PC-AAA-435

ISSION ON ORGANIZATION
OF THE EXECUTIVE BRANCH
OF THE GOVERNMENT

task force report on

overseas economic operations

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JUNE 1955

IMPORTANT: This is a study made by a task force for the Commission's use and should not be confused with the Commission's own report to the Congress. In addition there are attached a number of special studies prepared for the task force by its staff which do not form part of the task force report.

PC-AAA-435

Report on

OVERSEAS ECONOMIC OPERATIONS

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Prepared for the

COMMISSION ON ORGANIZATION OF THE EXECUTIVE BRANCH OF THE GOVERNMENT

by the

TASK FORCE ON OVERSEAS ECONOMIC OPERATIONS

☆

This volume includes the official report of the task force and a two-part study by its staff. The staff has prepared a series of papers. Part One relates to special program studies within the broad Foreign Aid Program and Part Two is a series of selected country studies. These summarize the history of the country programs and point up some of the planning and administrative problems.

☆

JUNE 1955

COMMISSION ON ORGANIZATION OF
THE EXECUTIVE BRANCH OF THE GOVERNMENT

TASK FORCE ON OVERSEAS ECONOMIC OPERATIONS

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LETTER OF TRANSMITTAL

June 27, 1955.

DEAR SIRS:

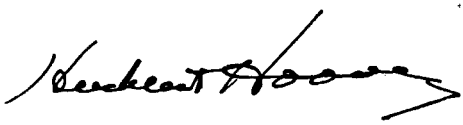
In accordance with Public Law 108, approved July 10, 1953, the Commission on Organization of the Executive Branch of the Government, through the assistance of various task forces, has studied the operation, organization, and policies of the Government in certain broad areas of governmental functions. It submits herewith to the Congress a report of the Task Force on Overseas Economic Operations prepared for the Commission's consideration.

The conclusions and recommendations of the task force were reviewed by the Commission in reaching its own conclusions, but the Commission's own recommendations may not necessarily coincide in all respects with those of the task force.

The Commission's report on this subject already has been submitted to the Congress.

The Commission takes this opportunity of expressing its appreciation for the services of the task force chairman, Mr. Henning W. Prentis, Jr.; to the task force members; and to their staff for the painstaking investigation made and for the preparation of this report.

Respectfully,



Chairman.

The Honorable
The President of the Senate
The Honorable
The Speaker of the House of Representatives

LETTER OF SUBMISSION

WASHINGTON, D. C., *March 28, 1955.*

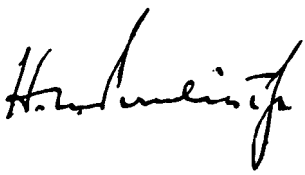
Hon. HERBERT HOOVER,
Chairman, Commission on Organization of the Executive Branch of the Government,
Washington 25, D. C.

DEAR MR. HOOVER: I have the honor of submitting to you herewith the Report of the Task Force on Overseas Economic Operations, in which its members unanimously concur. The studies made by the task force and its capable staff have covered many phases of the broad and complex questions involved which, in the interest of brevity, are not included.

The report has purposely been confined to three salient points: First, the manner in which foreign aid activities should be administered after the Foreign Operations Administration goes out of existence on June 30, 1955; second, the extent to which foreign aid should be continued; and third, the basic principles which should govern the making of any future grants.

The task force wishes to express its thanks to the staff of the Commission and to the many officials of the executive departments of the Government with whom it has conferred for the courteous assistance that has been rendered it on every hand.

Respectfully submitted.



HENNING W. PRENTIS, JR., *Chairman.*

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INTRODUCTION

Pursuant to instructions, the Overseas Economic Operations Task Force, aided by a very competent staff, has made a study of the whole foreign aid program of the United States Government. It is common knowledge that this program has assumed many forms and has been carried on by a variety of agencies: United Nations Relief and Rehabilitation Administration (UNRRA), the loan of $3.75 billion to Great Britain in 1947, the Economic Cooperation Administration (the administrative agency of the Marshall plan) and the Mutual Security Administration, which was succeeded 2 years ago by the Foreign Operations Administration.

The task force has conferred on several occasions with the Honorable Harold E. Stassen, Director of Foreign Operations Administration (FOA), and scores of members of his staff in both formal hearings and personal conferences; with many members of the staff of the State Department, including former Under Secretary Walter Bedell Smith, Assistant Secretary Samuel Waugh, and Assistant Secretary Walter Robertson; and a number of men connected with the Department of Defense, including Maj. Gen. William Marquat, Chief of Civil Affairs and Military Government, Department of the Army. We have also conferred with the staffs of the various committees of Congress concerned with overseas economic operations, and it is upon the information culled from all of these sources and the personal experience of members of the task force that the following recommendations are based.

We have been much impressed with the grasp of the whole problem displayed by Governor Stassen and desire to thank him for his courtesy in meeting with our task force and its staff and in discussing freely and at length the matters which we wished to explore with him in connection with our assignment.

FOA Should Be Terminated June 30, 1955

Except for Purposes of Carrying Out the Recommendations of the Task Force Report

The task force believes that the time has come in the public interest to terminate the existence of a separate agency to administer whatever foreign aid may be necessary in the future, and hence recommends that no attempt should be made to alter existing legislation, which provides for the termination of FOA as of June 30, 1955, except for its planned liquidation as recommended below. Obviously, the manifold activities now underway must be brought to an orderly conclusion, and certain forms of overseas economic aid will no doubt have to be continued for a considerable period.

Such activities as must be maintained after June 30 should, in the opinion of the task force, be assumed by a new operating division to be created in the State Department for the express purpose of managing the entire economic aid program. The State Department is responsible for the development of foreign policy and should, in the opinion of the task force, be so organized as to be able to administer the steps necessary to implement it. In every country in the world there should be only one voice speaking for the United States, and that voice should be the chief of the diplomatic mission to each country speaking in behalf of the State Department. In years gone by, although to a greater degree than at the present time, the position of the chief of the diplomatic mission of the United States has in varying degree been weakened by the financial power exercised by the head of the Economic Foreign Aid Mission, with resultant confusion in relations between the United States and recipient countries. Although FOA is subject to policy guidance by the State Department, the present organizational structure is inadequate to insure satisfactory coordination of operations. Unified control and direction are essential. Placing the supervision of overseas economic aid in the State Department would attain that objective.

The task force recommends that the expressed will of Congress be accepted by the administration and the Foreign Operations Administration terminated as of June 30, except for the purposes of liquidating its present functions and activities and of giving the State Department a reasonable opportunity to recruit the necessary personnel and otherwise prepare to take over the functions and activities of FOA as recommended herein. The transfer to the State Department should

be effected as rapidly as possible at the will of the State Department but in no case later than December 1, 1955, and the FOA should thereupon cease to exist. The administration should be urged to announce its adoption of this policy as soon as possible so that a prompt beginning can be made in arranging for the early transfer of the remaining functions of FOA to the new operating division of the State Department. This new division in the State Department should be headed by a director who is a competent executive and a man of outstanding administrative ability. The State Department should have the broadest power under the law to employ and separate such persons as it may deem necessary to carry out its responsibilities in the management of the Economic Aid program. If necessary, the State Department, in completing its assumption of present FOA activities, should be granted until December 1, 1955, specific authority to dispense with the services of any personnel it may have taken over on loan, or otherwise, from other agencies without the limitations of the Civil Service Act.

Since military and economic aid programs are closely related, foreign aid policy should be formulated in the State Department in respect to all forms of aid. Plans for military aid should be developed in collaboration with the Defense Department. The administration of military aid should be assigned to the Defense Department.

Following the termination of FOA and the transfer of functions to the State Department, the United States Government should adopt and announce a new policy in reference to the handling of all forms of foreign aid which, in general, would place the initiative for seeking such assistance with the recipient countries. The chief of the United States diplomatic mission in each country would thereafter transmit periodically to the State Department whatever requests for aid he may receive from the country to which he is assigned. In connection with such requests, the United States Chief of Diplomatic Mission would ascertain what contribution each country is prepared to make and the priorities that the country assigns to each item in its suggested program. In those countries whose requests for aid of a military character are not deemed sufficient from the standpoint of the security of the United States, the State Department, in conjunction with the Defense Department, should initiate suggestions for the increase of the requested aid to a level consonant with the security interests of the United States.

On receipt of the requests from each country, the State Department, after consultation with each of the other regular Departments concerned, should work out a policy for each country—in general, on a quid pro quo basis. This is important because our policy of giving and usually getting nothing material—even in the way of promises—in return, has not increased respect and esteem for the United States,

but has been met practically everywhere with suspicion as to our ultimate motives.

All suggested programs should be specific and not illustrative. The policy of asking for millions of dollars for the general purpose of raising the standard of living of a particular country and illustrating by one or two examples only, the manner in which the money is to be spent, should be abandoned. The program proposed by the State Department should be cleared through the National Security Council, the Council for Foreign Economic Policy, and the Bureau of the Budget. All requests should finally go to the President for transmission to Congress. Appropriations for all foreign aid, both economic and military, should be made to the President and allocated by him.

The State Department should then negotiate a bilateral agreement with each recipient country, setting forth the specific benefits to be received by the United States in return for the aid granted.

The State Department should then put the program, thus approved and adopted, into effect, contracting with existing departments of government (as suggested below) or private firms, corporations, universities, or other institutions, to carry out appropriate portions of such programs wherever possible. The operating staff in the State Department should be held to the minimum size required for effective management of the foreign economic aid program.

We have been informed that there are numerous instances in which minor disagreements of policy and procedure have been allowed to delay programs and operations. We recommend that fuller use be made of the normal procedures for interdepartmental coordination, involving settlement of such issues by negotiation and agreement at lower levels. We think that a concentration of programing and policy responsibility in the State Department will reduce the occasions for disagreement. Although we recognize that the division of administrative responsibility for the aid program between State and Defense may give rise to future disagreements, these should normally be settled at levels at or below the assistant secretaries of both departments. Major disagreements so arising, however, would have to be resolved by the President, working through the Council of Foreign Economic Policy or the National Security Council. To that end it might be advisable to make the Defense Department a member of the Council on Foreign Economic Policy.

Foreign Operations Administration Functions

The variety and scope of the functions which FOA now exercises are not generally recognized. Its present activities include:

I. The Foreign Operations Administration administers *Economic Aid Programs* overseas to improve the economies of the countries involved.

This aid is primarily in the form of dollar grants and loans for the purchase of consumer and capital goods, and technical assistance.

II. The Foreign Operations Administration provides *Defense Support* to Europe, the Near East, Africa, South Asia, the Far East and the Pacific, by supplying commodities, services, and financial and other assistance designed to sustain and increase the military effort.

It is hard to distinguish the difference between the defense support and economic aid programs. For example, the FOA Korean program is administered under defense support.

III. The Foreign Operations Administration provides *Development Assistance* to promote economic development in the Near East, Africa, Asia, and the other American Republics of the Western Hemisphere.

IV. The Foreign Operations Administration exercises a degree of control over *Programs Counterpart Funds* generated through the purchase by the foreign government of aid dollars and agricultural surpluses with local currency.

These funds are kept in separate accounts by the foreign governments and can only be spent with FOA approval, at least in the first instance. When counterpart funds are loaned and the loan is repaid, FOA's control over the use of such funds ordinarily ceases under present arrangements unless the original release agreement specifically requires otherwise. Ten percent of counterpart funds go into the Treasury of the United States and can be used for any purpose by the United States.

V. The Foreign Operations Administration provides *Technical Assistance.* This is the international interchange of technical knowledge and skills designed to contribute primarily to the balanced and integrated development of the economic resources and productive capacities of economically underdeveloped areas.

This function is carried out by sending technicians and private organizations (under contract) overseas and by bringing overseas

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personnel to the United States for training. Some of the techniques may be summarized as follows:

(*a*) *University contracts* under which the university undertakes to improve the academic resources of foreign universities; or under which its personnel in effect become a part of the mission staff and perform a variety of technical functions to aid the foreign government. Conversely there are contracts under which universities undertake to train groups of foreign nationals in the United States.

(*b*) *Contracts with private engineering firms* under which the firm undertakes to carry out a specific project, such as the reform of the Bureau of Land Management in the Philippines. Private firms also undertake the training of groups of foreign nationals in the United States.

(*c*) *Contracts with foundations* which are for the same purpose as those with private institutions.

(*d*) *Contracts with other United States Government agencies* to perform the same functions.

(*e*) *Work study training program* under which foreign working men are brought to the United States to work in United States plants and study after work hours at United States universities.

(*f*) *The student program* under which foreign students are brought to the United States for further academic training.

(*g*) *Training programs* of a variety of kinds carried on by FOA personnel in the United States and overseas.

VI. Public Law 665 specifically provides for a *Small Business Program* to "assist American small business to participate equitably in the furnishing of commodities and services financed with funds * * * of this act," by:

(*a*) Making available to suppliers in the United States advance information with respect to proposed FOA financed purchases.

(*b*) Informing prospective purchasers abroad of commodities and services produced by "small independent enterprises in the United States," and,

(*c*) "Providing additional services to give small business better opportunities to participate in the furnishing of commodities and services financed with such (FOA) funds."

VII. The Trade Promotion and Investment function of FOA also stems from Public Law 665, "Encouragement of Free Enterprise and Private Participation," which provides that FOA shall

(*a*) "draw the attention of private enterprise to opportunities for investment and development in other free nations."

(*b*) "accelerate a program of negotiating treaties for commerce and trade, including tax treaties * * * to encourage and facilitate the flow of private investment to nations participating * * *"

(*c*) "* * * seek compliance by other countries * * * with all treaties for commerce and trade and taxes * * * and take * * * measures * * * to secure compliance * * *"

(*d*) "may make * * * guarantees * * * of investments."

VIII. The Investment Guarantee Program carries out the provisions of VII (d) above.

The United States guarantees the investment of United States nationals in new enterprises or the expansion, modernization, and development of existing enterprises, in connection with approved projects in any nation in which the United States has agreed to institute the guaranty program. The guarantees shall be limited to certain conditions: (*a*) the conversion of foreign currency received by the investor as earnings and compensation for the sale or disposition of the investment, and, (*b*) compensation in dollars for losses which result from expropriation or confiscation of the investment by action of the foreign government. A fee is charged for this service.

IX. FOA has the responsibility for administering the provisions of the *Mutual Defense Assistance Control Act of 1951* (the Battle Act—East-West trade).

This is done with its own staff and in cooperation with the other principal interested agencies: State, Defense, Commerce, and the Central Intelligence Agency. Battle Act funds are provided certain of these agencies by FOA to perform specific functions as requested, when such functions are in addition to the basic responsibilities of these agencies. FOA's function is primarily one of coordination through the executive committee of the Economic Defense Advisory Committee composed of FOA, acting as Chairman; State; Defense; Commerce; and CIA.

Commerce and State are the principal agencies engaged in the domestic and foreign aspects respectively of the program. Commerce acts through an interagency joint operating committee which it chairmans and which reports to the Economic Defense Advisory Committee. State acts not only through its overseas missions which secure necessary data, but also as a member of the various interagency committees concerned. FOA has the responsibility for making final decisions subject to the general foreign policy guidance of the State Department.

X. Section 402 of Public Law 665 states that "of the funds authorized, * * * not less than $350 million shall be used to finance the export and sale for foreign currencies of *Surplus Agricultural Commodities* or products thereof produced in the United States, in addition to * * *" such surplus commodities transferred under the Agricultural Trade Development and Assistance Act of 1954, Public Law 480.

The Foreign Operations Administration has the responsibility of administering both section 402 and also title II of Public Law 480. It must determine how much if these surpluses can be used, where and when they are to be shipped, and specifies the grades. The actual transactions are handled by the Department of Agriculture, but only on the specific instructions of the FOA. Counterpart funds resulting from these transactions are also administered by FOA and can be used only for purposes for which dollar aid is authorized, and is a substitute for such dollar aid.

XI. The authority for the FOA labor program is in section 413 of the act under which it is declared to be the policy of the United States among other things to strengthen free labor unions abroad.

The FOA program is designed to accomplish that end, with the cooperation of a Labor Advisory Committee composed of representatives of the A. F. of L., CIO., and Railway Brotherhoods. It is primarily a technical cooperation program under which overseas free labor union officials and workers are brought here for indoctrination, and United States labor teams are sent overseas. One of the program's principal objectives is to eliminate the Communist influence from foreign unions and to strengthen non-Communist as against Communist-controlled organizations.

XII. The FOA Office of Refugees, Migration and Voluntary Assistance is the operational center of the United States Government activities in the refugee migration, voluntary assistance, and multilateral technical cooperation fields.

It is specifically responsible for the following:

(*a*) Administers the United States Escapee Program which provides supplemental care and resettlement assistance for recent escapees from communism who are now in Europe, the Middle and Far East.

Supplemental care includes the provision of food, clothing, housing, medical and dental services.

Resettlement assistance includes vocational training, visa search projects, counselling, and payment of transportation costs.

(*b*) Serves as a focal point to encourage, facilitate and coordinate the foreign assistance activities of American voluntary agencies with those of the United States Government; and administers the payment of ocean freight subsidies for relief supplies shipped by registered voluntary agencies.

(*c*) Coordinates the operating aspects of international programs dealing with refugees and migration to which the United States contributes through the provisions of Public Law 665. These agencies include the Governmental Committee for European Migration, United Nations Relief and Works Agency for Palestine Refugees, United Nations Korean Reconstruction Agency, and United Nations International Children's Emergency Fund.

XIII. *The Organization for European Economic Cooperation* through its instrument, the European Productivity Agency, supports and services certain of the projects resulting from the bilateral agreements, entered into between the United States and foreign governments, under the Moody Amendment of the Mutual Security Act of 1952.

This amendment provided that $100 million of aid was to be conditioned on the agreement of its recipients to remove trade restrictions, increase productivity, encourage free labor unions, etc. The dollars could be used for any of the purposes of the act, but the local currency equivalent had to be used for projects to accomplish the purposes of the amendment. In addition to bilateral agreements with individual governments, the United States also entered into an agreement with the OEEC and transferred $2.5 million to it in fiscal 1953 to aid in carrying out the purposes of the amendment. Only a relatively small amount of the local currencies available as a result of these bilateral agreements has as yet been expended, and FOA has a continuing interest and ultimate responsibility for its proper use.

XIV. Section 415 of Public Law 665 provides:

> Whenever it will assist in achieving purposes declared in this act, the President is authorized to use funds available under sections 131 and 403 in order to develop assistance including by transfer of funds, directly to the North Atlantic Treaty Organization, for a strategic stock pile of foodstuffs and other supplies, or for other purposes.

The FOA discharges the responsibilties set up by this section of the law.

XV. Section 403 of Public Law 665 provides for programs through the furnishing of "commodities, services and financial and other assistance to nations and areas for which the United States has responsibility as a result of participation in *Joint Control Arrangements* were found by the President to be in the interest of the United States." Such areas include Trieste, Berlin, Germany, Austria, etc. A similar provision (sec. 404) provides that counterpart funds now or hereafter deposited under bilateral aid agreements between the United States and Germany be deposited in the Government and Relief in Occupied Areas (GARIOA) special account for "expenses necessary to meet the responsibilities or objectives of the United States in German * * *." FOA has charge of these activities.

XVI. FOA has an observer on the managing board of the European Payments Union. It exerts its influence through its right to make its views known on any matter, and more important, can exert its veto power on any proposed action that might impair the capital of the Union, a part of which was originally provided by ECA.

It also has the right to block the distribution of capital (on liquidation) and redirect its use in European countries which FOA designates.

XVII. Subject to congressional approval, FOA administers the unencumbered balances of the *Irish Counterpart Funds* for purposes of scholarship exchange between the United States and Ireland, agricultural and industrial production programs, etc.

Suggested Distribution of Present FOA Functions

The Council on Foreign Economic Policy will no doubt want to determine how the present functions of the FOA should be disposed of. The task force, however, as the result of its studies, wishes to suggest generally that its functions should in certain cases be eliminated and in many instances greatly reduced.

I. Functions Suggested for Elimination

(a) Productivity Programs in Europe

United States subsidized programs to increase industrial productivity in Europe have had full opportunity to demonstrate their worth, and should be stopped. Insofar as they have been successful, we have primed the pump, and the time has come for those foreign governments and private interests which have found value in these demonstrations, to pick them up and carry them forward with their own resources. These are sufficient, so that it is no longer necessary for the American taxpayer to foot the bill for a demonstration of American principles and techniques of productivity. Any further participation in the administration of activities resulting from the Benton-Moody Amendment should be eliminated.

(b) Ocean Freight

Ocean freight payments for private relief packages, however justifiable in the immediate postwar period, may give too much Government support to what should essentially be private, voluntary activity. A continued association of this nature vitiates the fundamental values of private charity, encourages too much dependence on the Government, and leads to a loss of vigor, initiative, and freedom of action by private groups.

However, if payment of ocean freight charges is primarily related to the disposal of surplus agricultural commodities, whether shipped under private or public auspices, this function should remain closely tied to the agricultural surplus disposal program, as long as that program continues.

(*c*) *Economic Assistance*

All economic assistance to the countries of Europe, with the possible exception of Spain, Greece, and Yugoslavia, should be eliminated forthwith. Their economies have been restored now to a point where they can all stand on their own feet.

II. Functions Suggested for Reduction

(*a*) *Technical Assistance*

By whatever name known (technical aid, technical exchange, point 4, etc.), technical assistance originally contemplated a fairly simple, restricted program of assisting underdeveloped countries by supplying technical skills, particularly in the fields of health and agriculture. Later the overall program has been expanded geographically to cover practically all countries of the free world, and substantively to include almost every kind of industrial, agricultural, commercial, administrative, educational, general economic, and humanitarian project. The program should be reduced to the substantive proportions originally contemplated: the export abroad of American know-how which recipient countries desire, are able to absorb, and can profitably apply in the fields of health and agriculture. There is an additional question as to whether technical assistance should not be materially reduced geographically. We see no reason why our Government should offer technical assistance to highly developed areas. (See sec. IV (*a*), p. 18.)

III. Functions Suggested for Delegation

While realizing the desirability of concentrating the administration of the foreign aid program in one place and not dividing it up among the various permanent departments, nevertheless, the task force believes that the new operating division of the State Department can delegate some of the present FOA activities to other departments, as suggested in the following paragraphs:

(*a*) *Military Assistance*

Concentrate administration in the Department of Defense, subject to the interagency coordination of the Council on Foreign Economic Policy and the National Security Council, and set forth and maintain the policy that military assistance is for military purposes, and that it must not be used as a disguised form of economic aid.

The military assistance function should include provision of military end-items procured in the United States or procured abroad under any type of offshore procurement program; contributions to infrastructure or similar programs; so-called direct forces support (as defined later) and the development abroad of weapons of advanced design. Whereas the FOA formerly had important fiscal and administrative responsibilities for these programs, these responsibilities are clearly vested in the President by title I of the Mutual Security Act of 1954. By Executive Order 10575, of November 6, 1954, the President delegated responsibility for the discharge of these functions (except direct forces support) to the Department of Defense, subject to the following qualifications:

> The Secretary of Defense (1) shall exercise the responsibility and authority vested in him by the act and the responsibility and authority delegated to him by this order *subject to coordination by the Director of Foreign Operations Administration*, and (2) *shall keep the Director of the Foreign Operations Administration fully and currently informed of all matters, including prospective action*, relating to the utilization of funds under the act, the establishment of priorities under section 524 (b) of the act, and the furnishing of military items under chapter I of title I of the act. [Emphasis supplied. Sec. 524 (*b*) deals with priorities in procurement, delivery, and allocation of military equipment.]

With due respect to the Presidential directive, it seems to the task force that this subordinated the Department of Defense to FOA unnecessarily. If the recommendations of this report are adopted, it is probable that this difficulty will be eliminated.

Later, on December 11, 1954, the President wrote a letter to Mr. Joseph M. Dodge, authorizing him to establish and to serve as chairman of a Council on Foreign Economic Policy. The President expressed his concern that something should be done substantially to simplify the complex web of interdepartmental coordinating mechanisms and overseas departmental operations dealing with various aspects of our foreign economic policy. And he asked Mr. Dodge to assist and advise him—

> in accomplishing an orderly development of foreign economic policies and programs and to assure the effective coordination of foreign economic matters of concern to the several departments and agencies of the executive branch.

The mission of the Foreign Economic Policy Council was somewhat delimited as the President asked Mr. Dodge—

> to provide for the anticipation of problems and issues, analyze information for the purpose of clarifying and defining issues, and determine the primary responsibilities of the executive agencies for the preparation of original documents and for any other steps necessary to produce a coordinated and agreed-upon governmental position.

It is thus strongly suggested that the Dodge council will be active in the field of policy determination, and will work to achieve better

coordination by means of better articulated policies arrived at by interaction of the various interested agencies.

At the same time, the President's letter noted that the membership of the council partly overlapped, but did not duplicate that of the National Security Council and the National Advisory Council on International Monetary and Financial Problems. Mr. Dodge was directed to set up working liaison with both these bodies. As previously stated, the task force suggests that the Defense Department might be included in the Council on Foreign Economic Policy so that the council can fully coordinate all phases of the foreign aid program.

In this connection the task force desires to clarify its position on allocation of the functions of defense support and direct forces support. The task force believes that defense support—i. e., economic aid to a country given to enable it to maintain a higher level of military capability than it could by its own resources, and sufficient to meet the levels agreed on by the United States or NATO—should be vested in the same agency as administers technical assistance and development assistance, namely, the new operating division of the State Department. Defense support should include provision of common-use items except those procured for direct delivery to troops. So-called direct forces support—i. e., the supplying of aid for the direct use of foreign military establishments, in the form of pay provisions, and equipment and other commodities furnished directly to troops, should be placed in the Defense Department and administered along with our regular programs for the support of our own forces by the Department of Defense.

(*b*) *Administration of the Mutual Defense Assistance Control Act of 1951 (The Battle Act)*

The administration of this function of FOA should be delegated by the operating division of the State Department to the Commerce Department.

The Commerce Department is charged generally with administration of export controls, and has facilities to do it.

(*c*) *Small Business*

The functions of the Office of Small Business should be delegated by the operating division of the State Department to the Commerce Department because the Commerce Department already provides services to business with which these special services required by Small Business could be easily consolidated insofar as they are not already being discharged by Commerce. In the opinion of the task force, this particular function might well be eliminated or drastically reduced.

(*d*) *Migrants and Refugees; Children's Welfare; Advisory Committee for Foreign Relief*

Major operational responsibility for these functions is already being shouldered by international, United Nations, or voluntary agencies. The present responsibility of FOA to review and supervise United States contributions to these organizations, and keep them in touch with governmental policies and procedures affecting their work should be exercised by the operating division of the State Department.

(*e*) *Assisting Private Investment and Encouraging Free Enterprise*

These functions should be delegated by the operating division of the State Department to the Commerce Department and consolidated with the activities in those fields already undertaken by that department.

(*f*) *Facilitation and Encouragement of Travel*

The task force notes with approval that responsibility for this function was placed by the President in the Commerce Department by section 104 (*b*) of Executive Order 10575 of November 6, 1954.

(*g*) *Exchange of Persons*

A large portion if not the bulk of the funds allocated to technical assistance pays for sending American technicians and experts abroad and for bringing foreigners of various technical backgrounds to the United States for specialized training. In the opinion of the task force, this program has been unduly expanded and its continuance in its present proportions cannot be justified. The first objective should be a drastic reduction, and the second a reconciliation with previous programs carried out by other agencies.

FOA carries out this point 4 exchange program by delegating the major portion of these recruiting and training responsibilities and transferring the necessary funds to other Government agencies through an extensive system of interagency contracts. It is recommended by the task force that the operating division of the State Department which will have the responsibility for administering the foreign aid program should continue and, to the maximum extent possible, expand this practice of delegating or farming out the operational responsibilities incident to the exchange program for technical assistance. The task force earnestly suggests that every possible step be taken to decentralize the purely technical responsibilities of this and other phases of the foreign aid program to those specialized agen-

cies which have professional competence in the several fields, rather than maintain large technical staffs in the new operating division of the State Department. It is felt that this will not only minimize the danger of duplication and waste, but will also broaden the base of the technical assistance program by imparting to the other agencies a fuller sense of responsibility, so that the program will become a governmentwide effort, which is felt to be the greatest guarantee of maximum efficiency in its conduct. It is felt that the management function retained by the new operating division of the State Department should include such substantive details as establishing criteria for the selection of candidates, the allocation of funds by country and category, and supervising the operations which are delegated to the several agencies.

It is to be noted that this point 4 exchange program is in obvious parallel to the exchange program conducted by the State Department under the Fulbright and Smith-Mundt Acts, which is mainly designed to improve the climate of foreign opinion about the United States and to interchange certain knowledges and skills, predominately in the academic field. It is the view of the task force that the transfer of the entire technical assistance program to the State Department upon the termination of FOA could well provide a suitable opportunity for consolidating those services which are presently handled separately and yet are susceptible of common administration. These "common services" include the functions involved in the reception and orientation of new arrivals, the establishment of a standardized system of stipends and per diems, and the maintenance of remote control over their activities and whereabouts while in this country. It seems preferable to the task force that all such functions should be handled for the Operating Division of the State Department by the International Education Exchange Service (IES) in the Office of Public Affairs in the State Department. The task force notes with approval that IES presently delegates the responsibility for most of these activities to other agencies, both public and private, and suggests that this practice be continued for the consolidated administration of such "common services."

(*b*) *Labor Activities*

The operating division of the State Department should delegate to the Labor Department, to consolidate with similar activities of that Department, any FOA labor activities which are not eliminated as labor productivity functions.

(*i*) *Contributions to NATO*

The task force notes with approval that the responsibility for covering contributions to NATO has been placed in the State Department by Executive Order 10575.

(*j*) *OEEC and EPU*

It is recommended that all functions of FOA relating to OEEC and EPU be placed in the operating division of the State Department to be discharged in consultation with the Treasury.

The FOA Director staffs and supervises the Office of Economic Affairs in the United States Regional Office. This staff, working under the general supervision of the United States permanent representative to NATO, provides the economic side of the USRO team. It provides United States representation to all OEEC bodies, including the council, the executive committee, the managing board of the EPU, the steering board for trade, the joint trade and payments committee, the economic committee, the European Productivity Agency (EPA), and various *ad hoc* working groups. FOA/Washington supports this work, initiating all communications to the USRO economic office and developing coordinated United States positions on OEEC matters. These functions are performed under the general guidance of State, Treasury, and other interested departments.

United States operations with respect to OEEC require close coordination of the interests and policies not only of the Department of State and the Treasury, but also Defense, Commerce, Agriculture, Budget Bureau, Council of Economic Advisers, ODM, and the Federal Reserve Board.

It is the view of the task force that these coordination functions, insofar as they are required to produce a unified Government position for transmittal to the United States representatives in OEEC, should be placed in the operating division of the State Department, where they can appropriately be meshed with overall programing and operations.

(*k*) *Multilateral Technical Cooperation*

The task force notes with approval that United States functions relating to multilateral technical cooperation have been placed in the State Department by Executive Order 10575.

(*l*) *Investment Guarantee Program*

The operating division of the State Department should delegate the investment guarantee program to the Commerce Department. The primary stimulus for American private investment abroad can only come through the creation and maintenance of a friendly climate for investments in other countries. This will never come if we continue to create the impression that, whether friendly or not, we will force American dollars upon them. We cite India as an example in this connection.

(*m*) *Loans*

Whenever loans are to be made to foreign countries as a part of the foreign aid program, the operating division of the State Department should delegate the responsibility for such transactions to the Treasury Department for handling through the Export-Import Bank under Treasury Department supervision.

(*n*) *Assistance to Korea or Other Post-Hostilities Areas*

The policy of assistance to Korea should be determined by the State Department, and aid of all forms should be administered solely by the Defense Department.

IV. Functions Remaining for Direct Administration by the Operating Division of the State Department

In the opinion of the task force, the following functions should be handled directly by the proposed operating division of the State Department:

(*a*) *Technical Assistance*

Such technical assistance as may be continued (see sec. II (*a*) on p. 12) should be managed by the operating division of the State Department, and its execution delegated wherever possible to the regular departments of Government, colleges and universities, or private firms.

(*b*) *Development Assistance*

Development assistance is economic assistance given primarily to promote economic development or otherwise to create or maintain

economic or political stability. It is not directed toward primarily military goals. It goes beyond technical cooperation insofar as it provides capital assistance, supplies, or technical or engineering services beyond the level required for purposes of instruction or demonstration. Aid of this nature should be strictly limited, and whatever is carried on should be administered by the operating division of the State Department.

(*c*) *Defense Support*

Defense support, as redefined above (sec. III (*a*) on p. 12) including related technical services, should be in the hands of the operating division of the State Department.

(*d*) *Agricultural Surplus Disposal*

Under current legislation (the Mutual Security Act of 1954 and the Agricultural Trade Development and Assistance Act of 1954), authority for the sale abroad of surplus agricultural commodities is divided. From both acts, however, there arises a dual responsibility which should be placed in the operating division of the State Department.

A very difficult and complicated staff procedure is required to mesh the work of the interagency committee on surplus agricultural commodity sales, with the programing and other work of the agency responsible for foreign aid operations. This staffwork is now being done effectively by the Food and Agriculture Division of the FOA, and can best be continued if it is placed with the operating division of the State Department. So long as the law on disposal of agricultural commodities remains as it is today, this function can best be handled in this way.

(*e*) *Special Assistance in Joint Control Areas* (*Austria, Berlin*)

Responsibility for determining the necessity for and scope of these special programs should rest with the State Department. Administratively, they can best be dealt with in the operating division of the State Department.

(*f*) *Other Functions*

Other miscellaneous and minor functions now handled by FOA, such as the administration of unencumbered balances of Irish Counterpart Funds, should be placed in charge of the operating division of the State Department.

The Importance of Centralized Control by the Operating Division of the State Department

For effective administration of the whole foreign aid program, it is essential that there be centralized control of budgeting, programing, procurement, finance, auditing, and administration at some central point. The operating division of the State Department should exercise this necessary function.

It is the view of the task force that actual day-to-day operations should be contracted out insofar as possible to other agencies of the Government (as previously suggested), or to private institutions, to take full advantage of the existing technical resources. We recognize that the centralized managerial group in the State Department may find it desirable to retain some other operating functions because they may be able to find no appropriate technical organization to carry them out, or for other reasons. However, the number of people required to carry on the remaining functions should be relatively limited, as the volume of operational responsibilities will be shrunk.

