our world leadership. These countries want multilateral help very much. Such an offer on our part would show our interest in their problems and a willingness to forego political strings for the aid we extend, yet nothing could be done under this scheme without our approval. ... To do this under the UN makes the US look noble and unselfish to the underdeveloped countries and builds more good-will for us than a bilateral program. ... It is not subject to any suspicions that economic aid is a "cover" for economic or political penetration. ... The friends of America and opponents of communism in the underdeveloped countries all speak of the need for a coordinated American policy which will give us the initiative. They place particular importance on the United Nations as the place where they achieve equality and justice, and would therefore be most impressed by a US initiative through the UN. It is in these very countries that the Soviet Union has been concentrating its efforts. ... To do nothing and then allow the Soviet Union to win a victory would make them a free gift of great worth. To fight the cold war with maximum effect in the economic arena where the USSR is provoking a serious threat. *War* can be *deterred* for periods of time by military strength, but *peace* can only be *built* by non-military means. This program is the most promising *single* way to get the lead in the cold war -- whether or not the USSR agrees to it.

It costs us little and gains us much.<sup>6</sup>

Although Lodge's argument was general, he was most concerned about the Near East, and, to a lesser extent, Asia. In the Near East, he believed, the US would not be able to operate effective bilateral programs, while the Soviets might. If there was to be significant western aid to the region, it would have to be delivered by multilateral organizations. He argued not merely for maintaining programs, but for gaining the initiative by being the first to propose new multilateral programs:

By taking the lead we can undoubtedly steer the establishment of [such a program] pretty much in any direction we want. Then we can see to it that the fund is used wisely to promote economic development and to advance United States objectives and prestige. . . . If we do not gain and hold the initiative in the field of economic aid, our position in the Near East and Asia will be jeopardized because it will appear in those countries that the Soviets have us on the run and that our present programs are a rear-guard action. This would of course endanger our stake in the Near East with all that implies as regards petroleum, etc., and in the Far East, where the communist economic offensive is a growing threat to our position.

When US decision-makers in this era proposed that an international organization perform some activity, their justifications for doing so were generally consistent with the views of Lodge and the GAO report:

- International organizations can operate programs in places where the US is not welcome or is not effective. "Contrary to quite wide belief, we are beginning to find that the US is not necessarily the most effective exponent everywhere of the democratic cause. We are too remote, too foreign, too new, too extreme to be the most effective exponent of the Western cause in

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<sup>6</sup> Statement by Henry Cabot Lodge to the President's (i.e. Draper) Committee, 11/29/58, DDORS 1984: 2787. Emphasis in original.

many countries of Asia.” Regional organizations would also “shift the burden of exerting pressure for internal reforms to the other participants -- particularly those ... nations setting examples of success.” It would draw other nations “into a joint responsibility for stability in threatened areas.”<sup>7</sup>

- Multilateral programs are attractive because of “the much greater ability of an international organization to bring effective pressure on governments and to avoid political entanglements, thus in turn enabling it to operate more effectively . . .” However, “In many aid-receiving countries, the principal bilateral donor's influence on general development policies may be especially effective because of traditional foreign policy relationships. Social reform may be a particular instance of objectives more accessible to a bilateral donor, if interested, than to multilateral institutions, with their need for members' consensus. With bilateral donors carrying much of the heat of policy influence, multilateral institutions can have more elbow room for playing a mediating leadership role in a consultative arrangement.”<sup>8</sup>

- Multilateral programs imply a sharing of the cost and responsibility. This would provide for burden sharing in the creation of collective goods of value not only to the US, but to its European and Japanese allies. At least in some instances, this would lead not only to a higher

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<sup>7</sup> "Economic Aid to Asia -- Purposes, Policies, Principles"; Elizabeth Toupin, "An Analysis of Economic Aid to Asia," RG 469, Executive Secretariat, Policy Information Staff, "X" Files, Box 4, "X-134"; "The Colombo Plan as a Vehicle for US Aid," Division of Research for Far East, Special Paper No. 46, 8/10/56, RG 469, Ofc Dep Dir, Subj F of Dir, Exec Sec, Box 5, O/FE.

<sup>8</sup> "How Can Multilateral Aid Institutions Play A Greater Development Role", Paul G Clark, AA/PPC (AID), 4/19/68, JFKL, David Bell, Box 46, GAC 4/28-9/68.

level of aggregate funding, but to a more efficient utilization of the funding provided. It would also “[avoid] the charge of imperialism by American capital.” (However, because bilateral programs serve the interests of important national constituencies, the aggregate level of aid provided by the operation of several national aid programs producing private goods is greater than the aggregate level of aid that would be provided if aid were used to create public goods. Multilateral aid can then be used to “compensate for the worst oversights” i.e. the aid recipients that do not have a sponsoring constituency among any of the larger donor nations.)<sup>9</sup>

