

Economic Aid and the Strategy of Containment

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Abstract There is a prevalent assumption in the literature on aid policy that geopolitical goals are distinct from developmental goals, with many studies arguing that the presence of strategic interests undermines the ability of economic aid to promote development. However, some of the most successful aid programs in history, such as the Marshall Plan, were fundamentally political in nature. This paper argues that the interest of a great power donor in using aid to promote development reflects the structure of the international system and the perceived geopolitical alignment of the aid recipient. Under bipolarity, allies and security partners are potentially vulnerable to attack or coercion from the donor's geopolitical adversary, leading the donor to have a strategic interest in using aid to promote their economic growth. Uncommitted states have the potential to align with the donor's geopolitical adversary, leading the donor to have an interest in using aid to purchase their political support. I verify this claim using an original dataset that employs a novel measure of geopolitical alignment and a disaggregated measure of economic aid. I find that compared to American allies and security partners, uncommitted countries received a higher proportion of aid in the form of general budget support that had no strings attached, which was designed to be effective at purchasing political support but not at promoting economic development. These findings shed light on the relationship between economic development and geopolitical motives in aid policy, and more generally on the role of economic development in international strategy.

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Introduction

Scholars of international relations have long recognized that differential rates of economic growth lead to structural changes in the balance of power.² It naturally follows that the great powers should seek to alter global patterns of economic growth to serve their strategic interests. And yet there is a prevalent assumption in the literature on foreign aid that strategic interests are distinct from and may even undermine efforts to support economic development.³ For example, Headey (2007) argues that multilateral aid is more effective at promoting economic growth because “bilateral donors’ desire to purchase concessions from the recipient...need not necessarily also purchase development.”⁴ Similarly, Berthélemy and Tichit (2004) argue that “if aid responds only to strategic and political considerations, there is indeed no reason for aid to be effective in promoting growth or reducing poverty.”⁵ This distinction between developmental and political goals reflects the assumption that political outcomes are non-economic, such as using aid to influence the recipient’s foreign policy.⁶

While it is certainly true that these kinds of aid relationships exist, there have been many aid programs in which economic development has played a critical role in advancing the donor’s strategic interests. The Marshall Plan supported the economic reconstruction of Western Europe, and American aid underwrote the economic recovery of Japan and the rapid industrialization of South Korea and Taiwan.⁷ In all of these cases, the United States’ pursuit of economic

² Gilpin 1981; Kennedy 1989

³ Alesina and Dollar 2000, 33-34; Bearce and Tirone 2010; Deaton 2013, 274-289; Headey 2008, 162; Berthélemy and Tichit 2004, 253-254; McKinlay and Little 1977

⁴ Headey 2007, 162

⁵ Berthélemy and Tichit 2004, 253-254

⁶ Dreher, Nunnenkamp, and Thiele 2008; Lundborg 1998

⁷ Milward 1984, Pollard 1985, Haggard 1990, Jacoby 1966, Forsberg 2000

development was driven by its rivalry with the international Communist movement, which challenges the notion that geopolitical objectives are inimical to economic progress.

References to “geopolitics” and “strategic interests” are ultimately too broad to permit general claims about how they are related to economic development. Rather, the critical factor is the nature of the strategic problem that the donor faces, which requires a specification of the structure of the international system and how that structure creates competitive pressures that influence the provision of foreign aid. Whereas much of the existing literature has focused on the impact of aid or the domestic determinants of aid policy, I focus on the systemic factors that influence aid policy.⁸ I argue that under bipolarity, the donor has a strategic interest in using economic aid to promote development among its allies and security partners and to purchase the political support of non-allies.

In a bipolar international system, one can characterize the aid programs of a great power donor as either serving to defend or to expand its sphere of influence. Defending a sphere of influence entails strengthening clients that are at risk of being coerced or attacked by its geopolitical adversary. In these cases, economic development serves the donor’s strategic interests because it entails a greater ability to finance a military burden, and, applying the logic of security externalities, the expansion of industry directly contributes to the military power of the aid recipient.⁹ On the other hand, expanding a sphere of influence entails seeking the loyalty of states that have not aligned with either of the great powers, which can be characterized as “uncommitted” states.¹⁰ At a minimum, the donor is seeking to prevent the recipient from aligning with the other

⁸ For the impact of aid, see Dreher, Eichenauer, and Gehring 2016; Boone 1996; Dunning 2004; Burnside and Dollar 2000 and Easterly 2003. For the domestic politics of aid, see Milner and Tingley 2010; Milner and Tingley 2013; Tingley 2010; and Chong and Gradstein 2008. See also Christensen 1996, 58-69 for a detailed discussion of the domestic politics of the China Aid Bill in 1948.

⁹ Gowa 1994

¹⁰ I avoid the terms “neutral” or “non-aligned” because during the Cold War, those terms had a more specific meaning than the theoretical concept in this essay. Some countries were formally neutral but not part of the Non-

great power; at a maximum, the donor is seeking to convert the recipient into an ally or security partner. In either case, the donor's primary goal is to influence the foreign policy of the recipient, with economic development being of secondary importance. The empirical implication is that development will assume a more prominent role in a great power donor's aid to its allies and security partners than in its aid to uncommitted countries.

This paper substantiates this claim through an analysis of U.S. aid policy in the early Cold War. After presenting the theory and accounting for the strategic setting for American foreign assistance programs, I present statistical analysis of an original dataset on American aid programs that uses a disaggregated measure of economic aid and an original measure of geopolitical alignment based on the diplomatic papers of the United States. I demonstrate that the greater the perceived distance between the United States and the aid recipient, the more the U.S. allocated in the form of general budget support that was developmentally ineffective but politically attractive.

Foreign Aid and Geopolitics

A familiar story about the Cold War is that the United States used foreign aid to prop up anti-Communist dictators, turning a blind eye to how recipient governments used those funds as long as they sided with Washington. In this view, the donor's preoccupation with securing its strategic objectives conflicts with the desire to attach conditionality to its aid, and hence scholars have understood geopolitics and development to be at cross purposes.¹¹ But why would it be

Aligned Movement, while other countries were members of the Non-Aligned Movement but not neutral. It would be misleading to use either the label "neutral" or "non-aligned" for all of these countries. "Uncommitted" is preferable.

¹¹ Bermeo 2010, 14-15; Deaton 2013, 274-289

necessary to provide aid to keep those countries on the American side if they were truly anti-Communist? Friends who require cash payment for their loyalty are no friends at all.

Rather, the U.S. doubted that those countries were truly committed to the cause, and the purpose of aid was to give them an incentive to adopt policies that were consistent with American interests. The most striking example of this phenomenon was Zaire under Mobutu. Scholars often point to this case as the prime example of the tragic consequences of allowing geopolitics to influence aid policy. Citing the fact that Zaire was among those countries that were “seen as bulwarks against communism during the Cold War,” Deaton concludes that “aid was used not for economic development but to keep an externally favored regime in power.”¹²

However, beneath the surface of apparent partnership with the United States was a much more complex reality. The following passage from a study of the U.S. relationship with Mobutu’s regime is illuminating:

As for Mobutu’s alleged pro-Americanism, his critics would observe that it has generally been available on a reimbursable basis in the past...he was not permanently anti-Communist, any more than Patrice Lumumba was a committed Marxist. Both African leaders simply adjusted to what they saw as political realities at the time, and they tried to make the most of them. Mobutu, who became one of Africa’s longest surviving heads of state, shifted his loyalties whenever he felt he stood to gain politically from doing so.¹³

It would appear that the conventional wisdom, in which aid does not promote development when the United States is concerned with anti-Communism, is based on an inaccurate description of which aid recipients were truly anti-Communist. The argument of this paper is that the United States supported development when it was providing aid to defend its sphere of influence, which best applies to the permanent members of the “Free World” like Taiwan and West Germany. In

¹² Deaton 2013, 282

¹³ Kelly 1993, 247, 248

contrast, U.S. aid to superficially anti-Communist states like Mobutu's Zaire would be an example of the United States providing aid to purchase political support and achieving temporary success.