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Extent of Foreign Aid Given by the United States Since 1945

The extent of the military and economic aid given by the United States to foreign countries since the end of World War II through the fiscal year 1954 is stupendous. It totals $46,847 million, as shown in the following table:

Foreign Grants and Credits of the United States Government [1]***—Postwar Period—by Years***

[Fiscal years ending June 30. Millions of dollars]

	1946	1947	1948	1949	1950	1951	1952	1953	1954	Total post-war [2]
Net grants and credits total	4,739	5,850	5,115	6,090	4,475	4,410	4,610	6,365	5,193	46,847
Net grants	2,489	2,105	2,681	5,372	4,334	4,253	4,275	6,259	4,073	35,841
Net credits	2,251	3,744	2,435	718	141	156	335	106	1,120	11,005
Military grants: Net grants	679	------	145	351	196	1,132	1,805	4,329	3,543	12,181
Other grants and credits	4,060	5,850	4,969	5,739	4,279	3,277	2,805	2,036	1,650	34,666
Net grants	1,810	2,105	2,535	5,021	4,138	3,121	2,470	1,930	530	23,661
Net credits	2,251	3,744	2,435	718	141	156	335	106	1,120	11,005

[1] Actual net payments or deliveries. Appropriation figures would of course show a somewhat different pattern.

[2] July 1, 1945, to June 30, 1954. The slight differences in the totals are due to rounding off of individual figures.

Source.—U. S. Department of Commerce, Office of Business Economics, Feb. 14, 1955.

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Wisdom of Continuing Foreign Aid

Everyone will agree that there is great danger in the general world situation today and that the United States must do everything it can, within reason, to contain and limit the spread of communism. The postwar days of charity, however, are over, when the United States spent large sums for rehabilitation. Future foreign aid can be justified only if it is necessary for the defense of the free world; and we should certainly not plan our future course with the idea that is frequently advanced that foreign aid will have to be given permanently or for an indefinite period.

We have to face the indubitable fact, moreover, that human nature does not change, or, at any rate, changes very slowly in its fundamental characteristics. Giving away money does not win permanent friends. In the long run, it is more likely to cause the loss of friends, because the receiver or the borrower never loves the giver or his creditor. The giving of aid, moreover, frequently weakens character and self-reliance. These are basic considerations which should always be kept in mind in deciding on the wisdom of any foreign economic aid program, as distinguished from purely military aid designed to protect the United States.

It is frequently assumed that physical poverty is the primary cause of communism and that, therefore, communism can be cured by spending in an endeavor to raise the general standard of living. There is no convincing proof that this is universally true. Communism, for example, is strongest in the higher wage industrial centers of Italy. Most foreign economic aid programs seem to be based on emotions and opinions—not on hard facts. In fact, in many underdeveloped countries, economic indicia from which to draw intelligent conclusions are totally lacking. As has been previously indicated, so-called illustrative programs are of little practical value as a basis for appropriations, since they are based merely on individual judgments as to what aid may be desirable. Actual expenditures may prove to be for quite different purposes.

As previously recommended in this report, the giving of future economic aid in general only when requested by the recipient nation on a quid pro quo basis, with the recipient nation making a definite contribution of its own to the proposed program, would put all future economic aid on a much sounder basis, in the opinion of the task force.

One fundamental error in our past thinking on this subject lies in the belief that the more money is spent, the more good there is done. This is an error which continually permeates the thinking on the

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subject of economic aid, just as it does in respect to military strength. The question is not how much money is spent, but what results are obtained. What has really been accomplished in many of the areas into which our money has gone? Certainly it must be admitted that nothing was accomplished in combating communism by the billions we spent in China, or in Indochina. In any case, a truthful answer to this question will make it appallingly clear that the mere spending of money in any amount is not the real answer to today's problem.

The 1956 Program

The FOA reports that it will have an unexpended balance of over $5.7 billion for military aid, and approximately $2.2 billion in unexpended funds for other foreign aid purposes on June 30, 1955. In addition, there was available as of December 31, 1954, in foreign currencies the equivalent of $973 million in counterpart funds. In view of the request for new appropriations totaling $3,530 million for the coming fiscal year, the task force suggests that the appropriate congressional committees ascertain how much of the unexpended funds are presently committed by definite contractual obligations, and the total amount FOA contemplates expending during fiscal 1956.

One aspect of the foreign aid programs, as they have been carried on, which may justly be criticized, is the recurring request for funds at a time when billions of dollars already appropriated have not been spent. In our opinion, no consideration of the need to fight communism or of the necessity of completing programs on which we have now embarked should prevent a searching scrutiny of moneys which will continue to be spent from appropriations already made. We have been engaged now for almost 10 years in a vast program of foreign aid, starting with UNRRA. It would seem to be the part of wisdom to try to draw some lessons from this extended and costly experience—particularly in connection with any proposals that may be offered for extensive economic aid in the countries of southern Asia.

Summary and Recommendations

The task force recommends:

1. The State Department should be given a reasonable time within which to recruit the necessary personnel and otherwise prepare to take over the functions and activities of FOA in accordance with the recommendations of this report. To facilitate this objective, the Foreign Operations Administration should be terminated as of June 30, 1955, except for the purposes of liquidating its present functions and completing its current activities until the State Department has indicated its readiness to take over such functions and activities in accordance with the recommendations contained in this report. The transfer to the State Department should be effected as rapidly as possible, at the will of the State Department, but in no case later than December 1, 1955, and the Foreign Operations Administration should thereupon cease to exist.

2. After the elimination of certain functions and the reduction of others, the remaining and reduced functions and appropriated funds therefor should be placed in a new operating division in the State Department.

3. The operating division of the State Department should have full responsibility for the administration of the program as a whole, with the exception of military assistance, but many of the functions should be delegated by the State Department to the various regular departments of the Government for execution.

4. The State Department should have the widest discretion in setting up the operating division in accordance with the recommendations of this report and in selecting the necessary personnel at all levels. It is not believed that the transfer of the Foreign Operations Administration as a unit to the State Department would result in any substantial elimination and reduction in functions.

5. All spending for foreign aid should be reduced to a minimum necessary—in general, on a quid pro quo basis—to assist our allies with the will to fight to arm themselves adequately, and the extension of any form of economic assistance should be scrutinized most carefully and eliminated if not absolutely essential to the security of the United States.

An Alternative Proposal

The following alternative recommendations might more expeditiously carry out the will of Congress and meet the objectives of the task force's recommendations:

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(*a*) The Director, Foreign Operations Administration, acting under an appropriate Executive order, should at once turn over to the various departments the functions recommended for transfer by this task force and terminate the functions herein specified for discontinuance.

(*b*) By June 30, 1955, the President should appoint an official acting under the Council on Fereign Economic Policy who would complete the liquidation of Foreign Operations Administration during the following 5 months.

(*c*) The remaining functions shall be transferred to an administrative unit in the State Department not later than December 1, 1955.

(*d*) The departments to which functions are assigned should have the right to choose only such of the present Foreign Operations Administration staff as they may wish.

(*e*) The Council on Foreign Economic Policy shall have the responsibility of coordinating all continuing functions in the foreign aid program.

(*f*) The State Department shall determine the overall international policies involved.

Special Staff Studies

The following papers were prepared for the task force by its staff and do not form a part of the task force report.

PREFACE

The complexity and diversity of the overseas economic operations of the United States Government, which this task force was directed to review, required a qualified research staff to assist the task force in its work.

The papers that follow were prepared by this staff to provide the task force and the Commission with the basic facts relating to our principal economic activities abroad.

The very wide scope of the specific study assignments, coupled with limited time and staff, lack of opportunity for overseas observations, and certain difficulties in obtaining desired information, have prevented a more comprehensive study of the entire subject. However, in the preparation of these papers, the staff drew freely from a wide variety of sources, both in and out of the Government. We are satisfied that the papers present a fair and objective description of the matters discussed and that they are free of substantial error.

I wish to express my deep appreciation for the loyalty and efficient work of the task force staff, both professional and clerical, and on behalf of myself and the staff, our thanks to the members and staff of the Commission for their unfailing helpfulness.

Bernard S. Van Rensselaer

BERNARD S. VAN RENSSELAER,
Staff Director.

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INTRODUCTION AND DISCUSSION OF SPECIAL PROGRAMS AND COUNTRY STUDIES (Dr. Fox)

Summarizes the principal problems in the operation of foreign aid as illustrated in the selected country programs.

FOREIGN AID PROGRAMS AND RELATED ACTIVITIES OF UNITED STATES GOVERNMENT AGENCIES (Mr. Kenney)

Describes functions of governmental agencies concerned with overseas operations and points up the problems of duplication and overlapping.

COORDINATION OF OVERSEAS PROGRAMS (Dr. Thomson)

Makes the point that any reorganization of the foreign aid program will be incomplete without recognition of the need and provision for improved top-level coordination of both policymaking and operations among all agencies active in this field.

INTERNATIONAL ORGANIZATIONS (Mr. Robertson)

Indicates some of the organizational, functional and administrative problems confronted by these agencies. The principal features are outlined in some 18 of the more than 70 international organizations in which the United States participates in the conduct multilaterally of foreign aid program activities and of related overseas economic operations.

SOME FISCAL ASPECTS OF THE FOREIGN AID PROGRAM (Mr. Kenney)

Discusses some of the fiscal problems encountered in the operation of the economic foreign aid programs and suggests certain areas in which improvements could be made. Also includes certain tables of obligations and expenditures.

DIRECT FORCES AND DEFENSE SUPPORT (Messrs. Egan and Kenney)

Discusses continuance of Marshall Plan type aid in the guise of military support and military assistance even to the extent of using military terminology.

UNITED STATES TECHNICAL ASSISTANCE (Dr. Thomson, Mr. Egan, and Dr. Olmstead)

This study indicates inter alia (1) the growth and distortion of technical assistance since the inception of the point 4 program; (2) the dangers of using technical assistance as an umbrella under which all forms of economic assistance can be gathered and intermingled; (3) the desirability of making appropriations dependent upon approved projects, rather than developing projects in order to spend funds already appropriated; (4) the wisdom of concentrating available funds and skilled manpower on a limited number of significant projects in each country instead of diffusing our resources in order to do something, no matter how small, in the greatest possible number of different fields; (5) the need for a new set of ground rules to govern the future programing and operation of technical assistance.

INDUSTRIAL PROJECTS AND ECONOMIC DEVELOPMENT UNDER UNITED STATES AID PROGRAMS (Mr. Nelson)

Points out that (1) our contribution to industrial projects in Europe is completed; (2) experience gained in Europe demonstrates the danger implicit in the

kind of economic development programs that are presently being suggested for the underdeveloped countries with the aid of United States public funds.

SURPLUS AGRICULTURAL COMMODITIES (Mr. Herman and Dr. Thomson)

Discusses (1) the complicated mechanisms for disposing of surplus commodities; (2) the implications of using surplus or distress commodities as a means of foreign aid; (3) the problems inherent in the disposition of local currency proceeds of surplus commodity sales as apparently contemplated by present programing.

OFFSHORE PROCUREMENT (Mr. Neuland and Dr. Fox)

Describes an unsuccessful attempt to achieve a multiplicity of political, economic, and military objectives by means of a single aid mechanism.

PUBLIC LENDING AND PRIVATE INVESTMENT (Mr. Pitman and Dr. Thomson)

Considers the desirability of (1) substituting loan funds for grants where this is feasible and the country has the capacity to repay; (2) promoting and encouraging through established governmental agencies private investment to the maximum degree possible as a much preferred alternative to United States grant aid; and (3) making a real effort to bring about improved investment climates in those countries seeking United States funds.

INFRASTRUCTURE (Mr. Neuland)

Considers dollar contributions to NATO common use military installations and the resultant benefit to the economies of the participating countries when dollar aid is made available for nondollar expenditures.

OVERSEAS PERSONNEL ADMINISTRATION (Mr. Robertson)

Represents a survey of measures designed to produce a concerted administrative effort on the part of the United States agencies participating in overseas economic operations and to contribute toward enabling the United States to speak effectively with one voice abroad—that of the Ambassador in each country. These measures are discussed in terms of a career service for the overseas economic specialists, revised staffing and reporting procedures, the role of the Ambassador, and personnel needs of today and tomorrow.

COUNTRY STUDIES

A. United Kingdom (Mr. Van Rensselaer, Dr. Fox, and Mr. Morgan)
B. France (Mr. Morgan and Dr. Fox)
C. Iran
D. Philippines } (Mr. Nelson)
E. Formosa
F. India (Mr. Egan)
G. Pakistan (Mr. Kenney)
H. Israel (Mr. Herman)
I. Spain
J. Korea } (Mr. Neuland)

These studies indicate inter alia (1) the continuation of economic assistance to certain strategic countries in Europe, the Middle East, and the Far East in a substantial amount for an unpredictable period of time. These countries include Spain, Yugoslavia, Turkey, Greece, Indochina, and Japan, in addition to Korea, Formosa, the Philippines, and Pakistan; (2) the completion of the major European objectives and the uncertainty as to whether the Western European economies can stand alone in the face of any future economic pressures; (3) the need for review of involved programs in countries which may not actually require the aid or which show a disinclination to cooperate in long-range United States security objectives.

Part I

Special Program Studies

Prepared by the

PROFESSIONAL STAFF OF
TASK FORCE ON OVERSEAS ECONOMIC OPERATIONS

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INTRODUCTION

The incredible figure of $141 billion is the cost to the American taxpayer of aid extended to foreign countries since the beginning of World War II.[1] Since the end of World War II, nearly $40 billion net [2] in nonmilitary aid has been distributed abroad, with current expenditures at the rate of not far from $2 billion annually. (The postwar total cost is approximately $800 for every man, woman, and child in the United States, while the current annual cost is around 10 percent of the total nonmilitary budget of the Federal Government.) Twenty-one Federal departments and agencies participate in these widespread economic activities, which require some 30,000 people overseas (including about 10,000 Americans), plus an estimated 3,500 additional employees at the domestic end.

Foreign Aid Operations Most Extensive

Foreign aid operations account for by far the greater part of our overseas economic activities in terms of cost, personnel employed, and overall scope. In addition to the Foreign Operations Administration and its predecessors, other agencies participating in the areas related to foreign aid include the Department of State, with vital functions in the fields of treaty and trade agreement negotiation, commercial and economic reporting, the conduct of operations for other economic agencies, and numerous other economic areas. The Departments of Commerce and Agriculture have key responsibilities in the marketing of American products abroad and in the promotion of international trade and investment in general. Other important agencies having related functions include the Departments of Labor, Health, Education, and Welfare, Treasury, and Interior.

Problems Involved

It is at once apparent that with operations of such wide scope, both geographically and functionally, and with so many agencies concerned many and complex problems will arise. This is, in fact, the case.

[1] According to Speaker Joseph W. Martin in the House of Representatives, June 29, 1954—Congressional Record, p. 8678—1954.

[2] Expenditures after June 30, 1954, and all other economic expenditures estimated.

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These problems originate in part from the almost inevitable overlapping of general and specific responsibilities. An illustration is the situation resulting from the fact that the Department of State is responsible for the formulation, under the President, of overall foreign policy, including economic foreign policy, while numerous other agencies have foreign policy responsibilities in specific areas, e. g., the Department of Commerce in the fields of international trade and international air and water transport policy, the Treasury Department in international financial policy, etc.

Another area of overlapping is that of foreign trade promotion and the marketing of American products abroad which is in part shared by the Departments of Commerce and Agriculture.

An important cause of difficulty is the establishment of new agencies, such as the ECA-MSA-FOA series, whose responsibilities often overlap, primarily or secondarily, those of existing agencies. Difficulties also arise in part from lack of or inadequate delineation of responsibilities in Washington, and from absence of effective coordination machinery.

Another cause of duplication is the not infrequent tendency of organizations to expand their secondary or ancillary activities into major operations, as illustrated by the considerably enlarged activity of the Department of Defense in the areas of economic and industrial investigation and economic reporting.

An important basic factor is inadequate organization of overseas personnel as well as faulty coordination of function overseas.

While it would be well within the terms of reference of the task force, and wholly desirable, to inquire into all these various problems, the scope of inquiry has been necessarily limited by time and available staff. Consequently, main emphasis has been placed upon what seemed to be the major and more urgent problems, functional and organizational, arising from the operation of the foreign aid programs, and their interrelationships with other agencies having overseas economic responsibilities. Possible changes in overseas staffing, as a major instrument in the efficient execution of foreign aid programs, have been considered.

Studies of the major problem areas were assigned to various members of the staff, all of whom have had experience in one or more sectors of foreign operations, and most of whom have had extended overseas experience. In making these studies, and in evaluating the facts and situations disclosed by them, the task force and staff have made the fullest possible use of the various studies already made in this field by committees of both Houses of Congress; by committees or commissions appointed by the President or by department heads, and by nongovernmental agencies, including the Brookings Institution.

Summary Background of Foreign Aid

Apart from its generosity, United States foreign aid, since the beginning of World War II, has been featured by its diversity and by its changing, almost kaleidoscopic, character and purposes.

The first phase, beginning with the outbreak of World War II in September, 1939, was almost wholly military, and during the period of United States neutrality as well as during the period of United States participation, found expression in the lend-lease program ("the arsenal of democracy"—"give us the tools and we will finish the job").

During the later stages of the war and immediately afterward, the emphasis shifted to personal relief and rehabilitation—food, clothing, medicine, emergency housing, care and resettlement of refugees. This type of aid was administered initially by the military authorities, as areas were taken over from the enemy and occupied, under the "prevention of disease and unrest" program. After the end of hostilities, the personal relief and rehabilitation program was expanded widely in Europe and certain countries in the Near and Far East by UNRRA (United Nations Relief and Rehabilitation Administration), to which the United States contributed heavily.

A third major phase was reconstruction of the economies of the war-damaged countries, primarily in Europe. This was carried out under the "Marshall Plan" and consisted essentially of helping to re-establish the physical means of production, industrial and agricultural. Concurrently, aid was given with a view to reestablishing normal trade channels, reconstituting the means of international payments, and otherwise as seemed necessary to put the economies of the recipient countries back to a normal self-sustaining basis. These measures were accompanied by large-scale interim supply of industrial and agricultural raw materials, supplies and equipment, as well as essential consumer goods, mainly as outright grant aid.

The fourth phase, which in point of time ran to a considerable extent concurrently with European reconstruction, was the development of, and gradual shift of emphasis to, so-called technical assistance. The next phase was a sharp shift back to military assistance with the outbreak of the Korean War and the development of the North Atlantic Treaty Organization, (NATO). A little later, the pendulum swung some way back toward a renewed emphasis on economic aid in its own right as well as a necessary support to military programs. And finally, concurrently with a continuation of military assistance and technical assistance, has come increased attention to longer range pro-

grams not as yet wholly formulated or understood, but with considerable emphasis on foreign aid as an instrument of national policy in the developing world struggle for the minds of men, commonly called the cold war.

Basis for Current Programs

The current foreign aid program had their immediate origins in four events or developments:

(1) The proposal by Secretary of State Marshall in a speech at Harvard in June 1947, that a program of economic aid to Europe should be undertaken.

(2) The so-called point 4 of President Truman's inaugural message of January 20, 1949.

(3) The outbreak of the Korean war in June, 1950.

(4) The development of the present "cold war" which cannot be attributed to any specific date, but which for the purposes of this discussion may be considered to comprise the period following the end of the Korean hostilities.

1. Marshall Plan

The Marshall Plan resulted immediately from Secretary Marshall's Harvard speech referred to above and consisted essentially of large scale grant aid intended for the general economic reconstruction of Western Europe. It was carried out by the ECA (Economic Cooperation Administration) which began operations in April 1948, and which lasted for approximately 4 years as far as its major operations were concerned. It is generally considered that this program was successful in facilitating postwar readjustments and to a large degree reestablishing the economies of Western Europe, restoring industrial and agricultural production and in general constituting an important factor in saving at least some of the recipient countries from communism. While there is still some relatively small residue of activity under this program, it is for the most part completed, and is so officially considered, although aid missions are still maintained in most European countries. From the standpoint of the techniques of foreign aid, this program represented primarily economic grant aid on a very large scale.

2. Technical Assistance

President Truman, in his inaugural address of January 20, 1949, had expressed the view that the United States should undertake a "bold new program" of technical assistance to underdeveloped countries. This set in motion a movement which has spread to practically

every country of the free world, and which includes a wide variety of projects in the fields of industry, agriculture, health, education, and most other areas of human endeavor. While the major emphasis in these programs is naturally, in accordance with President Truman's announcement, in underdeveloped countries, being countries having a level of standard of living, education, social development, and industrial development well below that of the United States and other industrial countries, there has been a tendency to extend the technical assistance programs to even the more highly developed industrial countries of Europe, partly, at least, for the purpose of filling in any gaps in their reconstruction which may have been left unfilled by the Marshall Plan.

3. Korean War Period

The outbreak of the Korean War in June 1950, swung the pendulum sharply back to a World-War-II-style emphasis on military assistance. The formation of NATO (North Atlantic Treaty Organization) for common European defense purposes, tended to accentuate the emphasis on military assistance. However, at the same time, it began to be recognized that the economies of a number of countries concerned both with the development of NATO and with military events in the Far East, were unable to undertake from their own resources, much less support for an indefinite period, the level of defense forces and equipment necessary for the joint defense. Accordingly, economic aid in varying amounts and for varying specific purposes, might have to be continued to some extent in all of the free countries concerned in these matters.

4. Other Programs

While the above indicates the major foreign aid programs, there were also a number of individual programs which were authorized by Congress including Yugoslav aid, aid to China, the Philippines, Korea, and some other countries as well as programs originating in the availability of surplus commodities of various kinds, etc. These various operations have gradually been consolidated under the actual direction or immediate coordinating authority, of the ECA and its successor agencies, MSA (Mutual Security Administration, 1952–53), and the FOA (Foreign Operations Administration, 1954 and 1955).

Postwar Aid Mainly in Form of Grants

Net postwar aid, military and other, extended by the United States totaled nearly $47 billion up to the end of June 1954. Of this total, grant aid constituted more than three-fourths, although grants represented a somewhat smaller proportion of nonmilitary aid, and the current trend is in the direction of a larger proportion of credits. The following table summarizes total grants and credits, by major program.

Summary of Foreign Grants and Credits [1] ***by Program***

[Millions of dollars]

Postwar Period, July 1, 1945–June 30, 1954

Net grants and credits	46,847
Gross new grants	39,540
Mutual security	26,001
Military aid:	
Military supplies and services	10,606
Multilateral-construction program contributions	202
Other aid (economic and technical assistance)	15,192
Civilian supplies	5,802
UNRRA, post-UNRRA, and interim aid	3,443
Lend-lease	1,906
Military aid (China)	679
Postwar pipelines	1,227
Greek-Turkish aid	659
Military	537
Other	122
Philippine rehabilitation	634
Chinese stabilization	120
Chinese military aid	122
Military equipment loans	187
Other	665
Less: Prior grants converted into credits	2,256
Less: Reverse grants and returns	1,442
Net grants	35,841
New credits	11,675
Export-Import Bank (for own account)	4,202

[1] Source: "Foreign Grants and Credits by the United States Government," Department of Commerce, Office of Business Economics (June 1954 quarter, *Survey of Current Business*).

Summary of Foreign Grants and Credits[1] *by Program*—Continued

[Millions of dollars]

New grants—Continued	
New credits—Continued	
Direct loans	4,014
Loans through agent banks	189
British loan	3,750
Mutual security	1,687
Surplus property (including merchant ships)	1,487
Lend-lease (excluding settlement credits)	71
Other	478
Plus: Prior grants converted into credits	2,256
Less: Principal collections	2,926
Net credits	11,005

[1] Source: "Foreign Grants and Credits by the United States Government," Department of Commerce, Office of Business Economics (June 1954 quarter, *Survey of Current Business*).

Postwar Trends in Military and Other Aid

1949 and 1953 were the peak years in postwar aid and reflect primarily the "Marshall" type aid to Europe in 1949 and the Korean and NATO military programs in 1953. Economic aid has tended downward since 1949 and has been diversified both geographically and substantively. The following table shows annual trends in military and nonmilitary aid.

Foreign Grants and Credits of the United States Government*[1] *Postwar Period—by Years

FISCAL YEARS ENDING JUNE 30

[Millions of dollars]

	1946	1947	1948	1949	1950	1951	1952	1953	1954	Total postwar[2]
Net grants and credits, total	4,739	5,850	5,115	6,090	4,475	4,410	4,610	6,365	5,193	46,847
Net grants	2,489	2,105	2,681	5,372	4,334	4,253	4,275	6,259	4,073	35,841
Net credits	2,251	3,744	2,435	718	141	156	335	106	1,120	11,005
Military grants: Net grants	679	------	145	351	196	1,132	1,805	4,329	3,543	12,181
Other grants and credits	4,060	5,850	4,969	5,739	4,279	3,277	2,805	2,036	1,656	34,666
Net grants	1,810	2,105	2,535	5,021	4,138	3,121	2,470	1,930	530	23,661
Net credits	2,251	3,744	2,435	718	141	156	335	106	1,120	11,005

[1] Actual net payments or deliveries. Appropriation figures would of course show a somewhat different pattern.

[2] July 1, 1945, to June 30, 1954. The slight differences in the totals are due to rounding off of individual figures.

Source: U. S. Department of Commerce, Office of Business Economics, February 14, 1955.

Voluntary Foreign Aid Substantial

Concurrently with the various Government aid programs referred to above, there has been carried on an active continuous program of relief and rehabilitation by the American Red Cross and by a large number of voluntary war relief organizations, some of which were originally extensions of religious, fraternal, civic, ethnic, or other permanent agencies, and some were newly established ad hoc societies. These organizations, many of which are still functioning, have raised substantial funds by public and private subscription which have been used largely for the provision of food, clothing, and medicine for personal relief and rehabilitation, and for assistance in the care and resettlement of refugees. Later, some of these voluntary agencies have tended also to direct some of their efforts increasingly into the fields of technical assistance and long-range social and economic development.

Their operations, while mainly separate and distinct from governmental aid operations, have been to some extent related, partly by program coordination; partly by governmental registration and supervision, and partly by somewhat limited joint activities. For example, the Government, through FOA and its predecessor agencies, has financed ocean freight for certain private relief shipments, while the voluntary agencies have provided distribution facilities for some Government supplies.

The function of the voluntary agencies, in relation to governmental activities, was well described in a statement by Secretary of State John Foster Dulles, quoted in *The Department of State Bulletin*[1] as follows:

> It is gratifying that our church and lay agencies have effectively administered the free-will offerings of the American people for overseas relief. These private gifts of funds and goods since the invasion of Poland in 1939 have amounted in value to more than $1,500,000,000. The intelligent giving and the planned distribution of these resources is an example of constructive philanthropy of continuing value.
>
> In the above connection, cooperation with Government has been useful. Yet the essential voluntary and personal aspect, "people-to-people," has been maintained. This relationship, while no substitute for governmental grants, has an indispensable quality that no government-to-government aid can duplicate. It has created sympathy and good will between our citizens and their fellowmen in allied and former enemy countries, and has fostered an understanding of common problems. This humanitarianism is a force of enduring strength that can bind together the peoples of the world.

In commenting on the work of the voluntary societies, in *The Department of State Bulletin*,[2] Mr. Arthur C. Ringland makes the following observations, with special reference to relationships with other organizations:

> Short of another world war, with its attendant emotional influences, it cannot be expected that the American people will contribute funds and goods as freely as they have in the past. Nevertheless there is still a job to be done by the voluntary agencies on a selective rather than a general basis. Collectively they are representative of the interests of the public and, through registration, they have established their responsibility through years of collaboration with the Government. A pattern of organization has been developed adequate for participation in services of relief, rehabilitation, technical assistance, and self-help. To this end cooperation has been established by the agencies, shared by their constituencies, our Government, and the governments of the participating countries and their local social services. Such integration of operations assures the productive use abroad of the contributions of the public at home. The task of the Advisory Committee on Voluntary Foreign Aid, of the American Council of Voluntary Agencies for Foreign Service, and of the registered agencies, has been to assure this integration.

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[1] "The Organization of Voluntary Foreign Aid: 1939–53," by Arthur C. Ringland, *The Department of State Bulletin*, vol. XXX, No. 768, Mar. 15, 1954, p. 383.

[2] Ibid, p. 392.

The following summary tabulation from the same source indicates the relative scope of the voluntary aid operations:

United States Voluntary Foreign Aid

Summary of Contributions, Expenditures and Distribution 1939–53 [1]

]Millions of dollars]

Source of contributions	Funds	Goods	Total	Percent
Voluntary	$986.7	$516.1	$1,502.8	92.8
United States Government	19.1	57.5	76.6	4.7
United Nations—International	39.2	----------	39.2	2.5
Total receipts	1,045.0	573.6	1,618.6	100
Distribution as aid	699.1	[2] 735.3	1,434.4	88.7
Administrative services	184.2	----------	184.2	11.3
Total disbursements	883.3	735.3	1,618.6	100

[1] To June 30, 1953.
[2] Including goods purchased from cash contributions, to the value of $161.7 million.

Source: Ibid. p. 392.

American National Red Cross Operations

The American National Red Cross, which has its own charter from Congress, conducts an active and continuing overseas aid program. The total of overseas civilian relief operations during the war and postwar periods amounted to $214 million and included inter alia, food, clothing, medical and sanitary supplies, prisoner of war packages, milk for children, and ambulance and automotive equipment. The Red Cross also provided distribution facilities for substantial quantities of Government purchased supplies. Emergency relief was given in 60 countries. The table on page 54 shows the principal areas of overseas civilian aid by the Red Cross. (NOTE.—The Red Cross operates independently of the group of voluntary aid societies referred to in the preceding section.)

Red Cross Activities—Selected Data, 1939–40 Through 1953–54

Relief to overseas civilians	Grand total	1939–40 through 1946–47 [1]	1947–48 through 1953–54
1. Value of overseas civilian relief by and through the American Red Cross	$213,921,300	[2] $180,611,400	$33,309,900
2. Countries in which overseas emergency relief was given	60	60	([3])
3. Value (included in item 1) of major items distributed between July 1, 1939 and June 30, 1947 consisted of:			
Clothing		$86,000,000	
Medical and sanitary supplies		$24,000,000	
Food		$12,000,000	
Blankets and bedding		$4,000,000	
Ambulances and automotive equipment		$2,000,000	
4. Persons assisted through American Red Cross relief activities to civilians overseas	75,413,320	75,413,320	
Included were:			
Men		24,940,260	
Women		22,335,915	
Children		27,145,400	
Unclassified		991,745	
5. Channels through which relief supplies and services were made available included:			
Red Cross societies and other principal indigenous distributing agencies		124	
Refugee centers		17,100	
Hospitals and dispensaries		28,500	
Other institutions		11,400	
6. Red Cross expenditures for overseas disaster aid (included in item 1 above)	$6,230,000	$4,192,000	$2,038,000
7. Number of Junior Red Cross gift boxes shipped to children overseas (value included in item 1 above)	5,407,240	1,505,020	3,902,220
8. Number of Junior Red Cross medical, educational, and health chests containing supplies for several children (value included in item 1 above)	38,600	37,000	1,600

[1] The World War II period during which Red Cross conducted its overseas civilian war relief activities includes 1946–47 because of the extensive rehabilitation services which continued at a high level for 1 year after the cessation of fighting.
[2] Includes expenditure of $67,572,913 for Government-purchased supplies distributed through Red Cross.
[3] Data for items 2, 3, 4, and 5, not available for this period.

NOTE.—Also distributed to displaced persons were: 9,150,000 surplus prisoner-of-war packages and 12,500,000 quarts of milk given to 700,000 children.
Source: Special compilation by American National Red Cross, Jan. 27, 1955.

Other United States Sources of Foreign Aid

Other substantial contributions to the sum total of United States foreign aid include grants and services by foundations, educational institutions, individual private charities, and industrial firms and corporations. While not of the magnitudes of the Government aid programs, these private contributions are in the aggregate considerable, and for the most part, extremely effective. The technical assistance extended by United States industrial organizations has long been an important factor in overseas industrial development, while contributions from private donors and foundations have been and continue to be particularly significant in the fields of health and education.

All these nongovernmental programs have, of course, beneficial effects in the economies of the recipient countries comparable, on a proportionate scale, to those of the governmental programs, and form an integral part of United States overseas aid.

Foreign Aid Functions and Related Activities of United States Government Agencies

By Jeremiah J. Kenney

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INTRODUCTION

The foreign aid programs are so comprehensive in substance and so widespread geographically that they involve the activities of some 20 Government departments and agencies with overseas economic responsibilities.

Necessarily, duplication and overlapping result, although it should be noted that some apparent duplication is nominal only, as when two or more agencies have functions in the same general field but different specific responsibilities. The following summary description of overseas economic functions of the interested agencies indicates some of these areas and suggests where possible corrections might be made for improved organization and increased effectiveness in operation, by transfer or elimination of functions, or otherwise.

While these departments and agencies have direct statutory responsibilities for foreign aid or overseas economic activities, the Departments of State and Defense and the Foreign Operations Administration having the widest scope of duties, a considerable proportion of them also perform certain functions in connection with foreign aid programs as a result of a policy determination by the President that "the Director of the Foreign Operations Administration should take full advantage of the advice and assistance available in other agencies," and "should coordinate his operations with related operations in other agencies." (Letter of President, dated July 1, 1953, to heads of Federal agencies relative to Reorganization Plan No. 7.)

Set forth below are the principal responsibilities carried by the various departments and agencies of the United States Government with respect to our overseas economic operations.

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I. Foreign Operations Administration

The Foreign Operations Administration is an operating agency with responsibility for programs which are wholly economic and almost wholly overseas. Its Director is responsible for supervision, general direction, and coordination of all foreign assistance operations, including military and economic aid, under policy guidance from the Secretaries of State, Defense, and Treasury. The agency operates and conducts almost all of the foreign assistance programs (as authorized by the Mutual Security Act of 1954, 68 Stat. 832).

These programs fall into seven major descriptive categories.[1]

(1) *Mutual defense assistance.*—Covers programs of military equipment and training administered primarily by the Department of Defense and coordinated with other aid activities by the Director of the Foreign Operations Administration.

(2) *Direct forces support.*—Encompasses programs designed to make possible the creation or maintenance of a certain level of military forces by providing or paying for goods or services that physically reach or benefit the forces concerned. These programs are now administered by FOA.

(3) *Defense support.*—Includes programs administered by FOA designed to sustain and increase military effort by helping to create economic strength and stability in the recipient country. The term is synonymous with "development assistance" in countries not having a military program.

(4) *Technical assistance.*—A prime responsibility of FOA, involves sharing of American knowledge, experience, techniques, and skills with the people of the less developed areas of the world in order to help them to further their economic development and raise their standards of living. Technical assistance (also includes technical cooperation, point 4, etc.) consists largely of teaching, training, exchange of information, and technical guidance on specific programs. According to FOA definition, few supplies or equipment are needed in this program other than those required for effective teaching and demonstration purposes.

(5) *Development assistance.*—Includes programs and projects designed to assist and promote economic development or to create and maintain economic and political stability. These activities often supplement technical assistance programs by providing supplies, commodities, or funds for accelerated economic development.

[1] See United States Government Organization Manual. 1954–55.