- At least in the case of the World Bank group, US interests were well served by “[t]he close organizational relationship between the major source of public capital, the provision of technical assistance, and the flow of private capital -- all of which, as a practical matter, are closely interrelated in many cases,” as well as “[t]he flexibility provided in the use of various currencies, and the possibility of tying in with the operations and powers of the International Monetary Fund.”
- Multilateral programs created possibilities for eliminating duplications in programs and reducing the large segment of American bureaucracy abroad.<sup>10</sup>
- The strong support for multilateral lending in the less developed world means that US support for new multilateral programs “would be welcomed by these countries as additional

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<sup>9</sup> *Ibid.*

<sup>10</sup> Eric Johnston to Harold E Stassen, 6/19/53, RG 469, Ofc Dir, Subj File, Box 21, Finance - Investments.

evidence that the US is concerned with their economic progress.”<sup>11</sup>

- Aiding a country through multilateral organizations reduces the chances for direct competition there between the Soviets and the US (e.g., “keep the Cold War out of Africa”).<sup>12</sup>
- Bilateral aid programs too easily become “targets for nationalist, anti-US demonstrations. Countries [such as] the United Arab Republic, Indonesia, Pakistan . . . either turn against the United States or blackmail the United States for aid.”<sup>13</sup>
- Multilateral programs would “promote economic development more efficiently because they are unaffected by day-to-day political crises.”<sup>14</sup>
- “Arrangements for tying aid appear unavoidable for bilateral aid programs, but there is at least a fighting chance to limit, and indeed roll back, their extension to multilateral programs.”<sup>15</sup>

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<sup>11</sup> NAC Document No. 712, 6/30/54, Draft position paper for 18th session of ECOSOC concerning the IFC, HSTL, Ohly papers, Box 98, IBRD.

<sup>12</sup> Memo to Gerard C Smith from Ralph WE Reid re: Revision in Africa policy, 9/9/60, K 4-7, Box 76, Ser. 52.1, RG51.

<sup>13</sup> Staff memorandum, Committee on Foreign Relations, 8/12/65, K 4-2, B 148, Ser. 61.1, RG51.

<sup>14</sup> Memo for David Bell from RW Richardson, 11/23/63, K4-1, B 73, Ser 51.1, RG 51.

<sup>15</sup> "How Can Multilateral Aid Institutions Play A Greater Development Role", Paul G Clark.

- “Multilateral institutions can be shielded by the bilateral agencies from domestic political pressures in the donor countries. Moreover, aid to sectors such as education, in which various donors' styles are quite different, is much simpler to carry out bilaterally. Active participation by universities and other private organizations can be more readily brought into play.”<sup>16</sup>

### **Opposing Views: Bilateralism and the Cult of “Flexibility”**

A well known problem with archival research is that it lacks metrics for assessing the representativeness of samples of text. While I have not solved that problem, I can at least show the other side of the coin -- the views of those who were not particularly interested in development assistance, who valued aid primarily for the political benefits it provided, and who found multilateral organizations to be a poor instrument for that purpose.

An obvious objection to multilateralism, the GAO Report notwithstanding, is the possibility of a reduction in control of a program if control of it is shared. Proposals for initiating or expanding a multilateral program typically noted that doing so would involve some loss of control for the US. However, this conclusion was seldom justified in any detail, and it often smacked of a pro forma attempt to be even-handed. A more serious objection was that, even in situations where the US had the votes to achieve its objectives within an organization, the political costs of seeming to ignore informal advice from other members of the same group may be substantial.<sup>17</sup> Another problem with multilateralism is that domestic opposition to it, particularly in Congress, meant that Executive branch initiatives designed to be implemented

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<sup>16</sup> *Ibid.*

<sup>17</sup> “The Colombo Plan as a Vehicle for US Aid.”

multilaterally were sometimes politically costly to pursue.

Gradually, Congressional sentiment in favor of bilateral programs was supplanted by sentiment from a few who favored multilateral organizations for development assistance precisely because those organizations were relatively resistant to US efforts to manipulate their loans and grants to achieve objectives other than development. When the Johnson administration was pressed by Senator William Fulbright, the chair of the Senate Foreign Relations Committee in the mid-1960s, to assign development and technical assistance entirely to multilateral agencies, while giving Supporting Assistance (i.e. direct budgetary support) and “political” aid to the State Department to administer directly, AID Administrator William Gaud provided the White House with several reasons why such a proposal would be unwise. Aside from claiming that giving up bilateral development and technical assistance would abandon an “effective foreign policy tool,” and a pro forma argument that “there would be no assurance” that multilateral programs would be used to accomplish US objectives, Gaud contended that, “Since it is most unlikely that other developed nations would give up their bilateral aid programs, the US would be at a decided disadvantage in dealing with underdeveloped countries.”

Unlike Senator Fulbright, most members of the Congress like multilateral aid (over which they can exercise relatively little control) less than bilateral aid (over which they can exercise considerably more control). The chances are that the Congress would make much less money available for a multilateral program than for a bilateral program.

Any widespread dispersion of the aid program -- whether to international agencies or to a group of agencies within our own government -- would sacrifice one of our principle objectives in this field, the development of a tight, clean, well coordinated and effective aid program under single management. Dispersion is likely to lead to duplication, confusion and waste.