Distinguishing between the permanent and temporary members of the anti-Communist bloc is therefore a critical empirical challenge. If a country has signed a treaty of alliance with the United States or the Soviet Union, then there is no question of the country's geopolitical alignment. If there is no such treaty, then the United States has to engage in a more subjective analysis to measure the susceptibility of the country to Communist influence. Fortunately, the early Cold War provides us with a wealth of primary materials that shed light on how this analysis worked in practice. This paper makes use of these primary materials to determine the perceived geopolitical alignment of U.S. aid recipients and explores how those perceptions influenced the composition of various aid programs. I find that among aid recipients that were non-Communist, general budget support represented a greater proportion of total economic aid as an increasing function of the recipient's perceived susceptibility to Communist influence. This relationship reflects the fact that budget support was politically attractive, leading it to assume a more prominent role in U.S. aid programs that had a greater emphasis on shaping the recipients' foreign policy.

This finding is highly counterintuitive because it contrasts with many existing arguments about alliances and economic statecraft. Whether the issue area is aid, democratization, IMF loans, trade, or membership in international organizations, many studies have argued that allies receive more generous treatment.¹⁴ The argument of this paper serves as an important point of contrast with these studies insofar as it contends that non-allies receive more lenient treatment than allies do. These striking results reflect the phenomenon of competitive bidding under bipolarity. If the United States had attempted to attach stronger conditions to its aid to Nasser's Egypt (or any

¹⁴ E.g., Davis and Wilf 2017, Deaton 2011, Dunning 2004, Gowa 1994, Gowa 2010, Stone 2004, Stone 2011

uncommitted country), the Soviets would have outbid the United States by offering aid on even more generous terms. Attaching conditions to that aid would have also implied a lack of trust in the recipient and undercut the paramount goal of gaining influence. By providing an unconditional cash transfer to the government, the United States was able to express confidence in the good intentions of the recipient and forestall accusations of meddling in the internal affairs of states that were imbued with post-colonial nationalism. This was not an effective way to promote development, but that had not been the primary intention of the United States in the first place.

In the following section, I provide an account of how the United States became a global aid donor in response to the competitive pressures of the Cold War and why it gave more support for development among allies than among uncommitted countries. Although many of the events in this account reflect the particular historical circumstances of the United States' postwar national security policy, the broader strategic dynamics confirm the theoretical principles that I have outlined.

First, the United States was confronted with the need to defend its sphere of influence in the face of perceived aggression from the Soviet Union and its allies. As a result, the U.S. provided aid that was heavily focused on development and contributed substantially to the postwar economic miracles of Western Europe and Northeast Asia. Second, the United States was confronted with Soviet economic initiatives that had the potential to draw uncommitted nations toward the Communist bloc. In response, the U.S. provided a high volume of aid to those countries in the form of general budget support that had no strings attached. Although this aid was rhetorically framed as development assistance, it was effectively a cash payment to forestall unfavorable foreign policy decisions by the aid recipient.

American Aid Policy in the Cold War

The United States is often assumed to be an aid-giving nation. Public opinion surveys frequently report that respondents substantially over-estimate the amount that foreign aid represents in U.S. government spending.¹⁵ The real figure, while several orders of magnitude lower than what citizens reportedly believe, is by no means trivial, representing almost as much of the federal budget as farm income support and funding for higher education.¹⁶ And yet it was only comparatively recently that the United States assumed the role of a global aid donor. This transformation was a consequence of the rise of the United States as a world power, but the transition was attended by great ambivalence. In the immediate aftermath of the Second World War, the latent impulse of isolationism threatened to reassert itself. Reflecting the popular sentiment of the time, many members of Congress called on the President to withdraw the nation from international entanglements, to bring the troops home, and to renounce the United States' commitments to the defense of nations devastated by war.¹⁷

The steady expansion of Soviet influence and the Communist revolution on the Chinese mainland jolted the United States out of this complacency, but only after protracted debates in Washington about the relationship between foreign aid and the national interest. Those debates allow us to understand how systemic pressure led to an ever-widening definition of strategic interest, until American aid programs compassed the globe and filled the coffers of both allies and the uncommitted countries of the developing world. We have in the history of the postwar decades

¹⁵ Crossette, Barbara, 27 Feb. 1995. "Foreign Aid Budget: Quick, How Much? Wrong." *New York Times* <<http://www.nytimes.com/1995/02/27/world/foreign-aid-budget-quick-how-much-wrong.html>>.

¹⁶ Milner and Tingley 2010, 203

¹⁷ Christensen 1996

a rich empirical record for understanding how the United States became a global aid donor in order to compete in a bipolar international system.

The expansion of American foreign assistance programs mirrored the expansion of the United States' international commitments in pursuing the strategy of containment. Central to both of these debates was the question of sustainability: in which countries and in which regions would the U.S. devote its limited resources to containing international Communism? Acting on the belief that Washington could not afford to resist Communism wherever it posed a threat, George Kennan and the Policy Planning staff outlined a strategy of strongpoint defense. They believed that the United States could best provide for its security by denying to the Soviet Union and its satellites the control of the major industrial powers of Western Europe and Japan.¹⁸

This doctrine of focusing on strategically vital regions ironically led to a steady expansion of American security commitments to countries that were strategically peripheral. Once the United States acquired an interest in the security of Japan, it could not afford to stand down in the face of the Communist offensive in Korea, for Korea was deemed vital to Japan.¹⁹ And once the United States sent troops to defend Korea, domestic politics made it difficult for the Truman administration to justify withholding its support for the exiled Chinese Nationalist government on Taiwan.²⁰ As much as the U.S. might have sought to draw a distinction between the vital and the peripheral, implementing the strategy of containment led the United States to outline a new policy in NSC-68 of resisting Communist pressure wherever it appeared.²¹

¹⁸ Gaddis 2005, 57

¹⁹ Schaller 1997, 31

²⁰ Christensen 1996, 136-137

²¹ Gaddis 2005, 89

Foreign aid policy largely mirrored these developments. Having acquired an interest in the security of the industrial powers, the United States formulated the Marshall Plan and revived the Japanese economy. Having given aid to the industrial powers, the United States provided aid to countries that were vital to the security of the industrial powers – South Korea, Taiwan, and European colonies. While the defense of the anti-Communist bloc was by no means a straightforward matter, it was unburdened by the problem of maintaining political loyalty. There was no need to secure the adherence of Syngman Rhee or Chiang Kai-shek to a general program of anti-Communism, even if there were contentious debates about how best to resist the common adversary. And as long as Western Europe was aligned with the United States, European colonies were in large measure aligned with American interests.