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(6) *Relief, rehabilitation, and other multilateral programs.*—FOA administers such programs as relief and rehabilitation in Korea and payment of ocean freight subsidies. It coordinates operating aspects of international programs dealing with refugees and migration, including the United Nations Children's Welfare Funds and others. It assists NATO activities, gives support to the Organization for European Economic Cooperation, participates in the European Payments Union, and in joint control arrangements like Austria and Berlin, and administers Irish counterpart funds, as well as administering provisions of the Mutual Defense Assistance Control (Battle) Act (65 Stat. 644; 22 U. S. C. 1611–1613c).

(7) *Emergency programs.*—FOA has also undertaken fiscal and other responsibilities for certain emergency programs as directed by the President. These have included wheat to Pakistan, emergency aid to Bolivia, food parcels to residents of East Germany, evacuation of North Vietnam and the Tachen Islands, etc.

FOA administers certain other programs, sometimes involving several of the above categories, in connection with its principal activities. These programs include: Assistance to small business, encouragement of free enterprise and private investment, investment guaranties, programs to strengthen free labor unions overseas, export and sale of surplus agricultural commodities, and plans for use of counterpart funds generated by any phase of the aid program.

Organization at Home

To administer these diversified programs, the agency is organized on a regional basis with supporting technical and management staffs, closely paralleling the organization of the Department of State. The specialist knowledge in fields such as commodities, trade and investment, transportation, industrial resources, public services, etc., is provided within FOA by various offices under the Deputy Director of Technical Services. Officers on the country desks and in the regional offices provide the specialized knowledge of the individual countries and areas.

The FOA uses a number of techniques, both in Washington and overseas, for advancing its programs, particularly in respect to technical assistance and economic development. Chief of these is the contract between FOA and private firms, Government agencies, American universities, or other groups. These contracts are intended to simplify administration, ease recruiting problems, extend the person to person relationship underlying technical assistance, and encourage the eventual continuation of the programs on a nongovernmental basis.

Through the use of contracts (or interagency agreements in the case of other Government agencies) FOA advances both its domestic and its overseas activities. Its domestic contracts involve technical "backstopping" of its overseas activities and also the training of foreign nationals in this country. Overseas, contract personnel carry out many of the foreign aid projects and often extend a kind of on-the-job training for foreign nationals in connection with the projects.

Organization Abroad

Overseas, the Foreign Operations Administration maintains in about 50 countries its own personel system which parallels that of the Department of State, although its duties may be described as primarily operational rather than policymaking or diplomatic in nature.

In only a very few scattered cases is the FOA mission staff fully integrated with the economic staff of the embassy, although the work of the two groups is coordinated, to a greater or lesser degree, in many countries. The relations between the FOA mission and the embassy vary greatly from country to country depending more on the personality of the chiefs of each group than on the organization. In many cases, FOA's overseas arrangements include separate provisions for administrative support, such as communications, personnel, pay, etc., which duplicate similar functions performed by the overseas missions of the Department of State.

Multiplication and duplication of overseas staffing and administrative arrangements has been brought to the attention of the task force and its staff on many occasions and in connection with many countries.

Discussion

The functions of the Foreign Operations Administration cut across the domestic functions of many other agencies. To prevent duplications in these areas, the President has directed FOA to utilize advice, assistance, and support from the qualified agencies of the Government on a reimbursable basis. In following this directive, FOA has entered into agreements with Departments like Agriculture, Interior, Labor, and Health, Education, and Welfare, for the provision of technical personnel and assistance. However, FOA has also sought to expand its own staffs in many of these fields and has often insisted that personnel sent overseas be placed on FOA personnel rolls rather than left on a department's roster.

FOA programs in connection with small business and trade and investment involve direct dealing with American firms and individuals on a domestic basis, which duplicates domestic functions which are

the statutory responsibility of other agencies, such as Commerce or the Small Business Administration.

In the case of direct forces support, FOA is operating programs which have direct military objectives and are closely allied with the military programs administered by the Department of Defense, though direct forces support may include many economic facets. Since this type of program has clear military objectives, its administration and operation could more effectively be handled by the Department of Defense in connection with its responsibilities for military assistance, except where it involves common-use items which have more economic than military impact.

The regional staffs of FOA in Washington have functions which are closely parallel to those of the regional bureaus of the Department of State. Likewise, the FOA Office of the Deputy Director for Technical Services has functions which in many respects are the same as those of the Bureau of Economic Affairs of the State Department.

FOA administers a broad technical exchange program, as an adjunct of its aid programs, which closely parallels the international education activities of the Department of State. Unified operation of the administrative phases of these programs would result in increased effectiveness and economy.

Overseas, more economical and effective operations would result from an integration of the staffs of FOA, the Department of State, and other agencies in each country, permitting the elimination of duplicate administrative services. Such an integration would strengthen the relations of the United States in each country by eliminating multiple voices. Provisions for a strengthened foreign officers' corps would also improve the overseas organization and effectiveness of the foreign aid program.

Improvements in these areas would be facilitated by a transfer of the major functions of FOA to the Department of State.

Certain programs of FOA appear to have advanced to the stage where the recipient countries can continue them without United States aid and other programs have achieved their objectives to the extent that seems feasible. These include the productivity and economic aid programs in almost all of Europe which can be completely terminated without impairing the strength of our European allies, and should be. Programs for payment of ocean freight on the shipments of voluntary relief agencies, while effectively administered, may encourage too much Government dependence on the part of private groups and extend beyond the usual scope of Government activity. They too should be eliminated.

II. Department of State

The Department of State has primary responsibility, under the President, for the formulation, execution, and continual review of United States foreign policy, and for guiding and coordinating its execution by other agencies. Its responsibilities are almost wholly overseas in nature, but only partly economic. In carrying out these responsibilities, the department represents the United States in international organizations, conducts negotiations with other governments, and collects, analyzes, and disseminates data used in developing foreign policies and programs.

The broad responsibilities of the State Department noted above include many specific functions bearing on foreign aid programs. Some of these include:

1. *Development, guidance, coordination, and execution of aid policy.*—The Department of State looks over the shoulder of FOA at each stage of development and operation, having, in effect, a veto over program operations when they impair policy objectives. General guidelines for development of the FOA program for each country are worked out by both agencies. State also joins FOA in a two-platoon presentation of the program before the Bureau of the Budget and the Congress. The department is also represented on the board of directors of the Institute of Inter-American Affairs, FOA agency for Latin America.

State's policymaking duties extend to lending activities of the Export-Import Bank, release of counterpart funds generated by foreign aid grants, foreign exchange rates or restrictions which may affect the amount of counterpart, and use of foreign currencies acquired by the United States Government. The programs for disposal of surplus agricultural commodities abroad are subject to policy guidance and coordination from State, as are programs for disposal of other surplus property abroad, or for the purchase of raw materials or commodities for stockpiling.

2. *Negotiations with other governments.*—These policy decisions, as well as all foreign aid programs, are put into effect by means of various international agreements, all of which are negotiated by the Department of State. Treaties and agreements on reciprocal trade; double taxation; friendship, commerce, and navigation, also negotiated by State, are important in overseas economic operations.

3. *Representation in international organizations and in foreign countries.*—State Department responsibilities in connection with United States membership in international organizations also involve

a number of foreign aid and economic programs, such as the review of applications of foreign governments for loans from the World Bank; the actions of the International Monetary Fund; the economic agencies of the U. N.; other international agencies in fields of transportation, communication, trade (including GATT); and the activities of NATO in commodity and economic fields.

Our representation in foreign countries involves dealing with foreign governments on all phases of foreign aid and economic operations including Government programs, problems created by overseas operations of American companies, international aspects of patents, trademarks, copyrights, and restrictive business practices, and travel and custom regulations.

4. *Collection of data.*—The collection, analysis, and dissemination of economic and political information is, of course, essential in the development and execution of policy in overseas operations and is an important activity of the Department of State. In addition to its importance to the overall foreign aid program, this function has specific meaning in connection with the administration of the Mutual Defense Assistance Control (Battle) Act, and for the encouragement and protection of American private investment abroad.

In addition to its economic responsibilities in connection with foreign activities, the Department of State administers certain other programs not of a direct economic nature which, however, are closely related to some aspects of foreign aid. Chief of these is the administration of the principal features of the United States Information and Educational Exchange Act of 1948 (the Smith-Mundt Act, 62 Stat. 6, 22 U. S. C., 1431) and related legislation. It develops and conducts, either directly or by agreement with public or private agencies, programs for bringing key persons from other countries to the United States for study, teaching, research, or specialized practical training, and for sending Americans abroad for similar purposes. This function is discharged by the International Educational Exchange Service of the department under the supervision of the Assistant Secretary for Public Affairs.

Organization at Home

In carrying out all these responsibilities in economic fields, the Department of State employs approximately 220 full-time economic specialists at an annual cost of more than $2 million plus an additional 192 officers on a part-time basis. Some of these positions are paid for out of funds appropriated by the Mutual Security Act, including $417,800 for 51 positions devoting full time to work on the Battle Act.

These economic specialists are found in many units of the Department. Most of the country desks, regional offices, or bureaus in-

clude economic specialists who spend at least part of their time on the foreign aid or mutual security programs. These activities are coordinated in the Department by a special assistant for Mutual Security Affairs and a small staff.

The general, overall economic activities of the Department are concentrated in the Bureau of Economic Affairs, consisting of 128 officers, headed by an Assistant Secretary. Most of these officers are specialists, or have close contact with specialists, in some economic or technical field, such as commodities, trade and investment, finance, transportation, treaties, etc. They provide, or secure from the appropriate agency, the specialist knowledge as to the subject while the economic officers attached to the regional offices and bureaus contribute specialized economic knowledge of individual countries or areas.

Organization Abroad

The Department of State maintains diplomatic missions in 77 countries overseas, headed in most cases by an ambassador or a minister. The foreign aid mission in the foreign country has duplicated some of the functions of the embassy and may have infringed on the authority of the ambassador as the chief representatitive of the United States in the country. Consolidation of these overseas units has already been discussed.

Discussion

The Department of State is responsible for providing policy guidance to all overseas operations of the Government, including the foreign aid program. At the point this responsibility stops and the Director of Foreign Operations Administration's function of coordinating foreign aid program starts, there is an area where delicate adjustment is needed if a wasteful overlapping or a yawning gap is to be avoided. This problem will be largely eliminated by the recommended transfer of remaining FOA functions to the Department of State.

The economic activities of the Department of State overseas, particularly as they relate to the collection of data, involve the functions, responsibilities, and requirements of other Government agencies, which may be opposing or conflicting. These requirements may best be resolved, and organizational duplications overseas eliminated, through the development of a broadened foreign service staff geared to meet the total needs of the Government and to mesh the separate needs of different agencies with harmony.

Both State and FOA have conflicting responsibilities with respect to certain international organizations, State having overall responsibility but FOA exercising some authority with respect to OEEC, certain U. N. groups, and others. These duplications would be eliminated by placing all responsibility in the Department of State, which now discharges the bulk of these duties, and has the general responsibility for dealing with international groups.

It is probable that the many day-to-day duties of the Department of State in providing policy guidance to the foreign aid program generally would be simplified and more effectively discharged if the administration and operation of the foreign aid program were a responsibility of the Department of State. This would also permit economical consolidation of the technical economic staffs of both organizations into a single unit which would reduce costs without impairing effectiveness.

III. Department of Defense

The Department of Defense, together with the Department of State and FOA, make up a triumvirate responsible for guiding and executing the bulk of the foreign aid and other overseas economic programs of the Nation.

The Department of Defense administers the mutual defense assistance portion of the foreign aid program, subject to the coordination powers exercised by the Director of FOA (Executive Order 10575, November 6, 1954). This includes the provision of military end-items to foreign countries from existing United States stocks, domestic production, or offshore procurement; training foreign personnel in the use and maintenance of military equipment; United States contributions to the NATO military public works program (infrastructure) and development abroad of special weapons and additional military production facilities.

Military guidance and advise is supplied by the Department of Defense in connection with FOA administered programs involving defense support and direct forces support including grants of common-use items such as fuel, clothing, food, and medical supplies to the military forces of friendly countries.

Many of the national defense activities of the Department of Defense also consist of overseas economic activities, with an impact on the foreign aid program. These include: Procurement abroad for United States troops, payment of salaries for troop overseas, construction of overseas bases, and general military activities overseas in areas such as Korea and Germany, and certain occupied areas.

In Washington, the foreign aid functions of the Department of Defense are directed by an Assistant Secretary of Defense for International Security Affairs, who coordinates the various responsibilities of the military services. In general, however, the operating responsibilities are integrated with the other activities of the far-flung military services.

Overseas, the responsibilities of the Department of Defense are met by military assistance advisory groups (MAAG's) in the countries receiving military assistance, by special military missions, and by military attachés in countries throughout the world.

Discussion

Direct military programs involved in our foreign aid activities, such as portions of direct forces support, have not in the past been

administered by the Department of Defense despite their military nature. Responsibility for administering these programs should be transferred to the Department of Defense so they can be directly related to the military assistance programs.

The Department of Defense should administer all the military aspects of our foreign aid programs, and provide the military or defense rationale for the defense support programs, which are designed to provide the economic base for military strength.

The administration of major segments of the foreign aid program by the Department of Defense has raised a number of problems involving the coordination of the defense aspects of the program with the technical and economic operations under FOA. Under the terms of the Mutual Security Act of 1954 and the Presidential order (Executive Order 10575, and letter both dated November 6, 1954), the Director of FOA "is responsible for coordinating all operations of the foreign assistance programs." Whether one of the advocates can adequately coordinate the often diverse and even conflicting activities is open to question.

Many of the offshore procurement contracts provide case studies of these difficulties, where the conflicting military, economic, and political objectives were resolved and coordinated only after long delays. The fiscal aspects of this coordination have proved difficult in the past, for example, as to determination of obligations and pricing policies. Resolution of these differences in viewpoint has not proved easy in the past.

A shift of the responsibility for the economic and technical aspects of the program to the Department of State would not worsen the coordination, and, by the elimination of one additional viewpoint, may improve it. The development of an independent organization for coordination is discussed in a separate paper.

IV. Department of the Treasury

The foreign aid and economic functions of the Department of the Treasury stem from its general financial and monetary responsibilities. All its functions are economic both at home and abroad, where the Treasury is responsible for development of financial aspects of foreign programs. It collects, analyzes, and disseminates world financial data; provides financial advice to foreign operating agencies of the Government; and administers controls over foreign financial transactions. foreign assets, and imports under the Trading With the Enemy Act.

The foreign and international responsibilities of the department are handled in Washington by the Office of International Finance within the Office of the Secretary. There is separate statutory authority of a system of Treasury attachés overseas. (Gold Reserve Act of 1934.)

Discussion

The Department of the Treasury provides policy guidance to the Foreign Operations Administration, the Department of State, and other agencies with respect to fiscal and monetary considerations. This does not involve any duplication or overlapping. Its functions in this report would not be greatly affected by any organizational changes involving the foreign aid program.

Some duplication or overlapping may exist overseas as a result of the Treasury attachés, although it is of a small importance.

V. Department of Commerce

The Department of Commerce is concerned exclusively with economic matters, but its overseas functions represent a small segment of its total responsibilities. Its major overseas functions are those arising from its statutory duty to foster, promote, and develop the foreign commerce of the United States including overseas investments. Other overseas responsibilities include: a dominant role within the Government in formulating international transportation policy; administration of export licensing controls; collection, analysis, and dissemination of world commercial data; and guidance for Government-industry participation in international trade fairs. The program for the promotion of travel, authorized in the Mutual Security Act of 1954, has been assigned to the Department by the President. (Executive Order 10575, November 6, 1954.)

Organization at Home

The international trade and commerce functions of the department are largely discharged through the Bureau of Foreign Commerce, under an Assistant Secretary for International Affairs. The bureau includes the following organizational units: Foreign Services Operations Staff; Foreign Economic Development Staff; Office of Economic Affairs (which is divided into geographical divisions roughly parallel to those in the State Department), International Resources Staff, and Office of Intelligence and Services. Through its Office of Export Supply, the bureau contributed to the administration of the Battle Act. Other agencies of the Department of Commerce, including the Civil Aeronautics Administration, Maritime Administration, and the Coast and Geodetic Survey, also have relatively minor overseas functions.

Organization Overseas

From 1914 to 1939, the Department of Commerce maintained its own overseas staff of commercial attachés and trade commissioners. In 1939, this staff, together with the agricultural attachés, was merged with the foreign service of the Department of State. In December 1954, new arrangements were worked out giving the Department of Commerce increased administrative control over trade commissioners overseas. However, the department still relies on the foreign service personnel of the Department of State to perform its overseas functions.

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Assistance to FOA

In addition to carrying out its own foreign responsibilities, the Department of Commerce provides, on a reimbursable basis advice, assistance and technical support in large measure to FOA in connection with the foreign aid program. In the 1955 fiscal year, it is expected that these reimbursements will cover some 300 positions and exceed $2,900,000. The services provided the foreign aid programs by Commerce include the assignment overseas of experts and support for FOA Washington, from the Bureau of Public Roads, the Bureau of Foreign Commerce, and the Civil Aeronautics Administration. The Bureau of Census furnishes international trade statistics to FOA; the Business and Defense Services Administration assists in providing technical counsel, publications, and engineering services.

Discussion

The activities and functions of FOA in the promotion of trade, travel, and investment, investment guarantees, administration of the Battle Act, and services to American small business clearly overlap with or duplicate functions of the Department of Commerce in these fields, both with respect to organizations in Washington and abroad.

More effective and economical operation would undoubtedly result from the elimination of these duplications by lodging full responsibility in the Department of Commerce which has the primary responsibility.

Moreover, the responsibilities of the Department of Commerce overseas may lead to conflict or duplication with the duties of other departments, such as Agriculture in connection with the foreign trade in processed agricultural commodities. Since reliance by Commerce on the overseas personnel of the Department of State has not given satisfactory results, Commerce has, at times, found itself unable to secure the special purpose information it requires. A strengthened and broadened foreign service officer group, responsive to all the overseas needs of United States agencies, would go a long way toward eliminating these conflicts and providing more effective service.

VI. Department of Agriculture

The Department of Agriculture is engaged in economic programs almost entirely, but only a minor portion of its functions involve overseas activities.

Its foreign responsibilities include marketing and bartering surplus agricultural products, developing foreign markets for United States agricultural products, administering United States operations under the international wheat and sugar agreements, administering the agricultural attaché system, collecting world agricultural data, and enforcing quarantines and requirements on imports and exports.

Organization for Foreign Operations

In Washington these responsibilities of the Department are carried out and directed by the Foreign Agricultural Service, under an Assistant Secretary for Marketing and Foreign Agriculture, and by the Commodity Stabilization Service, which is responsible for procurement of agricultural commodities for FOA, for purchase abroad of commodities needed for domestic and foreign requirements, and for administration of the international commodity agreements.

From 1930 until 1939, the Department had a separately administered foreign service, but in 1939 it was integrated, along with the Commerce attachés, into the foreign service of the Department of State. The Agricultural Act of 1954 returned the agricultural attaché service to the Department of Agriculture. A total of 137 Americans and local employees currently staff the permanent overseas missions of the Department.

Assistance to FOA

The Foreign Operations Administration calls on the Department for technical assistance and support in connection with a wide range of agricultural programs, and for certain procurement activities as noted above. For the fiscal year 1955, FOA reimbursements to the Department are estimated to cover 170 positions at a cost of $1,108,000, involving virtually all of the various bureaus and services of the Department.

Discussion

When it comes to providing technical assistance, the United States Department of Agriculture has had much experience since most of the agricultural extension programs involve the provisions of technical assistance to farmers. FOA makes use of this experience by calling on the Department of Agriculture in many ways. This does not involve a duplication since the FOA programs are overseas and the programs of Agriculture are domestic, except that FOA may recruit for overseas under its own personnel system rather than secure personnel on a reimbursable basis.

The agricultural attaché service was resorted to the Department of Agriculture because of dissatisfaction with the results achieved through the foreign service of the State Department. Whether independence of the agricultural attaché from State will bring better results cannot be determined after so short a period of operation. In any event, the Department of Agriculture will continue to require services from State Department personnel in areas of the world where there are no agricultural attachés.

Responsibility for operations under the Agricultural Trade Development and Assistance Act of 1954 (68 Stat. 454) is now exercised by both Agriculture and FOA, with policy guidance from State. Placing FOA responsibilities in State will simply and improve the admittedly complex administration of this act.

VII. Department of Labor

While the Department of Labor is responsible for a number of economic programs, they are of relatively small magnitude overseas. Its overseas functions do include, according to the department, advice on the implications of international labor developments; analysis of the impact of domestic policy on labor aspects of foreign affairs; operation of programs affecting labor which are designed to implement established foreign policy; development and analysis of information on labor developments in foreign countries.

Organization

The functions of the Department of Labor in Washington are carried out by the Office of International Labor Affairs, under the supervision of the Assistant Secretary of Labor for International Affairs, and by the Division of Foreign Labor Conditions of the Bureaus of Labor Statistics.

Overseas, the labor attaché and Foreign Service labor reporting programs are carried on by the Foreign Service Corps and are integrated with the other aspects of the foreign service.

Assistance to FOA

The Department of Labor also provides advice, assistance, and technical support to the Foreign Operations Administration on a reimbursable basis for a number of overseas programs in the general field of labor.

These programs have included: labor-management relations, trade-union organization and operations, labor statistics, productivity, industrial and apprenticeship training, and Government labor administration.

For the current fiscal year, these assistance and support activities involved 87 domestic employees, 23 serving overseas, and programs for training foreign nationals in the United States, at a total cost of $1,036,000.

Discussion

The programs of FOA in the labor field overlap with those of the Department of Labor to a considerable degree. Duplicate functions

and responsibilities result from a determination by the Congress that it shall be the United States policy to strengthen free labor unions abroad. Both agencies are engaged in operations to carry out and further this policy which overlap or duplicate the other. Both Labor and FOA have labor advisory committees with largely similar membership. The duplications can be eliminated, without impairing the effectiveness of the program, by concentration of labor activities within the Department of Labor.

VIII. Department of the Interior

The Department of the Interior is not involved in foreign aid except incidentally, but it has overseas responsibilities in connection with the economic development of the Territories and island possessions of the United States, and the Trust Territory of the Pacific. Aside from these areas, which are not generally considered in connection with foreign aid programs, the Department conducts studies and collects information on the production, distribution, and consumption of foreign mineral commodities.

Within the Department of the Interior, the Office of Territories exercises the United States responsibilities for the Territories, and the Bureau of Mines is concerned with information on foreign mineral commodities. The Office of Territories maintains its own staffs in the Territories involved. The other overseas responsibilities are discharged through the economic reporting function of the Department of State.

The Department does provide advice, assistance, and technical support, on a reimbursable basis, to FOA in connection with foreign aid projects within the Department's area of competency. In the current fiscal year, this involves service overseas of 159 persons in the following fields: Reclamation, 80; geological survey, 49; mines, 15; land management, 9; and fish and wildlife, 7. The annual cost of these services is $3,500,000, including salaries, expenses, administrative costs, and training of foreign nationals in the United States.

Discussion

There is no duplication between the overseas economic functions of the Department of the Interior and those of any other agency, although FOA has placed on its personnel rolls, technical experts from Interior who might more effectively be secured on a loan basis.

IX. Department of Health, Education, and Welfare

Primarily responsible for Federal programs in the fields of health, education, and welfare, the Department, through the Public Health Service, does have a few limited overseas functions, principally relating to international health activities, medical examinations of prospective immigrants to this country, and medical advice to other Federal agencies.

While these overseas economic activities are extremely limited, the Department does provides advice, assistance, and technical support to FOA on a considerable scale, in connection with a number of programs in the fields of public health, education, and social services. The costs of such advice and assistance is borne by FOA and is estimated to amount to $7,730,000 in the current fiscal year. The Department receives $2,845,000 for salaries and expenses of 243 medical and sanitation experts of the Public Health Service who are overseas in connection with FOA programs, $891,000 for 138 positions providing technical support in Washington for foreign aid programs in the fields of health and education, and $156,000 for 23 positions in the Social Security Administration covering assistance in maternal and child welfare programs. In addition, the Department administers programs for FOA and other agencies involving the training in these fields of foreign nationals in the United States, at an estimated cost of $4 million in the current year. These activities are coordinated within the Department by a Coordinating Officer for International Relations.

Discussion

There is no evidence that the overseas functions of HEW duplicate those of any other agency, although programs of both FOA and State in the field of education must be carefully administered to avoid duplication with the activities of the United States Office of Education.

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X. United States Information Agency

The United States Information Agency does engage almost entirely in overseas operations through a vast network of field offices. The basic function of the agency is to submit evidence to the people of other nations that the objectives and policies of the United States are in harmony with and advance their legitimate aspirations for freedom, progress, and peace. The Agency does this by utilizing a wide variety of media to explain the policies and report the actions of the United States and relate them to the local problems and hopes throughout the world.

In Washington, the USIA is organized on a country and regional basis, with supporting technical and administrative services, which parallel the organizations of the Department of State and FOA.

Overseas, the USIA maintains field offices in 79 countries which are attached to the embassies and consulates of the United States.

Discussion

The responsibilities of this agency do not duplicate those of other agencies in Washington or overseas. Its activities are carried out in consultation with appropriate officials of State, FOA, and other agencies. The agency has a separate overseas staff whose activities are coordinated by the United States ambassador or minister in each country.

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XI. Export-Import Bank

An independent agency of the United States, the Export-Import Bank is an overseas economic agency of the Government. It makes foreign loans for commodity exports and economic development; acts as loan agent for FOA with respect to economic development loans, and the Office of Defense Mobilization with respect to materials development loans. It insures exports against the risks of confiscation, expropriation, etc.

The bank also serves as the contracting agent for the investment guaranty program of FOA.

Discussion

In general, the bank acts as agent for FOA in respect to foreign loans and this arrangement would not be affected by the recommendations of the task force with respect to FOA.

Both FOA and the Export-Import Bank have overlapping responsibilities in connection with loans overseas. All responsibility for foreign loan administration should be concentrated in the bank with is specifically set up for this purpose.

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XII. Office of Defense Mobilization

The Office of Defense Mobilization has economic functions which have an overseas impact. It directs and controls the mobilization activities of the executive branch of the Government, including the acquisition and maintenance of adequate reserves of strategic and critical materials and it directs the General Services Administration with respect to the purchase, storage, refinement, rotation and disposal of the stockpile. Since well over half of the stockpile, involving hundreds of millions of dollars, has been, and is being, procured overseas, this is a program involving foreign economic activities of sizeable proportions, the actual dimensions of which, however, are classified information.

Its overseas economic functions are not duplicated by other agencies of the Government.

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XIII. General Services Administration

While not engaging directly in any foreign aid program, the General Services Administration, through its Emergency Procurement Service, does serve as a procurement agent both for FOA and for ODM in connection with foreign aid and economic activities. In the 1954 fiscal year, the Emergency Procurement Service received $763,400 in reimbursement from FOA for the administrative costs of its purchasing operations, covering 158 positions, including two in London, and 29 in Tokyo. The reimbursement is calculated on the basis of 1½ percent service charge against all FOA requisitions to purchase.

Its overseas economic functions are not duplicated in any other agency.

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XIV. Limited Overseas Activities

Many other agencies of the Government are engaged in programs which involve overseas economic operations of a less general nature. A few of the most important are listed below:

Atomic Energy Commission

The Atomic Energy Commission, as a result of its purchases of ores and commodities overseas, engages in economic operations abroad, and maintains some personnel in key locations overseas. The details of its overseas economic operations are classified information.

The Central Intelligence Agency

While engaged in securing, correlating and disseminating national security intelligence and performing certain common intelligence services, the CIA does engage in operations abroad which undoubtedly involve economic considerations. These activities are classified information.

The American Battle Monuments Commission

This group erects and maintains national cemeteries and memorials in Europe and elsewhere outside the United States. It has been engaged in an overseas construction program of some magnitude.

The Veterans Administration

The Veterans Administration fulfills its obligations to United States ex-servicemen when they are overseas, as it does to those in the country. In the Philippines, for instance, it is an activity of some size.

Department of Justice

While not generally involved in either economic or overseas matters, the Department of Justice does have some specific responsibilities overseas which are of an economic nature. These chiefly involve the Office of Alien Property which exercises the functions of the Attorney General in vesting or controlling foreign-owned property, the func-

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tions formerly exercised by Treasury relating to World War II Foreign Funds Control, and certain funds relating to the settlement of intercustodial disputes concerning vested enemy property.

These functions do not overlap or duplicate any performed by other agencies of the Government.

Post Office Department

The Post Office Department has certain responsibilities in connection with the overseas transportation of mail, membership in the international postal union, and negotiation of postal treaties with foreign governments.

None of these activities, however, are of major economic consequence, and, are not duplicated in other agencies of the Government.

XV. Miscellaneous Independent Agencies

While not directly engaging in overseas economic operations, a number of other independent agencies of the Government provide assistance, advice, and technical support, on a reimbursable basis, to FOA in connection with the Foreign Aid program. These include:

The Federal Communications Commission.—Reimbursed $39,000 for 7 positions in connection with the training of foreign nationals.

The Housing and Home Finance Agency.—Reimbursed $66,900 for 8 positions for training services, technical consultation and support in providing training for foreign nationals in appropriate fields.

XVI. General Functions

A great many of the agencies of the United States Government also have responsibilities in connection with interagency or interdepartmental boards, commissions or organizations which have an effect on foreign aid or other overseas economic operations such as the Trade Agreement Committee, the National Advisory Council on International Monetary and Financial Problems. In addition, there are 72 multilateral international organizations, such as UN and OAS, in which the United States participates with varying responsibilities exercised by many United States agencies.

Participation in these groups is an important activity of the various United States Government agencies and while they are vital in the development of Government-wide policy, or international objectives, their participation does not generally involve administration or operation of foreign aid programs and thus these groups are not detailed here.

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XVII. Summary Conclusions

Intragovernmental relationships are so broad, comprehensive, and complex that some oversimplification is necessary to isolate and define the areas in which clarification of function and improvement in organization can most usefully be attempted. The following observations are subject to this qualification.

Foreign Aid Overlapping With Other Government Functions

The foreign aid programs in their totality have gone through so many changes in 6 years of operation that their relationships with functions and operations of existing Government agencies are especially complex. Following are some of the functional areas in which some improvement appears possible.

1. *Original functions largely fulfilled.*—In the initial stages our foreign aid programs, while large, had fairly simple and well defined objectives—namely, emergency personal relief and rehabilitation, and physical reconstruction of war damaged or destroyed production facilities. In addition, the programs involved the purchase and shipment, as an interim measure, of large quantities of raw materials and foodstuffs. The operations were principally in Europe. These operations have been completed and it would appear appropriate and timely to consider whether the organization overseas and at home which had been charged with them should not only be disbanded (already provided for by Congress) but not replaced.

2. *Original functions enlarged and extended.*—Although the original program involved little or no material duplication with existing Government agencies, the program actually carried out involved a wide measure of duplication. Some examples are: (*a*) trade promotion, duplicating the operations of the Departments of State and Commerce; (*b*) economic reporting, also a function of the Departments of State and Commerce; (*c*) liberalization of international trade—a concern of several agencies, particularly the Department of State; (*d*) promotion of private investment overseas—a duplication of the responsibilities of the Departments of Commerce and Treasury; (*e*) various incursions in the areas of military assistance, obviously the responsibility of the Department of Defense; (*f*) administration of export controls, a primary responsibility of the Department of Commerce; (*g*) various services on behalf of small business, already the concern of the Small Business Administration and the Department of Commerce; (*h*) numerous activities in the field of labor

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relationships, obviously the responsibility of the Department of Labor; (*i*) various technical services impinging on the established functions of the Departments of the Interior, Agriculture, Commerce and others; and doubtless a good many more.

3. *Functions effectively discharged by international or other agencies.*—Still retained at least nominally and organizationally among FOA functions are a number which are effectively the responsibilities of other agencies. Examples include contributions to the United Nations for assistance to refugees and migrants, children's welfare, etc. There would appear to be room for considerable improvement in this area.

4. *Technical assistance.*—This program function is being discussed in detail in a separate study. It is sufficient here merely to note that very substantial overlapping and confusion exists in numerous functions included in the program—for example with the Department of State in connection with the exchange of persons. For technical services, FOA has carried out Presidential instructions to utilize the facilities available from other government agencies so far as practicable. At the same time, it has set up its own technical staffs in some fields which would appear to constitute a measure of duplication.

5. *Shift of emphasis from economic to political objectives.*—At the outset, the foreign aid objectives were primarily, if not wholly, economic. Reconstruction of the physical, commercial, agricultural, and financial damage and dislocation resulting from the war was the overall purpose. Political objectives were distinctly subordinate—indeed were on occasion vigorously and indignantly denied. Subsequently, however, more and more emphasis was placed on political aspects, and the aid program as a whole has now developed into an acknowledged instrument of political as well as economic foreign policy. This automatically brings the program more and more closely within the purview of the Department of State.

6. *Shift of emphasis to defense objectives.*—The objectives of the foreign aid program, in large measure, have also shifted from primarily economic goals to the present point where military or defense objectives play a major role. In general, this shift in objective has resulted in a major shift of responsibility to the Department of Defense for operation of the military programs, with certain exceptions as had been noted in the case of programs for Direct Forces Support.

Basic Foreign Aid Functions

If the foreign aid programs are considered in their simplest forms, shorn of the divergent functions which have arisen in the last 6 years, the basic responsibility appears to be that of management and coordination of foreign aid activities both in Washington and in the field,

plus such operations of a technical nature which cannot be appropriately performed by other agencies of the government under the supervision of the foreign aid management.

Duplication and Overlapping in Other Overseas Economic Operations

Apart from the foreign aid program, certain duplications occur in other aspects of the overseas economic activities of the government. This may best be illustrated by the responsibilities of Commerce for promotion of foreign commerce and Agriculture for promotion of agricultural trade overseas, and in both cases overlapping with the Department of State. Economic and politico-economic reporting is an example of considerable confusion among the Departments of State, Commerce, Agriculture, Labor, Defense, and possibly others.

Organizational Questions

Certain other organization questions, while not directly relevant to the subject of this paper, do arise immediately from the major functional shifts which have taken place during the life of the ECA and its successor agencies. One point of great importance is that as objectives have changed so too have personnel requirements, but without a corresponding change in the actual staff or type of personnel to the same degree. To the extent that personnel to meet new requirements have been taken on, they have tended to be in addition to rather than in replacement of existing staff. Thus a top heavy and somewhat distorted staff has developed in spite of shortages of trained technical personnel in some sections (e. g., controllers staff, engineers, bankers, export specialists, etc.).

A major area of organizational duplication also arises because of the closely parallel but generally separate organizations maintained both by the Department of State and the FOA in some 50 countries throughout the world. While coordination between these separate overseas groups does generally exist, there is very little integration, which if achieved would result in economies and increased effectiveness.