The Congress and the administration will probably spend more, not less time

and effort on aid if it has to pass several aid bills rather than one (or at most two).

Multilateral aid may have its charms. But what Fulbright is proposing is not multilateral aid in the true sense, for we could not expect the Europeans to match the funds he would have us contribute to the international agencies. His is merely a proposal that US aid funds be administered by multilateral agencies. That is a different and wholly unacceptable proposition.<sup>18</sup>

Thus, the objections to multilateralism offered by Gaud depended (except for the efficiency issue) on concerns about how Congress would react to multilateral programs, or else on a view of technical and development assistance that saw national programs as competitive weapons in a contest with other aid donors – not necessarily Communist governments. Neither of these concerns was addressed by the arguments for multilateralism offered by the GAO report.

For his part, Fulbright came to believe that the US had no business being involved in bilateral development lending. “He views [bilateral] development loans as a tool through which we seek to dominate the developing countries. He also argues that they lead to commitments which are likely to involve us in more Vietnams.”<sup>19</sup> These views drove his decision to advocate programs turning development lending over to multilateral agencies, while retaining other aid programs, but housing them in the State Department, where their use for unabashedly political purposes would not be impeded by development concerns.

The riposte to the view that multilateral organizations could operate in areas where no US program could operate was the claim that US aid programs could operate in places where no multilateral program would be likely. In the 1960s that argument was applied to Taiwan, South

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<sup>18</sup> Memo to Moyers from Gaud, 12/11/64, LBJL, NSF, Agency, Box 1, AID, Vol I.

<sup>19</sup> Memo for President from Gaud, 1/16/67, LBJL, NSF, Subj, Boxes 39&40, Pres determinations, Vol. IV [2].

Korea and Vietnam – countries where the US operated very substantial aid programs, but where at the time it was judged to be too difficult to secure substantial multilateral involvement. Multilateral agreement on matters such as “restricting aid to governments which have seized power unconstitutionally, suspending aid to nations engaged in aggressive military acts, expropriations of property without adequate compensation, etc.” was judged to be unlikely. The value of aid as a signal of US willingness to incur costs to support a government would be lost to the extent that multilateralism served as an effective veil for underlying US interests. Thus, bilateral programs had an obvious advantage in situations where sending such an unequivocal signal was viewed as desirable. Because most US aid from 1958 until the US went off gold in 1971 was tied, but multilateral aid was generally not, the balance of payments consequences of shifting development assistance to multilateral agencies would be further pressure on the US balance of payments and the dollar.<sup>20</sup>

When the case for using multilateral organizations was examined in terms of specific institutions, the advocates of continued reliance on bilateralism could find even more objections to relying upon them. The World Bank was constrained by the need to find bankable projects. While the International Development Association’s softer credit terms alleviated this problem, the US had been unable to secure multilateral agreement on increased funding levels for this

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<sup>20</sup> Memo, Dungan to Bundy, 11/1/63, Foreign aid 10/25/63 - 11/22/63, Box 297a, NSF, JFKL.

institution: France, Germany and UK were “strongly opposed” to increasing their contributions. In 1963 the US had sought to reduce its contributions to IDA to about 25-30 percent of the total. The final agreement for replenishing IDA fund set the US share at 41.2 percent, a decline of only 0.4 percent from its previous share. Moreover, even if it had the funds and was willing to spend them on this program, the US could not simply expand IDA by unilateral increases in its own contributions, because doing so would “jeopardize the multilateral status of IDA as an international institution and break down existing US pressure on the Europeans for contributions which match the American contribution. Once the formula of matching contributions is breached, US leverage is lost on the Europeans to maintain their contributions at least at the level of the present formula.” Finally, the apparent success of multilateral organizations in exercising conditionality is founded on the position of the US as aid provider of last resort:

It is true that multilateral organizations frequently have suspended operations in a country which has not agreed to reforms, and such pressure has been extremely valuable. They may do so, however, apparently oblivious to the political consequences of left or right-wing domestic threats, in the knowledge that the US must continue to wrestle with the problem as a foreign policy matter. Brazil, for example, has received no World Bank loans since June of 1959 and no IDA loans whatsoever. The US does not enjoy the same luxury of knowing there is always someone else to keep the chestnuts from falling irretrievably into the fire.<sup>21</sup>

The most persistent objection to multilateralism -- at least within the Executive branch -- was that US resources devoted to multilateral causes could no longer be programmed or re-programmed just as the US pleased. The most chronic State Department complaint about multilateral programs -- or, for that matter, any program or policy that entailed restrictions on

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<sup>21</sup> *Ibid.*

the use of funds – was that the Department had to be free to be as “flexible” as possible in using these funds to achieve its diplomatic objectives. An example of such pressure was the complaint was voiced by the US embassy in Brazil in 1969: “Aid programs are rarely sufficiently flexible to be useful for short-run, tactical political purposes. The leverage the aid program gives us in Brazilian domestic political affairs is slight.”<sup>22</sup> The desire of some for fewer restraints in the use of aid so that its value as political leverage could be maximized was constrained, as the strategy’s adherents recognized, by both Congressional resistance to issuing what amounted to a blank check to the aid program, and to recipient unhappiness at not being able to count on predictable infusions of resources from the United States.<sup>23</sup>

“Flexibility” has always been an important consideration in US aid. Given the advantages of a predictable flow of funds from the standpoint of budgeting major capital expenditures, one might think that the State Department would like to receive from Congress an appropriation that locked in aid budget figures for several years. Not so. Although sentiment

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<sup>22</sup> Telegram Rio (Belton) to SecState 23 Jan 1969, RG 59, Central Foreign Policy Files, 1967-69, Box 463, "AID (US) BRAZ 1-1-67."