But with the expansion of foreign assistance to include the developing world, and especially after European colonies won their independence, the United States was confronted with a strategic problem that it had not faced in Western Europe or in Northeast Asia: its relationship with the uncommitted (or “neutralist”) nations. Unlike Austria, Finland, and Sweden, which resisted Communist influence, these countries were led by revolutionaries and nationalists whose sympathy with American interests was an open question. The bitter memory of European colonial rule naturally made them resist the notion of a policy of alignment with the West.²²

Although uncommitted nations stated an aversion to siding with either of the superpowers, their willingness to barter with both Moscow and Washington stoked the fear in the latter that international Communism could gain influence in the developing world. Whether or not this fear was justified was not always clear. The neutralist bloc was amorphous by virtue of the inherent ambiguity of the concept of neutralism. Evaluating the prospect for Communist inroads among

²² See Walt 1987, 58-60 for a discussion of how nationalism influenced Egypt’s decision not to join the Baghdad Pact.

these nations required a subjective assessment by American officials. As stated by Secretary of State Dean Rusk:

Insofar as our attitude toward neutrals are concerned [*sic*] this is getting into something of a quagmire because there are many neutrals, and there is nothing very solid about the only thing they seem to have in common, and that is that they do not happen to be aligned either to the Sino-Soviet bloc nor to the so-called Western bloc. So there are many shades of opinion and attitude among the so-called neutrals.²³

The historical record demonstrates that the United States was relatively sanguine about the possibility of Afghanistan and Ghana – both of which were formal members of the Non-Aligned Movement – aligning with the Communist bloc. On the other hand, the United States was concerned, sometimes to the point of hysteria, about Soviet influence in India, Egypt, Yugoslavia, and Indonesia.

This concern reflected the changes in Soviet policies after the end of the Korean War in 1953. The North Korean offensive in 1950, coming in the wake of Mao's victory on the Chinese mainland, had demonstrated the limitations of a policy of expansion through armed conquest. The firm response by the United Nations in Korea, the interposition of the American Seventh Fleet in the Strait of Taiwan, and the strengthening of NATO had drawn a clear line against further acts of Communist aggression. Consequently, the Soviet Union under the leadership of Nikita Khrushchev pursued a policy of "peaceful co-existence," which American officials interpreted as an economic offensive rather than a military one.²⁴ Integral to this policy was a declining emphasis on the inevitability of war between the Communist and capitalist countries and a renewed emphasis on long-term competition.²⁵

²³ Quoted in Feis 1964, 165

²⁴ Rostow 1985, 14-16

²⁵ Folly 2015, 222

In the realm of economics, the Soviet strategy of long-term competition with the United States entailed a policy of concluding favorable trade agreements and establishing aid programs with uncommitted countries. Loans to developing nations often had low rates of interest and generous terms of repayment. Although the volume of Soviet aid was not especially great, it had the potential to exert a considerable psychological impact on the neutralist bloc. The extension of economic assistance occurred against a backdrop of Soviet and Chinese accomplishments that burnished the image of Communism as an ideology that was uniquely sympathetic to the problems of the developing world. The successful launch of Sputnik in 1957 is the best-known of these achievements, but the Soviet lead in the space race had been building on momentum reaching back to the earlier part of the 1950s.²⁶

Although Mao's economic achievements were subsequently overshadowed by the tragic failure of the Great Leap Forward, the First Five-Year Plan (1953-1957) was widely viewed as a great success. With production targets already having been fulfilled a full year before the end of the Plan, the Chinese Communists oversaw a tripling of industrial output between 1953 and 1957. Moreover, Beijing had undergone this remarkable transformation under Soviet tutelage and with Soviet aid. Thousands of technical advisors poured in from the U.S.S.R. to implement an economic program that was based on the Soviet experience.²⁷ This coordinated program between the Soviets and the Chinese Communists made U.S. officials fear that it would demonstrate the superiority of Communism to the leaders of the developing world.²⁸

At the same time, the government of neutralist India was implementing a socialist economic program that, from the perspective of American officials, seemed to have the potential

²⁶ Rostow 1985, 13-22

²⁷ Spence 2011, 484-493

²⁸ See "Memorandum of Discussion at the 388th Meeting of the National Security Council." 3 December 1958. *Foreign Relations of the United States, 1958-1960, Volume IV, Mutual Security and Foreign Aid*. 442.

to drift toward Communism. Moreover, India was receiving considerable levels of economic aid from the Soviet Union, and the Indian Communist Party was victorious in elections in the state of Kerala in 1957.²⁹ The United States could not rule out the possibility that India would eventually fall within the Soviet sphere of influence, and there were enormous political stakes in preventing this outcome. As an American official wrote in a memorandum in 1957:

This is simply that no American wants to see the Communists take over India and that, if assistance given in time and in the right amount can substantially contribute to forestalling this, it would be a reasonable investment from the point of view of the national security of the United States. Once a country, like China, comes under Communist control it is lost to the free world; no amount of dollars can buy it back.³⁰

In light of the rapid economic growth in mainland China during the 1950s, the United States needed to demonstrate the potential for a non-Communist solution to the great problem of economic development. As a result, the U.S. began to provide economic aid to India and other neutralist nations, but because of its desire to prevent these countries from drifting toward the Sino-Soviet bloc, the composition of American aid programs was characterized by a high concentration of general budget support. Rhetorically framed and justified as development assistance, U.S. economic aid became an instrument for gaining political influence in the developing world.

²⁹ Rostow 1985, 19, 39-40. On U.S. alarm at the victory of the Indian Communists in 1957, see "Memorandum From the Director of the Office of South Asian Affairs to the Assistant Secretary of State for Near Eastern, South Asian, and African Affairs." *Foreign Relations of the United States, 1955-1957, South Asia, Volume VIII*, 379-380.

³⁰ "Memorandum from the Director of the Office of South Asian Affairs to the Assistant Secretary of State for Near Eastern, South Asian, and African Affairs." 30 Sep. 1957. *Foreign Relations of the United States, 1955-1957, South Asia, Volume VIII*. 379.

Empirical Analysis

This section presents statistical analysis of the amount of budget support that the U.S. provides as a proportion of total aid. The sample is restricted to U.S. aid recipients, meaning that it does not address the question of why the United States chooses to provide economic aid to some countries but not others. Rather, the analysis focuses on the variation among aid recipients.

The data in the analysis cover the period 1955-1970 for both theoretical and empirical reasons. The theoretical argument applies to relations between three distinct groupings: two geopolitical blocs, consisting of the superpowers and their clients, and countries that fall outside the spheres of influence of either of the superpowers. 1955 is the appropriate year in which to begin the analysis because by that year, those groupings had been consolidated with the conclusion of military pacts and the formation of international organizations: NATO, the Warsaw Pact, the Non-Aligned Movement, the Organization of American States, the Southeast Asia Treaty Organization, ANZUS, the Baghdad Pact, and the U.S. alliances with Japan, South Korea, and Taiwan.³¹ 1955 was also the year in which both of the superpowers had created the economic instruments with which they would compete for the political support of the neutralist bloc: U.S. legislation for PL 480 had been passed by the summer of 1954, and the Soviet Union had begun to use aid to gain political influence after the death of Stalin in 1953. 1955 is therefore the ideal year to begin the analysis.

The analysis ends in 1970 because of the momentous changes that subsequently occurred in the Cold War with the Nixon administration's pursuit of *détente* with the Soviet Union and

³¹ This picture is complicated somewhat by the Sino-Soviet split that accelerated in the mid-1960s, but that event did not change the perception of the United States that the international Communist movement was a threat to American clients and a potential rival patron for neutralist countries.

rapprochement with the Chinese Communists. The administration publicly questioned the premise of bipolarity as a structural feature of the Cold War, with Nixon arguing in 1971 that Western Europe, Japan, and Communist China should be considered great powers in their own right.³² Whether or not he was justified in making this claim is a debatable point, but there was certainly an important shift in the geopolitics of the Cold War in the 1970s. The international system ceased to be characterized by strictly adversarial relations between the United States and its allies on the one hand and the Communist bloc on the other. Building on the tensions from the Sino-Soviet split, a fundamental rupture occurred within the international Communist movement. Though not an ally of the United States, Communist China was no longer the geopolitical adversary that it had been in the two decades after the founding of the People's Republic.