Coordination of Overseas Programs

By Charles A. H. Thomson

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Coordination of Overseas Programs

The problem of coordination of United States Government policies and operations in the field of overseas economic activities transcends the particular concerns of internal coordination of the programs of foreign assistance, or the coordination of foreign assistance with military assistance. Policies and operations of an economic nature also involve the relations of trade policy, tariff policy, control and stockpiling of strategic materials, and a host of related considerations.

Over the past 10 years, a variety of agencies and offices have grown up around the Presidency to deal with these matters, supplementing the traditional instrument of the Cabinet and the later-established organization of the Executive Office of the President. As at present organized, these offices and agencies deal with various aspects of the total problem of economic policy and operations, but there is no single place short of the Presidency itself where they are brought together. A review of these offices and their responsibilities will set the stage for analysis of the problem in its present form.

The organization of the White House office itself reflects this distribution of functions and the difficulty of distinguishing them clearly. Some lack of clarity seems unavoidable, since the functions themselves overlap. White House officials concerned in the foreign economics operations include the special assistant for National Security Affairs (Mr. Anderson); the Administrative Assistant to the President chiefly concerned with economic matters (Mr. Hauge); the special assistant concerned with informational matters (Mr. Nelson Rockefeller); and the recently appointed chairman of the Council on Foreign Economic Policy (Mr. Dodge). Each of these officers deals with several aspects of our foreign economic policy, but no one officer is concerned with all of them.

Aside from these regular officials on the President's own staff, two special appointees deal with areas which involve certain phases of foreign assistance. These are Mr. Clarence Randall, who is responsible for leadership, on behalf of the President, for executive branch trade policy development (looking in the main to legislation), and Mr. Clarence Francis, Chairman of the Interagency Committee on Agricultural Surplus Disposal. Mr. Randall is assisted by a special interagency committee. Mr. Francis and his committee assist agencies concerned to bring into harmonious action the various agricultural surplus disposal activities vested in them, or assigned to them pursuant to the Agricultural Trade Development and Assistance Act of 1954. The Chairman refers issues to other interagency forums or advises

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the President regarding policy issues which arise when agencies wish to appeal the Chairman's decision.

Other established parts of the Executive Office of the President play roles of varying importance in the coordination of foreign economic operations. Probably the most weighty and important of these is the Bureau of the Budget. The Bureau, as the fiscal staff arm of the President, coordinates agency functions and responsibilities as they are reflected in the size and rate of expenditures. The Bureau makes sure that any expenditure proposals and authorizations are within the policy of the President. In case of doubt, agencies proposing activities must show that their proposals are not only authorized by law, but further the President's program, and come within approved fiscal ceilings. Interagency disagreements which have a fiscal element can often be resolved by resolving the fiscal questions, but the Bureau tries to make sure that substantive policy questions are clearly stated and decided on their merits.

The National Security Council advises the President with respect to the integration of domestic, foreign, and military policies relating to the national security. The bulk of the Council's interest is in politico-military matters. The Council is assisted by a planning board consisting of specialists detailed from the participating Government agencies; this board reflects the predominantly politico-military interests of the Council. But it is clear that the Council has a large interest in the field of military assistance, which has inescapable economic ramifications. Economic operations are represented in the Council's membership by the presence of the Director of FOA and the Director of ODM. But Cabinet officials responsible for economic policy are not so represented as a regular matter, although they may be appointed or invited on occasion to meet with the Council to consider specific matters. The National Security Council approves for each fiscal year the mutual security programs.

The Council of Economic Advisers is not ordinarily considered to bear a close relation to overseas economic operations. But the Council is responsible for studying the national economy and its various segments—including that of foreign trade and the impact of foreign assistance. Such programs affect other areas of the Council's interest, such as its appraisal of the economic programs and policies of the Government, and its recommendations to the President of policies for economic growth and stability. The Council helps the President to prepare his annual Economic Report to the Congress; in connection therewith the Council must consider the impact of our foreign economic policies and operations on the national economy. In the President's last Report (January 1955), there were recommendations for strengthening economic ties with other countries, for improving the climate of international investment, and for the establishment of

an international finance corporation. Provision has been made for liaison between the Council of Economic Advisers and the new Council for Foreign Economic Policy.

The Office of Defense Mobilization advises the President on policies for establishing adequate reserves of strategic and critical materials, and determines which materials are strategic and critical and the quality and quantities of the materials to be stockpiled. The points of coordination with foreign assistance are obvious for stockpiling; and foreign economic operations related to the control of East-West trade are also affected. Both Directors of FOA and of ODM sit on a number of interagency groups at which such coordination can be attempted.

The Operations Coordinating Board is an interagency group that works toward the integrated implementation of national security policies by the several agencies. Members of the Board take each National Security Council paper and determine what specific actions each Government agency will take, within the limits of its existing powers, resources, and capabilities, to put the decision into effect. The Board has no overseas staff; its Washington staff is small and devoted in the main to servicing the interdepartmental working parties which draw up the specific plans and recommendations arising out of NSC decisions. Thus the Board is in no position to check on the execution of agreed plans and programs in any manner transcending the reception and analysis of periodic reports from its member agencies—reports which deal in the main with the agency's own operations. Thus there is no element of outside check or audit in such a process, except as agencies in the field are in a position to report on the correlative actions of other agencies. This position is difficult inasmuch as field reporting is supposed to come through the Ambassador.

There are a considerable number of interagency planning coordinating arrangements below the level of the Executive Office, of which the Director of Foregin Operations is a member. These include, as well as the Operations Coordinating Board just mentioned, the National Advisory Council on International Monetary and Financial Problems. This Council advises the President on foreign financial matters, coordinating the policies and operations of the United States on the International Monetary Fund and the International Bank, and of all agencies of the Government which may engage in making foreign loans or which engage in foreign financial, exchange, or monetary transactions. As part of this latter responsibility, the Council approves broad policies for the use of counterpart funds arising out of our foreign assistance programs.

The Trade Agreements Committee plans tariff negotiations and United States relationships to the General Agreement on Tariffs and Trade (GATT).

The Interdepartmental Advisory Committee on Export Policy assists the Secretary of Commerce in determining the nature and scope of export control and licensing and related policies. It is chaired by Commerce, and includes membership from State, Defense, Agriculture, Treasury, FOA, and CIA.

The Economic Defense Advisory Committee has two functions. Under FOA chairmanship, it advises the Director of FOA on major policy aspects of the control of East-West trade. Under State chairmanship it assists the Secretary of State in coordinating all economic defense programs of the Government. Membership also includes Defense, Treasury, Agriculture, Commerce, Interior, ODM, CIA, the Atomic Energy Commission, and the Export-Import Bank.

In addition to the foregoing, the Bureau of the Budget notes the existence of a number of specialized Cabinet committees in the fields of transportation, minerals, telecommunications, and so forth. There are also several dozen interagency committees which backstop United States participation in international bodies. They are chaired by State, and are of major significance as means of coordinating the United States Government position on many subjects which are the topics of international agreement or negotiation.[1] The FOA is a member of many of these.

On December 11, 1954, the President authorized Mr. Joseph M. Dodge to establish, and serve as Chairman of a Council on Foreign Economic Policy. According to the President's letter to Mr. Dodge of that date [2] the purposes of the new Council were to help bring about, as rapidly as possible, improved organization of the executive branch for the development and coordination of foreign economic policy, including its relation to domestic economic policy.

The President designated Mr. Dodge his Special Assistant to assist him in the orderly development of foreign economic policies and programs and to assure the effective coordination of foreign economic matters of concern to the several departments and agencies of the executive branch. The President noted the existence of numerous standing and ad hoc interdepartmental coordinating mechanisms, as well as a complex of overseas departmental operations, each dealing with a limited aspect of our foreign economic policy. He hoped that Mr. Dodge's Council, together with certain correlative studies, would lead to a substantial simplification of the present structure.

The initially proposed structure of this Council reveals, however, that its area of concern is not equivalent to that of the foreign assistance program. Most notably, there is no provision for representation of the Department of Defense, and hence the Council is no adequate forum for the coordination of military assistance with other forms

[1] Enclosure to letter from Budget Director Hughes to Henning Prentis, Jr., dated December 2, 1954.

[2] New York Times, December 12, 1954.

of economic assistance into an integrated aid program. The correlation between economic policy and national security policy is achieved in part by regular membership on the Council of three regular NSC members, and ex officio membership of the President's Special Assistant for National Security Affairs. There is also the usual provision for invitation of other agency heads when matters affecting their responsibilities are under consideration. And the President directed Mr. Dodge to establish appropriate working relations with the NSC and the National Advisory Council on International Monetary and Financial Problems, because the formulation of foreign economic policy in many instances is an integral part of the formulation of national security policy or of international financial policy.

As suggested at the outset of this discussion, there are two types of coordination at issue: The first dealing with the integration of economic policy with all other aspects of high policy, including non-economic elements of the foreign assistance program; the second dealing with the coordination of execution. It is clear that there are a host of agencies dealing with the former; that the inadequacies of top-level organization to deal with policy integration arise from an excess of agencies and too much interlapping of their interests and work, rather than from a failure to recognize all important aspects of economic policy and to give them an organizational embodiment.

Given an agreed policy, if not a wholly coordinated one, the problem of coordination of execution arises. The main manifestation of this has been the effort to bring execution by Defense under the coordinating authority of the Foreign Operations Administration. The purposes or the justification of such coordination have rarely been spelled out; they have been taken for granted, since coordination is always and obviously a good thing.

In effect, coordination by one operating agency of the work of another operating agency is difficult at best. The lines of authority are blurred, and responsibility is dissipated. Unless the purposes and urgency of coordination are powerfully self-evident, there is certain to be noncompliance or trouble. When, as in the present case, military urgencies are put over against economic urgencies by lower-level officials, impasses are the sure result; neither operating agency can be said to have the better prima facie case. And the situation is further complicated when the head of one operating agency takes his military policy from the head of the other one.

The question arises whether such a duplication of coordinating functions is necessary or wise. Would it not be better to leave the operating heads of the military and the economic operations agencies a clear field to carry out their individual mandates, which themselves have been coordinated by integrated policy formulation?

The Dodge Council would appear at first blush to be an appropriate agency to carry out this coordination of execution. Two aspects of the Dodge situation seem to work against this: First, the fact that the Dodge Council is reserved for the consideration, arbitration and settlement of policy disputes as they come up—a function which might be blurred and complicated if the Council got into problems of day-to-day coordination of execution; and second, the fact that the Dodge Council concerns itself chiefly with problems which have a domestic as well as an overseas aspect. The coordination of execution that needs to be achieved lies mainly, if not wholly, in the overseas field.

The solution might be to put the problem in the hands of a Presidential assistant, who is closely in touch with, but not limited to the spheres of interest of Dodge, Hauge, and Anderson, and who above all is not responsible for executing a portion of the operations which he is coordinating—in other words, is not responsible for coordinating himself.

Such an official should be at the White House level to assure the appropriate degree of authority to coordinate operations at departmental levels; he should have a small staff, and their procedure should deal with the essentials of timing and emphasis, and not be so cumbersome itself as to be a cause for serious delay.

International Organizations Related to U. S. Government Mutual Security Operations

By David A. Robertson

INTRODUCTION

Mutual security operations of United States Government agencies have developed and operate in a field shared by some 18 international organizations in which the United States participates. Thus there arises a constant problem of adjusting bilateral to multilateral operations, and balancing the total United States effort between the two forms.

The purpose of this paper is to set forth in brief form the general background, the organization and purposes of each of these agencies, and to examine the questions arising from United States participation in them insofar as they impinge on mutual security operations. These agencies fall into the following groups:

The United Nations and its related specialized agencies
The Organization of American States
The North Atlantic Treaty Organization
The Southeast Asia Treaty Organization
The Intergovernmental Committee for European Migration
The Office of European Economic Cooperation
The European Productivity Agency
The European Payments Union

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International Organizations and Mutual Security

1. *The United Nations and Its Specialized Agencies*

a. Background

The history of economic aid functions of the United Nations and the various specialized agencies now connected with it goes well back into the period of World War II. Planning for international economic cooperation was commenced under the terms of article VII of the wartime mutual aid agreements. In 1943, the United States proposed the Hot Springs Conference on Food and Agriculture, which led to the current Food and Agriculture Organization. Similarly the United States, at Bretton Woods, pushed for the creation of the International Bank and the International Monetary Fund. At the time, proponents of these institutions thought they would play a large part in restoring economic health in Europe and in attaining United States economic objectives. At Bretton Woods the participants took steps to liberalize trade policies, work for the orderly marketing of international staples, and harmonize national policies looking to full employment. During these years the problems of adjusting regional organizations to the United Nations were also aired, and much work was done to bring such agencies as the Organization of American States into the general framework.

Once the U. N. and its related specialized organizations began to function, many in the United States Government thought that emergency assistance would be replaced by a more enduring form of cooperation or mutual assistance. There were several lapses from this pattern—notably that which led to the creation of an Emergency Economic Commission for Europe, and thus to the ECE, as means of handling the special problems of the occupied and liberated areas on that continent. U. N.'s Economic and Social Council (ECOSOC) set up a temporary subcommission on economic reconstruction of devastated areas in June 1946. Meanwhile the U. N. Relief and Rehabilitation Administration (UNRRA) had been functioning.

The Economic and Social Council also set up a new specialized agency, the International Refugee Organization (IRO), in December 1946, to take over the longer run refugee problems from UNRRA and from the joint United States-U. K. Intergovernmental Committee on Refugees. ECOSOC also set up the International Children's Emer-

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gency Fund (UNICEF). The United States continued support of both agencies until IRO was terminated on January 31, 1952,[1] and it continues support of the Children's Fund to date.

Out of the settlement of mutual aid agreements underlying lend-lease, came also the negotiation of the General Agreement on Tariffs and Trade (GATT) in November 1947 and later of the Havana charter for an international trade organization. These two moves were an attempt to lay down certain universal principles of commercial policy which soon ran afoul of economic regionalism and national interests.

UNRRA, which was terminated late in 1947, and the IRO ran in parallel with our bilateral civilian supply program, Government and Relief in Occupied Areas (GARIOA). The duplication was eliminated with the demise of the two international agencies. United States policies leading to the end of UNRRA were based on the expectation that in 1947 only a few countries would need help; United States policy embodied four points: (1) each country should state what it could contribute for relief, and use the U. N. secretariat as a clearinghouse to coordinate country plans; (2) recipient nations must first prove their need and distribute aid on the basis of need; (3) there was no justification for making grants of money without effective control by the grantors; and (4) nations diverting manpower to armies instead of producing necessities of life would not be entitled to relief.[2] Based on this policy, our Government tried to phase out aid by a small post-UNRRA relief program. But the store of large-scale American assistance was just beginning, as the Marshall Plan was announced the following summer.

The National Advisory Council on International Monetary and Financial Problems, which we had created for ourselves at Bretton Woods, announced a longer term reconstruction policy in February 1946. Our objective was an international economic environment free from warring blocs and barriers obstructing the flow of trade and capital. And the International Bank was to be the principal agency to make foreign loans for reconstruction and development which private capital cannot furnish on reasonable terms.[3] Our policy was to limit Export-Import Bank loans to the most urgent needs, until the International Bank could get underway. Basic to recovery was a free and full flow of private international loans, which could be easily serviced within the economic environment which the operations of the Bank and Monetary Fund would create and sustain. Another underlying assumption was that the United States would encourage imports.

It soon became clear that these assumptions were false, and the policies untenable in the short run. The ITO never came into existence;

[1] See Brown and Opie, *American Foreign Assistance* (1953), pp. 89–95.
[2] See Brown and Opie, *American Foreign Assistance* (1953), p. 111.
[3] H. Doc. 497, 79th Cong., 2d sess., p. 17. Quoted in Brown and Opie, p. 113.

the Monetary Fund played a minor role, and the International Bank was able to supply only a fraction of the transitional assistance called for. Far from being able to reduce military expenditures, borrowing countries were soon under pressure from us to increase them. And the United States did little to remove trade barriers.

Most of the international agencies created to serve these ends have remained in existence, and have played a part in the conduct of economic aid as it has developed through the periods of economic aid, cold war, and post-Korean reconstruction. American policy and administration has taken them into account in varying degrees. Their current status and organization is set forth below.

b. Current U. N. Organizations

(*1*) *Food and Agriculture Organization of the United Nations.*—The Food and Agriculture Organization came into being on October 16, 1945, with the signing of its constitution by the delegates of 34 member nations. By the spring of 1954 its membership had increased to 71. Its purposes are raising of levels of nutrition and standards of living of the peoples under their respective jurisdictions, securing improvements in the efficiency of the production and distribution of all food and agricultural products, bettering the conditions of rural populations, and thus contributing toward an expanding world economy.

As the central agency through which member countries exchange information, FAO promotes and recommends national and international action, furnishes such technical assistance as governments may request, including the organizing of such special missions as may be needed, and furthers the rapid exchange of information.

(*2*) *International Labor Organization.*—International Labor Organization is a specialized agency of the U. N., financed by the governments of its 66 member nations. It was originally created in 1919 as an autonomous part of the League of Nations. The United States became a member in 1934. The purpose of ILO is to improve labor conditions, raise living standards, and promote economic and social stability.

ILO sets international labor standards by working out conventions and recommendations for adoption by its members. These standards form an international labor code that covers employment, freedom of association, hours of work, migration for employment, the protection of women and young workers, prevention of industrial accidents, workmen's compensation, colonial labor problems, conditions of seamen, and social security.

(*3*) *International Bank for Reconstruction and Development.*—The articles of agreement of the International Bank for Reconstruction and Development were formulated at Bretton Woods by 44 nations in July 1944. IBRD began operations in June 1946 with 56 governments

as members. Its capital stock, subscribed in the currencies of its members, is the equivalent of about $9 billion. Its purposes are (1) to assist in the reconstruction and development of its member countries by facilitating the investment of capital for productive purposes, and thereby promote the long-range growth of international trade and the improvement of standards of living; (2) to make loans for productive purposes out of its own funds when private capital is not available on reasonable terms; and (3) to promote private foreign investment by guarantees of and participations in loans and investments made by private investors.

The Bank may lend to member governments and—with the guarantees of member governments—to their agencies and to private enterprises in the member countries. As of May 1, 1954, the Bank had made a total of 102 loans amounting to the equivalent of $1,892,948,464 in 30 member countries and 3 overseas territories of member countries. In addition to technical aid given to its members in the normal course of business, the Bank makes available various kinds of technical assistance unrelated to specific loans. For instance, general survey missions to aid in appraising the resources of the countries and development recommendations have been provided.

(*4*) *IMF.*—The articles of agreement on the International Monetary Fund (IMF) were formulated at Bretton Woods in July 1944. They were approved by the United States and came into effect on December 27, 1945, having been accepted by nations representing 80 percent of the quotas.

The purposes of IMF, as stated in the articles, are:

(*a*) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(*b*) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

(*c*) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(*d*) To assist in the establishment of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(*e*) To give confidence to members by making the Fund's resources available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(*f*) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

Member countries in IMF numbered 56 in April 1954 and their combined quotas aggregated approximately the equivalent of $8.9 billion. The Fund began exchange transactions on March 1, 1947. At the end of April 1954, 24 members have purchased the equivalent of $1,149 million from the Fund's foreign exchange resources, paying corresponding amounts of their own currencies.

(*5*) *UNREF.*—Section 405 (*c*) of the Mutual Security Act of 1954 authorizes contribution to United Nations Refugee Emergency Fund (UNREF) of not to exceed $500,000 during fiscal year 1955. This agency is responsible for the care and maintenance of some 2 million refugees throughout the world, and are not, and have no prospect of, receiving adequate care from their host government or from other sources. Contributions to UNREF are made by 16 governments and many individuals.

(*6*) *UNESCO.*—United Nations Educational, Scientific, and Cultural Organization (UNESCO) is a specialized agency of the United Nations. Its constitution was adopted on November 4, 1946. As of January 1, 1954, there were 69 member nations.

The purpose of UNESCO is to contribute to peace and security by promoting collaboration among the nations through education, science, and culture, in order to further universal respect for justice, for the rule of law and for the human rights and fundamental freedoms which are affirmed for the peoples of the world by the Charter of the United Nations.

(*7*) *WHO.*—A constitution was signed on July 22, 1946, by 62 governments which led to the official establishment of the World Health Organization (WHO) in April 1948. WHO has 81 sovereign nations as members and 3 associated members.

The purpose of WHO, as defined in its constitution, is to raise the physical and mental health level of all peoples, going far beyond the older concept of health as a mere absence of illness. It recognizes that attacking disease at its sources is a better defense than setting up artificial barriers against epidemic spread. It aims for control and eventual eradication of communicable disease, and it recognizes that the health of all peoples is fundamental to the attainment of peace and security and is dependent upon the fullest cooperation of individuals and States.

The major undertakings of WHO include programs on malaria, tuberculosis, veneral diseases, maternal and child health, nutrition, environmental sanitation, virus and parasitic diseases, mental health, and training of public health personnel. WHO is continuing work on biological standardization, the unification of pharmacopoeias, the

establishment of a uniform system of health statistics, the adoption and administration of international quarantine regulations, and the collection and dissemination of epidemiological information.

(*8*) *UNICEF.*—Section 406 of the Mutual Security Act of 1954 authorizes an appropriation not to exceed $13.5 million during the fiscal year 1955 to the United Nations Children's Fund (UNICEF). UNICEF is a focal point for help to children by various agencies within the United Nations system, and through this agency all countries have an opportunity to cooperate with others in providing effective assistance to the needy mothers and children of the world. The United States has been the mainstay of the Children's Fund since its inception. In 1953 a total of 53 nations pledged or contributed funds to this agency. UNICEF aids governments of the underdeveloped countries to enable them to build into their own activities programs of maternal and child health assistance which would not be possible in the absence of external help.

(*9*) *UNKRA.*—Section 132 of the Mutual Security Act of 1954 authorizes $205 million during fiscal year 1955 for defense support, relief, and rehabilitation, and other necessary assistance in those parts of Korea which the President shall have determined to be not under Communist control, as well as the continued availability of unexpended funds previously authorized. In addition, a contribution to the United Nations Korean Reconstruction Agency (UNKRA) not to exceed $3,452,615 is also authorized. United States contributions to UNKRA are estimated at $22 million.

(*10*) *UNRWA.*—Section 407 of the Mutual Security Act of 1954 authorizes a contribution not to exceed $30 million to the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) during fiscal year 1955, as well as the continued availability of funds previously appropriated. United States contributions to UNRWA have been estimated at $23 million for the relief, rehabilitation, and resettlement of more than 800,000 Arab refugees from their former homes in Israel.

2. *Organization of American States*

The International Union of American Republics was established on April 14, 1890, later to become the Pan American Union. The charter of organization was signed April 30, 1948, at Bogota.

The Organization of American States (OAS), made up of 21 republics of the Western Hemisphere, is now formally a regional agency within the United Nations. It was established to achieve an order of peace and justice, to promote the solidarity of the American States; to strengthen their collaboration; and to defend their sovereignty, their territorial integrity, and their independence. OAS is a pro-

visional organ of consultation for the purposes of the Treaty of Reciprocal Assistance. Its council takes action to further cooperation in the economic and other fields or through its technical economic organ, the Inter-American Economic and Social Council.

As the central organ of OAS, the Pan American Union acts as advisor to its council and organs in the preparation of programs. It offers technical assistance and necessary personnel to the governments of member countries.

3. *Intergovernmental Committee for European Migration*

Section 405 (a) of the Mutual Security Act of 1954 authorizes the appropriation of $11,189,190 to be contributed to the Intergovernmental Committee for European Migration (ICEM) for the purpose of assisting in the movement of migrants, as well as a continuation of other unexpended funds previously made available. ICEM was established in 1951, with 24 member nations, to facilitate and increase the movement of migrants and refugees out of the overpopulated countries of Europe—Austria, Germany, Italy, the Netherlands, and Greece—to overseas countries in a position to receive immigrants—Australia, Canada, the United States, Venezuela, Chile, Brazil, and Argentina. Approximately 250,000 emigrants leave Europe annually on their own resources or assisted by their governments.

4. *North Atlantic Treaty Organization*

Section 415 of the Mutual Security Act of 1954 authorizes the President to use funds available under sections 131 (Defense Support) and 403 (Special Assistance in Joint Control Areas) in order to furnish assistance, by transfer of funds and by other means, directly to the North Atlantic Treaty Organization (NATO) for a strategic stock pile of foodstuffs and other supplies, or for other purposes. While NATO is now considered primarily as an organization for the defense of the member nations, the North Atlantic Treaty embodies political and economic clauses, and the defense functions themselves call for economic measures.

NATO reviews annually the economic potential of the member states to ascertain the capabilities of these countries to support force goals, defense production, and other security commitments.

5. *Southeast Asia Treaty Organization*

The agreement establishing the Southeast Asia Treaty Organization (SEATO) was signed at Manila on September 8, 1954. The

treaty, which came into effect on February 19, 1955, is designed to promote security and peace in southeast Asia and the southwestern Pacific. It calls for economic cooperation to enable the free countries of that area to gain strength and vigor, not only militarily, but also socially and economically.

Artcle III of the treaty recognizes the importance of free institutions and sound economies in achieving the objectives of peace and security. It is based on the assertion that the opportunities of communism will diminish if the free nations are able to develop their internal stability through economic cooperation. The member nations agree to cooperate in promoting economic progress and social well-being.

Member nations include Australia, France, New Zealand, Pakistan, Philippines, Thailand, United Kingdom, and the United States.

6. *OEEC and EPA*

The Organization for European Economic Cooperation (OEEC) and its subsidiary agency, the European Productivity Agency (EPA), are in a sense the offspring of our mutual aid program. The Economic Cooperation Act of 1948 made assistance contingent upon continuous effort of the participating countries to accomplish a joint recovery program through multilateral undertakings and the establishment of a continuing organization for this purpose. Work in the Committee of European Economic Cooperation led to a convention in April of 1948, establishing the Organization for European Economic Cooperation. OEEC's immediate task was to draw up and carry out a joint recovery program to end as soon as possible the dependence of member countries on extraordinary outside help. The participants agreed to use self-help and mutual assistance to the maximum; they pledged themselves to develop production, to modernize their industrial equipment, and to develop the maximum possible interchange of goods and services. They agreed to take a number of steps toward free trade and the free movement of people. While regional in membership, the OEEC recognized the need to balance trade not only among the membership, but on a worldwide basis as well. OEEC machinery at the outset consisted of a council, an executive committee, and an international secretariat with a secretary general. Decisions were to be unanimous. Thus OEEC was limited to action involving no sacrifice of sovereignty, which could be carried out by mutual cooperation. At best, it could be said that OEEC has strengthened the habits of mutual consultation in Europe on economic problems.

The European Productivity Agency (EPA) was set up in 1953 as a unit of the OEEC, to put into effect on a self-help basis the programs fostered by the Benton and Moody amendments looking toward an

increase in productivity in European industry and agriculture. EPA was financed by counterpart contributed by the participating countries (11 signed Moody agreements) and by a direct contribution of $2.5 million to the OEEC from the United States to support EPA.

Although the United States is not a member of the OEEC, because of its regional nature, it participates in the work of the organization, and of the EPA as well. This work has been supported by the personnel of the United States Regional Office (USRO) in Europe, and this in turn has been supported by the Foreign Operations Administration in Washington.

Both OEEC and EPA were created to take over and carry forward on a regional basis, such elements of a program of regional mutual assistance and self-help as were valuable and appropriate, and which would permit the United States to withdraw from this field except for extraordinary measures.

7. *EPU*

The European Payments Union (EPU), like OEEC, was set up at the instance of the ECA. European efforts to relax trade barriers and otherwise to move in directions desired by United States policy had led to serious difficulties in clearing European balances of payments, which had not been solved by the two payments agreements made in 1948 and 1949. At the end of 1949, ECA submitted a plan for a payments union to the OEEC, which was adopted in September 1950. This plan embodied a fundamental contradiction in objectives—should EPU be developed as a permanent instrument for the integration of Europe, or should it be simply a transitional step toward full world-wide convertibility? EPU's main objective was to help in trade liberalization, but moves in this direction led to further difficulties. Member nations were under pressure to "correct" their internal economic position if they were recurrently debtors or creditors in the payments union. And the ECA soon found itself in the position of intervening in the economic affairs of OEEC. In the case of Belgium, that country, having an overall dollar deficit but an intra-European dollar surplus, was asked to solve the problem of its overall deficit by raising discriminatory barriers against American trade and increased government intervention in the Belgium economy—action hardly compatible with the objectives of American economic policy.[4]

EPU needed money to operate. The United States made available initially a capital fund of $350 million and an "administrative" fund of $150 million to take care of the position of "structural debtors" (States which were in continuing difficulties in settling their EPU accounts). As contributor of these capital funds, the United States

[4] Brown and Opie, p. 210.

retains a continuing voice in EPU deliberations, and has a say in the ultimate distribution of the capital funds, if EPU is disbanded. These rights and responsibilities have required continuing United States representation, which has come to date from USRO.

8. *Discussion*

The existence of these various international agencies with functions in the fields of economic assistance, and the participation of the United States in them, raise a host of questions. Many of these points have been raised and examined in the special papers dealing with technical assistance and the disposition of FOA functions.

The general question of whether the United States should alter the balance between its bilateral and its multilateral efforts cannot be given a general answer. The requirements of our policy, and the opportunities and weaknesses of each program must be taken into account. One broad observation is of general application, however; wherever it appears that the United States can meet its policy objectives by supporting the work of an existing agency rather than organizing or operating its own agency, it should do so. It is probably cheaper in the long run, and technical functions will be discharged by better qualified people if the United States takes full advantage of the specialized technical skills already assembled by going international organizations.

Most international organizations depend on unanimity, since the participating governments are sovereign States. Hence their programs are restricted to a common denominator on which all parties agree; many of them deal only with the gathering and exchange of technical information and personnel, and the furnishing of forums for conference and discussion. As such, their programs are not susceptible of great expansion, or of bending to the exclusive interest of any one sovereign power. Into this class fall such organizations as FAO, ILO, WHO, and UNESCO.

The action agencies, which depend on the voluntary contributions of the participating states, are more flexible, and their programs are sized more according to the operating needs and the forthcoming funds. These include UNICEF, UNKRWA, UNRWA, ICEM, and UNREF. They are often set up for limited time periods, and tend to disappear with the emergencies which have called them into being.

The Bretton Woods agencies—IBRD and the International Monetary Fund—have fallen far short of the hopes which their sponsors held for them at birth. We are in process of expanding the role of the bank by the addition of an International Finance Corporation which will add certain functions and funds to the total available from international sources for economic development purposes.

Congress has the word on this at the moment, so far as the United States is concerned. But there appears to be no movement or desire to expand the powers and functions of the Monetary Fund. The bank's role and its relations to our Export-Import Bank are discussed further in the paper on public lending agencies.

The work of the Organization of American States might be expanded, but there seems to be little pressure or need for it. The United States already carries 66 percent of the budget of that organization, and for that very reason should not press for an expanded program unless the other American States are willing to increase their contributions more than proportionately.

The problems posed by the civilian functions of NATO and the as yet unexplored economic role of SEATO are manifold, but they do not extend to the simple one of more of NATO/SEATO and less of FOA. On the contrary, the more active are these regional politico-military-economic organizations, the greater is the requirement for proper United States Government participation; they will pose continuing problems of organization, staffing, and procedure both in Washington and in the field. The meshing of economic with politico-military aspects creates problems at the level of the National Security Council, where it does not now appear that we are fully equipped to deal with all three elements of national security matters. Our joint military planning requires economic estimates of the capacities of participating countries, to determine what they can contribute and what we must contribute, to achieve determined force goals and other defense requirements.

The problems posed by OEEC, EPA, and EPU are more important for policy than for administration. These agencies were launched in an effort to shift the burden of economic reconstruction and future progress to other shoulders. We have commenced to shift that burden; if we continue to do so we can look forward to a lessening of the administrative requirement for supporting these organizations, down to the point where a small amount of diplomatic contact and organizational liaison will be enough to keep our hand in and make a proper degree of influence felt, without risking the resentments which are bound to arise from daily intervention.

Some Fiscal Aspects of the Foreign Aid Program

By Jeremiah J. Kenney and Edward P. Herman

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Some Fiscal Aspects of the Foreign Aid Program

Since the hard-earned dollars of the American taxpayer make the foreign aid program possible in the first place, it seems desirable to review some of its fiscal aspects, particularly those which are a factor in determining the nature of the program.

Funds for foreign aid are appropriated by Congress on the basis of the overall policy of the United States and geared to an "illustrative" foreign aid program submitted by the Foreign Operations Administration and the Department of State.

"Illustrative" Programing

The use of an "illustrative" program to present the ways in which our foreign aid is to be extended has come in for considerable criticism, much of which appears justified. Because the presentation is illustrative, rather than definitive, the program in its final form may bear little resemblance to the illustration. This can lead to a feeling that the intent of Congress, as expressed in approval of an illustrative program, has been disregarded. Furthermore, considerable time may elapse before the illustrative program, as approved or modified by Congress, is hammered into final, working shape, after which the bilateral agreements still must be negotiated and signed with the recipient country. In some cases, this whole process has taken months, with the result that the country program for a given fiscal year may not be actually put in motion until a major part of the year has elapsed.

Any effort to carry out a full year program in half that time gives rise to the tendency to rush into hastily considered commitments in order to obligate funds before the end of the fiscal year. Congress has attempted to provide safeguards against such a possibility by carrying over the unobligated balances each fiscal year and by limiting the amount of funds that can be obligated in the last 2 months of the fiscal year. However, this does not seem to have entirely prevented hasty and improvident programing at the end of each fiscal year.

It seems evident, however, that a more efficient program would result if the appropriation request to Congress were based on a definitive, well-planned program which could be set in motion upon the enactment of the legislation. In the absence of such a condition the question always remains: are appropriations the result of well-thought-

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out program and project requests or are programs and obligations generated by a compelling desire to use already appropriated funds?

Flexibility

The question of fiscal and program flexibility is a major consideration in the whole aid program. FOA states that conditions change so rapidly that detailed programs cannot be worked out in advance, and that foreign aid programs must be chameleonlike, completely able to meet wholly new and emergency needs. This is the principal justification, not only for the "illustrative" programing, but also for the wide authority to transfer funds from one appropriation provision to another (e. g., from military aid funds to economic aid) and for requesting large "contingent" or lump-sum authority.

There can be no doubt that emergency programs do arise. The recent FOA-financed evacuations of both North Vietnam and the Tachen Islands are examples. There is some doubt, however, that real emergencies or crises occur frequently enough or are of sufficient size or duration to justify the magnitude of the sums now available for expenditure through transfers and other administrative action. Emergency operations comprise only a relatively small proportion of the $4 billion annual foreign aid program.