<sup>23</sup> “Mr. Hollister [head of ICA] said that he was also in agreement with those who stressed the importance of greater flexibility in the management of our foreign assistance programs and on the desirability of larger contingency funds to meet emergencies which might occur in countries which we were assisting. It was a real question, however, whether Congress could be induced to agree to place most of the funds it appropriated for foreign assistance in the category of contingency funds. Moreover, the countries who were beneficiaries of our assistance programs would not welcome a cut in the funds appropriated for the regular assistance program in order that larger sums could be reserved for unforeseen contingencies.” Discussion at the 269th NSC meeting, 12/8/55, DDCS 1988: 373. By the end of the Eisenhower presidency, the trade-off between flexibility and program continuity was clearly recognized. Joseph E. Slater, “An Action Program for a New Approach in foreign Assistance for the 1960's,” 11/8/60, attachment to Ernest LeFever to Hubert Humphrey, 11/10/60, Humphrey papers, Legis., Box 150.B.15.8 (F), “Foreign policy, 1959-61.” Slater was appointed by Kennedy from the Ford Foundation to a position in the Development Loan Fund.

expressed for such an arrangement was occasionally expressed, the much more common view was that the need to respond to other countries' aid initiatives, along with short-run changes in conditions in the recipient countries, placed a premium on being able to re-program expenditures quickly and easily.

[The] essential principle of our response [to the Soviet aid program] should be that we should *not outbid* but *out-perform* the Communists. To do this, flexibility is essential. I mean by flexibility that funds should be available to be used, if, as, and when necessary in the US interest and should not be tied to a budget appropriation scheduled under which their use must be determined about two years in advance. The situation is too fluid for this fixed operation type of procedure. Neither should our response to special urgent situations be hampered by abstract general concepts which may prevent us from assisting a nation in the solution of its most difficult problems.<sup>24</sup>

Even in the Kennedy-Johnson years, a time when the use of aid for long-run economic development received a great deal of rhetorical emphasis, the consensus was that “the aid program should remain *highly flexible*, able to assist in a wide variety of situations, including active combat (as in Vietnam), unsatisfactory national leadership (Indonesia, Brazil) ‘base rentals’ (Panama, Morocco, Ethiopia), competition with Soviet influence (Guinea), as well as peaceful economic and social development (India, Pakistan, Nigeria, Chile, Colombia).”<sup>25</sup> Given the objective of getting the recipient to do more to help itself develop, the great variety of domestic political situations in recipient countries meant that “our self-help approach needs to be

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<sup>24</sup> Memo from Deputy Asst. Sec’y of State for Far East Economic Affairs (Jones) to the Special Asst. to Pres. (Clarence Randall) 11/20/56 FRUS 1955-57 X 134-7. Emphasis in original.

<sup>25</sup> Presidents' Committee to Examine the Foreign Aid program, (the Ball Committee) Staff Paper No. 1, revised draft, 12/26/63, JFKL, David Bell, Box 36, Ball Committee. Emphasis in original.

flexible and pragmatic rather than doctrinaire.”<sup>26</sup>

Executive branch officials in the 1950s and ‘60s constantly sought a removal of rules and restrictions governing aid so as to operate in a more “flexible” manner. This was a frequent recommendation of the 1966 Korry Report, which reviewed US policy for Africa;<sup>27</sup> a common executive branch objective in lobbying Congress, which constantly attempted to impose more restrictions on the disbursement of aid than any President has liked;<sup>28</sup> a desideratum when responding to the newly flexible Soviet aid policies of the mid-1950s and later;<sup>29</sup> a reason not to rely too heavily on loans from the Export-Import Bank, the World Bank, or foreign bilateral aid providers;<sup>30</sup> and a reason to avoid promulgating highly specific rules about the conditions under which PL 480 food aid would be provided.<sup>31</sup> Presidents Eisenhower and Kennedy, despite their occasional expressions of enthusiasm for development assistance, personally favored “flexible”

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<sup>26</sup> Policy Planning Council, *The New Aid Criteria And U.S. Foreign Economic Programs*, October 26, 1961, Document 124, *FRUS* 1961-63 IX.

<sup>27</sup> Action Program to Implement the Recommendations of the Review by Ambassador Korry of Development Policies and Programs in Africa, no date (ca. 1966), LBJL, NSF, CO, Box 77 "Africa .”