Moreover, the variables in this paper cannot be measured with a high degree of accuracy in the post-1970 period. First, *Foreign Relations of the United States*, the published collection of U.S. diplomatic papers that forms the basis of the measure of geopolitical alignment, is not as systematic in its coverage of individual countries for the second half of the Cold War. Second, by 1971, there was no longer a legislative provision for reporting the amount of general budget support in U.S. aid.³³ Given that it is difficult to measure the independent and dependent variables with a reliable degree of accuracy in the post-1970 period, I restrict the analysis to the first half of the Cold War.

³² Gaddis 2005, 278-281, 307. The claim that bipolarity may have ended in 1970 runs counter to much of the treatment of the Cold War in the International Relations literature, but a precise definition of bipolarity is surprisingly elusive. See Wagner 1993 for an illuminating discussion of the meaning of bipolarity.

³³ The legislation for PL 480 was amended to no longer allow for loans to be repaid in local currency under Title I, which ended the program that had previously allowed the United States to use revenues from the sale of food as budget support assistance to the recipient government. See Leach and Hanrahan 1994, 5.

Measuring the Emphasis on Development

The aim of this analysis is to evaluate the relationship between the perceived geopolitical alignment of the aid recipient and the relative degree of emphasis on development in the United States' aid program. I measure the degree of emphasis that the United States places on development by using the proportion of economic aid that consists of general budget support, with a higher proportion in the form of budget support meaning a weaker degree of overall emphasis on economic development. Because budget support comes with no strings attached, it is the most politically attractive and economically ineffective type of aid.

The program that generated these funds was the food aid program known as the Agricultural Trade Development and Assistance Act, or Public Law 480. Under Title I of PL 480, the United States would sell surplus agricultural commodities in return for local currency.³⁴ The U.S. would then loan the proceeds back to the recipient country, with some loans being repayable in dollars and others being repayable in local currency. For loans repayable in local currency, there were prior agreements on the allocation of those funds. The recipient could use them to finance development projects, support private industry, support common defense, or simply accept them as a direct loan to the government.³⁵

Under the category of "loans to governments," the U.S. would not tie the loans to a specific purpose, but would leave the use of the funds to the discretion of the recipient. A State Department bulletin from 1958 stated that "foreign governments are also being *encouraged* to reloan some of the funds available under section 104 (g) [loans to governments] for projects involving private enterprise and investment" (emphasis added) but that "express agreements to reserve specific

³⁴ Baldwin 1966, 131

³⁵ "Progress Report on the Agricultural Trade Development and Assistance Act," 476-483

portions of 104 (g) loan funds for this purpose are no longer being sought in connection with current sales negotiations.”³⁶ In other words, loans to governments were a form of general budget support over which the United States did not exercise oversight. Moreover, they had generous terms of repayment; as of 1970, loans to governments constituted more than half of all of the development assistance that the United States gave to neutralist Egypt, and the sum of repayments on the principal and interest collected amounted to only about 18% of the value of the original loan.³⁷ Walt Rostow, a senior official in the Kennedy and Johnson administrations, later acknowledged that “P.L. 480 loans were evidently attractive to many political leaders in developing countries and to their finance ministers as well because they provided a prompt increase in government revenues.”³⁸ In formulating policy toward Egypt, American officials would specifically refer to budget support as a means of influencing Nasser’s foreign policy.³⁹

In descriptive analysis, one observes that budget support aid is associated with negative economic growth, whereas programmatic aid (total aid excluding budget support) is associated with positive economic growth. I conduct a series of basic growth regressions to demonstrate the differential economic impact of the various types of aid. The table below reports two OLS models in which the growth rate of per capita GDP is the outcome variable and the type of aid is the explanatory variable, along with controls for region, regime type, population, the level of GDP per capita, and trade openness.⁴⁰ Model 1 includes the log of total budget support as the explanatory

³⁶ *Ibid.*, 484-485

³⁷ *U.S. Overseas Loans and Grants and Assistance from International Organizations (Obligations and Loan Authorizations, July 1, 1945 – June 30, 1970)*; hereafter the 1971 Greenbook.

³⁸ Rostow 1985, 329, n. 111

³⁹ See “Telegram From the Department of State to the Embassy in the United Arab Republic.” 17 March 1959. *Foreign Relations of the United States, 1958-1960, Arab-Israeli Dispute; United Arab Republic; North Africa, Volume XIII*. 518.

⁴⁰ The economic data are from the Penn World Tables (Version 5.6) by Heston and Summers (1991), and I use the POLITY IV measure of regime type. Data from the Penn World Tables are frequently used in economic studies that employ cross-national growth regressions, such as Burnside and Dollar 2000 and Easterly 2003.

variable, and model 2 includes the log of programmatic aid. The results suggest that budget support has a negative association with growth, whereas programmatic aid has a positive association. These findings are meant to be suggestive rather than indicative of a causal relationship, given the formidable empirical challenge in determining the causes of growth.

TABLE 1. *The Relationship between Aid and Growth*

VARIABLES	(1) GDP p.c. growth	(2) GDP p.c. growth
Budget Support (logged)	-0.0117** (0.00485)	
Programmatic Aid (logged)		0.00600*** (0.00152)
Europe	-0.0419 (0.227)	-0.0442 (0.0451)
Asia	0.139 (0.284)	0.0674 (0.0507)
Near East	-0.0352 (0.287)	0.305*** (0.0647)
Latin America	-0.354 (0.272)	-0.247*** (0.0479)
Democracy	0.00300* (0.00157)	0.00114 (0.000801)
Population (logged)	-0.0601 (0.149)	0.0144 (0.0427)
GDP p.c. (logged)	0.298*** (0.0604)	0.160*** (0.0265)
Trade Openness	-0.000184 (0.000537)	0.000291 (0.000397)
Country Fixed Effects	Yes	Yes
Year Fixed Effects	Yes	Yes
Constant	-1.484 (1.341)	-1.267** (0.512)
Observations	184	864
R-squared	0.525	0.293

*** p < 0.01, ** p < 0.05, * p < 0.1 (Robust standard errors in parentheses)

This distinction between different types of aid may raise the question of whether or not such distinctions matter in practice given that aid is fungible. This analysis certainly does not preclude the possibility that programmatic aid may be diverted to non-productive uses.⁴¹ However,

⁴¹ Nor indeed does it preclude the possibility that budget support could be used productively by an enlightened aid recipient.

since this is a study of aid policy, the critical question is whether or not this capacity for diversion was intended by the donor. One can draw a distinction between the concepts of fungibility *by design* and fungibility *in implementation*. A donor can reduce the fungibility of aid by attaching formal strings or by devising other measures of accountability. If it fails to do so, one may say that the aid is fungible by design. If the donor attaches strings to aid but aid is still diverted to non-productive uses, one can attribute this slippage to the inherent difficulty in administering a foreign aid program rather than the poor policies of the donor. This would be an example of fungibility in implementation.

For example, although U.S. aid contributed to the politics of patronage and corruption during the Rhee era in South Korea, there is little evidence to suggest that this was the intended outcome of U.S. aid policy.⁴² The United States allocated no aid to South Korea in the form of PL 480 budget support, and the aid relationship was marked by considerable tension as the U.S. attempted to reform the South Korean economy. In 1956, the South Korean Economic Coordinator resisted American criticism about the implementation of the aid program by saying that “your friendly cooperation is welcome and deeply appreciated; but, to be quite frank with you, carping criticism is not.”⁴³ Korean officials were also aware of the heavy reliance on budget support in U.S. aid to neutralist India and made unfavorable comparisons with the United States’ attempts to maintain strict control over its aid to South Korea. Syngman Rhee wrote to the South Korean Ambassador to say that in the Ambassador’s discussions with American officials, “you can refer to Indian aid which is always given with no strings attached.” Pointing to how American aid to South Korea fell predominantly under statutory programs rather than general budget support, Rhee

⁴² On U.S. aid to South Korea during the Rhee Era, see Woo 1991 and Haggard, Kim, and Moon 1991.