Because all the funds appropriated for foreign aid now can be drawn upon for emergency situations, and because emergencies affecting the national security can conceivably arise at any time, even in the closing weeks of the fiscal year, the administrators of the aid program are under pressure to keep sizable sums uncommitted and available to meet these needs. This has a tendency to produce large unobligated balances at the end of the fiscal year, has the effect of delaying the actual programing and obligation of the funds, and undoubtedly reduces the effectiveness of the program as a whole.

At the present time, the cost of flexibility is instability, bordering on chaos, everywhere in the program. The chart on page 139 illustrates the nature of this flexibility.

In addition to these difficulties, there is some evidence that the flexibility provisions themselves may be so narrowly circumscribed as to defeat their own purpose. The limitations imposed on transfers (sec. 501) and on the use of special funds (sec. 401) in those sections considerably restrict the desired flexibility, at least to the extent that considerable juggling and manipulation may be required to achieve an emergency objective. (The development of the emergency $105 million aid program for Pakistan may be cited as an example.)

Emergency Fund and Staff

For these reasons it seems clearly desirable to review carefully the provisions which are designed to put flexibility into the program. It seems likely that a considerable improvement in efficiency and economy could be achieved by establishing a separate emergency or contingency fund in substitution for the existing provisions for flexibility. Such a fund would be separately appropriated directly to the President and would be separate and distinct from the other foreign aid appropriations. It would be available to meet those emergency situations which the President and the National Security Council adjudged to affect our national security consistent with the mutual security legislation. It should be sufficiently large to insure protection of the security of the Nation but its use should be carefully limited to genuine emergencies. It could be provided with such other safeguards as seem desirable without impairing its essential flexibility and mobility. A somewhat limited precedent for this type of fund was set in the Mutual Security Act of 1954 with its provision for $700 million for southeast Asia and the western Pacific, which gave the President extremely limited authority.

In keeping with the nature of this suggested fund, it might also seem advisable to organize a small emergency or disaster staff to assist in administering the emergency funds and programing operations under it. Such a staff would also be available to plan and administer the use of the provisions of title II of the Agricultural Trade Development and Assistance Act of 1954, which provides for gifts of surplus United States agricultural commodities to friendly people in meeting famine or other urgent relief requirements. Obviously the qualifications and experience of staff suitable to meet and deal with emergency or disaster situations are quite different from those necessary for other types of operation. Likewise, the whole technique of handling such situations is a specialized one and should be kept distinct.

Dollar Objectives

An additional fiscal concept which apparently guides the foreign aid administrators is the opinion that the aid budgets are expressed in dollars and not in things. This produces a program geared to spend given quantities of money, rather than a program designed to educate so many trainees, set up a given number of training projects, or dig so many wells. It also produces singular results. One illustration may be found in the case of a request received from the mission in Iran for procurement of 100 handplows at a total cost of $2,585. Similar plows were available on GSA lists of excess Federal property, and with approval of the missions these surplus plows were substituted for the

ones originally specified. Eight hundred of the surplus plows were furnished to the mission at the cost of the original 100. One may fairly question why an extra 700 plows should be furnished under the aid program in Iran in preference to reducing the amount of the expenditure by 87 percent.

The policy of FOA in this respect is not consistent. The task force on use and disposal of Federal surplus property, for instance, found cases where the amount of aid was reduced by the savings which resulted from lower procurement costs and other cases where the dollar figure remained the same and larger amounts of equipment were furnished.

In most cases it seems fundamental that a more effective and economical aid program can be achieved when its objective is clearly defined and expressed in terms of accomplishments, rather than in terms of dollars spent.

Obligations, Expenditures, and Balances

A brief description of the methods and techniques which FOA uses to obligate and spend its appropriations may be helpful in reviewing its fiscal status.

Initially, the funds for foreign aid are appropriated by Congress and allocated to FOA or appropriate agency by the Bureau of the Budget, acting for the President. The funds are then available for obligation and for ultimate expenditure.

FOA obligates funds in several ways depending on the type of aid program involved. International agreements between the United States and the recipient nation, calling for specific undertakings on the part of each, constitute an obligation of United States funds. Obligations also take place with the issuance of procurement authorizations by FOA for the purchase of machinery, equipment, or bulk commodities, such as fertilizer or cotton, to meet the import needs of a foreign government.

Procurement is handled in two general ways in the foreign aid program. One method is by direct procurement, where FOA, or some other Government agency acting for FOA, procures under United States Government procedures for the foreign aid operation. The other, and probably more important, method of procurement arises out of the injuction in the legislation requiring use of private channels. In these cases, FOA-financed procurement orders are placed by recipient countries with local importers or United States exporters who actually do the purchasing through their own channels and resources. FOA engages essentially in a banking operation to finance these purchases since it issues "letters of credit" to the banks designated.

These obligations lead to subobligations when specific contracts for the purchase or shipment of equipment, goods, or commodities are completed between the appropriate Government agency and a supplier or merchant. Expenditures result when the bills arising from these contracts are actually paid.

Many of the transactions by FOA which obligate funds consist of bilateral (either program or project) agreements with foreign governments, as has been noted. Evidence indicates a number of these obligations are virtually dormant for many months because no further steps are taken to advance the project or to subobligate the funds. This situation may arise for a variety of reasons, some of which are wholly outside United States control. This type of situation may be illustrated by the project in Pakistan for improvement of the Karachi fish harbor. A bilateral project agreement for this undertaking—signed April 1, 1953—obligated $750,000 as the United States contribution to the first year's cost. Over a year later, April 29, 1954, a supplementary agreement noted that "the contribution of the United States Government to this project can no longer be spent on the purpose for which it was made available," deobligated $610,000 and made that sum available for other projects. The delay in this case was the result of a failure of various agencies within the Pakistan Government to reach agreement on the project, but for the course of that year the United States obligation for this project really had no meaning in terms of a program to strengthen Pakistan.

While this is but a single example, congressional committees and other groups have on occasion expressed the view that the total of the outstanding obligations of the mutual security program, as spread throughout the breadth of the entire 50 country programs, are "watered" or unrealistic to a certain extent. Whether situations comparable to this exist on a wide scale could only be determined accurately and completely by a complete review in each country in which the program operates.

However, prompt, effective administrative steps can be initiated to deobligate funds on programs which have bogged down or stagnated. Otherwise the administrators of the program in Washington and the congressional committees reviewing it will have no accurate measure of progress.

Counterpart Funds

In most countries where nonmilitary assistance is provided on a grant basis by the Foreign Operations Administration, a special local currency account usually is created into which the recipient country deposits amounts in its currency equivalent to the value of the United States aid. These deposits, called counterpart funds, are used in gen-

eral by the depositing country to carry out mutual security objectives agreed to jointly with the United States.

Requirements for the deposit of counterpart funds by recipient countries have varied widely, depending on their financial condition, the legislation under which the program was conducted, and the nature of the aid program. Usually the amount of the counterpart deposits is equivalent to the value of the United States grant aid extended, subject to many exceptions or variations. In each country a portion of these funds, usually not more than 10 percent, is set aside for United States use in defraying its local currency expenses in the country. The 90 percent or more remaining is used within the country for projects agreed to by the country and the United States. The general policies which govern release of counterpart funds from the United States standpoint are laid down by the National Advisory Council on International Monetary and Financial Problems, of which the Secretary of the Treasury is chairman. Other members are the Secretaries of State and Commerce, the Director of FOA, and the Chairman of the Federal Reserve Board. Often the general use, but not the specific projects, to which counterpart may be put is specified in the various bilateral agreements. Counterpart deposits exist in 27 countries, mostly in Europe and the Far East. The aid program in Latin America has never been on a basis which generates counterpart funds.

Up to December 31, 1954, the United States had spent a total of $14,348,647,121 in forms which generated counterpart funds. Most of the total amount of counterpart thus created has already been spent, but as of December 31, 1954, the worldwide balance in counterpart funds was equivalent to more than $978 million and an additional amount equivalent to more than $380 million was still to be deposited by the foreign countries.

Counterpart funds are not fiscal assets of the United States, although the United States retains a voice in their use. The United States portion of the counterpart funds, however, are the property of the Federal Government and are deposited in United States Treasury accounts overseas. Government agencies, including FOA, needing foreign currencies must purchase them from the United States Treasury with appropriated dollars.

Another type of foreign currency deposits are created by the programs for disposal of surplus agricultural commodities abroad under section 550 of the Mutual Security Act of 1953, section 402 of the 1954 act, and provisions of the Agricultural Trade Development and Assistance Act (Public Law 480) of 1954. These funds are United States assets and are available to FOA without payment in dollars to the Treasury.

The funds arising from the Mutual Security Acts may be used for a variety of purposes consistent with the legislation, such as offshore

procurement or economic assistance. As of December 31, 1954, expenditures for these surplus commodity programs have totaled more than $232,700,000. Local currency receipts have lagged behind United States spending and as of December 31, 1954, totaled $180 million.

Receipts in foreign currencies from sales under the Agricultural Trade Development and Assistance Act also are available for the several purposes set forth in that act. These receipts are United States Government assets but the specific purposes for which they will be used are generally negotiated with the purchasing country at the time of the sale. This program is presented in greater detail in a separate paper.

Discussion

Since counterpart deposits are not usually made for direct military assistance, it appears that additional deposits will drop rapidly in those countries, chiefly in Europe, where the economic phases of the foreign aid program have ended or are winding up.

In these countries where the various aspects of the economic aid program are being terminated, it seems appropriate also for the United States to take such steps as might be feasible to facilitate the disposal of the remaining counterpart deposits. This would permit termination of all the aspects of the economic aid program without undue delay.

Exchange Rates

Counterpart funds of all types, of course, are deposited in local currencies and the amount of counterpart due from each recipient country is determined by converting the value of United States aid into local currency equivalents on the basis of exchange rates which are negotiated between the two countries.

In general, the deposits are computed at the agreed exchange rate in effect at the time FOA disburses the dollar aid funds. The dollar equivalent of withdrawals is generally calculated at the rate in effect at the time of withdrawal, and the balance remaining is calculated at the current rate. In some countries current exchange rates have varied widely both between commodities and between time periods. In these cases an average rate is sometimes used in order to reflect a more consistent picture.

Since the exchange rates can affect assets of the United States Government in the local currency accounts in the United States Treasury, as well as the financial situation in the recipient country, their negotiation is a complex and even delicate business. It does not appear sound

to expect the United States Government to deal in foreign currency transactions which, in fact, would not be legal in the country concerned, but many variations are found in legal rates which can effect United States transactions. However, United States officials should make every effort consistent with good foreign relations to secure the most favorable exchange rates possible with each country.

Summary Comments

The fiscal aspects of the foreign aid program of course are largely determined by the broader aspects of policy which govern the scope and nature of the program itself. Considerable progress has been made in welding an effective and uniform system of accounts and fiscal controls out of the diversity which grew up when the aid programs were separately administered by ECA, TCA, HAA, etc.

The foreign aid program has many aspects of a large-scale financial and banking operation, especially in connection with procurement through private channels. All the available evidence indicates that those responsible for the development and administration of budgeting, auditing, fiscal, and accounting procedures of FOA have done an excellent job, despite the magnitude and complexity of the task.

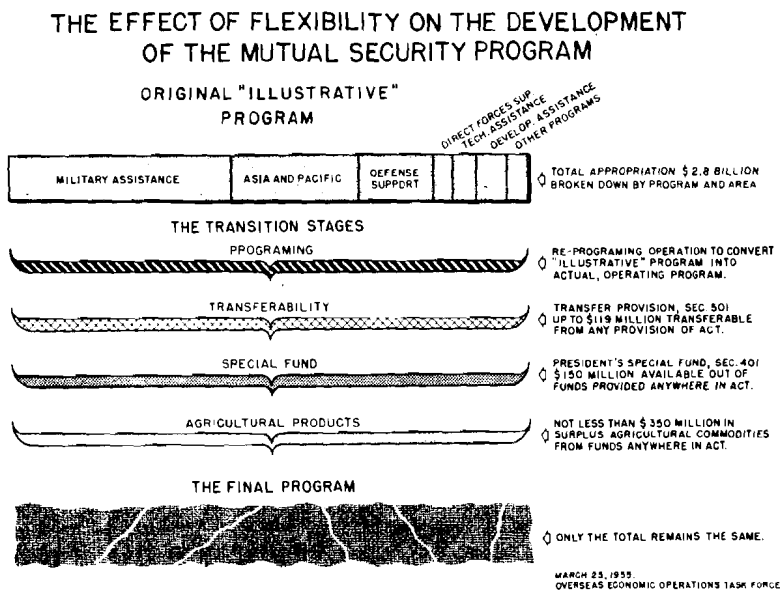
The general area of flexibility appears to have a high potential for improvements which could lead to increased economy and effectiveness. Establishment of a new emergency or contingent fund, in substitution for the existing cumbersome transfer and special fund provisions, would provide increased flexibility in the program and at the same time provide a means of putting the bulk of the foreign aid program on a firm, soundly planned base. It probably would permit elimination of the use of an illustrative program, insure better Congressional control, fewer reprogramming operations after Congress has acted, and swifter translation of the program into effective deeds.

Creation of such a fund would also lead the way to establishment of program goals based on real achievements rather than merely on the desirability of spending money at whirlwind pace. Establishment of an emergency or disaster staff as suggested would aid effective operations and help to insure maximum results from United States efforts overseas.

Because the foreign aid program by its very nature involves the operations and activities of other sovereign nations, its fiscal problems are different and to some extent more complex than those of the general agencies of the Government. Funds which are obligated by means of an international agreement between the United States and a foreign country may not always be deobligated without concurrence of the foreign government. Certain fiscal aspects of the program involve exchange rates between currencies, a matter of deep and often

delicate concern to both countries. These factors point up the desirability of the continued development and refinement of fiscal controls for the foreign aid program and suggest that the new administrators of the program seek the advice of agencies in these areas, including the General Accounting Office and Bureau of the Budget as well as draw on the past experience of FOA, MSA, ECA, TCA, etc.

Since many of the fiscal aspects of the foreign aid program hinge on the results of negotiations and relations with foreign governments, the United States personnel who negotiate the agreements and generally handle our relations with the recipient countries play a major role in determining the success or failure of the program. Their ability and effectiveness will be reflected in the character and accomplishments of the aid program. Steps to strengthen our Foreign Service Officer Corps, as discussed in a separate paper, will produce improvements in this fiscal area, as well as in many others.



Foreign Aid Procurement

Funding

After appropriation by the Congress of funds for other than military purposes and after analysis of each country's request for such aid, an allocation of these funds is made by FOA for each country participating in such assistance. A broad general agreement is reached with the country with respect to its allotment and the funds become an account on which the country, *with FOA approval*, may draw. Study in the United States and overseas of the details of the proposed program continues concurrently with the procurement process after the allotment of funds. Such detailed study includes how and where procurement is to take place, the grades and specifications of the material and equipment to be purchased, and the character of the services to be performed.

Project and Nonproject Aid

The aid with respect to FOA programing and procurement is of two broad types: (*a*) project assistance, (*b*) nonproject (commodity assistance); and funds are allotted on that basis. Project type assistance comprises all activities of FOA which are primarily designed to assist cooperating countries directly in the development or accomplishment of specific undertakings or enterprises. Nonproject type assistance is primarily designed to accomplish the transfer of resources from the United States to a foreign country to meet broad economic or defense support needs.

A project is defined by FOA as any activity or closely interrelated group of activities (*a*) which is designed to accomplish a specific limited and defined objective; (*b*) which has been or will be mutually developed and agreed upon by FOA and the cooperating country; (*c*) which requires FOA financing of goods and/or services specifically needed for its accomplishment; (*d*) the sequence of actions and requirements of which can be projected in reasonable detail at one time; and (*e*) implementation of which can be wholly or in large part initiated within 6 months of the time an agreement between FOA and the cooperating country is executed. Projects may range all the way from sending one technician abroad to perform a specific service to the building of a large hydroelectric plant.

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An example of nonproject assistance would be shipment of cotton, other agricultural commodities, or raw materials to meet the normal import needs of a foreign government.

In dollar amounts, nonproject type assistance is substantially greater at the present time than project type aid. Ordinarily nonproject aid is comprised of commodities purchased in quantity. Procurement and the financing of such procurement is fairly simple. On the other hand, with respect to numbers of requests, project type assistance exceeds that of the nonproject type and is more difficult to handle and requires considerably more attention.

Project and Nonproject Approval and Implementation Documents

FOA has recognized this and the amount of detailed information required for the approval of the more important projects is extensive. There must be submitted in connection with every project a standard "Project Proposal and Approval" document (PPA) signed by the mission chief and the country government (or a supporting document signed by the country in lieu thereof). This document includes a statement indicating the significance of the project to the total country development program, a detailed description, its objectives, and the reasons for United States financial support. The document also sets forth the project's relationship to other activities of FOA and other agencies, both United States and international; a work plan for the project; the financial plan; and analysis of sources and availability of indigenous raw materials, labor, fuel, power, transport, housing, working capital, etc., needed to complete the project; economic and technical analysis and supporting basic studies; and a program for the phasing out of the project upon the termination of United States financial support. There is also included a statement of FOA's and the cooperating country's financial contribution in prior fiscal years; similar data for the current fiscal year and for future fiscal years; so that FOA has all the information in one package which is needed to make a decision as to whether or not it wishes to finance the project proposed. Only a small part of this information is required, of course, for a simple project such as the recruitment of a technician to do a specific job.

When this document has been analyzed and if it receives FOA/W approval, it becomes an approved project. A project agreement is then negotiated by the *United States Operations Mission* (*USOM*) abroad covering the obligations of both the foreign government and the United States under the project. This executed agreement obligates United States funds.

The country government and the United States Operations Mission overseas then prepare project implementation orders (PIO's) indicating the exact amount of goods and services to be financed, how they will be procured, by whom, from what sources, and the periods during which contracts and deliveries are to be made. In any large project these documents must be studied and approved by FOA Washington before action can be taken unless this requirement is specifically waived. In smaller undertakings FOA/W will probably have waived this requirement at the time the project was approved, but in any case copies of the issued documents are forwarded to Washington for use in its continuing review of the country program as a whole. Each project implementation order is assigned a serial number, and this number is attached to all documents used in the procurement process for the project.

In the case of nonproject type (commodity) assistance, the system is simpler but analogous. FOA/W approves (or disapproves) the country request for the purchase of commodities (and related services) in a specific amount, and indicates the areas in the world where the commodities may be purchased. It has previously reviewed when setting up the country program whether or not the importation of such commodities carries out the purposes of the Mutual Security Act of 1954, and is desirable from both the foreign government and the United States point of view.

The description of the commodity, the sources from which the commodity may be purchased and by whom, and any other limitations respecting purchase are contained in a formal document called a "Procurement Authorization" (PA), which is issued by FOA/W and countersigned by the cooperating country. The request for financing has previously been approved by USOM. This document obligates United States Government funds. It is assigned a serial number and this number is attached to all documents used in the procurement process.

With respect to both Procurement Authorizations (PA's) and Project Implementation Orders (PIO's), FOA/W must determine whether procurement is to take place in the United States or offshore. When it is decided to purchase offshore because of the lower cost, a determination must be made with respect to whether or not the provisions of Section 107 of the Mutual Security Act have been met. This section provides that when procurement is authorized outside the United States it will not result in any of the following:

(1) Adverse effects upon the economy of the United States, with special reference to any areas of labor surplus;

(2) Inadequate safeguards against sabotage and the release of information detrimental to the security of the United States;

(3) Unjustifiable cost;
(4) Delays in deliveries.

An example of the difficulty of the decisions that must be made with respect to the source of procurement was the FOA determination to finance the purchase of several millions of dollars of railroad equipment for India only if at least half of it was purchased in the United States. The Indian government objected strenuously to this proviso because German and British equipment could have been purchased at about half the United States cost.

The quality of equipment to be purchased is another problem that often arises and is a source of irritation. The cooperating governments usually want material of the latest and most expensive design when something less elaborate would do an adequate job. Similarly, attempts to supply rebuilt equipment instead of new invariably meet with resistance.

Purchasing

After project implementation orders or procurement authorizations are issued, procurement is ready to take place. It has been the policy of FOA and its predecessors since their inception, that procurement, so far as practicable, should be through ordinary commercial channels. The preferred method is for the foreign government to suballocate funds to an importer, assign him the appropriate FOA procurement authority serial number, and the importer purchases commercially in accordance with the terms of the authorization *and FOA regulations.* In certain instances the foreign government purchases for its own account through a purchasing mission in the same manner. In all cases commodities and equipment purchased with FOA funds are identified by having an appropriate United States Aid emblem stamped on the shipping container. The regulations applicable to FOA procurement and financing are contained in an official document ("Regulation One") prepared by the Foreign Operations Administration and printed in the Federal Register. It is widely distributed to United States banks, exporters, and to the diplomatic missions of the governments of countries participating in the aid program. It has recently been revised to cover operations of the old Technical Cooperation Administration countries of the Near East, Africa, and Latin America, and to include the amplified project procedure. At the present time FOA financing all over the world is carried on under one set of regulations.

While it has been the policy of FOA to stay out of procurement as far as possible, it has been recognized that in underdeveloped countries procurement could not be handled in the same way as in Europe. For example, when aid was originally initiated in For-

mosa it was found that there was no organized importing community there which knew how to procure. In addition there was the question of the "oriental squeeze." It was therefore decided that until Nationalist China was in a position to do its own procuring FOA would temporarily assist it in every way possible. In the meanwhile, FOA financed a contract with a United States engineering company to advise the Chinese on procurement and other engineering problems. Most of the actual procurement of industrial materials and equipment was done under the supervision of that firm but under the direction of FOA through the General Services Administration. As the Chinese have demonstrated their ability to procure for themselves, and their sincerity in making certain that FOA regulations were honored, more and more of the procurement has been turned over to them directly.

The same general approach of assisting in procurement through the use of United States Government procuring agencies is being followed in other underdeveloped countries until the countries can handle it themselves. FOA's dealings are with the governments concerned, and it holds them responsible, not the importer. FOA is *not set up as a direct procurement agency, but as a financing institution*, and its aim is to act only in the latter capacity. (The only exception to this is that it does negotiate engineering and service contracts for itself and assists the foreign governments in such negotiations when requested to do so.) The reason for this is that no contract for services in excess of $25,000 is financed by FOA until it has been reviewed and approved by it. (All such contracts have to be reported to the Congress.)

When FOA assists the country in its commodity procurement it is expected that specifications will come in from the field in sufficiently precise terms to make it possible to act on the firm request to purchase. However, this is often not the case, and FOA technicians must by various available means, including communication with the field, amplify and pinpoint the specifications. In every such case, however, the purchasing country is required to approve the specifications in their final form to assure that nothing is purchased which was not requested. In some cases when specifications as received from the field call for equipment of higher quality than needed to perform the services required of it the specifications are downgraded with the approval of the country.

Purchase of equipment and industrial commodities that have to be made with FOA assistance are ordinarily handled through the GSA which charges 1½ percent for its services; or occasionally through the Department of Defense. For agricultural commodities the Department of Agriculture is used. These agencies purchase in the areas specified by FOA and under any restrictions which might be

imposed by FOA, but under the general rules and regulations governing the procurement of the agency concerned. The material and equipment involved are shipped direct to the consignee abroad in accordance with FOA instructions.

For project type assistance requirements (but not for nonproject assistance) the USOM itself may place orders with the GSA for $5,000 or less for any one purchase, other than for agricultural commodities. When agricultural commodities are purchased the mission is limited to an aggregate of $500 for any 1 year to take care of emergency requirements for seeds or other such small items. This authority given the USOM to purchase is a holdover from TCA procedures and is considered by FOA to be the least desirable method of procurement. In any event the same restrictions are imposed with respect to safeguarding funds and pricing as in the case of other methods of purchasing.

A variation of USOM procurement and the genesis of the old TCA procedure is "joint fund" procurement, i. e., joint authorization of procurement by the foreign government and the USOM. TCA project agreements ordinarily called for the deposit of funds of a specified amount by the cooperating country in a joint account. United States funds were normallywithheld from deposit, but were obligated by the agreement, jointly executed by both governments. These funds could only be expended as approved by the joint administrators of the project—a USOM and foreign government official. In underdeveloped countries the government depended on the USOM; so the mission chief of necessity was in the middle of the procurement picture. Under present FOA procedures joint administration of projects will continue, but it is expected that direct procurement by the USOM will be minimized, and the procurement burden assumed by the country.

A further variation is procurement through a servicio (cooperative service). The major difference between a servicio account and joint fund is that the United States and foreign government funds are not only committed but are physically turned over to the servicio for management. This is the usual arrangement in Latin America but has been rarely used elsewhere. The arrangement is feasible in Latin America where the foreign government contribution ordinarily far exceeds that of the United States. Even so FOA retains the right to audit the accounts of all servicios and the USOM codirector has the right of veto over expenditures from the joint fund.

In all cases of procurement not handled through United States Government procuring agencies the importer must provide FOA/W with certain information 30 days prior to placing any order in excess of $5,000 in order to comply with section 504 of the Mutual Security Act. The purpose of the provision is to allow United States business to participate to the fullest extent possible in procurement

financed by FOA. The information required which is widely disseminated to business firms throughout the United States is as follows:

(*a*) "A brief general description and the quantity of commodities or services, with specifications written in English and in such a way as to enable United States suppliers to make offers;

(*b*) "Bid closing date and applicable invitation number; and

(*c*) "Address where invitations or specifications may be obtained."

Financing

The pattern of financing procurement in Europe is being used in the rest of the world as it becomes feasible, as described in the preceding section under procurement. The foreign government issues an import license to an approved importer or purchasing mission covering commodities or services as specified in project implementation orders, or procurement authorizations. In accordance with FOA price regulations (to be discussed later) the foreign importer is expected to buy at the lowest competitive market price. The importing government through its central bank requests the FOA to issue a letter of commitment to a United States bank to finance the import. No letters of commitment are issued by FOA to non-United States banks. The United States bank then issues a letter of credit to the United States or foreign exporter. The letter of credit follows the terms and conditions of the FOA letter of commitment, and the exporter either in the United States or abroad is then in a position to ship, knowing that he will receive payment under the terms of that document.

There are other variations of FOA financing. If the foreign government has its own free dollars with which to finance the purchase, it may do so and later come into FOA for reimbursement, if the specific procurement was approved by FOA prior to the execution of a contract for which reimbursement is requested. A third method is that, if requested to do so by the foreign government, FOA may issue a letter of commitment direct to the supplier (United States only) of the commodities or services to be exported from the United States. A final method is that when a determination has been made that an authorized purchase of a commodity or service is to be procured by a United States Government agency, FOA reimburses the United States Government agency directly.

Documentation

In each of these cases no payment is made without complete documentation. Along with usual commercial documentation such as ocean bills of lading, etc., the foreign government must certify that in the

case of services these have been delivered as specified, that the services have been performed satisfactorily, and in accordance with the supplier's contract. The *supplier himself must in every case certify (suppliers certificate) that he acknowledges* that the sum indicated on the invoice, as claimed to be due and owing under the terms of the underlying contract, is to be paid out of the funds made available by the United States under the Mutual Security Act and is subject to FOA regulations. He certifies among other things that:

(*a*) He will promptly make refund to FOA in the event of his nonperformance in whole or in part under the contract, or for any breach by him of the terms of the certificate;

(*b*) He has not received or given, and will not give or receive, any side payments or kickbacks in connection with the contract, or commissions except to the extent fully disclosed;

(*c*) The contract is not a cost plus a percentage of cost contract;

(*d*) The purchase price is no higher than the market price prevailing in the United States for export;

(*e*) He has complied with all the price provisions of the FOA regulations;

(*f*) He has allowed all discounts customarily allowed his other customers similarly situated.

He must also certify that the information shown on his certificate is correct and that he will furnish promptly such additional information as may be requested by FOA.

The furnishing of a false certificate is punishable under the laws of the United States. The regulations with respect to the documentation to be required before payment is made, were drawn up with the assistance of a group of representatives of United States banks who were called to Washington for that purpose in 1948 and again this year to revise the regulations. The regulations are satisfactory to the banks. The general method of financing was also fully discussed with representatives of the participating countries and United States exporters and is understood by them.

Price Provisions

The price provisions of the FOA regulations are designed to carry out congressional instructions and intent with respect to FOA pricing policies. The basis for the regulation is section 510 of the Mutual Security Act of 1954. (Similar provisions have been included in all foreign aid legislation since 1948.) Section 510 provides, among other things, that no funds made available under the Act for Development Assistance or Defense Support may be used "for the purchase in bulk of any commodities at prices higher than the market price prevailing in the United States at the time of the purchase, adjusted for

differences in the cost of transportation to destination, quality and terms of payment."

Rulings of the Comptroller General and FOA both interpret congressional intent to be that a bulk commodity means any commodity representing a sizable expenditure. Therefore, all commodities must be purchased competitively. In the case of custom built equipment or proprietary pharmaceuticals where the competitive market price cannot be readily determined the regulations provide that the net price shall "in no case exceed any price charged by the supplier at the time of purchase in a comparable export sale of the same or similar commodity. Nor shall it exceed the sum of * * * the price charged by the supplier in comparable domestic sales of the same or similar commodity made during the period in which the supplier's domestic prices have been in effect * * * plus an export differential, if any, customarily used by the supplier in comparable sales * * * or currently being used by the supplier in comparable non-FOA sales of the same or a similar commodity * * *."

With respect to offshore procurement the price cannot exceed the United States price or the export price prevailing in the country where purchase is made, or in the case of unlisted commodities the price cannot exceed the supplier's best export price for a similar commodity, or that of the principal exporters of the country for a like or similar commodity.

There are also provisions covering sales by other than manufacturers, producers or processors, i. e.: export merchants, brokers, etc.

There are special rules for certain commodities—for example, petroleum, because of the complexity of the pricing system of that industry.

The FOA document containing the price regulations dated October 1954 is unclassified.

Followup

In order to police the price provisions of the regulations a branch of the Controller's Office in FOA spends all of its time making certain that prices paid are no higher than allowed under those provisions. As a result of the work of this group millions of dollars have actually been recovered for the United States. These refunds are considered a reduction in price and are available to FOA for reprograming.

In addition to this branch, the Controller's Office also has representatives overseas in each country to make certain that when the equipment and services are delivered overseas they are used for the purpose for which they were requested, and that no diversion has taken place. The countries upon request of FOA must refund to FOA (not to the Treasury) any funds used for equipment or services

which have been diverted, "or when the Director (of FOA) determines that reimbursement was improper as being in violation of any of the provisions of the act * * * or any rules, regulations, or procedures of FOA promulgated under * * * said act." Millions of dollars have also been refunded under this regulation and reprogramed for other purposes.

FOA also has an Investigations Division in its Security Office which concerns itself with running down any information or reports on possible violation of the regulations.

While there may be minor variations with respect to the procurement and financing procedures previously described there are no exceptions made with respect to the followup with respect to the safeguards set forth in the regulations on the paying out of dollars.

Conclusion

In summary, it would seem to be apparent that the procurement of the commodities and services which comprise the foreign economic aid program is a complex matter, and one that is integrated from the beginning—when the foreign governments make known their requirements and funds are allotted—to the end, when FOA follows up to see that the funds have been used for the purposes for which they were authorized. The intermediate procedures for approving the individual requests for aid, procuring it, financing it, and for regulating the paying out of the dollars for it are interwoven.

The procedures for carrying out these functions may vary in differing degrees, but they all have one important thing in common. They are carried out all over the world, but their control is in one central place in Washington. In view of the interrelationships and the vast sums involved, it is difficult to see how responsibility for performance could be set without control placed in one central department or agency in Washington.

The procedures with respect to all phases of procurement throughout the world are spelled out in a series of operational orders included in a Manual of Operations. The procedures are in use and are understood by the incumbent operating personnel in 63 foreign countries and in the United States. More important, banks, exporters, foreign importers, and their governments understand the system.

The process as worked out was a year in preparation and represents an attempt to arrive at procedures that combine the best features of the original ECA and TCA operations and eliminate those that have proved to be cumbersome and unworkable. That part of the system affecting United States banks and exporters and foreign importers is unchanged.

If the procurement function were divided among several different United States Government departments with long established and different operational rules of their own, it is difficult to believe that they could be made to accept one unified system, and to funnel all controls respecting their funds through another department of the Government. Unless there is one control system with unified procedures, and one thoroughly understood by the business and banking community here and abroad (as well as by United States operating people overseas) there will be confusion for a long time to come.

APPENDIX

Fiscal 1955 FOA Appropriation

[By category, new money, carryover]

Category	New money	1954 funds unobligated and re-appropriated	Total
Title I [1]	$2,418,798,195	[2] $2,650,512,729	$5,069,310,924
Title II	184,500,000		184,500,000
Title III	116,457,621		116,457,621
Title IV	29,244,000	23,563,000	52,807,000
Subtotal	2,748,999,816	[3] 2,674,075,729	5,423,075,545
Plus administrative funds:			
Titles II, III, IV and title I, chapters 2 and 3	32,500,000		
Total appropriation	2,781,499,816	2,674,075,729	5,455,575,545
Less purchase surplus: Agricultural commodities (sec. 402) aid to Spain		(55,000,000)	(55,000,000)
Net	2,781,499,816	2,619,075,729	
Add back agricultural commodities purchases		55,000,000	55,000,000
Total appropriation	2,781,469,819	2,674,075,729	5,455,575,545
TITLE I			
Chapter 1:			
Direct aid (sec. 103)	1,092,700,000	2,383,512,729	3,476,212,729
Infrastructure (sec. 104)	100,000,000	39,000,000	139,000,000
Subtotal	1,192,700,000	2,422,512,729	3,615,212,729
Add supplies:			
Previously delivered returned to United States custody		200,000,000	200,000,000
Gross appropriation	1,192,700,000	2,622,512,729	3,815,212,729
Less administrative funds (title I)	(23,250,000)		(23,250,000)
Net program funds	1,169,450,000	2,622,512,729	3,791,962,729
Add back administrative funds	23,250,000		23,250,000
Appropriation, ch. 1	1,192,700,000	2,622,512,729	3,815,212,729
Chapter 2:			
Southeast Asia, west Pacific and direct forces support (121)	700,000,000		700,000,000
British aircraft production: Local currency from surplus agricultural commodities (122)	35,000,000		35,000,000
Common-use items	60,000,000		60,000,000
Total, ch. 2	795,000,000		795,000,000
Chapter 3:			
Defense support:			
Europe, sec. 131 (b) (1) joint control areas	45,000,000		45,000,000
Europe, sec. 403	25,000,000		25,000,000
Near East, Africa, South Asia, sec. 131 (b) (2)	73,000,000		73,000,000
Far East and Pacific, sec. 131 (b) (3)	80,098,195		80,098,195
Korean program, sec. 132 (a, b, d)	205,000,000	[4] 12,000,000	217,000,000
UNRRA, sec. 132 (c)	3,000,000	16,000,000	19,000,000
Total, ch. 3	431,098,195	28,000,000	564,098,000
Total, title I	2,418,798,195	2,650,512,729	5,069,310,924

Footnotes at end of table.