<sup>28</sup> Notes on Legislative conference, 6/5/56, DDEL, Ann Whitman: Diary, Box 16, 6/56 Misc. (4); Status of the Mutual Security Program as of 6/30/59, NSC 5912, DDRS 1985: 442; Remarks of J.M. Wilson Jr., Ass’t Coordinator for Mutual Security, before the Nat’l Council of Churches of Christ 2/17/60, James Wilson Papers, Box 4 "National Council of Churches of Christ", GR Ford Library; Draft memo for President, n.d., JFKL, David Bell, Box 36, Ball Committee.

<sup>29</sup> Psychological Aspects of United States Strategy, Panel Report, November, 1955, RG 51, Series 51.14, Box 6, Subj Files for Nat’l Mil Estab & DoD 1953-61, Box 6, Technological Capabilities Panel Rpt (Killian Committee).

<sup>30</sup> Briefing Material for Mr. Stassen, 12/22/52, RG 469, Exec. Secretariat, Policy Information Staff, "X" Files, B 10, X-312, p. 63; Memo for the President from Rusk, 2/13/61, NLK 94-23.

<sup>31</sup> Summary Notes of 576th NSC meeting, 10/11/67, 12:10 to 12:40 DDRS 1988: 404.

programs. Thus Eisenhower attempted to obtain Congressional approval for legislation authorizing long-term aid commitments of up to ten years' duration, but with a limit on those commitments of only \$100 million in any one year.<sup>32</sup> Changes under Kennedy made the AID budget from then until the 1973 passage of the New Directions legislation more flexible than at any other time during the Cold War, with only two broad categories of spending: Loans and technical assistance. After 1973 AID had to budget within Congressionally imposed functional budgeting categories.<sup>33</sup>

An interest in flexibility presupposes that the value of being able to make commitments to the delivery of aid over the long run is outweighed by the value of not making commitments so that aid is free to fluctuate in the short run. As such, it is a view that stands in stark contrast to much of current scholarship on international cooperation, which has tended to emphasize the value of commitment mechanisms for securing cooperation, enhancing trust and building confidence, and getting one's way in situations that resemble a game of "chicken." While there is nothing wrong with the theory underlying such claims, it does not apply to a world in which conditions are shifting so rapidly that credible commitments to continue an existing course of action do more harm than good, because they suggest that the government in question is not nimble enough to respond quickly to reward or punish others by changing its own behavior.

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<sup>32</sup> Kaufman, 67. On Kennedy's personal interest in "flexibility" in aid, see editorial note on Document 132, *FRUS* 61-63 IX: Foreign Economic Policy.

<sup>33</sup> Theodor W. Galdi, "Development Assistance policy: A Historical Overview," in *Background Materials on Foreign Assistance, Report of the Task Force on Foreign Assistance to the Committee on Foreign Affairs*, US House of Representatives, February, 1989, 250-51, in Richard Sincere, *Sowing the Seeds of Free Enterprise: The Politics of U.S. Economic Aid in Africa* (Washington, D.C.: International Freedom Foundation, 1990), 2.

## Rostow's Summary of the Pros and Cons of Multilateralism

A second overall assessment of multilateralism, this time focusing on aid, was written by Walt Rostow at the beginning of the Kennedy administration. The administration had taken office determined to focus aid programs more strongly on economic development, but had not yet chosen how heavily to rely on bilateral or multilateral programs. Rostow's paper was an attempt to sort out the considerations involved in operating an aid program bilaterally or multilaterally. However, most of his points are sufficiently general that they have application outside of the realm of foreign aid.

The paper, "A new Legislative Structure for Foreign Aid Programs," was composed when the administration was only eleven days old.<sup>34</sup> Rostow's analysis is worth a detailed examination, partly because of his prominent role in shaping US aid policy in the 1950s and '60s, but also because the contents of his paper are reflective of general thinking within the administration at the time about the relative merits of multilateral and bilateral programs.

Table 1 below reproduces Rostow's points in the format in which he originally presented them. It reveals a series of trade-offs, some of which are anticipated in the extant academic literature, and some not. Gaps in one or the other column are faithful to the original text – Rostow did not provide offsetting considerations for every factor that he considered.

**Table 1**  
**Bilateral vs. Multilateral Aid: Rostow's Pros and Cons**

Pro-Multilateral	Anti-Multilateral
<b>Size of Total Resources</b>	
The sources of capital, and hence the amounts, can presumably be maximized as more	Most donor countries will continue to give most of their aid bilaterally. Since they then have clearer

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<sup>34</sup> A new Legislative Structure for Foreign Aid, JFKL, NSF, Box 325, W Rostow, Foreign Aid 1/31/61 II.