⁴³ “Letter from Paik Too Chin to C. Tyler Wood.” 6 March 1956. Reconstruction and Rehabilitation Papers. File 222: Economic Aid Program/Bank of Korea. Syngman Rhee Presidential Papers. IMKS.

also registered his resentment of the fact that “up till now all loans have been tied to American law so that implementation has been impeded by red tape. To have this loan given in the same way, will not help as we cannot apply the aid as the budget demands.”⁴⁴ Although Rhee succeeded in using aid to fuel the politics of patronage, one cannot charge the U.S. with acquiescing in corruption. In the case of South Korea, U.S. aid was fungible in implementation but not by design.

Despite the initial tensions between Washington and Seoul, the U.S. was eventually successful in using the aid lever to reform the South Korean economy. After Park Chung Hee came to power in 1961, the U.S. used the threat of cutting off aid (which amounted to as much as 90 percent of the South Korean budget) to force the government to abandon its initial plans for a socialist development strategy driven by state-owned enterprises.⁴⁵ Facing U.S. retaliation, Park decided to partner with the *chaebol* and to rely on the Economic Planning Board to spearhead an ambitious capitalist development strategy.⁴⁶ The U.S. used its economic aid to support the new program of state-directed capitalism. A position paper written by the National Security Council in 1960 had stated that “the [South Korean] bureaucracy should play a leading role in national administration and development, both planning and execution,” and that “the United States has a direct interest in this field, because of its close connection with the effective administration of the aid program.”⁴⁷ The U.S. pursued this policy in earnest after Park’s accession to power. Joel Bernstein was appointed the director of the U.S. Agency for International Development in 1964 and became, in the words of one scholar, “Park’s most trusted tutor.” Under Bernstein’s influence, Park agreed to implement a liberalization program that set South Korea on the course of an export-

⁴⁴ “Letter from President Syngman Rhee to Ambassador You Chan Yang.” 3 February 1956. Syngman Rhee Presidential Papers. Reconstruction and Rehabilitation Papers. File 222: Economic Aid Program/Bank of Korea. IMKS.

⁴⁵ Kim and Park 2011, 271-272

⁴⁶ Kim 2011, 207; Kim and Park 2011, 271-275

⁴⁷ “Chairman Park’s Visit [to] Washington, November 14-15, 1961.” Papers of President Kennedy. National Security Files. Countries Box 127A. Korea Subjects: Park Briefing Book, 11/61-11/15/61, Part II. JFKL.

oriented development strategy.⁴⁸ Bernstein later summarized the main purpose of the AID mission in South Korea as an “improvement in economic policies and in economic planning” as well as the “development of key institutions needed to support foregoing policy changes and provide capability for self-sustained economic and social progress.”⁴⁹ As I have argued elsewhere, the U.S. aid program made a critical contribution to the creation of the capitalist developmental state, a pattern that repeated itself elsewhere in the American sphere of influence in Northeast Asia.⁵⁰ Although the earlier years of the aid program were dysfunctional because of Rhee’s clientelistic practices, the United States’ persistent efforts to reform the South Korean economy ultimately proved to be successful.

This success owed much to the fact that the overall U.S. aid program was characterized by a low level of general budget support. The case of South Korea lends weight to the premise that aid programs are not fungible by design when the donor is seeking to promote development, but they are fungible by design when the donor is seeking to influence the recipient’s foreign policy.⁵¹ The designation of “Loans to Government” under PL 480 meant that among the ways of allocating revenue from the sale of food (including financing development projects and supporting private industry), the United States simply chose to provide a cash transfer to the recipient government. There was no stipulation for how the government would use budget support, which served the U.S. interest in influencing the foreign policy of uncommitted countries.

⁴⁸ Moon and Jun 2011, 135

⁴⁹ “Memorandum on DAC Comments on Program Evaluation.” 15 August 1968. Joel Bernstein Papers. Box 3. Chronological Files 7/1/66-12/31/68. HIA.

⁵⁰ Lee 2017

⁵¹ Simone Dietrich (2013) has argued that donors directly give aid to the recipient government when the recipient has a higher quality of governance because of the donor’s belief that the government will use aid effectively. This would appear to suggest an alternative interpretation in which the U.S. gave budget support to uncommitted countries because of U.S. confidence in the recipient state. However, there is an important distinction between the argument in Dietrich (2013) and the argument in this paper. Dietrich focuses on the mechanism for delivering aid rather than the end use of that aid. PL 480 Loans to Governments fall under the latter category rather than the former.

The data on U.S. food assistance used in this study come from the Greenbook, which USAID has published annually since the Foreign Assistance Act of 1961. Because the spreadsheet version of the Greenbook is not sufficiently detailed, I combine data from three printed editions of the Greenbook – 1962, 1966, and 1971 – to collect information on American economic assistance programs on a country-year level for the period 1955-1970. The sample is limited to U.S. aid recipients, meaning that the analysis does not focus on the decision to give aid, but on how the U.S. determines the composition of aid after that decision has been made.

Based on the scope conditions of the theory, the data are restricted to sovereign states with a clear governing authority that are uncommitted or allied with the U.S. I therefore exclude three types of countries from the analysis: countries experiencing civil war, European colonies, and countries that were formal members of or otherwise aligned with the Communist bloc. The argument presupposes that the aid recipient is sovereign and that there is a governing authority that exercises autonomy over its foreign policy. Countries in a state of civil war lacked a clear governing authority, which largely precluded the possibility of using aid to influence the recipient's foreign policy until it was clear which faction was in control of the state. European colonies lacked autonomy over their foreign policy, so they did not enter the sample until the year in which they became sovereign states. Finally, the argument of this paper focuses on the distinction between aid to allies and security partners on the one hand and aid to uncommitted countries on the other; it does not generate empirical predictions about how a great power donor would allocate aid to the clients of its geopolitical adversary. I therefore exclude countries that were allies or security partners of the Soviet Union from the sample of U.S. aid recipients.⁵²

⁵² The United States maintained small aid programs to Communist bloc countries such as Poland, Romania, and East Germany.

Measuring Geopolitical Alignment

The independent variable in the analysis is an original measure of the aid recipient's perceived geopolitical alignment. The variable measures the aid recipient's distance from the United States on a spectrum ranging from alignment with the U.S. to alignment with the Communist bloc. I assign the aid recipient's alignment a value of 1 if the recipient is an ally or otherwise aligned with the United States; a value of 2 if the aid recipient is uncommitted and susceptible to American influence but not to Communist influence; a value of 3 if the recipient is uncommitted and susceptible to both American and Communist influence; and a value of 4 if the recipient is an ally or security partner of the Soviet Union. I omitted this final category from the analysis for the reasons cited above. Countries that had signed military pacts were unambiguously perceived to be aligned with one of the superpowers and hence were automatically assigned values of 1 or 4, but the alignment of countries that were not formal allies of the United States, the Soviet Union, or Communist China was subject to interpretation.