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Fiscal 1955 FOA Appropriation—Continued

	New money	1954 funds unobligated and reappropriated	Total
TITLE II			
Development assistance:			
Near East and Africa, sec. 201 (a) (1)	$115,000,000		$115,000,000
South Asia, sec. 201 (a) (2)	60,500,000		60,500,000
American Republics, sec. 201 (a) (3)	9,000,000		9,000,000
Total, title II	184,500,000		184,500,000
TITLE III			
Technical cooperation (Europe excluded), sec. 304	105,000,000		105,000,000
United Nations technical assistance programs	9,957,621		9,957,621
Organization of American States programs, sec. 306 (b)	1,500,000		1,500,000
Total, title III	116,457,621		116,457,621
TITLE IV			
Other programs:			
Intergovernmental Committee for European Migration, sec. 405 (a)	10,000,000	$500,000	10,500,000
United Nations Children's Fund, sec. 406	12,500,000		12,500,000
United Nations Relief and Works Agency, sec. 407		23,063,250	23,063,250
North Atlantic Treaty Organization, sec. 408	1,169,000		1,169,000
Ocean freight for voluntary agencies, sec. 409	4,400,000		4,400,000
Mutual Defense Assistance Control Act, sec. 410	1,175,000		1,175,000
Total, title IV	29,244,000	23,563,250	52,807,250

[1] Includes $23,250,000 for administration of title I, chap. 1.
[2] Includes $200 million of previously delivered property to United States custody.
[3] Includes $12 million for UNNRA under title I, chap. 3.
[4] Appropriated for UNNRA under title 1, ch. 3.

NOTE.—The net aid program requires that $350 million be used for the purchase of agricultural commodities. The act also specifically provides that for the purchase of British military aircraft the $35 million authorized shall be in the form of local currency received for such surpluses and that $55 million authorized for aid to Spain must come from the same source. There is a further limitation in the case of Spain that the funds to purchase the surpluses be from "the unobligated balances continued available under this act * * *." There is no limitation on the source of the remaining $260 million. With respect to expenditure, the only limitation is that funds be used for general purposes of Public Law 665 and with particular emphasis on the purposes of those provisions of section 104, Public Law 480, which are in harmony with Public Law 670.

Flexibility in the appropriation is provided by section 501, which states that 10 percent of the funds made available under any provision of the act may be transferred to, and consolidated with, funds provided under any other section for purposes for which such funds may be used. There is the limitation, however, that the increase cannot amount to more than 20 percent. Under this provision, defense support might be increased by a maximum of $86 million; development assistance by $37 million (50 percent of which would have to be in the form of loans); and technical cooperation by $23 million.

Funds Available for Operation Mutual Security Program, Fiscal Year 1955

[In thousands of dollars]

	New money	1954 funds unobligated and reappropriated	Subtotal	Obligated but unspent June 30, 1954	Total funds available for expenditures, fiscal year 1955
TITLE I					
Mutual defense:					
Ch. 1	$1,192,700	$2,622,500	$3,815,200	$5,012,400	$8,827,600
Ch. 2	795,000	----------	795,000	893,800	1,688,800
Ch. 3	431,100	28,000	459,100	1,042,000	1,501,100
Total, Title I	2,418,800	2,650,500	5,069,300	6,948,200	12,017,500
TITLE II					
Development assistance	184,500	----------	184,500	172,000	356,500
TITLE III					
Technical cooperation	116,400	----------	116,400	171,500	287,900
TITLE IV					
Other programs	29,200	23,600	52,800	57,000	109,800
Administrative expense	32,500	----------	32,500	----------	32,500
Total	2,781,400	2,674,100	5,455,500	7,348,700	12,804,200

Mutal Security Program—Obligations and Expenditures

[In thousands of dollars]

	Military assistance		Other assistance		Total assistance	
	Obligations	Expenditures	Obligations	Expenditures	Obligations	Expenditures
Fiscal year 1954						
1953						
July through September	$97,412.9	$588,948.9	$30,708.5	$254,976.2	$128,121.4	$843,925.1
October	120,304.6	219,627.8	72,957.4	125,545.7	193,262.0	345,173.5
November	126,710.6	276,439.9	21,304.6	84,921.7	148,015.2	361,361.6
December	53,353.9	604,267.7	73,285.7	103,933.7	126,639.6	708,201.4
1954						
January	97,774.8	182,337.9	82,534.7	109,089.8	180,309.5	291,427.7
February	405,144.7	244,550.8	181,922.5	147,656.7	587,067.2	392,207.5
March	102,882.3	355,249.8	398,009.8	114,493.8	500,892.1	469,743.6
April	340,246.0	313,971.0	99,658.6	97,310.3	439,904.6	411,281.3
May	586,898.2	347,998.8	186,086.8	98,086.3	772,985.0	446,085.1
June	661,176.8	493,730.1	535,052.6	109,152.3	1,196,229.4	602,882.4
Total fiscal year 1954	2,591,904.8	3,627,122.7	1,681,521.2	1,245,166.5	4,273,426.0	4,872,289.2
Obligations	(*Percent*)		(*Percent*)		(*Percent*)	
Last 5 months	80		83		81	
Last quarter	61		48		56	
Last month	25.4		31.5		27.7	

Source: Controller Foreign Operations Administration, Oct. 11, 1954.

Direct Forces and Defense Support

By William N Egan and Jeremiah J. Kenney

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INTRODUCTION

Two major categories of nonmilitary foreign aid programs are entitled "defense support" and "direct forces support." Together, they received new appropriations in excess of $1.2 billion for fiscal year 1955, 78 percent of the nonmilitary funds provided for foreign aid in the year.

Because of their size and importance, and because the terms "direct forces support" and "defense support" are widely used, it may be useful to review their real meaning and to determine the kind of programs they stand for.

The appropriate extent of these two types of foreign aid and the distribution of fiscal year 1955 appropriations by geographical area is shown below:

	(*Millions of dollars*) *Direct Forces Support*	*Defense Support*
Europe	$55.0	$70.0
Near East, Africa and South Asia	20.0	73.0
Far East and Pacific	720.0	285.1
Latin America	-----	-----
Nonregional	-----	-----
Total	795.0	428.1

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I. Defense Support

General Description

Defense support is a general program of economic assistance designed to support the military efforts of countries which are receiving military assistance. Its character and nature are indistinguishable from economic or development assistance, and the terminology varies between countries only because of the presence of a military assistance program. For example, Pakistan received defense support because it also receives military aid, and India receives development assistance because there is no military assistance program there. As a matter of fact, Pakistan received development assistance until the day the mutual defense agreement was signed, and the unchanged program thereafter was called defense support.

Genesis

Defense support appears to have been a contribution of Mr. Averell Harriman to our foreign aid programs. The Mutual Security Act appropriations for fiscal year 1952 provided slightly less than $2 billion for economic aid. It was economic aid keyed to the defense needs, according to the witnesses who presented the program, but it was simply called economic aid. Defense support first appeared in Mr. Harriman's presentation of the mutual security program for fiscal year 1953, and economic aid virtually vanished.

The defense-support presentation was based on the decisions reached by the North Atlantic Council at its meeting in Lisbon in February 1952. The appropriations requested for defense support in fiscal year 1953 were roughly equal to the requests for economic aid for fiscal year 1952.

General Operation and Administration

Defense support programs are administered by the Foreign Operations Administration and presently constitute one of the major phases of its activity. The actual program in each country is developed in cooperation with the agencies of the Department of Defense in order to reflect the defense needs of the country and to insure that it makes the maximum contribution to the defense effort of the country.

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From all outward appearance, the defense-support program, except for its stated objectives, is hardly different from the economic aid which has been extended to European nations since April 3, 1948. The same commodities are shipped, the same kind of counterpart generated, the same kind of operation involved. It does appear, however, that shipments of tobacco to Europe have diminished considerably since the name of the program was changed.

Included in the general program of defense support is the special $200 million program for "defense support, relief, and rehabilitation" in South Korea, plus appropriations for the United States contribution to the United Nations Korean Reconstruction Agency amounting to slightly more than $3 million. Appropriations for special assistance to joint control areas (Berlin and Austria) are also provided under the defense-support heading.

New appropriations for defense-support programs for fiscal year 1955 totaled over $400 million.

II. Direct Forces Support

General Description

Programs for direct forces support are designed to give the military establishments of certain countries direct support which is additional to the military assistance which these countries are also receiving. Each direct-forces support program is extended to a country which, despite the military equipment and training which it is receiving as military assistance, is unable to develop and maintain the size and kind of forces which are important from a standpoint of the United States security without further help. This means that in certain limited types of cases, these funds will be used for the purchase of so-called common-use items. For example, one of the countries receiving military assistance might not be able to purchase clothing or gasoline or oil in sufficient amounts to take care of its domestic civilian needs and at the same time the needs of its armed forces. In addition, funds requested for direct forces support would be used for the purchase, in a country receiving military assistance, of military equipment to be given directly to the armed forces of the country concerned.[1]

Direct forces support, casting aside the fancy language, can best be explained by describing the three types of programs lumped together under that general term. The major component of direct forces support has been the United States effort to build sufficient military strength in southeast Asia and the western Pacific to stop the Communist advance. Initially, in fiscal year 1954, this involved paying 65 percent of the cost of the war in Indochina. Currently, it covers our continued efforts to strengthen the free-world defenses in that critical area. A total of $1.4 billion has been made available for this purpose in the last 2 fiscal years.

A second category of aid which now falls under direct forces support is also called production for forces support. This involves payment for manufacture in France of artillery, ammunition, and semiautomatic weapons for French forces, and payment for manufacture in the United Kingdom of military aircraft for the RAF. These operations have involved a total of $205 million in the last 2 years. In fiscal year 1955 this program (which involves only the U. K. aircraft purchases) is financed by the sale of surplus agricultural commodities. The details of this agricultural surplus sale are complex and outside the competency of the Department of Defense.

[1] S. Rep. 1799, 83d Cong., 2d sess., report on the Mutual Security Act of 1954, p. 28.

The third general type of aid which is now called direct forces support calls for the provision of common-use items to the military forces of certain countries to assist them in carrying heavy burdens in financing armed forces. Despite their military destination, these items are of the same general type as are used by civilians, and include such things as tires, gasoline, paint, cement, etc. This category has involved $124 million in the last 2 years.

Genesis

The term "direct forces support" first made its appearance as a means of describing part of the foreign aid program in the presentation of the mutual security program for fiscal year 1955, and was a result of efforts in the foreign aid agency to develop nomenclature which more adequately described programs which were economic in nature and military in objective.

In fiscal year 1954, the programs now described as production for forces support were called special mutual defense financing.

General Operation and Administration

Programs for direct forces support have been administered by the Foreign Operations Administration, rather than by the Department of Defense. In general, they have constituted budgetary support, on a rather massive scale, to the French, and to a lesser degree to the British and other countries.

The direct forces support program for southeast Asia and the western Pacific was originally a budgetary support operation in which the United States simply reimbursed the French for 65 percent of their total expenditures for the war in Indochina.

The production for forces support phase of the program is also a direct budgetary support proposition, involving direct payment to the British and the French for certain military production expenditures and financing of certain procurements.

Common-use items, as currently used in the legislation, are extended to only a few countries. For fiscal year 1955, the original program request was for $70 million, as follows: Europe, $20 million; Turkey, $25 million; and Formosa, $25 million. The actual authorization and appropriation was reduced to a total of $60 million. Common-use items have, in the past, been provided to recipient countries under both the defense support program and the military assistance program, and not until fiscal year 1955 have been then indicated as a separate phase, under the general term of direct forces support. The program for providing common-use items has also varied with countries. For

instance, it was administered by the Department of Defense for Indochina because it was so closely related to the military operations. In all other cases, however, the FOA had responsibility for this activity.

These programs are developed in close cooperation with the Department of Defense which administers the military assistance program to insure that it is coordinated with the military program and contributes directly to the defense buildup of the recipient country.

New appropriations for the direct forces support programs for fiscal year 1955 totaled $795 million.

Similarities and Differences

The existence of defense support and direct forces support as separate aid programs, and separate appropriations requests, implies that the programs are each separate and distinct from the other aspects of the foreign aid program.

Such distinctions are expressed by FOA, but a closer examination often reveals it to be a distinction without a difference.

Direct forces support and defense support differ from military assistance, in that they provide different things (e. g., all types of industrial equipment, materials, and consumer goods, versus military hardware), all having the same overall objective—increased defense strength.

"The distinction between defense support and direct forces support programs for Europe (and presumably elsewhere) is that the former has for its purpose the achievement of military objectives through the extension of limited types of economic assistance. Direct forces support, however, consists of programs which finance or provide specific supplies, equipment, or services that go directly into the hands of the military or are of immediate benefit to such forces." (S. Rep. 1799, 83d Cong., 2d sess., report of the Foreign Relations Committee on the Mutual Security Act of 1954.)

Both forms of assistance are designed to make possible the creation or maintenance of a certain level of military forces. Direct forces support does so by providing, or paying for, goods or services that physically (although sometimes in different form) reach or benefit the forces involved, whereas mutual defense support contributes to this objective more indirectly through providing resources which either (*a*) enable the recipient country to maintain a level of defense expenditures or undertake defense activities that would otherwise not be possible, or (*b*) increase the recipient's capacity to do so in the future. The one form of assistance can be traced directly to a soldier who actually uses it or is served by it; the other form has its specific military impact as a country's economy is rendered capable of sustaining the desired enlargement of its defense burden.

Defense support, programs for common-use items under direct forces support, and economic aid, or development assistance, differ only in terms of objectives. The same commodities and the same kind of operations are involved in each.

(*a*) They are all administered by FOA, i. e., planned, programed, purchased, field distribution and utilization supervised, counterpart accounted for and disbursed, etc.

(*b*) They are constituted by ordinary commodities, materials, equipment, and services common to everyday commercial transactions, both in domestic and international trade;

(*c*) These commodities, materials, and services are purchased against commercial specifications (with few minor exceptions, such as jet fuels, tires, and batteries for military vehicles, etc.) through conventional procurement practices either by recipient country or by FOA;

(*d*) They are inextricably commingled in the various country programs losing their identity in the total country programs except as the costs of the same item or service may be funded from a different authorization source for different recipient countries by FOA.

The other activities included under direct forces support, funds for southeast Asia and western Pacific and production for forces support are different in that they, to date, involve payment of bills incurred by France and the United Kingdom and very little else.

Both defense support, and to a lesser degree, direct forces support, include the provision of technical guidance and assistance in recipient countries, although such assistance is generally coordinated with direct title III programs of technical cooperation in each country.

III. Country Operations

Operations of direct forces and defense support types of aid were reviewed in several countries. During these reviews, it was noted that after the introduction of the specific terms, direct forces and defense support, the FOA "rewrote" its history designating certain parts of its previous economic programs under the new appellations.

Formosa

In Formosa, since local production of goods and services is nearly sufficient for civilian requirements, the basic application of economic aid (exclusive of military hardware) takes the form of both direct forces and defense support.

There is a great homogeneity of composition in the types of aid, defense support, direct forces support, and technical cooperation, in that they consist primarily of commodities, equipment, and services. These all blend into the objective of military support which is basic in the Formosa situation.

The peculiar situation in Formosa results in integration of all aid components, to the point of losing individual identity, in a single unit desgned to support the military economy of Formosa. Of approximately $2.5 billion of aid given China from V–J day to March 1949, some $2 billion was grant aid. While no figures could be obtained, individuals contacted indicated that a major share could be described as defense support. There was in addition approximately $1 billion of military equipment and supplies which has been characterized as both direct forces support and defense support.

Defense Support

Of a total expenditure of $396.7 million, during fiscal year 1951–54, $128.4 million was spent in economic aid, much of which might be termed "defense support."

Funds available for aid to Formosa for fiscal year 1955 totaled $90 million, of which $62.6 million was designed for defense support. In using these funds to assure the adequacy of consumer goods, industrial raw materials, capital goods and services, the following allocations have been made:

Industrial raw materials	$38.2
Improved transportation facilities	.5
Irrigation and fishing	.3
Power and shipbuilding	4.0
Engineering services	.7
Rehabilitation and replacement equipment	3.4
Expansion of established industry	15.5
Total	62.6

In addition to the above-mentioned fiscal year 1955 funds, counterpart funds totaling $93.7 million will be spent. Of this amount, $29.7 million is for defense support, making a total program for this type of aid for fiscal year 1955 in the amount of $92.3 million.

Direct Forces Support

During the period fiscal year 1951–54, a total of $84.8 million was expended for direct forces support, and of $90 million available for fiscal year 1955, approximately $20 million was for this purpose.

The fiscal year 1955 funds are being used for the construction of warehouses, barracks, training centers, transportation facilities, and airfields. Certain raw materials will be imported for use in local ordnance manufacture and also petroleum products for military use.

Added to the fiscal year 1955 funds, in the amount of $20 million, is an amount of $56 million of counterpart funds, making a total of $76 million for direct forces support for fiscal year 1955.

France

Aid extended to France has included practically all kinds of military and economic assistance. During the period April 3, 1948, to June 30, 1954, the cumulative dollar total of United States nonmilitary aid authorizations amounted to $3,198.3 million. Of this sum, only $85 million is direct forces support and the balance of approximately $3,100 million might be termed "defense support" under current definition. In addition, for fiscal year 1954 there was appropriated and obligated $745 million for direct forces support in Indochina to pay 65 percent of French costs of that war. In addition, fiscal year 1955 appropriations included $700 million for the same area.

Cognizance should be taken of the counterpart situation in France. This local currency is generated by original aid and for the purpose of continuance of basic programs. In France, counterpart funds have gone into the national budget and been used for various governmental expenditures. Where such funds have been generated by either direct forces support or defense support aid, there arises an implication of

French budget support under the guise of these two types of aid. The budgetary support is open and direct in the case of funds for the Indochina war.

Pakistan

Total United States aid to Pakistan, for technical assistance and special economic assistance during the period fiscal year 1951–55, amounted to $150.08 million. These had the nature of defense support, although the aid was not so identified until Pakistan became eligible for military aid. Once the program was identified as defense support, all balances remaining from the previous development assistance (or special economic assistance) programs were also identified as defense support.

Since the military and defense efforts of Pakistan are an important factor in the defense of the free world, it necessarily follows that they are of basic importance in the total United States aid program to Pakistan.

Increased military and defense requirements of Pakistan cannot be obtained without a disastrous drain on the country's economy unless bolstered by outside assistance. This means that the United States must support these additional costs which we are doing under the guise of "defense support," which embraces almost anything in the form of economic aid which directly or indirectly contributes to the strength of Pakistan.

This points up the difficulty of distinguishing between the various aid categories; i. e., technical cooperation, economic, development, and defense support.

The benefits to be derived from this conglomerate of aid are in consonance with the quality of the planning and programing. To date there has been a lack of such adequate planning and programing, with a consequent inadequacy in results.

Unless careful restraint and perceptive judgment is exercised, our objectives of increasing the military and defense capabilities of Pakistan will not be obtained and our defense support aid will be wasted.

Philippines

Up to and including fiscal year 1955 there has been no aid by the United States in the direct-forces-support category.

The interrelationship and heterogeneity of the technical cooperation and defense support aid is evident in the Philippines as it is elsewhere. This is illustrated by the avoiding of the commodity limitations inherent in the technical cooperation title by supplying the commodi-

ties for a number of agriculture and natural resources Technical Cooperation projects from the defense-support component. Again we must draw the conclusion that both are part and parcel of economic aid despite the individual titles which separate them only for the purpose of funding. In addition, technical services for evaluation, planning, and design of many defense-support projects will be funded under technical cooperation.

Defense Support

Prior to fiscal year 1955, the Philippine program was developed and presented on an integrated basis, which combined defense support, economic assistance, and technical assistance. In accordance with the requirements of the Mutual Security Act of 1954, the proposed program was broken down into two components—technical cooperation and defense support—all grants.

It should be noted that the funds made available to the Philippines have been utilized largely for projects designed to increase investment in productive public projects and to improve or expand public service. Their value as defense support is debatable.

The fiscal year 1955 program, all grant, shows a total of $22.8 million, of which all but $7.3 million is for defense support ($15.5 million).

A review of the fiscal year 1955 program indicates that while there is no doubt it is economic aid, there is some doubt concerning the classification of defense support applied to better than two-thirds of these programs.

The following table (fiscal year 1955) is illustrative of this as well as being indicative of unsettled thinking (comparison of illustrative and operational programs):

Illustrative and Operational Programs, Fiscal Year 1955

Category	Technical Cooperation		Defense support	
	Recoded illustrative program	Operational program	Recoded illustrative program	Operational program
Agriculture and natural resources	1,965	1,455	2,458	2,840
Industry and mining	960	520	7,615	7,425
Transportation	425	110	2,297	2,135
Labor	135	160		
Health and sanitation	2,115	1,805		
Education	980	1,560		
Public administration	1,050	1,615		
Community development social welfare and housing				
General and miscellaneous				
Technical support	(1)	75		
Regional and interregional account	(1)	300		
Total	7,630	7,600	12,370	12,400

[1] In the illustrative program neither technical support nor regional and interregional costs were shown separate from the categories.

United Kingdom

The cumulative aid program to the United Kingdom, from April 3, 1948, to June 30, 1954, shows $85 million allocated for direct forces support. An item for industrial commodities in the amount of approximately $1,968 million undoubtedly contained elements which could properly be classified as defense support. One of these, in 1951, was for $112 million in machine tools for the manufacture of aircraft, tanks, guns, and naval vessels.

The fiscal year 1954 military program of $316.3 million contained $206.3 million which might be characterized as defense support.

Again this factor shows when counterpart expenditures after the Korean outbreak were devoted in great part to military uses. Military production ($611.8 million) and promotion of production for military use ($18.3 million) appear to fall in a defense-support category.

In addition to the above, $84 million in counterpart funds were spent for defense budget support during fiscal year 1953 and fiscal year 1954.

It would appear that, while economic benefits to the United Kingdom from defense aid and special programs are substantial, the reverse also appears to be true as in the following cases:

(*a*) *Steel Company of Wales, Ltd.*—The United States contributed $2.7 million for construction and expansion of sheet and plate capacity, with resulting economic and defense support benefits.

(*b*) *National Oil Refineries, Ltd.*—A contribution of $2.9 million for expansion.

(*c*) *Sheel Haven Refineries.*—A contribution of $2.6 million for expansion.

Both (*b*) and (*c*) above, while basically economic aid, were aimed at increased production for defense use, i. e., Defense Support.

IV. Summary and Conclusions

Generally speaking, both direct forces support and defense support aid have constituted budget support in a varying degree from country to country, and have involved activities, in most respects, which are indistinguishable from economic aid or technical assistance.

The term "defense support," it seems obvious, was originally introduced as part of an effort to win continued public and congressional support for an economic aid program in Europe at a time when there was considerable opposition to additional economic aid grants. This, however, is not a commentary on the importance or necessity for such aid in developing the defensive strength of the free world.

The introduction of new terms to describe phases of the foreign aid program has not resulted in greater public understanding of the program, especially when some of the terms used convey no real understanding of the programs they encompass and no real meaning in themselves.

Public understanding of the aid program, and undoubtedly its administration, would be simplified if the various terms were redefined and the program realigned, to bring identical or similar activities under the same heading and to abolish the distinctions without differences which now exist. This can, and should, be done without introducing new terms which add to the confusion, or changing the terms again in another year.

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United States Technical Assistance

By William N. Egan, Charles A. H. Thomson and Cecil J. Olmstead

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I. Introduction—the Background

The United States has been in the technical assistance business, as receiver or supplier, for as long as the Republic has lived. Immigrants to our shores brought technical knowledge with them, and drew a continuing flow of it from the more advanced countries from which they came. Colonial scientific progress and development, exemplified by Benjamin Franklin, started a reverse flow at an early date. During the 19th century, our missionaries and traders increased our technical assistance to others, building schools and hospitals in underdeveloped countries all through the world. In the next century our great private philanthropic foundations, the Rockefeller Foundation, the Carnegie Corporation, and most latterly the Ford Foundation, have worked and are working to spread enlightenment, technique, and progressive practices abroad. American business has carried technical assistance with it, training thousands of foreign workers as it built plants and extended commerce. In these more recent years, American farm and labor organizations have also extended their contacts and offered their assistance to their counterparts abroad.

There are no available measures of the full extent of this private or nongovernmental technical help. Much of it is indirect and incidental to normal conduct of business of all these enterprises—religious, scholarly, philanthropic, and commercial. But it is, in all probability, far greater than even the total of $500 millions of technical assistance appropriated since 1950 by our Government. And all of these private organizations have played a large part in carrying out our Government's technical assistance.

If we take the long look, it is immediately clear that our Government programs came relatively late, and remained relatively small until 1950. The modest governmental roots of the present program go back to limited help to the Pan-American Sanitary Bureau and our development program in the Philippines, dating from 1902. Government technical assistance continued on this very modest level until World War II. Then its work in Latin America took a great stride forward with the work of the Coordinator of Inter-American Affairs, and a certain amount of technical assistance was offered in connection with lend-lease and economic warfare. Our concern was political, military, and economic. We wanted firm allies; safe bases; and new and richer sources of strategic supplies.

After the war, the program was reduced sharply overall, although new programs were added. The Philippine program was revived. The United States Information and Educational Exchange Act of

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1948 provided for continuing exchange of technical specialists, community leaders, and others, started by an interdepartmental committee (SCC) before the war, and continued through it largely by war agencies. The International Aviation Facilities Act of 1948 authorized technical assistance in meteorology and civil aviation. A sizeable component of technical aid was included within the broader functions based on the Economic Cooperation Act of 1948, and the China Aid Act.

Government participation in technical assistance took an immense step forward—at least in the public's mind—with President Truman's point 4.

In January 1949, Truman said:

> We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas * * *
>
> The United States is pre-eminent among nations in the development of industrial and scientific techniques. The material resources which we can afford to use for the assistance of other peoples are limited. But our imponderable resources in technical knowledge are constantly growing and are inexhaustible.[1]

Point 4 was no mere humanitarian gesture; it was an act of high policy and a move in our foreign relations—it tried to balance peaceful help and economic aid off against rearmament and respond to the demands of underdeveloped countries throughout the world, for help. By putting new stress on the export of the relatively cheap and allegedly inexhaustible resources of science, skill, and technique, the President hoped to mollify those groups at home who were calling for an end to elaborate and expensive governmental foreign assistance.

While point 4 is commonly thought of as a limited program of technical cooperation—the export of American knowledge, techniques, and skills—it is worth noting that President Truman went well beyond this. He called for measures to increase the flow of capital, both private and governmental, as the only way that economic progress could be swiftly achieved. Technical assistance should help provide the "social capital"—roads, harbors, power plants, and the like—which would make a country attractive to foreign investment. Such assistance, to be effective, must be planned. The President asserted that help to other countries in planning for their economic future and surveying their economic resources was as important as any other part of the aid program.

Other Government officials took a more cautious view. Secretary of State Acheson said that technical assistance

> * * * is not and never will be a big-money enterprise. It is cooperative, which means that a considerable part of the expense should be borne by the countries in which we work. It involves salaries and expenses of people—not

[1] Quoted in Brown and Opie, *American Foreign Assistance* (1935), p. 389.

vast purchases of machinery and raw materials. Its objective is to show other people how to meet their own needs, not to attempt to meet those needs ourselves. For this reason, the cost of technical cooperation will always be modest, compared with the cost of other types of foreign-aid programs.[2]

Dr. Henry G. Bennett, first Director of Technical Cooperation, planned

* * * a simple, down-to-earth self-help program designed primarily to assist other peoples in increasing their food production, bettering their health conditions, and improving their educational systems.[3]

The Act for International Development, passed in 1950, stated that it was the policy of the United States

* * * to aid the efforts of the peoples of economically underdeveloped areas to develop their resources and improve their working and living conditions by encouraging the exchange of technical knowledge and skills and the flow of investment capital to countries which provide conditions under which such technical assistance and capital can effectively and constructively contribute to raising standards of living, creating new sources of wealth, increasing productivity, and expanding purchaing power.[4]

The act also limited programs to those which would contribute to the balanced and integrated development of the economic resources and productive capacities of economically underdeveloped areas. It authorized the Administration to participate in multilateral technical assistance through the United Nations and the Organization of American States.

Technical cooperation, closely defined by the act, was limited in two ways: first, to the interchange of technical knowledge and skills; and second, to surveys, demonstration, training, and similar projects in the fields of economics, engineering, medicine, education, agriculture, fisheries, minerals, and fiscal matters.

The Mutual Security Act of 1954 expanded somewhat the concept of technical cooperation, extending the list of permissible activities, but limiting such activities strictly to the enumerated list. Under this law, technical cooperation includes demonstration, training, and similar projects in the fields of labor and forestry, and training in public administration as well as the fields enumerated in 1950. And the 1954 Act authorizes promotion of the trade of economically underdeveloped areas. Projects under the Act must be designed *primarily* (no longer exclusively) to contribute to the balanced and integrated development of the economic resources and productive capacities of underdeveloped areas.

Scope of the field of technical assistance is, at first blush, limited to underdeveloped areas. But this term is nowhere defined in the

[2] Hearings before the Senate Committee on Foreign Relations, 81st Congress, 2d Session (March and April, 1950), pp. 12–13.

[3] Quoted in Brown and Opie at p. 397.

[4] 22 USC 1557a, section 403.

law. According to an authoritative private specialist, an underdeveloped area is

> A country characterized (1) by mass poverty which is chronic, and not the result of some temporary misfortune, and (2) by obsolete methods of production and social organization, which means the poverty is not entirely due to poor natural resources and hence could presumably be lessened by methods already proved in other countries.[5]

And the Senate Foreign Relations Committee said in its report on the Act for International Development that "underdeveloped areas" meant those areas of the American Republics, the Far East, the Near East, and Africa, where low standards of living generally prevail. Under this standard, almost every country in the world outside Europe or the Soviet area is eligible for, and has received some technical cooperation.

As noted above, there is little if any difference in the actual operation of technical assistance or of technical cooperation. Technical assistance is usually used to refer to such operations involving the more advanced countries, or military matters. So conceived technical assistance, especially in fields of productivity, has been a feature of our aid to Europe from early ECA days.

Terminology describing the various forms of technical assistance is varied and confusing, changing with the opinions and political objectives of the Administration, and with its estimate of the temper of Congress and of the American people. As late as 1950, Congress declared that economic objectives took priority over military objectives, despite the obvious urgency of building defense against Communist aggression. With the Korea outbreak this priority was reversed; and, as the Marshall plan moved toward completion, military matters took first place. From that time to this, massive economic aid has been related primarily to defense.

Current mutual aid falls into two grand divisions: Military assistance and economic assistance. Military assistance, strictly speaking, is the provision of military supplies and direct training to the armed forces of our allies. It also includes contributions of money for "infrastructure" within NATO. Economic assistance is everything else. Even this simple division is not clear, since two sorts of economic aid—direct forces support and defense support—are related by law and budgetary practice to military affairs.

Direct forces support is the provision of money and common-use items to military forces of nations receiving military assistance. The money is chiefly for troop pay. "Common-use" items are equipment, materials, commodities, or services furnished directly to military forces, which could also be used by civilians, such as food, fuel, or

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[5] Staley, Eugene—*The Future of Underdeveloped Countries* (1954), p. 13.

vehicles. Thus direct forces support is clearly a form of economic aid.

Defense support means economic assistance given to countries which are maintaining or working toward force goals prescribed by our Joint Chiefs of Staff beyond those which these countries could sustain without our aid. Defense support consists of commodities, services, financial and other assistance which is not furnished directly to military forces.

Development assistance is economic assistance given in countries for which the Joint Chiefs of Staff have not prescribed force goals. It is economic aid in the form of capital or equipment made available to a country to carry forward some project or program which has been or may be associated with a technical cooperation demonstration.

Commodity assistance, given directly, can be a part of defense support, direct forces support, or famine and emergency relief. Indirectly, as a source of local currencies from sales abroad, it can be used for any of these purposes, and for development assistance as well.

The justification of development assistance is almost invariably that the United States cannot wait; the need for the additional assistance is so great, and the lack of alternative resources to provide it is so obvious, that commodities, supplies, engineering, and applications beyond the requirements of instruction must be furnished forthwith. The hungry and threatening Communist wolf is rarely absent from these justifications.

Congress has so far failed to draw a clear line between technical cooperation and development assistance, either in authorization or in appropriation acts, although the functions appear in separate titles or sections of the law.

But Congress, as early as 1952, both in committee reports and in debate, has shown its concern over increasing emphasis on economic or development assistance, going beyond legitimate attention to technical cooperation. In its report on the mutual security authorization bill for fiscal year 1953, the Senate Foreign Relations Committee noted the Administration's plans to spend four times as much for supplies and equipment as for technicians, and warned that it would be unwise to emphasize commodity and end-item assistance, rather than technical assistance. In the same year, the House Foreign Affairs Commitee told those administering TCA programs to reduce the ratio of supplies and equipment to services and training, even though used to support technical assistance programs. President Eisenhower, in his message to Congress on the Mutual Security Act for 1954, asserted again that technical cooperation programs should provide experts and know-how rather than large amounts of funds or goods.

Title II of the Mutual Security Act of 1954 gives no continuing authorization to its subject—development assistance. But Title III, dealing with technical cooperation, does give a general authorization. And other forms of technical assistance relating to military operation are given continuing authorization by Sections 101 and 132 of the act. The requirement of a clear legal definition cannot be postponed beyond June 30, 1955, when the authorization for development assistance appropriations expires.

II. Recent Organizational Developments

After passage of the Act for International Development in 1950, a Technical Cooperation Administration (TCA) was set up in the Department of State. TCA absorbed the existing technical "cooperation" agencies—the Interdepartmental Committee on Scientific and Cultural Cooperation (SCC) and the Institute of Inter-American Affairs (IIAA). TCA was a planning, programing, and supervising agency in the main. It tried to get field work done by contracting with other Government departments which had, or had access to, the technical resources needed.

In 1951, with the creation of the Mutual Security Administration, the TCA was brought within the coordinating authority of the Director of Mutual Security, although it remained administratively in the Department of State until June 1953.[1] Under Executive Order 10458 of June 1, 1953, the Technical Cooperation Administration itself was transferred from the State Department to the Director for Mutual Security.

Reorganization Plan No. 7 of 1953, which became effective August 1, 1953, established the Foreign Operations Administration and transferred to it all of the functions of the Office of the Director of Mutual Security which included the technical cooperation programs earlier transferred to the director. The stated purposes underlying these transfers were to relieve the Secretary of State of operational responsibility, to provide an integrated direction of technical assistance along with other foreign assistance activities, and to leave the Secretary of State free to formulate foreign policy and to render guidance to operating agencies.