countries contribute.	political motivations, in the aggregate they will extend more aid this way
An international organization can provide an effective means for tapping the resources (including the intellectual resources) of smaller donors.	Smaller donor countries like aid channeled through international organizations (or bi-lateral aid under a multilateral 'umbrella') because, without direct bilateral aid relations, they can minimize direct LDC pressures on them, reduce their commitments or pull out of particular programs or projects without adverse political effects.
	In order to maintain the international or multilateral character of an organization, the US contribution must of necessity not become too large a portion of the total
<b>Effectiveness</b>	
The economic development purpose of an international organization can be more clearly defined, as opposed to the military, strategic, or export promotion objectives of much bilateral 'aid'.	Clear definition of the purposes of 'aid' is an illusory goal. If other domestic justifications increase the total resources made available to the LDCs, this is more important.
If all or most development assistance were channeled through multilateral channels, this could reduce or eliminate much overlapping and waste among aid programs, or at least among non-Communist aid programs	There is just as much overlapping and waste among multilateral as among bilateral pro-grams. The only effective coordination of programs is that which takes place in the recipient country.
Outside assistance may be more politically acceptable to most new states if it comes from an international organization of which the state itself is a member	One of the primary attributes of sovereignty of a new state is the ability to seek aid bilaterally from many potential donors (including, in many cases, the Soviet bloc).
The distribution of bilateral aid from many sources is the resultant of many pressures, objectives and forces, and not of any rational allocation. Generally speaking the smaller countries tend to be neglected	
<b>Self-Help</b>	
An international organization can exact the self-help conditions which are necessary to make external aid effective more readily than this can be done bilaterally. Examples are tax reform, or IBRD-IMF insistence on monetary stabilization before the injection of new large-scale resources	Although American technicians may be used to vastly different conditions, they have shown themselves generally to be more imaginative in their adaptation of modern techniques to local conditions than most technicians supplied by international agencies.
An international organization can, more readily than another government, insist on local contributions to a project or program	

sufficient to insure that it is really accepted locally and is likely to be continued under local auspices when the external aid ends.	
<b>Cold War Aspects</b>	
UN activities in this field may result in a politically desirable by-product of a "UN presence."	
Since the Communist bloc generally refuses to participate in, or contribute proportionately to, aid programs of the UN or other international organizations, the West can gain political merit with the LDCs by supporting these organizations which they like.	
Should the Soviets or any of their satellites reverse their position and seek to join, say, a UN program in Africa, this is better than to have them freewheeling around bilaterally.	The US gets more "credit" with the LDCs if it has bilateral programs which create a specific identification of the US with the aspirations of the country
	A decision to channel all or most economic development assistance through multilateral channels would reduce the flexibility of the US to meet or counter specific Soviet moves in the cold war.

Some of the factors mentioned by Rostow are best viewed as temporary features of the political landscape of the early 1960s, not necessarily applicable to earlier or later periods. For example, his claim that most donor countries will continue to give most aid bilaterally because of the "clearer political motives" (presumably he meant the greater capacity of a bilateral program to generate private goods for the donor) has not been borne out in subsequent decades, as development assistance lending has become mostly a multilateral affair. Similarly, his concern about US contributions becoming too large a percentage of total contributions, thereby overwhelming the alleged multilateral nature of the effort, now seems quite dated. (It has been a long time since bilateral programs were better supported politically.) His points about the advantages and disadvantages of the programs in the context of the rivalry with the Soviet

Union, though seemingly rendered irrelevant by the end of the Cold War, might be of more general applicability, as they can be cast in terms of the capacity of any national rival to exploit opportunities provided by participation in a multilateral program, as well as the way in which participation might constrain the rival as well as one's own country.

Other arguments are more intriguing, though of necessity the detailed assumptions behind the points can only be surmised or inferred from similar discussions at the time. The claim that the organization of multilateralism leads to greater small country involvement seems to presuppose either that free riding in the creation of a public good can be prevented, or that the good is not entirely public. The latter possibility might especially apply to aid under a consortium arrangement in which each bilateral program maintains its identity. Conversely, the claim that small countries prefer multilateralism because it makes it easier for them to "hide" their aid programs when they take actions that deprive the aid recipients seems to presuppose that recipients are incapable of discerning the specific sources of support for multilateral programs or of reacting in a discriminating fashion to different contributors (this seems particularly implausible when the recipient's diplomats are quite literally in the room when the consortium is discussing each country's contributions). The claim -- made many times since Rostow wrote -- that aid from multilateral organizations is more palatable to recipients because it is less threatening to sovereignty also seems to presuppose that such organizations operate behind a veil of ignorance as far as the capacity of a recipient government to discern national influences on their operations is concerned. This claim is plausible when it applies to members of the general public, but considerably less so for the diplomatic corps of the recipient. The converse argument -- that bilateralism is less threatening to sovereignty because recipients can diversify their portfolios of aid contributors -- takes for granted that such diversification is

possible, or that the contributors will not collude on their influence strategies. Both assumptions are debatable at best for the Cold War period, given (1) the meager amount of east bloc aid compared to western aid; and (2) the existence of various institutional mechanisms for multilateral cooperation by western aid donors (the various country aid consortia and the Development Assistance Committee of the OECD), and (3) the possibilities of ad hoc bilateral cooperation with other donors in circumstances where that was the most efficacious solution to the cooperation problem. Arguments that multilateral programs can concentrate on economic development without being distracted by other goals might not be compelling if the other goals are also important, or – as Rostow implies – if aid is fungible. Then the rationales for aid and the activities of the programs should be selected with an eye to those with the greatest domestic political appeal in the contributing country. This will increase the total resources available to the recipients. However, this viewpoint in turn presupposes that the primary purpose of aid is to transfer resources rather than to influence the behavior of the recipient. If bilateral aid is given with little or no conditionality attached, the latter objective would suffer.