For the considerable number of ambiguous cases (about 37% of the total), I relied on diplomatic papers published in the *Foreign Relations of the United States* (FRUS) series by the Department of State. The advantage of FRUS is that it facilitates both breadth and transparency in the coding process. The editors drew on a wide range of sources, including not only the records of the Department of State, but also those of the Presidential Libraries, the Department of Defense, the National Security Council, the Central Intelligence Agency, USAID, and the private papers of American officials.⁵³ This breadth is important for guarding against the possibility that the documents could reflect the narrow views of a single agency with a parochial set of interests

⁵³See <https://history.state.gov/historicaldocuments/about-frus>.

determined by its position in the bureaucracy. FRUS also facilitates transparency insofar as all of the documents have been declassified and are in the public domain, and most of the documents are available online at <https://history.state.gov/historicaldocuments>.⁵⁴ This allows me to follow the rigorous standards of the active citation method by creating a detailed appendix that includes both the quotation that informed the coding decision and a hyperlink to the full text of the document in which the quotation appears.⁵⁵

Summary statistics for the independent and dependent variables are provided in Table 1 below. The alignment variable includes the full spectrum of perceived geopolitical distance. I also include summary statistics on transformations of the alignment measure into two indicator variables. The first transformation (reported in the third row) transforms the original categories of 2 and 3 into 1 and transforms the original category of 1 into 0. This variable indicates whether or not the country was uncommitted, collapsing neutralist countries that were and were not perceived to be subject to Communist influence into one category. The second transformation (reported in the fourth row) transforms the original category of 3 into 1 and transforms the original categories of 1 and 2 into 0. Substantively, this new variable indicates whether or not the United States considered the aid recipient to be susceptible to Communist influence. These summary statistics indicate that at a country-year level, approximately 37% of observations were of neutralist countries and approximately 8% were of uncommitted countries that were perceived to be subject to Communist influence.

⁵⁴ On the copyright status of FRUS, see <https://history.state.gov/about/faq/permission-needed-to-quote>.

⁵⁵ See Moravcsik 2010 for a discussion of how active citation facilitates replicability in qualitative research. Since the quantitative measure that I have developed relies on qualitative inference, I adopt that method in this paper.

TABLE 2. *Summary Statistics*

VARIABLES	(1) N	(2) Mean	(3) Standard Deviation	(4) Min	(5) Max
Budget Support (proportion)	1,051	0.0542	0.145	0	1
Alignment (1, 2, 3)	1,065	1.450	0.641	1	3
Uncommitted (1) vs. Client (0)	1,065	0.368	0.483	0	1
Communist Influence (binary)	1,065	0.0817	0.274	0	1

The control variables in the regressions are logged population, logged real GDP per capita, the growth rate of GDP per capita, and trade openness from the Penn World Tables Version 5.6;⁵⁶ the POLITY IV measure of democracy; and indicator variables for U.S. presidential administrations and geographic region.⁵⁷ The results of a linear regression with robust standard errors are reported in Table 3. The outcome in each of the models is budget support as a proportion of total aid. Model 1 uses the original measure of alignment as the independent variable, model 2 uses the indicator variable for whether or not the country is perceived to be subject to Communist influence, and model 3 uses the indicator variable for whether or not the country is uncommitted.

In each of these models, there is a positive and statistically significant correlation between the measure of alignment and the proportion of total aid in the form of budget support. In model 1, the substantive interpretation of the coefficient is that a 1-unit increase in perceived distance from the United States is associated with an 11% increase in the proportion of total aid that comes in the form of budget support. In model 2, the interpretation is that compared to all other aid recipients, uncommitted countries that the U.S. considers to be potentially subject to Communist influence receive an average of 20% more budget support as a proportion of total aid. In model 3, the interpretation is that irrespective of the United States' perception of the potential for

⁵⁶ Heston and Summers 1991

⁵⁷ For the indicator variables, I exclude the Nixon administration and Africa to prevent perfect multicollinearity.

Communist influence, being an uncommitted country is associated with an approximately 6% increase in the proportion of total aid that comes in the form of budget support. The results of the second model are an especially striking finding of the importance of geopolitical factors in the formulation of aid policy.

TABLE 3. *Geopolitical Alignment and Budget Support*

VARIABLES	(1) Budget Support (proportion)	(2) Budget Support (proportion)	(3) Budget Support (proportion)
Alignment (1, 2, 3)	0.114*** (0.0287)		
Communist Influence (binary)		0.203*** (0.0450)	
Uncommitted (1) vs. Client (0)			0.0557** (0.0225)
Europe	-0.0563 (0.0999)	-0.149 (0.105)	0.0371 (0.0985)
Asia	-0.260** (0.118)	-0.362*** (0.117)	-0.330*** (0.115)
Near East	0.295** (0.129)	0.299** (0.128)	0.331** (0.130)
Latin America	0.391*** (0.138)	0.266** (0.129)	0.305** (0.142)
Democracy	0.000335 (0.00169)	-0.000158 (0.00160)	0.000495 (0.00178)
Population (logged)	0.353*** (0.120)	0.347*** (0.120)	0.374*** (0.122)
GDP p.c. (logged)	-0.115 (0.0745)	-0.104 (0.0729)	-0.0939 (0.0759)
GDP p.c. growth	-0.0670 (0.0948)	-0.0725 (0.0939)	-0.0682 (0.0970)
Trade Openness	0.00154 (0.000980)	0.00140 (0.000956)	0.00159 (0.00101)
Eisenhower	0.154** (0.0634)	0.154** (0.0626)	0.166** (0.0650)
Kennedy	0.0951*** (0.0318)	0.0934*** (0.0313)	0.108*** (0.0324)
Johnson	0.0101 (0.0139)	0.00832 (0.0138)	0.0123 (0.0142)
Constant	-2.814** (1.255)	-2.615** (1.245)	-3.001** (1.271)
Country Fixed Effects	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes
Observations	880	880	880
R-squared	0.388	0.402	0.365

*** p < 0.01, ** p < 0.05, * p < 0.1 (Robust standard errors in parentheses)

Robustness

To ensure that the results are not sensitive to the model specification, I run a series of regressions in which the outcome is the proportion of total aid in the form of budget support. The first model is the most basic OLS regression using only the measure of perceived alignment and no control variables. I then progressively add each of the control variables: region indicators, democracy, logged population, logged GDP per capita, growth rate of GDP per capita, trade openness, and indicator variables for presidential administration. I also use standard errors clustered at the country level instead of country fixed effects, and I include a linear time trend that measures the number of years that have elapsed since the establishment of PL 480. The results, which are reported in Table 5 in the appendix, show that irrespective of the choice of control variable, there is a positive and highly significant correlation between the perceived alignment of the aid recipient and the proportion of budget support in total aid. Since the outcome is bounded between 0 and 1, I also run a fractional logit instead of an OLS regression. As reported in Table 6 of the appendix, one still observes a positive and highly significant correlation between the independent and dependent variables using this alternative model. Finally, I run the original models after dropping India, Egypt, Indonesia, and Yugoslavia because of the concern that, as the leading countries in the Non-Aligned Movement, they may be outliers in terms of the amount of budget support that the U.S. provides. As reported in Table 7 of the Appendix, the analysis is robust to the exclusion of these countries.

One also obtains similar results using the UN General Assembly ideal point estimates developed by Bailey, Voeten, and Strezhnev (2015) as an alternative measure of geopolitical alignment. However, these results are not robust to alternative model specifications. The following table reports a linear regression in which the outcome is the proportion of total aid in the form of

budget support and the independent variable is the distance between the ideal points of the United States and the aid recipient. These models use the same control variables as in the previous analyses. The results are significant at the 10% level in model 2, which uses standard errors clustered at the country level, but not in model 1, which uses country fixed effects.

