

## THINKING STRAIGHT ABOUT CONTAINMENT, INTERVENTIONISM, AND FOREIGN AID

By Melvyn Krauss

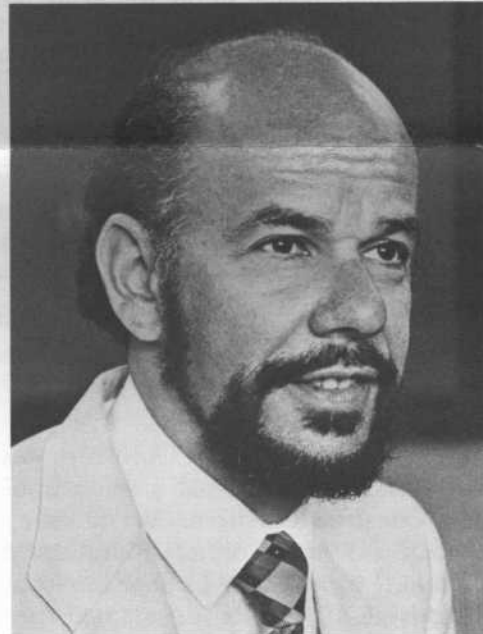
**Editor's Preview:** The United States has yet to learn how to contain our enemies at the same time that we contain our friends from taking advantage of our desire to contain our enemies, NYU professor Melvyn Krauss argues this month. It is a timely point as the free world observes the 40th anniversary of having defeated Nazi totalitarianism in its place.

While isolationism cannot contain an aggressor, the author concedes, excessive interventionism has serious drawbacks of its own. Direct commitment of U.S. forces, military aid, or even economic aid (the welfarists' pet alternative) can produce results opposite to those intended, if the incentive effects upon our allies and our Third-World friends are not carefully foreseen.

Our ability to learn from such experiences as Lebanon, Chad, and Taiwan may determine the success or failure of U.S. containment policies in Europe and the Third World in years ahead. Is "iso-ventionism" or "global unilateralism" the answer?

One of the unforeseen consequences of the growth of the welfare state in industrial societies has been the development of a powerful constituency that is hostile to defense spending. By slowing down the rate of economic growth, the welfare state has created a welfare constituency that is "anti-defense" because defense spending has been made more competitive with welfare spending in public budgets than need be.

In the United States, tensions between these two groups have peaked during the Reagan administration as President Reagan has sought to close what he calls the American "window of vulnerability" by building up the country's defense forces. The loud and uncharacteristic lamentations of his Democratic opponents, lamentations about the huge federal budget deficit, could be interpreted more as lamentations that the federal deficit was caused by hikes in defense spending instead of by hikes in the welfare spending they advocate.



Foreign policy, and particularly foreign policy as applied to the Third World, likewise reflects which ideological force is in the ascendancy: defense or welfare. The welfare constituency in the developed nations of the North tends to favor economic aid as a lever to solve the problems of the poorer countries of the South, while the defense constituency favors military aid.

Central America is a dramatic example. The Reagan administration has been battling with the Congress, and particularly the Democratic-controlled House of Representatives, to get more military weapons to the government of El Salvador and the rebels in Nicaragua. By supporting the Kissinger Commission recommendations, the Administration demonstrated it was willing to pay a high price in terms of economic aid to get Congress to approve additional military spending in that region.

The welfare constituency, on the other hand, does not consider the Soviet-financed, Cuban-backed insurgents the main problem in the region. Their devil is poverty and social injustice.

### Similarities of Economic and Military Aid

But in the final analysis, it may not make much of a difference whether one supports economic aid or military aid as a cure-all for the problems of the Third World. There are good reasons for Americans to be wary of U.S. advocates of both economic and military aid. The similarities between these two forms of assistance to foreign countries may be greater than their differences.