Like many since the early 1960s, Rostow noted the possibility that multilateral organizations might prove to be more effective in securing compliance with conditionality than bilateral donors. He did not put any arguments on the “con” side of the ledger at this point, so perhaps this was widely believed at the time. I am unaware of any single study that attempts to assess such a claim in the most direct way, by comparing compliance rates for comparable programs when delivered by bilateral and multilateral donors. However, in countries where the US had no aid program, whatever conditionality a multilateral organization could attempt would

necessarily be superior to the nonexistent conditionality of a nonexistent US bilateral program.<sup>35</sup>

### **Implications for Theory**

First, I summarize how these reports view factors that the academic literature has regarded as important. I then turn to a discussion of issues raised by the documents that the academic literature has not yet addressed.

### **Comparison to existing theories**

Comparing the way in which historical actors defined their situations with the definitions embodied in current theories about international organizations, we notice both commonalities and differences.

Transactions costs: The GAO Report notes that influencing multilateral organizations is a more “complex” task because of the multiple of channels through which US influence could be working. If “complex” means more costly or time-consuming, then from the standpoint of the US, it is bilateral rather than multilateral interactions that generate fewer transaction costs. On the other hand, early Eisenhower administration concerns about eliminating duplication in programs and in reducing the number of US personnel employed abroad suggest that the administration believed that the operating costs of bilateral programs exceeded equivalent

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<sup>35</sup> This of course is not inconsistent with a situation where no aid is presently given, but conditionality is attempted by promises of future aid. The ability to make credible promises is

multilateral programs at least some of the time.<sup>36</sup>

Rostow's assessment does not explicitly address transaction costs; the closest he comes to discussing them are his comments about "overlapping and waste." From his perspective, there was no significant difference between the two forms of organization on this dimension.

**Burden-sharing:** Rostow is explicitly concerned about this. He claims that the total amount contributed will rise as membership expands. His argument that small countries will actually give more aid if they can give it multilaterally contrasts sharply with academic arguments about small countries and free riding. The GAO does not explicitly address this issue. One corroborating comment discusses burden sharing, and does so in a way that is consistent with Olsonian understandings of free riding.<sup>37</sup>

**Credible commitments:** While this attribute is a central concern of academic theories of international organization, it receives no explicit attention in the GAO or Rostow documents or the supporting and dissenting material. One might infer that Rostow's comment on the allegedly greater leverage of recipient behavior obtained through multilateral channels implies that acting through those channels is more successful because the donor can more credibly commit to a "tougher" conditionality than can a single nation, but it is far from certain that Rostow would agree with that judgment. He (and others) noted that it was the multiplicity of objectives in the US bilateral programs that made it difficult to use them for the single-minded pursuit of the handful of development goals. The GAO's report did not explicitly address the commitments issue, but by seeming to suggest that the choice of multilateral versus bilateral channels did not

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36 See note 10.

imply a difference in the likelihood of US influence attempts, it implicitly evaluated the value of multilateral organizations as a superior commitment device to be minimal or non-existent.

Information provision and monitoring of compliance: Neither the GAO nor the Rostow papers addressed this topic, nor did it appear in supporting or dissenting documents.

Obtain economies in using expertise: To the GAO, what mattered about IGO staff is not their expertise, but rather their susceptibility to US influence attempts. Rostow assessed IGO technical assistance as lower quality than the corresponding US programs. This suggests that the main issue for him was whether burden sharing, which would reduce US costs to supply technical assistance through multilateral channels, be sufficient to offset the decline in program quality.

Using principals' time more wisely by delegating routine tasks: Neither document is explicitly concerned with this issue. The GAO Report did note that State Department monitoring of IGO activity required very little staff time; that might be interpreted as modest evidence in support of the claim.

Create a bargain between strong and weak: Neither report explicitly adopts such a view of relations within an IGO. The GAO Report implicitly denies the importance of this by virtue of its insistence that desired outcomes can be obtained through either channel.

Managing countries' sequence of membership: This is not a concern of either document. The GAO study was completed before the colonial era had ended, thus was unlikely to have considered how existing organizations would cope with the arrival of many new national governments. Likewise for Rostow, there were no salient membership issues at the time (save for perennials such as the seating of the PRC at the United Nations).

Using multilaterals to "launder" transactions: The assessments viewed this as a significant advantage. Rostow noted that aid from a multilateral organization was often more "politically acceptable" than if the aid were doing from a national donor. He also noted that small countries may prefer to give through a multilateral channel, because they will not be noticed by recipients if they cut back their aid or change its character. (Perhaps getting political credit for their aid from other donors in the multilateral organization was more important to them than getting it from the recipient countries.) Lodge asserted that US aid funneled through multilateral organizations "makes the US look noble and unselfish to the underdeveloped countries." That could happen only if observers thought that the US had less control over the use of these funds than they did when the US disbursed them bilaterally.