TABLE 4. *UN General Assembly Ideal Point Distance as an Alternative Measure of Geopolitical Alignment.*

VARIABLES	(1) Budget Support (proportion)	(2) Budget Support (proportion)
UNGA Ideal point Distance from U.S.	-0.0199 (0.0157)	0.0231* (0.0125)
Europe	0.00969 (0.101)	0.0949** (0.0380)
Asia	-0.393*** (0.120)	0.0603* (0.0337)
Near East	0.369*** (0.138)	0.0882** (0.0440)
Latin America	0.106 (0.110)	0.0378 (0.0243)
Democracy	0.000613 (0.00183)	0.00285** (0.00126)
Population (logged)	0.362*** (0.120)	-0.00125 (0.0145)
GDP p.c. (logged)	-0.0306 (0.0623)	-0.0181 (0.0145)
GDP p.c. growth	-0.102 (0.0972)	-0.148 (0.0940)
Trade Openness	0.00128 (0.00104)	-0.000475 (0.000377)
Eisenhower	0.145** (0.0659)	0.0301 (0.0267)
Kennedy	0.114*** (0.0326)	0.0681*** (0.0243)
Johnson	0.0165 (0.0147)	0.00648 (0.00623)
Constant	-3.222** (1.334)	0.103 (0.133)
Year Fixed Effects	Yes	Yes
Country Fixed Effects	Yes	No
Standard Errors Clustered at Country	No	Yes
Observations	848	848
R-squared	0.373	0.153

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$ (Robust standard errors in parentheses)

The likely reason for the instability of these results is the inherent difficulty in determining a country's position in the Cold War based on its diplomacy in the United Nations. A country may have voted with or against the United States in the UN General Assembly for any number of reasons unrelated to the question of whether or not it was sympathetic to international Communism. American officials understood that voting patterns were a noisy signal, as evidenced by the following National Intelligence Estimate discussing U.S. relations with Colombia in 1956:

Colombia has been among the most cooperative of the Latin American nations in support of United States political and defense objectives, both Hemispheric and worldwide. However, like other Latin American nations, it often opposes the US on economic and colonial issues in the UN and the OAS...neither the Rojas Pinilla regime nor any probable successor is likely to alter Colombia's policy of close cooperation with the United States in resisting Communism and maintaining peace in the Hemisphere. Colombia will almost certainly continue to support the West against the Soviet Bloc in the UN.⁵⁸

There were a few specific issues in which the United States expected Colombia's anti-Communism to manifest itself as support for the U.S. in the UN General Assembly. However, the United States also recognized that there were many other issues in which the two countries would disagree without implying that a fundamental rupture had occurred. Disagreement with the United States in the UN was not automatically equated with sympathy to Communism. In using U.S. diplomatic papers to determine a country's geopolitical alignment, I have created a more direct measure of an aid recipient's perceived susceptibility to Communist influence.

⁵⁸ "National Intelligence Estimate." 10 April 1956. *Foreign Relations of the United States, 1955-1957, American Republics: Central and South America, Volume VII*. 901.

Conclusion

This paper has examined how geopolitical rivalries influence aid policy under bipolarity. I have challenged the prevalent distinction in the literature between geopolitical and developmental motives behind the provision of economic aid. Instead, I have argued that it is necessary to examine the nature of strategic interest as it is shaped by the structure of the international system. Under bipolarity, a great power donor has an interest in defending its clients against aggression from its geopolitical adversary and in purchasing the political support of countries that are uncommitted. Economic aid plays an important role in both of these policies, and the composition of aid programs reflects the nature of the strategic problem. Because economic development enhances a country's national security, a great power donor will place a greater emphasis on development in its aid to countries that it is trying to defend – namely, its allies and security partners. On the other hand, when the donor is seeking to gain political influence over the recipient (as is generally the case in relations with uncommitted countries) the importance of development will recede.

This finding challenges the conventional wisdom about American aid to allies during the Cold War. Previous studies have portrayed the U.S. as providing aid to reward its clients for maintaining a policy of anti-Communism instead of using aid to promote development. That naturally raises the question of why those countries required a monetary incentive for maintaining their alignment if they were truly anti-Communist. Certainly the Marshall Plan was not conceived as a bribe for purchasing the loyalty of Western Europe.

What has been missing in previous studies is a measure of the strength of a country's commitment to anti-Communism, which can also be understood as a country's susceptibility to Communist influence. This is a deeper underlying attribute than the extent of a country's

compliance with the United States' favored policies, for compliance could be entirely superficial or a response to short-term incentives, and non-compliance could simply reflect post-colonial nationalism rather than any substantial sympathy for international Communism. To measure this attribute as it was perceived and understood by American officials, this paper has relied on the diplomatic papers of the United States. It has argued that the U.S. allocated a higher proportion of aid in the form of budget support as an increasing function of an aid recipient's perceived susceptibility to Communist influence. This finding helps to shed light on the role of economic aid in the strategy of containment.

APPENDIX TABLE 5. Robustness Checks (OLS, Full Sample)

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Budget Support	Budget Support	Budget Support	Budget Support	Budget Support	Budget Support	Budget Support	Budget Support	Budget Support	Budget Support	Budget Support
Alignment	0.0489*** (0.0100)	0.0570*** (0.0110)	0.0629*** (0.0114)	0.0682*** (0.0126)	0.0611*** (0.0117)	0.0619*** (0.0120)	0.0662*** (0.0119)	0.0694*** (0.0119)	0.0707*** (0.0117)	0.0707*** (0.0166)	0.114*** (0.0287)
Europe		0.0793*** (0.0160)	0.0607*** (0.0165)	0.0642*** (0.0184)	0.0983*** (0.0216)	0.100*** (0.0218)	0.0964*** (0.0216)	0.0675*** (0.0223)	0.0649*** (0.0222)	0.0649** (0.0318)	-0.0563 (0.0999)
Asia		0.0439*** (0.0116)	0.0295*** (0.0111)	0.0559*** (0.0161)	0.0543*** (0.0159)	0.0583*** (0.0163)	0.0704*** (0.0170)	0.0567*** (0.0171)	0.0569*** (0.0170)	0.0569* (0.0289)	-0.260** (0.118)
Near East		0.0582*** (0.0156)	0.0561*** (0.0154)	0.0842*** (0.0176)	0.106*** (0.0199)	0.107*** (0.0201)	0.103*** (0.0203)	0.0820*** (0.0212)	0.0784*** (0.0209)	0.0784** (0.0386)	0.295** (0.129)
Latin America		0.0544*** (0.0114)	0.0501*** (0.0117)	0.0647*** (0.0132)	0.0790*** (0.0148)	0.0785*** (0.0149)	0.0703*** (0.0153)	0.0539*** (0.0151)	0.0523*** (0.0149)	0.0523** (0.0236)	0.391*** (0.138)
Democracy			0.00299*** (0.000684)	0.00281*** (0.000699)	0.00361*** (0.000776)	0.00353*** (0.000777)	0.00348*** (0.000772)	0.00285*** (0.000745)	0.00278*** (0.000727)	0.00278** (0.00113)	0.000335 (0.00169)
Population (log)				0.00217 (0.00562)	0.00313 (0.00562)	0.00303 (0.00566)	-0.00757 (0.00679)	-0.00551 (0.00661)	-0.00558 (0.00672)	-0.00558 (0.0138)	0.353*** (0.120)
GDP p.c. (log)					-0.0274*** (0.00847)	-0.0259*** (0.00856)	-0.0201** (0.00912)	-0.00829 (0.00951)	-0.00531 (0.00926)	-0.00531 (0.0104)	-0.115 (0.0745)
GDP p.c. growth						-0.134 (0.0921)	-0.111 (0.0921)	-0.0878 (0.0918)	-0.104 (0.0933)	-0.104 (0.0856)	-0.0670 (0.0948)
Trade Openness							-0.000818*** (0.000200)	-0.000638*** (0.000185)	-0.000625*** (0.000196)	-0.000625* (0.000342)	0.00154 (0.000980)
Eisenhower								0.0727*** (0.0127)	0.0623* (0.0346)	0.0623* (0.0345)	0.316 (0.192)
Kennedy								0.0496*** (0.0115)	0.0568** (0.0225)	0.0568*** (0.0215)	0.171* (0.0872)
Johnson								0.0245*** (0.00747)	0.0101 (0.00997)	0.0101 (0.00639)	0.0317 (0.0236)
Time trend											0.0108 (0.0130)
Constant	-0.0167 (0.0137)	-0.0732*** (0.0190)	-0.0738*** (0.0199)	-0.110* (0.0569)	0.0834 (0.0749)	0.0755 (0.0761)	0.158** (0.0775)	0.0127 (0.0798)	-0.0109 (0.0806)	-0.0109 (0.142)	-2.976** (1.238)
Year F.E.	No	No	No	No	No	No	No	No	Yes	Yes	Yes
Country F.E.	No	No	No	No	No	No	No	No	No	No	Yes
Clustered S.E.	No	No	No	No	No	No	No	No	No	Yes	No
Observations	1,051	1,051	1,013	890	890	880	880	880	880	880	880
R-squared	0.047	0.076	0.097	0.109	0.118	0.120	0.129	0.154	0.188	0.188	0.388