Certain similarities between economic and military aid are immediately obvious. Primary amongst these is that both are forms of U.S. intervention to contain the influence of the Soviet Union. The late Senator Robert A. Taft described containment in the following terms:

1. The creation of powerful armed forces.
2. Economic aid to countries where such aid will enable anti-Communist countries to resist the growth of Communism from within.
3. Arms aid to countries where such aid will enable anti-Communist governments to resist aggression from without or armed Communist forces within.

### Constructive Alternatives for Third World Explored at Seminar by Krauss and Other Speakers

Melvyn Krauss of New York University was one of 13 speakers who addressed a seminar of the Center for Constructive Alternatives on the overall topic, "Economic and Political Pluralism in the Third World," at Hillsdale College in November 1984. This issue of *Imprimis* is adapted from his position paper at the seminar.

Other position papers were given by Raymond Gastil of Freedom House, Jonathon Kwitny of *The Wall Street Journal*, AID official Richard Derham, Free Zones expert Mark Frazier, Dow vice president Enrique Falla, Don Decker of Dana Corporation, James Wilkie of UCLA, Washington attorney Lewis Engman, Keith Barlow of the Army War College, Kendall Brown of Hillsdale College, Austrian scholar Erik von Kuehnelt-Leddihn, and Nancy Truitt of the Fund for Multinational Management and Education.

Dr. Krauss has been a professor of economics at NYU since 1976. He has taught at the London School of Economics, Johns Hopkins, and the Universities of Stockholm and Mannheim, and is currently a senior fellow at the Hoover Institution. His 1983 book *Development Without Aid* expands on concepts in the present essay. Among his writings to be published this spring are a book on NATO, and a section on Third-World economics in Volume II of the *Champions of Freedom* series from Hillsdale College Press.

4. Warnings to Soviet Russia or its satellites that armed aggression beyond certain lines or against certain countries will be regarded by the United States as a cause for our going to war.
5. The sending of American troops to a country threatened by attack from Russia or its satellites (European army) or where the attack has already occurred (Korea).
6. An ideological war against Communism in the minds of men.
7. An underground war of infiltration in Iron Curtain countries.

Taft's definition, still reasonably accurate a generation later, reminds that the fundamental choice is not between economic and military aid as tactics, but between interventionism and isolationism as foreign policy strategies. Having opted strategically for the former, we are constantly involved with both forms of tactical aid.

A second similarity between economic and military aid is that both often are ineffective. Let us first consider the case of military aid.

The basic problem with military aid is that it tends to create defense free-riders. The more we do for our friends, the less they do for themselves. When President John F. Kennedy announced to the world that this country would "bear any burden and pay any price" for the defense of the free world, he made the free world an offer it couldn't refuse. Taking the late president at his word, our friends and allies indeed have made the United States pay the price and bear the burdens of containing Soviet expansion. The U.S. has yet to learn how to contain our enemies at the same time that we contain our friends from taking advantage of our desire to contain our enemies.

### How We Invite Defense Free-Riding

Defense free-riding in the Third World can take two forms. First, in helping defend a particular Third-World country, our efforts can substitute for those of another Western power who, in the absence of our intervention, would intervene on its own behalf. Europe has been the major beneficiary of this Case I form of defense free-riding. Second, in helping defend a Third-World country against Communist aggression, our efforts could substitute for those of the Third-World country itself. This Case II form of defense free-riding happened at least twice in the Middle East during the first term of the Reagan administration.

In the Persian Gulf, the United States took upon itself the task of keeping the Middle East waterway open to oil shipping during the Iran-Iraq War even though only a small part of our oil supplies come from this area. True, the United States has a strong national interest in keeping oil prices competitive and blockage of the Gulf would at least, temporarily, raise prices to everyone. But if the waterway is vital to any economies in the free world, it is to those of Japan and Western Europe. Given that it is their consumers that will suffer most from an

oil supply interruption, it makes no sense whatsoever that they should be doing so little, and the U.S. so much, to defend the Gulf. This is a Case I example of defense free-riding.