"Locking in" benefits: Neither the GAO nor Rostow devoted any attention to how the position of the US in these organizations could change if additional countries joined. To the extent that these papers saw the involvement of other countries in these organizations as problematic, it was because of their concerns about the presence of communist countries.

Obtain advantages in domestic politics: Neither report addressed this, perhaps because of taboos

about such assessments being made by anyone but the president's closest political advisors.

One analyst said that bilateral aid is more likely to serve important domestic interests than is multilateral aid. As a result, the total amount of aid provided bilaterally, will be greater than the total amount provided multilaterally, other things being equal.<sup>38</sup>

Preempt other, less appealing organizational solutions: The GAO Report noted that the US was generally the IGO agenda setter, and could if it wished even increase its influence over agendas. Thus, implicitly it was in a position to block any alteration of organizational form. Its financial and political strength also gave it an important role in the creation of IGOs in this period. Thus, neither paper needed to devote much effort to discussing how to suppress other organizational forms.

“Socializing” individuals (and governments): This was an important consideration for the GAO report. However, it posited that the most important socialization that the US provided was the aid it provided for the educational experience of the staff of IGOs and national representatives to such organizations.

“Entrap” those who do not join initially into joining later: This was not mentioned.

### **New Issues Raised by the Documents**

On a number of points, the historical actors' understanding of their decision environment poses a challenge to current theories.

Flexibility rather than credible commitments: This is the most dramatic departure from current theories. Historical decision-makers were much more concerned that programs exhibit flexibility than that they embody or reinforce credible commitments. While this might be due to the fact at the time the US had so much credibility that marginal improvements in their position might come from lessening it, it also might be because their strategic environment was so turbulent that relatively few commitments are desirable. This is an issue that requires more investigation.

“Free-wheeling:” This was the term used in the GAO report to refer to situations where a national delegation has received no voting instructions from its home government. Because at the time there were apparently many matters before the UN for which this was true, delegates often “free wheeled” (.i.e. decided policy and voted according to their own notions) when they spoke or voted. This is distinct from shirking or other instances of agent misbehavior. (It might be regarded as an instance of a principal’s misbehavior.) It also suggests a different mechanism for bringing the votes of small, low-income states in line behind the USA than is found in arguments about “socialization” through membership in an IGO. The abundant diplomatic resources of the US delegation were in a very favorable position to influence the voting behavior of free-wheeling delegates. However, their ability to sway votes of those who had no voting instructions does not necessarily imply that the US had “socialized” these delegates into accepting a new worldview.

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38 See note 9.

Bilateral and multilateral programs as complements: From the perspective of the GAO report, the most important ingredient for success in influencing outcomes in multilateral organizations is success in bilateral influence attempts directed at national governments, their representatives in international organizations, and at the staff of these organizations. The report saw traditional bilateral diplomacy through traditional channels as the primary activity bringing about diplomatic successes in multilateral organizations. Other officials argued that political limits on the use of one type of program in a given locale could be circumvented by using the other type.<sup>39</sup>

Aid to extract concessions from other donors rather than from recipients: Rostow's discussion of the aid-giving behavior of small countries implies that pleasing other donors is important enough that small donors are willing to have their contributions masked by folding them into multilateral programs.

Multilateral programs to dampen competition between bilateral programs: Although the reasoning behind this claim was not presented, there are a number of ways that a multilateral program could have such an effect. It could simply meet all of a recipient country's demands for aid, leaving no gaps that a Soviet aid program might exploit. By providing aid in situations where the United States desired to provide it, but to do so in a way that did not visibly engage the US, it would allow the US to avoid having its prestige in a country tied to the success of its bilateral program, or to its superior performance to a competing Soviet program. Similarly, it could prevent competition between the US and other western bilateral programs. Because such programs often involved tied aid and thus delivered private benefits to the donors, their

interaction potentially could resemble an arms race in aid. Multilateral aid is a collusive solution in such a situation. Finally, the vicissitudes of bilateral relations might prevent the US from operating an effective bilateral program, but allow a multilateral program to go forward. In such a situation a multilateral solution would be quite attractive to the US.<sup>40</sup>

## **Conclusion**

The strategic environment in which aid decisions are made is rich and complex, involving multiple actors, multiple channels of action, and strategic behavior by donors, recipients and third parties. If viewed as an arena for the application of formal models, the modeler cannot begin to work until a great many simplifying assumptions are made (Downs, Rocke and Barsoom 1998). Making assumptions that are grounded in the experience and perceptions of historical decision-makers ought to impart greater realism to the conclusions of the models.

Extant theories of aid politics capture some of the elements of this rich, complex environment, but leave others unexplored, and perhaps misstate some aspects. Especially in the cases of transactions costs and credible commitments, the theoretical understandings of these phenomena seem to differ substantially from the understandings held by the historical decision-makers. Stronger connections between models and empirical research in this domain might lead to faster theoretical progress, and to better communications between theorists and practitioners.

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39 See notes 6 and 7.

40 See note 12.