*** p < 0.01, ** p < 0.05, * p < 0.1 (Robust standard errors in parentheses)

APPENDIX TABLE 6. *Fractional Logit (Full Sample)*

VARIABLES	(1) Budget Support	(2) Budget Support	(3) Budget Support
Alignment	2.223*** (0.450)		
Communist Influence		2.312*** (0.461)	
Uncommitted			3.091*** (1.103)
Europe	14.12*** (4.824)	13.23	15.34*** (2.746)
Asia	7.170 (7.954)	4.158 (3.569)	6.757** (2.628)
Near East	8.872 (14.25)	8.919	9.001 (15.06)
Latin America	10.85** (4.841)	8.595** (3.680)	11.86*** (4.306)
Democracy	-0.0445 (0.0374)	-0.0447 (0.0374)	-0.0216 (0.0410)
Population (log)	8.767*** (2.392)	8.820*** (2.391)	9.067*** (2.594)
GDP p.c. (log)	-3.302*** (1.131)	-3.269*** (1.135)	-3.550*** (1.232)
GDP p.c. growth	-0.950 (1.944)	-0.845 (1.936)	-0.0474 (1.831)
Trade Openness	0.0250* (0.0138)	0.0248* (0.0137)	0.0228 (0.0144)
Eisenhower	5.002*** (1.500)	5.028*** (1.503)	5.165*** (1.430)
Kennedy	3.863*** (1.106)	3.871*** (1.110)	4.312*** (0.993)
Johnson	1.361 (1.043)	1.362 (1.047)	1.598* (0.947)
Constant	-87.52***	-83.06***	-86.44q272..

APPENDIX TABLE 7. OLS (Dropping India, Indonesia, Egypt, and Yugoslavia)

VARIABLES	(1) Budget Support	(2) Budget Support	(3) Budget Support
Alignment	0.0718*** (0.0253)		
Communist Influence		0.129*** (0.0499)	
Uncommitted			0.0639*** (0.0221)
Europe	-0.340 (0.232)	-0.417* (0.228)	-0.377 (0.231)
Asia	-0.279** (0.117)	-0.343*** (0.117)	-0.297*** (0.114)
Near East	0.283** (0.130)	0.289** (0.130)	0.296** (0.130)
Latin America	0.309** (0.138)	0.225* (0.132)	0.295** (0.143)
Democracy	0.000361 (0.00168)	9.46e-05 (0.00160)	0.000474 (0.00173)
Population (log)	0.334*** (0.120)	0.331*** (0.121)	0.346*** (0.121)
GDP p.c.	-0.0959 (0.0764)	-0.0857 (0.0753)	-0.0907 (0.0768)
GDP p.c. growth	-0.0431 (0.0894)	-0.0523 (0.0894)	-0.0357 (0.0902)
Trade Openness	0.00190* (0.000978)	0.00175* (0.000952)	0.00202** (0.00101)
Eisenhower	0.165** (0.0638)	0.164** (0.0641)	0.172*** (0.0636)
Kennedy	0.0746** (0.0298)	0.0760** (0.0296)	0.0783*** (0.0298)
Johnson	0.0137 (0.0124)	0.0136 (0.0124)	0.0137 (0.0124)
Constant	-2.704** (1.268)	-2.600** (1.269)	-2.779** (1.271)
Observations	831	831	831
R-squared	0.351	0.354	0.342

*** p < 0.01, ** p < 0.05, * p < 0.1 (Robust standard errors in parentheses)

APPENDIX TABLE 9. *Countries and Years in Sample*

Country	Years
Austria	1955-1970
Belgium/Luxembourg	1956, 1957, 1960, 1966, 1967, 1970
Finland	1958-1960, 1962
France	1955-1964, 1966, 1970
West Germany	1955-1963, 1966-1968
Iceland	1957-1969
Italy	1955-1970
Netherlands	1958, 1970
Norway	1964, 1967
Portugal	1956-1970
Spain	1955-1970
Sweden	1967, 1968
United Kingdom	1955, 1956, 1959, 1965, 1967, 1968, 1970
Yugoslavia	1955-1970
Burma	1955-1970
Cambodia	1955-1964
Taiwan	1955-1970
Indonesia	1955-1970
Japan	1955-1970
South Korea	1955-1970
Laos	1955-1970
Malaysia	1963-1970
Philippines	1955-1970
Thailand	1955-1970
South Vietnam	1955-1970
Afghanistan	1955-1970
Sri Lanka	1955-1959
Cyprus	1961-1963
Greece	1955-1968, 1970
India	1955-1970
Iran	1955-1970
Iraq	1955-1967, 1969-1970
Israel	1955-1970
Jordan	1955-1970
Lebanon	1955-1962, 1963-1970
Kuwait	1967
Nepal	1955-1962
Pakistan	1955-1970
Saudi Arabia	1955, 1958, 1962, 1963, 1965, 1968
Syria	1956-1970
Turkey	1955-1970
Egypt	1955-1969
Yemen	1970

APPENDIX TABLE 9. *Countries and Years in Sample (continued)*

Country	Years
Argentina	1955-1970
Bolivia	1955-1970
Barbados	1967
Brazil	1955-1970
Chile	1955-1970
Colombia	1955-1970
Costa Rica	1955-1970
Cuba	1955-1960
Dominican Republic	1955-1970
Ecuador	1955-1970
El Salvador	1955-1970
Guatemala	1955-1970
Guyana	1967-1969
Haiti	1955-1970
Honduras	1955-1970
Jamaica	1962-1970
Nicaragua	1955-1970
Mexico	1955-1970
Panama	1955-1970
Paraguay	1955-1970
Peru	1955-1970
Uruguay	1955-1970
Venezuela	1955-1970
Algeria	1962-1970
Cameroon	1962-1963
Ethiopia	1956-1970
Ghana	1960-1970
Guinea	1961-1970
Ivory Coast	1961-1970
Liberia	1955-1970
Libya	1955-1970
Mali	1962-1965
Malawi	1967-1970
Mauritania	1960-1967
Morocco	1956-1970
Mauritius	1970
Niger	1961-1970
Nigeria	1960-1966
Senegal	1961-1970
Sierra Leone	1961-1970
Somalia	1961-1968
Sudan	1958-1970
Tanzania	1968

APPENDIX TABLE 9. *Countries and Years in Sample (continued)*

Country	Years
Togo	1968-1970
Tunisia	1957-1970
Uganda	1962-1970
Central African Republic	1961-1970
Australia	1960, 1967, 1968, 1969, 1970
South Africa	1960
Singapore	1965-1970

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