The economy that would be most negatively affected by a blockage of the Persian Gulf, of course, is Saudi Arabia. The Saudis, however, have done little to defend their interests in the Iran-Iraq War. As columnist William Safire notes: "We have sold to Saudi Arabia 60 F-15s, the world's most powerful fighter bomber, along with enough AWACs aircraft to command a devastating air war. If the Saudis are unwilling to use this striking power to defend their nation's life blood, why did they buy all that expensive equipment?" This is a Case II example of defense free-riding.

When the U.S. pleaded with Arab potentates for the use of bases from which to defend Arab oil, and were refused, even a previously unashamed interventionist like Safire became ashamed and publicly discarded his interventionism for what he calls "iso-ventionism." He explains:

The symbol of iso-ventionism is the eagle's head on the long neck of the ostrich. It is capable of sticking its beak fiercely and decisively into those crises where it has the interest and power to shape events, and is also able, when its presence is unappreciated or redundant, to thrust its head determinedly into the sand.

Not bad. But even the iso-ventionist fowl can get its signals crossed and put its head in the sand when it should be soaring and soar when its head should be in the sand. Lebanon is a tragic example of the latter.

#### **Lessons of Lebanon and Chad**

The ill-advised purpose of sending U.S. troops into Lebanon was to stop the Israelis from taking control of Beirut. When the U.S. troops entered Lebanon, Israel responded by pulling its troops away from Beirut toward the south. The unhappy result was 257 dead U.S. Marines, a big victory for Syria and its backer the Soviet Union, and a trauma for Israel, the only reliable ally we have in the Middle East. The U.S. could have free-riden on the Israelis and avoided this tragedy. Instead, the Reagan administration turned a certain Western victory into an embarrassing defeat.

If only the United States had behaved in Lebanon as it did in Chad. Chad is a small country in Africa that has the misfortune of having Libya as a neighbor on its northern border. In August 1983, President Habré sent an urgent request for French troops to return to the former French colony and help prevent a Libyan-sponsored takeover.

Now Washington also felt a strong interest in the outcome in Chad, if only because we feared for Sudan and Egypt should Habré be overthrown. The interventionist mentality that believes U.S. military support should be

given to friendly regimes in trouble threatened to get America directly involved in the Chad fighting.

But this time President Reagan said no. "It is not our primary sphere of influence," said the American president, "it is that of France." With those words, Reagan put the ball in the court of French President Francois Mitterrand, who hit it squarely. French troops were rapidly dispatched to Chad with good result.

#### **Substitutions and Dependency**

Foreign economic aid, like direct military intervention or aid, often has a disappointing marginal effect by inducing offsetting substitutions in other countries.

The marginal effect of U.S. food aid on the domestic food consumption of a poor Third-World country, for example, will be less than the food aid itself—that is, the recipient country will gain less than what the donor country gives. This is because food aid, by increasing food supply, depresses the price of agricultural products in the recipient countries. Such price reductions, in turn, depress domestic agricultural output, so that what the recipient country gains in food aid it loses, to some extent, in domestic output.

Food aid not only disappoints in its ability to raise domestic food consumption in recipient countries, but it makes these countries weak in their ability to produce food and thus dependent upon donor countries. This is why Third-World countries who desire to maintain a viable domestic food industry should stay clear of food aid. The influx of free foreign food into the domestic market can ruin local producers.

It is no secret that despite the protestations of its advocates about poverty and social injustice, the major purpose of foreign economic aid is to buy elites and preserve the *status quo* in recipient countries. But ironically, this often leads to economic weakness by postponing desperately needed change and reform.

#### **Doing It Wrong in Taiwan**

An example where this occurred is Taiwan. Economic interventionists long have argued that U.S. economic aid was an important springboard for the rapid economic growth this Pacific Basin country has achieved during the past two decades. This argument is not only incorrect, but the reverse of what actually happened.