While the House Committee on Government Operations recommended favorable action on Reorganization Plan No. 7, it nevertheless leveled heavy criticism at the organization of FOA. Principal criticism was directed toward the distribution of policy among four regular agencies of the Government, State, Defense, Treasury, and FOA, and the division of program responsibility which was placed in FOA and policy responsibility which was centered in State. The Committee felt the division of policy and operations was unrealistic and unworkable. Its report stated that—

> if the operational direction of these new tools of foreign policy is placed in independent agencies, it is unrealistic to presume that the Department of State will be in a position to develop and coordinate United States foreign policy.

[1] See the statement of Stanley Andrews, TCA Administrator, in the hearings of the Government Operations subcommittee, June–July 1953, 83d Cong., 2d sess., pp. 5–6, for a convenient summary of the legal authority for each of these moves.

The placement of TCA within the Foreign Operations Administration by Reorganization Plan No. 7 was bitterly fought by many representatives of voluntary and religious agencies and institutions, on the ground that to mix up technical cooperation with economic and military aid would raise all sorts of difficulties and resistance to the effective performance of TCA's peaceful, long-term mission. Such difficulties included the fear that technical cooperation was only a guise for economic or military imperialism, which would induce resistance among the collaborating groups in both host and recipient countries.

The bulk of technical cooperation work is now done in the Office of the Deputy Director for Technical Services of the Foreign Operations Administration. This division also includes specialized services and programs which do not relate directly to technical cooperation. As heritor of the Mutual Security Agency, Technical Services took over various other technical assistance activities. As currently organized, the Office is a service agency for the FOA's operating division, which bears chief responsibility for putting a coordinated program into effect in each country in which the United States has a foreign assistance program.

Amalgamation of the TCA programs with technical assistance programs of MSA resulted in a hodgepodge of conflicting concepts, procedures, and personnel. FOA reorganized the regional divisions into four, to parallel the geographic divisions in the Department of State: Europe; Latin America; Near East, Africa, and South Asia; and Far East. With the exception of Latin America, there was some merger of responsibility for countries formerly separated under MSA or TCA jurisdiction. Operation of the Latin American program has continued almost identically in its earlier servicio pattern. Methods of conducting the European operations were not materially affected by the reorganization. In areas outside Latin America or Europe, some country programs were carried out under the ECA–MSA procedure of procurement authorizations and technical assistance authorizations whereas other country programs in the same area were conducted by TCA procedures requiring the negotiation of program and project agreements with the participating countries.

III. Multilateral Programs

Developments in United States bilateral technical assistance were paralleled, though not matched in cost, by multilateral programs carried on by the United Nations and the Organization of American States. The United States participates as member in both of these, and is a member of the Colombo plan as well.

In the United Nations, the Expanded Technical Assistance Program (UNTA) was launched in 1949 with the United States as a prime participant and major financial contributor. The U. N. program contemplated (1) organization of international teams of experts to advise governments of underdeveloped countries in connection with their economic development programs; (2) training of experts from the recipient country in countries or institutions abroad which had reached an advanced level of achievement; (3) sending training teams to underdeveloped countries to train new experts locally; and (4) help to governments in obtaining technical personnel, equipment, supplies, and other services appropriate to the promotion of economic development and exchanging information about it.[1] On August 15, 1949, the Economic and Social Council (ECOSOC) adopted a resolution including a recommendation to the General Assembly for the establishment of a Technical Assistance Board, a formula for the distribution of funds contributed to UNTA, and a statement of guiding principles for the expanded program. ECOSOC called for the highest standards of work and personnel and stated conditions for the effective participation of requesting governments. UNTA was to help underdeveloped countries strengthen their national economies by improving their industry and agriculture. Projects were to aid at increased productivity of material and human resources and wide and equitable distribution of the benefits of such increased productivity. They should also include steps to mitigate the social consequences of economic change. Requesting governments were expected to help underwrite administrative and other costs, and to facilitate the execution of projects in other ways. They were also admonished to look to the continuing costs and capital requirements which might emerge from successful projects. Requests for supplies and equipment were to be considered only insofar as they formed an integral part of technical assistance projects.[2]

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[1] Resolution of the General Assembly, Dec. 4, 1948, par. 3.

[2] U. N. Document E 1553, pp. 4–18. (Quoted in Development of Technical Assistance Programs, p. 83 ff.)

The other major component of multilateral technical assistance is found in the Organization of American States. On April 10, 1950, such a program was established by resolution of the Inter-American Economic and Social Council of the OAS. Like the United Nations programs, the OAS program emphasized the importance of projects designed to improve the standard of living, especially in respect of nutrition, and those which would improve the health, housing, education, and social conditions of the populations of member states. The OAS also counselled anticipation of the social effects of such projects, and the planning of ways and means to meet such problems. The OAS program advised speedy action by members to develop national programs to spur their economic development.[8] Understandably enough, the OAS program was much smaller than the UN program, which in turn was much smaller than the initially planned United States technical cooperation program.

The United States also participates in the Colombo Plan for Cooperative Economic Development in South and Southeast Asia. The Plan consists in the main of a Consultative Committee—a nebulous organization which meets once a year, considers the problems of economic development in the area in question, and issues a report consisting of country chapters reporting the sense of the Committee's deliberations. These reports are in no sense binding, nor do they constitute a regional plan for development. They bring together for discussion the various efforts at technical and economic assistance which are being carried on in the area. Colombo plan operations consist of the sum of activities being carried on by the various participants on a bilateral basis; there are no Colombo plan programs as such to which members contribute. There is also a Council for Technical Cooperation, of which the United States is not a member. The net of the relationship is that the plan is a sounding board to focus world attention on the development problems of the area and a framework within which international cooperative assistance can be promoted.

The United States has been a member of the consultative committee since February 1951. Most of the other members, functioning as participants or observers, are from the British Commonwealth; the rest are Thailand, Cambodia, Laos, Vietnam, Nepal, the Philippines, and Burma.

The chief value of United States participation lies in our ability to use the plan as a forum to dramatize our efforts at technical assistance and to advance our views concerning the various issues of

[8] Development of Technical Assistance programs, pp. 16–17. The total OAS programs have approximated $5 million in the past 4 years, with United States contributions of $3.5 million. The programs have been limited to regional training centers for agricultural extension, hoof-and-mouth disease control, home economics, housing, economic and financial statistics, evaluation of natural resources, and rural education.

concept and execution involved. This role was most notable at the last consultative meeting in Ottawa in the summer of 1954.

Our participation in the plan has called for no dollar outlays separate from those involved in our bilateral technical assistance to countries of the area. Colombo plan spending is arrived at by double counting; all Colombo plan outlays are at the same time bilateral outlays made by participating countries.

It is noteworthy that several of these countries which are recipients of aid from us—India and Pakistan included—are sources of technical assistance to other Asian countries.

The main effort so far has been in the direction of technical training. The plan's second annual report states that "the faster the underdeveloped countries approach self-sufficiency in skilled manpower, the better will technical assistance have done its job. The development of the necessary training institutions within the area is something to which all the technical assistance organizations can make a contribution * * *"[4]

We have furnished an observer for meetings at the plan's home base in Ceylon.

If the presently planned Asian development fund is established, the United States may wish to strengthen the structure of the plan. So far, the consultative committee has not even had a permanent secretariat, and the United States has opposed establishing one. This position may be changed.

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[4] *The Colombo plan*, "The Second Annual Report of the Consultative Committee on Economic Development in South and Southeast Asia," New Delhi, October 1953, London, p. 101. Quoted in OCB study at p. 196.

IV. Costs

Technical assistance has not been cheap. Since the Act for International Development was passed in 1950, the Congress has authorized over $600 million, and just under $500 million have been appropriated for technical assistance. Appropriations started with a relatively modest $31.9 million for fiscal year 1951, rose rapidly to $148 million for fiscal year 1953 (against an authorization of $205.2 million), and have now leveled off at about $116–117 million in the last 2 fiscal years.[1] These figures include United States contributions to multilateral programs. Bilateral TA appropriations for 1955 approximated $105 million.

These figures for the last 2 fiscal years do not include the amounts for technical assistance or exchange offered in connection with programs outside so-called technical cooperation. Technical assistance rarely stands alone.

It is difficult, if not impossible, to segregate technical assistance from economic assistance.

In fiscal year 1953, the authorization and appropriation for both technical and economic aid were given in a single lump sum. It is estimated that the technical assistance component approximated $75 million.

Individual work and project applications call not only for technical assistance, but also for construction, machinery, equipment, and supervision. These various elements do not always appear all at once; understandably enough, an engineering survey, given as a form of technical assistance may lead in turn to proposals for construction into which training is integrated.

The contract between FOA and the Ralph M. Parsons Co. for work in Pakistan will illustrate. Under the initial contract, the Parsons Co. was to supply engineering services of a professional, advisory and consulting nature, to review preproject engineering as to feasibility, costs, and time schedules, and to carry out specific engineering services. The contractor was to provide the services of 7 persons in Pakistan for 2 years, 6 of them to be senior engineers or other technicians. The Parsons Co. initially was directed to review and make recommendations relative to the preproject engineering on 5 projects covered by bilateral project agreements; it was, in general, to provide technical services to the United States Operations Mission in Pakistan. A later amendment to the contract called for the company to provide the services of a senior engineer, a construction superintendent and a tun-

[1] Development of Technical Assistance Programs, p. 8.

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nel foreman in connection with the Karachi Water Supply Project. In this case, the contractor's people were to assist directly in the design and supervision of the construction of the project. And the project agreement contains specific provisions for the training of Pakistani personnel in the techniques and practices encompassed by the project. The Parsons contract and amendment also requires the Parsons Co. "to coordinate activities with agencies of the Government of Pakistan designated by USOM, with a view to maximizing the training and assistance benefits of this contract to Pakistan."

In addition to the $105 million appropriated for technical assistance for fiscal year 1955, $184.5 millions were appropriated for development assistance—$115 million for the Near East and Africa, $60.5 million for South Asia, and $9 million for Latin America and dependent overseas territories. It is impossible to say how much of these development assistance funds could be fairly allocated to technical assistance; the line between the two is admittedly vague.

The law requires the President to determine that each nation receiving bilateral technical assistance pays a fair share of the cost of the program. Determination of a "fair share" apparently has not been made on a consistent basis. And there is no evidence that adequate criteria have been formulated or are being applied for measuring the fairness of the contribution of the various nations being assisted.

No satisfactory figures are available to indicate the proportion in which the United States and all recipient countries have shared the burden of technical assistance costs. Those which are at hand indicate that in fiscal year 1954, United States obligations totaled some $137.8 million against a total of host country contributions of $314.5 million. In fiscal year 1955, the relative shares appear to be $105.0 million for the United States and $369.6 million for the host countries. These figures are not complete, and those for 1955 are estimates based on material presented to Congress by the administration in June 1954.[2] They do indicate a wide variation in the relative burdens carried by the host countries, and seem to indicate that the absolute as well as the relative United States contributions are going down.

In an attempt to verify these indications of tendency, a review was made of a random sample of college and university contracts, and of the India country programs. This review showed that the United States generally bears a greater portion of the money costs of these programs than do the host countries, even considering the cost of goods and services furnished by them. The relative contributions of these countries vary greatly from project to project, and from country to country.

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[2] Development of Technical Assistance Programs, pp. 10–11.

V. Personnel

There is no accepted formula for determining the man-years of time devoted to technical assistance by FOA/Washington personnel of all grades; the proportion is obviously considerable. But it is possible to indicate, for the last 3 fiscal years, how many personnel have been involved in FOA technical exchange activities, how many FOA personnel overseas are involved in supporting these activities, and how many people in FOA/Washington are paid from technical assistance program funds.

Table 1 below shows the numbers of participants and technicians involved in FOA-financed exchanges for the last 3 fiscal years. FOA personnel going to other countries are called technicians; foreign personnel coming to the United States are called participants.

Table 1.—*Persons Involved in FOA Technical Exchange Programs* [1]

Area	Fiscal year 1953		Fiscal year 1954		Fiscal year 1955	
	Participants	Technical	Participants	Technical	Participants	Technical
Far East	659	441	995	553	1,123	887
Europe	2,790	172	2,000	220	1,750	165
Near East/Africa	782	823	1,085	1,141	1,010	1,501
Latin America	741	622	829	660	781	878
Totals	4,972	2,058	4,909	2,574	4,664	3,431

[1] This summary exludes support personnel (FOA Mission and Washington personnel).

SOURCE: FOA summary description statement, October 1954.

The above figures show a downward trend in numbers of participants and an upward trend in numbers of technicians. However, discussions with FOA personnel indicate that this picture will not hold true, because increased aid programs planned for the Near East, the Far East, and Latin America will cause a sharp upward trend in both participants and technicians.

Table 2 shows support personnel overseas. Support personnel include regular FOA employees, employees of other Federal agencies, consultants and foreign nationals paid from FOA funds. The first three categories are normally classified as program personnel, the latter is not. A recap for fiscal years 1953 and 1954, by geographical areas, follows:

Table 2.—*Support Personnel Overseas Paid From United States Funds*

	Total	U. S. Nationals			Foreign nationals FOA funds
		Regular	Other Federal agencies	Consultants	
EUROPE					
Fiscal year 1953	306	162	11	4	129
Fiscal year 1954	239	132		3	104
FAR EAST					
Fiscal year 1953	412	234	92	4	82
Fiscal year 1954	399	287	58	8	46
NEAR EAST					
Fiscal year 1953	1,350	239	554	2	565
Fiscal year 1954	1,453	595	344	3	511
LATIN AMERICA					
Fiscal year 1953	727	321	214		192
Fiscal year 1954	917	415	108	7	387
ALL AREAS					
Fiscal year 1953	2,795	956	871	10	968
Fiscal year 1954	3,008	1,429	510	21	1,048

The above tabulation indicates a definite downward trend in Europe, an increase in both the Near East and Latin America and not much change in the Far East. It should be noted, however, that there are major increases in regular FOA personnel in the Far East, Near East, and Latin America, i. e., approximately 20 percent in the Far East, 115 percent in the Near East, and 29 percent [1] in Latin America. There is a consistent decrease in the use of personnel of other Federal agencies and, except for Latin America, a reduction in the numbers of foreign nationals paid from FOA funds.

As of the end of fiscal year 1954, there were, in addition to administrative personnel, 219 FOA/Washington program employees, an increase of 39 over the previous fiscal year, working on Technical Cooperation and Technical Exchange Funds.

[1] (*a*) Europe: Austria, Belgium, Denmark, France, Germany, Iceland, Ireland, Italy, Netherlands, Norway, Spain, Portugal, United Kingdom, Yugoslavia, Sweden, Switzerland; (*b*) Far East: Burma*, China, Cambodia, Laos, Vietnam, Indonesia, Korea, Philippines, Thailand; (*c*) Latin America: Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Venezuela, Surinam; (*d*) Near East; South Asia and Africa: Afghanistan, Egypt, Ethiopia, Greece, India, Iran, Iraq, Israel, Jordan, Lebanon, Liberia, Libya, Nepal, Pakistan, Saudi Arabia*, Syria, Turkey, Southern Rhodesia (*e*) Dependent Overseas Territories of European Area countries.

*The program in Burma has been liquidated, and that in Saudi Arabia is being liquidated at the request of these governments.

VI. Nature of Current Technical Assistance

Technical assistance has grown like Topsy.

From a limited, simple, down-to-earth program offering skills and knowledge in the fields of agriculture, education, and health to the underdeveloped countries of the world, technical assistance is now being given, or has been given by our Government in a wide variety of fields, encompassing a bewildering array of projects, to 63 countries and dependent overseas territories.[1]

Technical assistance is actually carried out by means of specific projects based on agreements between the United States and the foreign participating governments. Projects may involve either the interchange of personnel or furnishing of supplies and equipment, or both.

Projects different as the objectives of our programs and agreements differ in regions and countries. There follows a brief general survey and comparison of the nature of the programs for Europe, for the Far East, for the Near East, Africa, and South Asia, and for Latin America. Then comes a more specific review of projects now found in each of these areas.

A. General

Technical assistance in Europe differs from technical assistance in other areas. The goal of technical assistance in Europe, by and large, has been to help raise first the production, and then the productivity of a developed industrial and agricultural economy. The goal of technical assistance elsewhere has been to improve health, agriculture, education, and secondarily industry, commerce, and finance in relatively undeveloped economies.

In reviewing the status of technical assistance projects information was gained from the Quarterly Project Status Report of the Industial Technical Assistance Division, now Office of Industrial Resources.

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[1] (*a*) Europe: Austria, Belgium, Denmark, France, Germany, Iceland, Ireland, Italy, Netherlands, Norway, Spain, Portugal, United Kingdom, Yugoslavia, Sweden, Switzerland; (*b*) Far East: Burma*, China, Cambodia, Laos, Vietnam, Indonesia, Korea, Philippines, Thailand; (*c*) Latin America: Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Venezuela, Surinam; (*d*) Near East; South Asia and Africa: Afghanistan, Egypt, Ethiopia, Greece, India, Iran, Iraq, Israel, Jordan, Lebanon, Liberia, Libya, Nepal, Pakistan, Saudi Arabia*, Syria, Turkey, Southern Rhodesia; (*e*) Dependent Overseas Territories of European Area countries.

*The program in Burma has been liquidated, and that in Saudi Arabia is being liquidated at the request of these governments.

As of September 30, 1954, the report shows 850 active projects, involving participants (type I); 220 involving technicians (type II); and 64 projects involving the supply of demonstration equipment and materials. This made a total of 1,134 active projects being administered by this one division. Most of the projects were 100 percent technical assistance and the balance had a vital element of technical assistance embodied in them.

An attempt was made to obtain similar data for technical assistance in the areas of Labor, Public Health, Food and Agriculture, Public Administration, Education and Transportation, but operation reports and statistical data were not available.

1. Europe

In Europe, the program initially emphasized the increase in production of existing industrial facilities. Secondary emphasis was laid on agricultural production. Increased production was sought by sending experts, working alone or in groups, into industrial facilities to develop and demonstrate methods for the improvement and increase of production. Individuals and groups of foreign nationals were brought to the United States to learn our production techniques for later application in their own countries.

As physical production increased, emphasis shifted to productivity—especially after the outbreak of the Korean war. Projects were planned not only to help increase production, but to raise man-hour output by improved management and labor relations, more effective and rational marketing and distribution, more intensive research and development, better working conditions, and management training. It was believed that such projects could produce gains only if they were accepted abroad, both by management and by workers. Hence, efforts were made to see that benefits would be equitably distributed between management and labor.

Efforts to raise productivity resulted in the "team approach" to the preponderance of projects. Groups from industry or commerce were made up of representatives of business firms, including both management and workers, and from organized labor. Such teams from abroad were trained here, and United States teams of experts offered training and consultant services overseas.

In the past there have been indications of certain faults in the administration and operation of the aid programs in Europe including the technical assistance phases.[2]

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[2] Foreign aid program in Europe—July 1953, Senate Appropriations Committee, Investigations Division Report.

These include lack of control over counterpart funds, failure of MSA personnel to properly discharge their obligations, and excessive staffing in regional and country missions.

The European industrial projects which contained vital TA elements, notably the training phases, were poorly programed and controlled with resulting delay of accomplishment and perhaps failure to meet goals. Some of the results have been providing an excess of steel capacity and the uneconomic location of plants.

Again the productivity and technical assistance program offered no real basis for belief that their objectives could be attained within the predictable future. They required changing the fundamental thinking and habits of nations both socially and industrially. The so-called productivity, or Benton-Moody approach, called not only for increased technical efficiency but equitable sharing-out of the resulting benefits. Both the results and any formula for such a sharing-out would be extremely difficult if not impossible of ascertainment.

These points should be borne in mind constantly and checked upon with regularity by competent personnel in connection with technical assistance programs which are or may be carried out in other geographical areas.

Technical assistance for countries outside of Europe has not emphasized industrial aid, with but few exceptions. While industrial aid in Europe was for rehabilitation and improvement, in other areas it was for new construction of plants and installation of new equipment.

2. *Far East*

In the Far East, the technical assistance program originated with and for the most part continues on agricultural and public health projects designed to increase agricultural production, demonstrate and teach modern agricultural methods, reduce human disease, provide preventive medicine instruction, and to introduce modern medical practices. Currently, the bulk of technical assistance in Korea and the Philippines consists of services rendered as phases of large industrial and public works projects involving the use of private firms.

3. *Near East, South Asia, and Africa*

In the Near East, South Asia, and Africa the emphasis is still primarily on agricultural and public health, but moving slowly toward industrial and commercial aspects. India is an exception in this area and the emphasis here is on TA as an adjunct to large industrial and public works projects.

4. *Latin America*

The Latin American programs were primarily of an agricultural and public health nature, but did involve a large measure of construction and equipment.

The productivity approach is currently being planned for the geographical areas other than Europe with an increasing of emphasis on industry. The initial move in this direction is the stepping up of labor participation to be followed by management and industrial surveys and assistance and the productivity team approach with the objective of increased benefits for all groups.

There appears to be no present indication that a plan similar to the Benton-Moody amendments will be proposed for the underdeveloped countries of Latin America, Africa, Near East, Asia, and the Far East.

B. *Current Projects*

To help make the foregoing discussion more concrete, there is given below a breakdown by number of projects, type and costs, the current technical assistance program in the fields of industry, labor, food, and agriculture, and public administration.

1. *Current Industrial Program*

(*a*) *Europe.*—For the first quarter of fiscal year 1955, there were processed some 199 projects involving technical assistance and, in many instances, demonstration equipment and capital investment, which involved bringing participants from European countries to the United States. As of September 30, 1954 there were 130 projects for which firm requests had been received and arrangements were in process; 39 projects for which the participants were in this country and 30 projects terminated for various reasons. The 199 projects involved 1994 participants in the following fields: [3]

(1) Development and management studies
(2) Professional engineering and scientific studies
(3) Processes and techniques studies
(4) Work-study training program
(5) Other

During this same period there were 69 projects which involved sending personnel to European countries.[4] As of September 30, 1954, there were 42 projects for which firm requests had been received and

[3] FOA Quarterly Project Status Report, September 30, 1954.
[4] FOA Participants Report (13–4).

for which arrangements were in process, 16 which were active in Europe and 11 projects which had been terminated for various reasons. The 69 projects involved 212 participants in the following fields:

(1) Professional, engineering, and scientific
(2) Processes and techniques
(3) Development and management

In addition there were 22 active projects for furnishing technical aid in the form of publications, visual aids, films, and scientific and research equipment.

The projects cited in the above three categories varied in duration from 6 weeks to 2 years and in dollar cost from $620 to $1,650,000.

(*b*) *Far East.*—For the first quarter of fiscal year 1955 there were some 171 projects which involved bringing participants from the Far East countries to the United States. As of September 30, 1954, there were 79 projects for which firm requests had been received and which were being processed, 68 projects in the field and 24 which had been terminated for various reasons.

These 171 projects involved 324 participants in the same fields as the European projects.

During the same period there were 30 projects which involved sending technicians to the Far East countries. Of these 18 were firm project requests which were being processed, 9 were in the field and 3 had been terminated. There was a total of 421 technicians on these projects.

In the category of technical aids there were five projects being implemented or in the field.

The projects in the Far East area varied in duration from 6 weeks to 3½ years and in dollar cost from $2,000 to a sizable element of one project totaling $30 million. It is difficult to determine the exact amount of TA in such a project because it appears at different periods during the project life, and is closely interwoven with development assistance. A fair estimate would be about $2.5 million.

(*c*) *Near East, South Asia, and Africa.*—For the first quarter of fiscal year 1955 there were some 302 projects involving participants coming to the United States. Of these 120 were firm requests being processed, 104 were in the field and 78 had been terminated for various reasons. Four hundred and twenty-six participants were covered by these projects.

There were 84 projects which involved sending technicians to the countries of this area. Of these 58 were firm requests being processed, 22 were in the field, and 4 had been terminated. Four hundred and five technicians were engaged on these projects.

Technical aid projects totaled 26, of which 24 were in the field, and 2 were terminated.

The projects for the countries in this area varied in duration from 2 weeks to 4 years, and in dollar cost from $6.89 to $800,000.

(*d*) *Latin America.*—For the first quarter of fiscal year 1955 there were some 185 projects which involved participants coming to the United States. Of these 58 were firm requests being processed, 73 were in the field and 44 were terminated. The projects covered 186 participants.

During the same period there were 17 projects for sending technicians to the Latin American countries. Of these, 9 were firm requests being processed, 7 were in the field, and 1 was terminated. These projects covered 38 technicians.

In the technical aids field there was only one project which had been withdrawn.

The projects for the Latin American countries varied in duration from 5 weeks to 3 years and in dollar cost from $1,500 to $15,000.

In addition to the above, there are other aid programs in FOA, both project and nonproject, which cover a wide range in the fields as noted above.

(*e*) *Methods of Implementation.*—FOA implements industrial projects by placing individuals on the FOA payroll, by personnel detailed from other Government agencies on a reimbursable basis, and by contracts with individuals, firms, schools, foundations, other Government agencies, foreign governments, and between participants and foreign governments.

Two hundred and eighty-seven projects selected at random, active during the first quarter of fiscal year 1955, were implemented as follows:

Table 3.—*Projects by Method of Implementation*

Contracts with Government Agencies		44
Department of Commerce	2	
CAA	3	
Department of Interior	20	
Department of Labor	11	
FCC	3	
Coast Guard	1	
Department of Defense	4	
Personnel and reimbursible detail		13
FOA FSS appointments		3
FOA/Washington personnel		25
FOA contracts with firms, etc		64
Firms	27	
Individuals	10	
Universities	21	
OEEC	6	
Contracts between OEEC and individuals		8
Participating country contracts with individuals		68
Participating country contracts with firms		31
Implementation not yet decided		31
		287

2. *Current Labor Program*

(*a*) *Europe.*—This program operates under the title of "labor technical exchange program." A cost comparison of the fiscal year 1954 [5] and fiscal year 1955 program in total follows: [6]

	Number of countries	Local currency	Participants		Dollar cost	Total cost in dollars
			To United States	From United States		
1954	11	$917,500	364	18	607,200	1,624,700
1955	10	498,000	476	33	679,000	1,177,000

It should be noted that with one less country being serviced and with a reduction of total cost in fiscal year 1955 there is an increase of $72,000 over fiscal year 1954 in dollar cost. In addition, from FOA program documents it would appear that of the 1954 total cost $905,000 was for support type activity exclusive of administrative cost and of the 1955 total $362,000 was for support type activity exclusive of administrative costs. An indication of the coverage of the program may be seen in the project titles: Labor Cooperatives, Union Educational Work, Free Union Shoe Project, Trade Union Procedures, Trade Union Finances, Trade Union Journalists, Women Trade Unionists, Port and Other Vital Security Areas, Development of Trade Union Information, and Research Service, Collective Bargaining, Low Cost Housing, Financial Secretaries, Union Engineering, Shop Stewards Courses, Trade Union Safety-Study Team. Also there are included projects for furnishing firms publications and other aids for Trade Union Education.

(*b*) *Far East.*—As originally proposed, the fiscal year 1955 program in this area was to cost $390,000, but as revised by a proposal dated August 13, 1954, this amount was increased to $1,700,000 broken down as follows: [7]

United States Personnel (28)	$420,000
Training:	
Trade unionism 140	637,000
Technical assistance in specialized fields 70	323,000
Labor institutes	150,000
Miscellaneous:	
Supplies, equipment	50,000
Exhibits, conferences	120,000
	1,700,000

[5] FOA Report on European Labor Program, May 1954.
[6] Summary descriptive statement FOA Labor Operations, November 1954.
[7] FOA revised fiscal year 1955 labor program for underdeveloped areas.

The program is designed around projects in all phases of labor and social welfare including training of workers in industrial skills, preparation of basic labor and social legislation, methods and techniques of effective law administration, promotion of safety and health, establishment of effective manpower utilization policies, development of labor and manpower statistics and training of Government personnel.

A further phase of the labor program envisages the establishment of labor educational centers in the area countries. One such has already been set up under a contract between the University of Connecticut and the University of the Philippines.

(*c*) *Near East, South Asia, and Africa.*—The program in this area has two major purposes: First, to strengthen existing and to form new free and democratic trade unions; second, to achieve rapid economic development through improved labor productivity, workers' education, hygiene and safety projects, labor-management education, and programs in wage and hour administration, Government contract problems, labor force measurement, and unemployment statistics.

The 1955 fiscal year budget totals $1,811,500, broken down as follows:

United States Personnel (41)	$640,000
Training:	
Trade unionism (111)	384,000
Technical assistance (89)	377,500
Labor institutes	250,000
Miscellaneous:	
Supplies, equipment	40,000
Exhibits, conferences	120,000
Total	1,811,500

(*d*) *Latin America.*—The program in this area is composed of four major parts: Use of labor advisers and economists, employment of United States technical personnel, training in United States of foreign nationals, labor schools and miscellaneous items.

The scope of these program parts encompasses industrial hygiene, safety, manpower policies, general labor legislation and administration, formulation of a continuing labor program, labor statistics, trade unionism, labor schools.

FOA plans to establish the first labor school perhaps in Mexico, and others as the program advances.

The 1955 budget totals $1,620,500 broken down as follows:

United States personnel (26½)	$395,500
Training:	
Trade unionism (180)	540,000
Technical assistance (120)	435,000
Labor institutes	75,000
Miscellaneous:	
Supplies	75,000
Exhibits, conferences	100,000
Total	1,620,500

The labor staff budget covers positions in the Office of Labor Affairs (FOA/Washington). They are shown as follows:

	Fiscal year 1954		Fiscal year 1955	
	Positions	Cost	Positions	Cost
Administrative	14	$107,230	22	$196,840
Program	20	127,105	21	140,645
Totals	34	234,335	43	337,485

These figures show an increase of $103,000 or about 45 percent from 1954 to 1955. The costs shown do not include consultants, travel, or overtime.

Overseas positions for professional labor staff are shown for fiscal year 1955 on an original and a revised basis:

	Original	Revised
Europe	12	13
Near East and Africa	20	24
Far East	10	16
Latin America	8	22
Total	50	75

This is an overall increase of 50 percent during fiscal year 1955 and shows increases in each of the four geographical areas.

3. *Current Food and Agricultural Program*

This program encompasses program and project analysis, technical assistance (training), technical information and services, procurement of seeds, fertilizer, etc., for experimental and pilot projects and review, development and procurement in connection with surplus agricultural commodities.

Procurement of agricultural equipment, scientific and research equipment, engineering and construction in connection with food and agricultural programs is referred to other units of FOA or to other Government agencies.

On January 1, 1955, there were 725 F & A personnel overseas, on the FOA payroll.[8] There are 90 individuals working on the F & A program in Washington, 59 on FOA payroll and 31 on the Department of Agriculture payroll. These latter are paid by FOA on a reimbursable basis.

Much of the work of F & A is carried on by the Department of Agriculture under a memorandum agreement dated February 13, 1954, and two appendices signed in April 1954. Appendix II covers technical assistance training and appendix III covers technical consultation and support.

Work is carried out mainly through two series of special project agreements of which there are approximately a dozen in existence. They bear such titles as Technical Services on Soil Fertility, Regional Insect Control, Plant and Seed Materials, Publications, Exchange Center, Technical Services in United States Supplementing OEEC Technical Project 47-Africa, Consultation and Support and Liquidation of the Agricultural Research Service Western Hemisphere Rubber Program, and Technical Services on Salinity.

4. *Public Administration*

As of October 30, 1954, there were public administration technicians serving in 35 countries. These totaled 138, of which 70 were noncontract and 68 contract personnel. Recruits for 68 additional posts were being sought: 41 noncontract and 27 contract personnel. In 1951 there were only 10 technicians in this field.

The following table shows the trend in Public Administration aid not including the field of statistics. This includes participants of the long-term type only (3 man-months or better).

Fiscal year	Number of participants	Man-months of training	Average man-months
1952	100	460	4.6
1953	170	780	4.6
1954	250	1,100	4.4
1955	[1] 385	[1] 1,750	4.4
1956	[1] 450	[1] 2,150	4.8

[1] Estimated.

As of September 30, 1954, there were 121 participants in the United States from 25 countries. The subjects covered were budgeting, fiscal administration, personnel and tax administration.

Currently, there were 5 university contracts in operation, 5 in negotiation, and a possibility of others in India, Uruguay, Paraguay, Chile, and Germany.

[8] Statement by E. D. White, Jan. 28, 1955.

There are in existence 11 contracts with management firms in the field of Public Administration, 1 in Latin America, 4 in the Near East, Africa area, 5 in the Far East area, and 1 on a worldwide basis.

5. Observations

The foregoing studies of projects and program agreements show that the specific projects cover a wide variety of fields of interest—productivity demonstrations in the Belgian shoe industry, management services for Iran, investigations of water, power, coal, and other mineral resources, recommendations of economically feasible mining projects, fisheries improvement, processing of dried fruits and nuts, building and staffing sugar refineries, railroad construction including tunnel driving, demonstration of design and cutting in shoe manufacturing, production and quality of output of local foundries, land reclamation, insect control, and crop protection, and training in operation, servicing, and maintenance of agricultural equipment.

Several of these projects illustrate how initial concepts of dollar costs and time duration are misleading. One small phase of the Belgian shoe industry productivity project earlier mentioned was originally estimated to cost $7,100; the current estimate is $30,000. (The total project might run to $200,000). A survey of Brazil's mineral resources, made pursuant to a 10-year agreement between Brazil and the United States, is being made according to the terms of an open-end implementing agreement. Outlays for this project during the past 2 fiscal years are estimated at $192,083. There is no ceiling on future implementation, although the implementing agreement can be canceled by either party on 60 days' notice. Further extensions are now being negotiated to a contract with the Armour Research Foundation to study the problems of new small industries and indigenous foundries in India. The initial contract, to run 12 months, was to start on October 15, 1953. It is still in effect. The initial contract figure was $342,086; it has already been increased by $95,235, for a total of $437,321.

Other projects are open-ended, as for example the Afghanistan project for village development in agriculture, health, and education. FOA furnishes technical advisers and such supplies and equipment as the mission director and the Afghanistan Minister agree to. There is no specification of the amount of the ultimate United States contribution.

Some of these projects illustrate the varied and possibly unexpected ramifications of our productivity programs. Two projects in the Netherlands deal with industrial and social psychology, and another covers "human relations practices." Similar projects are under way in France and India. We also have a project for training specialists

in human relations in industry, being operated in conjunction with OEEC. Another OEEC project [TA 99–166 (OEEC)] covers the services of 5 men to conduct conferences and demonstrations on retail store merchandising in Belgium, France, Denmark, the United Kingdom, Italy, and the Netherlands.

The foregoing review has dealt mainly with United States bilateral programs and projects. At the same time that these projects have been planned and executed, the United States has participated in an extensive multilateral technical assistance program. The pertinent details, together with a brief discussion of some of the emerging problems, are given below.