For years, U.S. aid to Taiwan sustained wealth-destroying protectionist and anti-private capital-import policies. It was not until the United States threatened to cut off foreign aid in the late 1950s that Taiwan was constrained to adopt the free-market, pro-foreign capital-import policies that proved responsible for its success. Here is the story:

Reflecting the conventional wisdom of the time, Taiwan's development strategy in the 1950s was to use aid funds from the U.S. to build infrastructure (power, transport, communications), foster agriculture, and



develop human resources. Industrial development was to be left in the hands of private enterprise. In other words, U.S. aid was intended to help create a booming private sector by making available increased power, transportation, efficient labor, and low-priced raw materials.

Instead, the effect of U.S.-financed investment in "social-overhead capital" was to damage private enterprise by diverting scarce resources away from it. Rather than creating a model for capitalistic development, as intended, it became obvious by the late 1950s that government-to-government aid was creating a strong socialist state in Taiwan that was suffocating the private sector.

In addition, U.S. grants and concessional loans to finance perpetual balance-of-payments deficits and support the currency in foreign-exchange markets became an important factor in sustaining the protectionist policies of the Nationalists in Taiwan during the 1950s. These policies hurt Taiwanese industry in at least two ways.

First, they artificially restricted Taiwan's exports by drawing resources out of export industries into import-substitute industries. During the protectionist decade of the 1950s, the average annual growth rate of Taiwanese exports was 15.5%; during the free-market 1960s it was 31.5%. Second, protectionism helped create stagnation in Taiwanese manufacturing during the 1950s.

The Nationalists rejected an export-oriented, free capital-import program because they saw it as surrendering Taiwan's future development to private firms and foreign interests who, they thought, would be preoccupied with profit and unresponsive to the political and historical imperatives that President Chiang Kai-shek had defined for his island-country.

Autarkic economic policies, however, did not bring independence. By running the economy into the ground, they forced Taiwan to depend increasingly on the United States for general economic assistance. The Nationalist fear of trade dependency on private foreign firms thus led to the reality of aid dependency on the United States. In the final analysis, the Nationalist government realized that only the prosperous are truly independent.

It is sometimes argued that U.S. aid was vital in stabilizing Taiwan because it signaled American will-

ingness to stand firm against Communist aggression. This supposedly gave the Taiwanese economy its attractiveness to private investment. In fact, however, foreign and domestic private investment did not take off until the governments *changed* their policy orientation from government-led growth and reliance on foreign aid to more emphasis on private-sector growth.

### When Intervention Retards Containment

To conclude: the real issue facing American foreign policy in the Third World is not so much that of economic versus military aid, as that of isolation versus interventionism aid.

To help resolve this issue, the distinction must be made between containment of Soviet influence and power on the one hand, and U.S. intervention on the other.

But the debate over U.S. troops in Europe and recent developments in the Middle East are splitting the interventionists from believers in containment for the first time in the post-World War II period. Many respected observers such as Irving Kristol, William Safire, and even Henry Kissinger have come to recognize that excessive support for our allies not only fails to contain but actually retards containment of Soviet influence and power.

To breathe new life into our allies, a strategic pullback by the United States is necessary. It would be a mistake to call this "isolationism." The true isolationists in this country do not believe in containment. Their motto appears to be "if the Soviets want it, let them have it"—the assumption being that the costs of containment for America are always too high regardless of the benefits.

Call the necessary pullback what you will: whether "strategic containment," or "global unilateralism" to use Irving Kristol's term, or "iso-ventionism" to use William Safire's term. All three reflect an underlying strong belief in containment, as an *end*. But in the choice of *means*, they recognize that, like most things in life, there is an optimal amount of intervention which, if transgressed, is counterproductive to its ultimate object.

The evidence strongly suggests that the United States has indeed transgressed that level of optimal intervention in many areas of the world.