C. Current Multilateral Technical Cooperation

For fiscal year 1955, United States contributions to international organizations total nearly $30 million. The contribution to the United Nations regular budget was approximately 25 percent of the $13.5 million, and approximately 25 percent of the $13.5 million will find its way into the UN expanded Technical Assistance Program.[9]

Fiscal year 1955 appropriations to UNTA ($9,957,621) and OASTA ($1,500,000) total $11,457,621. This in addition to technical assistance from regular budget funds makes a total of approximately $15 million available through these international agencies.

During the calendar year 1953, the United States contributed $12.8 million to the UN Technical Assistance fund and $1 million to the Organization of American States Technical Cooperation program.

The UN technical assistance programs had some difficulty in getting off the ground, and for a year or two the going apparently was very difficult. Now, however, these difficulties have largely been overcome; the programs are operating in practically all countries, (approximately 100 countries), and have received general acceptance throughout the member countries. Requests from member countries are now in hand for several times the volume of operation which can be carried out under the resources presently available. Altogether, this work is in a very satisfactory state except from the standpoint of funds. Accordingly, the UN would welcome any reasonable increase in the funds available to it, and believes it could make good use of more money.

The question thus arises whether the United States should contribute more to the United Nations technical assistance program, and adjust the balance between bilateral and multilateral efforts. The range within which the United States is free to act is, however, somewhat limited. The United States is now financing approximately 60

[9] Wendrich Staff Paper, Senate Appropriations Committee, 1954.

percent of the UNTA project costs, and there has been criticism in Congress and elsewhere that the United States proportion of UN expenses is altogether too large. This criticism is viewed with sympathy and understanding by UN officials. They feel that the United States should not be called on to contribute more than half, and possibly less, of the UN costs. The program would be strengthened if a larger portion of the costs were contributed by other participants. And they have some confidence that if the United States were to increase its contribution, say to double the present level, a corresponding increase could be obtained from other member nations. Other observers, however, do not share this confidence; they are impressed with the difficulty which the UN has experienced to date in getting many participating countries to make their contributions fully and promptly.

This range of freedom to increase the United Nations share of the technical assistance load is limited, at least, in the short run by difficulties in quick expansion. The UN program is now running at a rate of some $20 million per year; the United States program is in excess of $131.6 million. The UN operates only on the basis of requests from member countries, and it would take time to redesign projects now under way so they could be appropriately shifted to UN auspices.

United Nations officials are willing and eager, however, to enlarge its technical assistance as additional resources are forthcoming.

What are the advantages or disadvantages to the United States from increased emphasis on multilateral rather than bilateral approaches? Among the advantages are the ability to set up technical assistance in fields and in countries where United States bilateral assistance is not welcomed or is not practical; the ability to recruit experts from more varied sources than are available to the United States alone; the possibility that programs will be more closely limited to technical assistance, and there will be less demand from recipient countries for sizable portions of development assistance or other aid from the United States; and finally, improved morale and progressiveness in the free world.

As an example of the first advantage are programs in the field of public administration. There is considerable reluctance in many countries to trust technical assistance in this field to another individual country, because of the threat or appearance of intervention by one government in the sovereign affairs of another. This reluctance is generally absent if the United Nations is the source of assistance.

In recruiting experts, the UN program offers certain real advantages. While it might be granted that in certain fields, the United States has the best experts, it does not always have enough of them who are available for TA assignments. And there are other fields in which the best experts do not come from the United States at all—

say, for example, tropical medicine. (This judgment is qualified by the observation that the best scientist may not be the best man to put knowledge to work, or to transmit it to others. United States specialists, particularly from agricultural extension work, may have more skill than pure scientists in application of new knowledge). Some experts are willing to work for a UN, but for a United States program.

The UN is thus in a position to provide the best or the only available experts in some fields; in other fields it may be able to recruit better second-rank specialists than are available from the United States alone.

The advantage of a slow, solid program is particularly appealing where considerable time is needed for the recipient country to absorb and to profit by the assistance granted. In those cases where the technical assistance would be largely dissipated or lost if it were not promptly supplemented by additional assistance, the merits are not easy to assess. A waste of men and money is obviously undesirable. But this does not mean that development assistance must come immediately from the United States. If the technical assistance came under UN auspices, the recipient country might get the additional capital and other resources needed for development, from private sources, or from the International Bank. If this were done, however, United States suppliers might be at a disadvantage in getting contracts under the resulting development assistance.

The multilateral approach may offer a greater increase in the self-respect and sense of independence of recipient countries, who are in some degree contributors as well as recipients. As active participants and shareholders, they may be more eager to apply the lessons of technical assistance, and to defend their gains against Communist aggression or infiltration.

What are the disadvantages from increased emphasis on multilateral efforts? First, is the limitation on expansion of the UN program for both technical and fiscal reasons. Insofar as technical assistance is a weapon in the fight against communism, this aspect may be serious. But if the intention is to hold down the rate of expansion of technical assistance to what can be easily absorbed and put to use by recipients, this characteristic may not be a disadvantage at all.

From the United States point of view, the following disadvantages are serious: The United States would give up power to control the program. This might limit the power of the United States to get the results it desires in an individual country. Moreover, technical assistance programs open the way for the use of skills, techniques, and equipment, usually tied to the particular experience of the experts involved. United States assistance opens up opportunities for United States firms abroad. To shift emphasis to the UN may reduce these opportunities. Finally, the United States might not receive appro-

priate credit for its participation in UN technical assistance; such credit is required in the case of bilateral assistance, by our laws.

Whatever may be the balance struck between these advantages or disadvantages, the restrictions on the possible expansion of the UN program in the immediate future rule out any possibility that the United States could decide to put all its technical assistance eggs into the UN basket. The UN program might well be expanded to the limit of short-run feasibility without calling for an increase of more than $10 million per annum contribution from the United States. General considerations of stability, good will, and support for an international instrumentality which is largely a creation of the United States, would rule out any sudden withdrawal of support for UNTA.

Assistance to the Organization of European Economic Cooperation (OEEC) is a special case. OEEC was established by international convention in 1948; its eighteen members are pledged to combine their economic strength, make the fullest collective use of their capacities and potentialities, increase their production, develop and modernize their industrial and agricultural equipment, expand their commerce, reduce progressively the barriers to trade among themselves, promote full employment, and restore or maintain the stability of their economies and general confidence in their national currencies. In 1953, this organization set up the European Productivity Agency (EPA) as a special branch, to stimulate productivity and raise European standards of living, by influencing not only governments but also industrial, agricultural and research organizations, private and collective enterprises and public services. The United States and Canada, although not members, participate in the work of the Organization.[10]

Although the United States is making no further direct fiscal contributions, the EPA still benefits from the use of $10 million made available under the Moody Amendment. Specialists attached to the FOA Regional Office in Europe (USRO) work closely with the Organization.

The Organization may well have contributed to the 27-percent rise in European agricultural production and the 47-percent rise in industrial production since 1948. The standard of living, at 90 in 1948 (1948–100), had advanced to 105 in 1953 and is still on the rise.[10]

[10] "OEEC at Work," 1954, p. 22. European Productivity Agency, Second Programme of Action, 1954–55, p. 4.

VII. Technical Assistance by Private United States Business

For many years prior to World War II, United States business firms have spread technical assistance to various countries throughout the world. This assistance has come as an inevitable accompaniment to the ventures in mining, engineering, manufacturing, shipping, and banking, and insurance activities—and in many other fields as well—which our firms have conducted abroad. Although these contributions may be overshadowed today by the more vocal and more obvious programs of Government-sponsored technical assistance, they are important and growing more so. No dollar figures are available to measure the extent of this assistance today, or in the past. But it is a fair inference that a substantial portion of our $10 billion of foreign investments in underdeveloped countries has contributed, directly and indirectly, to economic development, technical advancement, and social progress.[1]

Governor Stassen, among others, has recognized the superior value of private investment over other forms of economic aid by pointing out that $1 of private investment is equal to $3 in Government aid in total effect, simply because of the appurtenant technical services which private investment automatically brings in its train.

Private investment abroad does more than to increase the capital resources of the recipient country. With that increase in capital come both training and opportunities for the people of the country. Operations of American-sponsored firms provide examples of improved management. And the competition between them and local firms leads in many cases to healthy competition in the foreign economy.

These and other advantages are now being illuminated in a series of studies conducted by the National Planning Association. Only three of these studies are as yet available: one covering operations of Sears, Roebuck in Mexico; another covering Casa Grace in Peru; and a third yet to be published, dealing with Philippine American Life Insurance Company in the Philippines. But the assumptions arrived at by the NPA's policy committee, underlying these studies, represent the consensus of an informed group of American business men, representatives of labor and agriculture, and professors concerning ways in which our business management has contributed to technical and economic development abroad.

[1] "Development of Technical Assistance Programs" Senate Committee on Foreign Relations, Nov. 22, 1954, p. 2.

The group is convinced that well-operated and profitable businesses abroad can establish patterns of behavior that contribute materially to the welfare of the countries involved without unduly disturbing native cultures, living patterns, and ideologies. Properly managed private enterprise abroad contributes an organizational pattern within which new enterprises are developed by people native to the host country.

The touchstone of success seems to be whether the capital that goes abroad is accompanied by good management. If it is not, it is a poor risk. If it is, it shows better results both in profits and in terms of economic and social contributions to the host countries.

Good management and tangible contributions to the host countries can do far more than governmental guarantees in assuring that private United States capital abroad will not be subject to abnormal risks.

Finally, successful operations of our private enterprise can do much to strengthen private enterprise abroad, helping to assure us a stable source of raw materials, and helping to insulate the foreign economies against communism and political instability.[2]

The authors of the Sears study conclude as follows:

> Essentially, Sears as a merchant has played the same creative role in industrialization as was played a century and a half ago by the Boston merchants in establishing textile and hardware industries in New England. But Sears came into the process relatively later and has played its role faster and with a lighter hand—that is to say without exercising direct control. The effect has been to build up wholly native industries with standards of performance that would have been achieved much more slowly by any other method than that of the well-placed order for goods to be delivered.[3]

The Grace study is even more dramatic. Grace started with a partnership in a modest ship-chandler's business over a hundred years ago; his company is a far-flung enterprise with gross fixed assets of $182 million, of which $44 million is in shipping, $78 million in United States domestic enterprise, and $60 million in Latin America. Of this last figure, more than half has been committed since 1945, and over half of this is invested in Peruvian industrial and agricultural operations. Grace operates in six other South American countries and in Central America, as well as Peru. Its Peruvian activities include textiles; sugar and rum; paper, boxes and bags; industrial chem-

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[2] "United States Business Performance Abroad, the Case Study of Sears, Roebuck de Mexico, S. A." National Planning Association, 1953, pp. vii–xi.

[3] The same, pp. 50. The authors are Richardson Wood and Virginia Keyser. The authors also praise Sears for contributing to the rapid establishment of a Mexican middle class. This is done not by "planning," but "by giving a large proportion of the people a much wider choice of goods than they formerly had. Sears has done this in many ways: * * * by introducing new products, by lowering prices, by supplying more reliable products, by encouraging in customers the process of deliberation and choice through advertising, quality labelling, counter display, and day-and-night window display. These practices have affected not only the Sears clientele, already the largest retail clientele in Mexico, but also a large part of the buying public through the effect of its example on other stores" (p. 50).

icals; paints; foods; ores and ore concentrates; distribution; and transportation. Grace's industrial and agricultural operations in Peru are conducted by Peruvian corporations without special concessions or guarantees from the Peruvian Government. Grace reinvests profits in Peru, demonstrating long-term confidence in its future there. And the most striking lesson is its development of organization and of management. In the course of its hundred years of pioneering and innovation, Grace has given constant attention to the structure of the organization and to the development of indigenous managerial and worker resources. Basic to Grace's achievement are the following:

> The emphasis on the integration of Peruvians into the management of the enterprise; the deliberate policy of seeking to associate in partnership with local capital; the determination to stay out of internal politics, but to cooperate fully with governmental programs; the sympathy for local customs coupled with assistance in the social progress of employees; the rational use of the profit motive as the yardstick for action * * *[4]

And not least among Grace's achievements is its contribution to the favorable climate for foreign private investment which mark Peru's monetary and development policies.[5]

Other case studies could lead to similar conclusions, and those cited above hardly scratch the surface of the contribution made by a large number of American firms—such as Arabian American Oil Company, Shell Oil, Standard Oil, General Motors, Ford, Kennecott Copper, Firestone Tire & Rubber and our international airlines—in the course of managing and developing their enterprises abroad. Such technical assistance is not for a year or so, improvised for impact and conducted on a crash basis. It is integrated into the long-term hopes of the American company for a continuing source of profit from its relations abroad. Much of it is directly related to the operations of constructing, equipping, and operating a wide variety of industrial plants and manufacturing processes. In the course of events, these companies train and employ a wide variety of workers, supervisors, managers, and technical and scientific personnel. They live with the laws and customs of the countries where they are found. Their purpose is understandable and clear: to make money. In so doing, they develop those economic resources and skills which relate to profitable and continuing enterprise.

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[4] Eugene W. Burgess and Frederick H. Harbison: "Casa Grace in Peru," p. 91.
[5] Same as above, p. 95.

VIII. Special Problems

Two special problem areas have emerged from our review. One is the use of universities as contractors; the other is the application of the Benton and Moody amendments.

A. University Contracts

The role of American colleges and universities in offering technical assistance to foreign countries is an old one. These institutions have contributed to the world community of scholarship and science, in which both professors and students have moved from country to country and from university to university. The process has taken more specific forms, such as Yale in China—a separate organization which grew up through Yale YMCA auspices, which drew on its own sources of funds—contributions from foundations and other private parties—and made possible a vigorous application of American technology to Chinese problems. The relationship of Cornell to Nanking University is another case in point. This relationship, confined to the fields of plant genetics and breeding, led to the training of over 200 top plant breeders in China, who did marvels for the productivity and quality of Chinese agriculture.

Our exchange-of-persons programs during the thirties and forties did much to involve our universities in the exchange of knowledge and skills, both with Latin American countries and with countries elsewhere.

ECA turned to universities as prime contractors, first in the case of technical assistance to South East Asian countries, in 1949. The services sought were particular in nature, and it was expected that many contracts would be used, each dealing with a special subject; one or more contracts might be let to one university, depending on its resources and its interest in the program. Some of these individual contracts were outstandingly successful; others produced mediocre results. The fault lay sometimes with the host country, sometimes with the participating university. Some of the later problems emerged at this early date, but were submerged in the flood of reorganizations of the aid program.

With the launching of TCA, the university contract device gained added impetus. The first one of any prominence was a contract with the University of Arkansas to survey possibilities of technical assistance to agriculture in the Republic of Panama. This was launched in May 1951. The second was a contract requested by Ethiopia in

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1951 with Oklahoma A and M, launched in 1952, for assistance in the fields of agriculture and education.

But with the creation of FOA, and the entry of Governor Stassen on the scene, the program turned from a person-to-person or field-to-field program into a university-to-university program. Governor Stassen, fresh from university administration, was particularly impressed with the potential contribution our land-grant colleges as institutions encompassing a wide range of technical resources, could make to the export of technical assistance. In general, he felt that if the right way could be found to bring to bear on the underdeveloped areas of the world the resources, intelligence, experience, ingenuity, executive skill, and the research of the land-grant colleges, and to some extent of other educational institutions, "we will make within the next decade or two decades a tremendous contribution toward the fundamentals of the future peace and progress of the world."[1] More specifically, he and others were impressed by the ability of these colleges in university extension work: in other words, the translation of learning into action by people generally outside academic halls or laboratories.

Governor Stassen's initiative coincided with a special condition in the affairs of many American institutions of higher learning. As a result of the GI bill, many had both swollen student bodies and enlarged teaching staffs; as this peak load declined, they faced an abnormally low load with the "depression classes"—the relatively reduced number of children born in the depression years. But with the subsequent rise in the birthrate, they also face within a few years' time, an unprecedented load. So the opportunity to keep staffs intact, to put top teaching and research personnel at the disposal of the Government for the time being while the younger members of the faculty carried the relatively light teaching load of the intervening years, and to perform public service in the bargain, offered a tempting opportunity to university administrations.

The net of the conjuncture of these two forces was a rapid growth in the number of universities brought into play. By November 1954, 40 universities were then under contract; and by March 1955 the number was well over 50. Although the general rationale of the program asserted that the main object was to draw widely on the resources of cooperating institutions to build up their opposite numbers abroad, this has not always taken place. Fields of work range from legal codification and aerial photointerpretation to broad work in medicine, agriculture, engineering, education, public health, public administration, business administration, and home economics. Most of these contracts were drawn between an educational institution in the host

[1] Quoted in "American Universities in Technical Cooperation," FOA Office of Public Reports, no date.

country and the educational institution here. Twelve contracts were made between the United States educational institution and the host country government without involving an educational institution there. Three contracts were drawn between the United States educational institution and the USOM in the host country, and two more jointly with the host government participating as well. Three were drawn between the United States educational institution and the host country government plus an educational institution there.[2]

The initiative for requesting a university contract is supposed to come from the host government. Usually after conference with the host government, the local university, and the USOM in the country, the request is forwarded to Washington. The request may nominate a desired United States institution; or the FOA may suggest a list of proposed institutions which have appropriate resources and are available. Once the United States institution is selected, FOA sends representatives of it abroad to prepare a mutually agreeable work program in conjunction with the host government of school. This program is supposed to be developed as an integral part of the economic programs of the country and to fit into the technical cooperation plan for the nation as a whole.

Contracts call for the American university to maintain a faculty team in residence overseas, and to furnish special consultants for short periods. These staff members are not to serve as teachers but as advisers, and to work with staff of the host institution on matters of organization, administration, and methods in teaching and research. They help in training local staff, developing extension programs, demonstration projects, and technical consulting services. They help plan and conduct special conferences in the major fields covered by the contract, in preparing and distributing educational materials and aids, and in developing professional associations and technical publications.

Contracts may also provide for representatives of the local university—key faculty members or graduate students—to visit the American university to observe techniques. Plans call for pairing off two host university staff members with an American staff member; the first works with his American opposite number in the host university while the second goes to the university in America. They exchange places the second year.

Contracts usually call for the host country to provide quarters and cost-of-living allowances as well as office space, supplies, equipment, communication services, and necessary transportation within the country.

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[2] Summary statements, FOA-Financed University Contracts in Operation Abroad, as of November 15, 1954. FOA, November 15, 1954. No attempt is made in the count above to determine which educational institutions abroad are government administered. If the contract involved an educational institution here and one there, it was not counted as involving the host government. March 1955 estimate verbally from FOA.

Most contracts are now drawn for 3-year periods; thus they will outrun the life of the Government agency which helped negotiate and underwrite them.

Growth of the contract device under the special pressure of the last 2 years, and with special emphasis on the inclusion of land-grant colleges, raise a number of serious issues for the future of the aid program, the future of the universities, and for our foreign relations generally. These issues are both long term and short term in nature. These issues are affected by the fact that these contracts have been let with a minimum of long-term planning, to take care of immediate problems and immediate opportunities. Little if any thought has been given to date, either in the universities or in the FOA, to the long-term questions raised by the use of this device. Recently, however, a joint group has been set up under a foundation grant to the American Council on Education, which is taking a broad look at these various problems and issues, both from the standpoint of the interests of the academic community and of the Government. Its work has not gone beyond preliminary stages at this date.

Long-Term Issues

The long-term issues and questions arising from the university-contract device can be looked at profitably from the standpoint of the universities, of the United States Government, and of the host governments.

From the standpoint of the universities, the first question is the long-term toll which university contracts will place on their overall resources. While some universities have been eager to fill a short-term lag in their load by undertaking foreign assistance contracting, they face a problem of unusual magnitude in the next few years, when the surge of students now going through the secondary schools come to the universities for further training. The universities, particularly the land-grant institutions, are also facing new responsibilities in the very fields which qualify them for work in the foreign fields—adult education and extension work. Meanwhile there is the continuing heavy drain on university resources in research and development imposed by the Government's military demands, arising from continuing world tension. It seems inevitable that the universities and the Government will face serious problems of the level at which they will be able to continue both their domestic work and maintain a sizable program of foreign assistance. Yet much in the current FOA planning and programing of university-to-university contracts looks to a continuing long-term relationship, and our universities are creating commitments abroad by their present technical assistance.

The haphazard growth and distribution of university contracting has not yet received the attention it deserves. There is question whether contracts have been equitably allocated among American universities; whether the most competent resources in given fields have been tapped, or whether the converging factors of host country requests, FOA suggestions, the advice of outside agencies, and the availability and interest of United States universities has given an optimum solution.

The pressure which FOA has placed on universities to cooperate in the program, either to meet the requests of host governments, or to continue parts of the technical assistance program which are jeopardized by the imminent dissolution of FOA itself, may have led to putting demands on universities which are not fully appropriate. Universities are specialists in three functions: research, teaching, and extension work. Any pressure on their resources which calls for service falling outside these fields means asking universities to divert their resources for purposes for which they are not uniquely qualified, in all probability at the long-term expense of their basic functions. Yet university administrations find it difficult to resist such pressures; demands made by the Federal Government in the name of advancing the foreign relations of the country cannot be lightly ignored. Hence university presidents and boards of trustees are probably more prone than they should be to accede to drafts on their resources which are not wholly pertinent to the mission of the universities.

This latter factor—the question whether the foreign technical assistance function comes fully within the mission of the American university—is important in itself. Land-grant colleges are State institutions, responsible to the legislatures and the people of the State governments of which they are part. Their primary duties lie there. Granted that institutions of higher education, along with any other important source of skill and power in our national life, cannot ignore the realities of foreign relations, and must make an appropriate contribution to them; this does not mean that foreign demands always take first call. And if the university administration does not feel that its technical assistance work is of genuine importance and in line with the basic mission of the institution, the danger arises that a pro forma acceptance of the responsibility will be given by university leaders, but actual work will be administered by junior officials working with the mavericks and misfits and the weak sisters among the professionals and technicians.

For the third- and fourth-rank professionals to carry the university's load of technical assistance can have unfortunate results not only for the objectives of technical assistance and the reputation of the university, but also for the reputation of American science and

technology, and for United States foreign relations generally. We must send some, at least, of our best. But to send top specialists may not solve the problem either; our university representatives abroad should be tactful, openminded, receptive to new ideas, and able to deal with people of the country on a basis of dignity and mutual respect.

Another aspect of the question raised above concerning the university's mission relates to the extent to which the FOA has looked to university specialists to seek out technical assistance opportunities and build such programs, which may well transcend the particular resources of the university. Thus there is a phase-in and phase-out problem of continuing importance to the United States Government and people. It seems clear that universities have been brought into the contract relationships prior to the time that USOM or country planning agencies have clearly foreseen the sort of work the university could profitably be doing. The way is open for the old familiar pattern of commencing with limited, short-term goals, and then, after work has commenced, opening up new perspectives and new opportunities, which are dramatized and built into the programs of the future. In the case of most underdeveloped countries, the opportunities for humanitarian service are limitless, and it is hard to design tight projects for specified goals, for specified periods, and for specified costs, after which the host country will take over. The hope this can be done is little better founded in the case of university contracts than it is in other phases of our technical assistance. The same question of host-country resources appears—will they be adequate to continue proved-out operations after FOA subsidies are scaled down and withdrawn? The only part of the university-contract device which offers much hope of a graceful withdrawal of the United States from the aid relationship at an early date, is the somewhat greater emphasis on training and the building up of indigenous institutions than is found in other TA projects.

The possibility of United States withdrawal has serious implications for the United States university. So long as the program is federally sponsored and subsidized, both fiscal and political questions are eased for the American university. The United States Government stands back of dollar costs, and the university does not risk failure of the host government to pay its dollar obligations. With the United States Government out of the fiscal picture, the university not only runs a greater risk of collecting dollar debts, but also far greater control of personnel and administration by the host country of those parts of the contract which it is paying for in dollars. The relationship of a land-grant college to its legislature is easier if its foreign technical assistance activities are conducted with Federal sponsorship and programing; if this is absent, the college is vulnerable to charges that it is

using scarce resources for projects and purposes outside its proper sphere of action.

The extent of United States sponsorship today is raising problems for the future, because the extent of university technical assistance is undoubtedly far greater than it would be in the absence of Federal financing. When current contracts come to an end, the university must face the question of its continuing relationship; its extent and method of financing. Needs and opportunities will remain, since no university working on a broad basis can hope to complete the task of transmitting to the host university or country all relevant aspects of United States technical know-how in one or a number of such fields as agriculture, medicine, engineering, or administration. Any wholesale breaking off or diminution of such programs might have serious consequences for our foreign relations.

Many of the impacts of the program on host governments have been suggested above. Another aspect of the problem, due partly to the haphazard, piecemeal growth of the program, is the possibility of friction and jealously among host countries, and ill feeling toward the United States, arising from apparently inequitable allocation of university contracts. Pakistan has 4 contracts in 6 major fields; neighboring India has 3 contracts in 4 major fields. Iran has 4 contracts to Iraq's 2. A continuing problem for the supervisory agency, if one remains in this field, will be the fair and equitable distribution of university contracts among host countries.

Short-Term Issues

There are a number of short-term or more immediate issues which emerge from our analysis of the program to date. Chief among these are the terms of the contracts, the parties to the contracts, the question of power of subcontracting, the duration of the contracts, and the question of fair shares. Each of these topics has various subissues.

The contracts we have examined seem too general in their specification of purposes and objectives. This is partly due to the general failure of FOA to do a good job of specifying program objectives, goals, and phases in its planning as a whole. Project planning and administration undoubtedly requires a good deal of cutting and fitting on the job, and details cannot be foreseen in advance. There should be plenty of leeway in contracts to allow for this detailed adjustment. But there is a question whether now, with several years' experience behind us, it is not possible and desirable to specify clearly the goals and timing of university contracts as a prudent means of control and the avoidence of misunderstanding.

The topic of financial terms has given rise to a good deal of difference of opinion, particularly with respect to such questions as the

direct costs which a university could properly charge under a contract. There has been comparatively little experience on which contracting officers could come to an agreement as to what constitute legitimate objects and rates of expenditure for overhead items which the university must pay in the host country. Contracts have sometimes been unduly delayed by failure to agree on what is in effect an accounting issue, and not one of principle.

The question of who should be parties to a university contract is complicated and gives rise to a number of administrative and operating difficulties. Most contracts are drawn between a university or institute of a host government and the United States university, and the FOA enters as the source of funds through its bilateral agreement for the whole aid program with the particular country. But there are a number of cases in which the contract does not involve a local institution, but is made directly with a ministry or agency of the host government. There are other cases in which the contract is drawn with the USOM, and the host government does not become a party. The sorts of questions which arise have to do with the status and relationship of the university contract personnel in the country to the personnel of the USOM, or with the host government and its officials. If the contract is made directly with the host government or its university, there is no question of the relations of university personnel with respect to those institutions; their presence in the country, their mission and duties are regulated by the contract. But there is a question of their relation to the USOM. Where the contract is with the USOM and does not involve the host government, the reverse relation arises.

The issue of whether the universities should have power to subcontract is sometimes raised, and the recommendation made that no such power be granted. The power is not, as a matter of fact, spelled out in most contracts. Yet there is serious question whether the university should not have this power. It would help to assure that the university sends the best available people, not being restricted to its own resources; and that it can bring in extra help expeditiously when needed for the purposes of the contract, but not necessarily required by the university in its normal functions. The example of helicopter pilots for airmapping or survey is in point.

The issue of the duration of the contract raises both short- and long-term issues. Under current procedures, most contracts are let for 3 years. Some are as short as a year. The variation is due in part to the nature of the services rendered. But the longer term contracts give rise to a situation, mentioned above, that the life of the contract and its functions is longer than that of the agency which lets the contracts, and would normally supervise them. There is thus danger of loss of continuity in supervision and servicing of the con-

tracts. And there is the general question of the propriety of contracts of such length as to evade both the controls and responsibilities as well as the operating difficulties of annual appropriations and budgeting. It is obvious that contracting of such length, while authorized by law, tends to perpetuate Government support for an activity which is, to say the least, questioned in some quarters. Finally, contracts for such duration allow the administrating agency to obligate a larger amount of money in any given fiscal year, so carryover is reduced and the agency can claim need for larger appropriations.

The question of fair shares is also important for both short-run and long-run reasons. While the general requirement is imposed by law that countries shall bear a fair share of project costs, and shall make a maximum effort to absorb the benefits of projects and put them to good use, there is no specification of what fair shares shall mean in the case of university contracts or in the case of aid programs generally. It may be impossible to set up criteria of general applicability which would not unduly interfere with our objectives in foreign policy, or our freedom of action. It appears to date, however, that application of the standard has been a matter of broad judgment, and that it varies with situations and countries. It is also clear that the relative contributions vary from country to country, and from project to project.

In presentations to the task force, the FOA has given the impression that country contributions to such joint projects have been substantial, often in ratios of from 4 to 1 to 10 to 1. A review of 52 college contracts shows that the overall ratio of United States to foreign contributions is of the order of $33 million United States to $21 million by foreign countries. In only 13 cases were country contributions greater than United States contributions. The table which follows lists these comparative contributions. Those in which the country contribution is greater are shown in table 4 as reference 1.

Table 4.—*United States and Foreign Country Contributions to University Contracts*

College and university contracts			Estimated costs (dollar and dollar equivalent)	
University	Country	Total	United States	Country
Purdue	Brazil	$117,000	$80,600	$36,400
Michigan State	do	313,916	193,916	120,000
Maryland	British Guiana	900,000	900,000	(3)
Michigan State	Colombia	1,377,813	749,813	628,000
Armour Research	Mexico	105,000	90,000	15,000
Michigan [1]	do	446,800	102,800	344,000
Pennsylvania	do	18,000	18,000	(4)
Arkansas	Panama	3,183,460	1,800,960	1,382,500
Harvard [1]	Peru	43,442	17,000	26,442
North Carolina	do	269,814	184,270	75,544
North Carolina State [1]	do	2,026,300	526,300	1,500,000
Georgetown	Yugoslavia	167,800	106,000	61,800
American University of Beirut	Near East	4,029,830	4,029,830	(3)
Wisconsin	do	20,000	20,000	(4)
Wyoming	Afghanistan	283,000	153,000	130,000
Columbia	do	310,000	210,000	100,000
Oklahoma [1]	Ethopia	6,399,868	2,484,368	3,915,500
Illinois	India	245,000	220,000	25,000
Illinois	do	494,000	450,000	44,000
Wisconsin	do	790,000	738,000	52,000
Utah State	Iran	1,800,000	1,800,000	(3)
Brigham Young	do	569,335	569,335	(4)
Syracuse	do	290,000	240,000	50,000
Southern California	do	710,000	710,000	(3)
Bradley [1]	Iraq	1,085,000	450,000	635,000
Arizona [1]	do	712,800	230,000	482,800
New York University	Israel	2,187,700	1,815,700	372,000
Montana	Jordan	135,000	135,000	(4)
Isaac Delgado	Lebanon	540,000	390,000	150,000
Do	(2)			
Oregon	Nepal	320,000	220,000	100,000
Washington State [1]	Pakistan	3,989,000	1,989,000	2,000,000
Texas A & M	do	4,078,750	2,078,750	2,000,000
Colorado A and M	do	1,500,000	1,000,000	500,000
Pennsylvania	do	954,000	800,000	154,000
Georgetown [1]	Turkey	138,500	48,500	90,000
Nebraska	do	29,500	17,000	12,500
New York University	do	1,358,107	878,607	479,500
Cornell	Burma	135,000	100,000	35,000
Armour Research [1]	do	952,725	195,000	757,725
California	Indonesia	1,142,000	692,000	450,000
Tuskegee	do	800,000	800,000	(3)
Minnesota	Korea	2,796,500	1,800,000	996,500
Cornell	Philippines	850,500	850,500	(3)
Michigan [1]	do	1,566,000	440,000	1,126,000
Stanford	do	998,000	500,000	498,000
Connecticut	do	275,000	175,000	100,000
California	Taiwan	685,250	425,250	260,000
Purdue	do	603,000	315,000	288,000
Penn State [1]	do	247,000	75,000	172,000
Texas University [1]	Thailand	620,000	230,000	390,000
Oregon State [1]	do	592,000	290,000	302,000
Total		54,191,710	33,334,499	20,857,211

[1] Denotes contracts showing greater country contributions. Total relative contributions in these 13 cases are: United States: $7.1 millions; foreign country: $11.7 millions. Total costs of these contracts are $18.8 millions.
[2] Amendment.
[3] Unknown.
[4] None.

B. Benton-Moody Amendments

Two changes in our foreign assistance legislation—the so-called Benton and Moody amendments—were made to foster our programs to increase productivity, reduce monopolies and cartels, and otherwise to further free enterprise in Europe. The Benton amendment became

section 516 of the Mutual Security Act of 1951, as amended. This section declared it to be the policy of the Congress that the mutual security program should be administered in such a way as to eliminate barriers to and provide incentives for steadily increasing participation of private enterprise in developing the resources of foreign countries; to discourage cartel and monopolistic practices and to encourage suitable competition and productivity; and to encourage the development and strengthening of free labor unions as collective-bargaining agents. The section enjoined the Mutual Security Agency to encourage greater participation by private capital in the investment guarantee program; the Department of Commerce to study impediments to private investment abroad and means for their removal; the Department of State to accelerate the negotiation of treaties or other agreements to encourage the flow of private capital; and the TCA to encourage and facilitate a greater participation by private industry in the contracts awarded by the Administration, and to find and draw the attention of private enterprise to opportunities for investment and development in underdeveloped areas.

The Moody amendment (sec. 115 (k) of the Economic Cooperation Act of 1948, as amended) made in the course of enacting the Mutual Security Act of 1952, supplemented the Benton amendment by directing that the counterpart produced by spending $100 million of the funds appropriated pursuant to the Mutual Security Act of 1951 would be used exclusively for revolving funds to make loans or otherwise to carry out the purposes of the Benton amendment. In the words of the statute, these loans were to stimulate "free enterprise and the expansion of the economies of those countries with equitable sharing of the benefits of increased production and productivity between consumers, workers, and owners." This amendment also authorized the Director of Mutual Security to transfer not more than $2.5 million to the OEEC, for use on terms and conditions to be specified by the Director in order to promote the objectives of the Benton amendment.

During fiscal year 1953, the United States entered into bilateral agreements with 11 European countries for the utilization of counterpart funds made available under the Moody amendment. It concurrently entered into an agreement with the OEEC, under which the United States agreed to make a direct dollar contribution of $2.5 million to the OEEC to assist in the operation of the European Productivity Agency (EPA). This $2.5 million was only part of EPA's capital. The 11 participants agreed to make available a total of $7.5 million in European currencies out of counterpart accruing to them under the Moody agreements. This $10 million constitutes the capital of EPA. In addition, OEEC helps EPA to meet its administrative expenses.

The EPA's capital was budgeted over a period of 5 years to meet the nondollar costs of multilateral productivity projects. The United States contribution to EPA capital is held by the United States Treasury in a special account, and released in installments of $250,000 upon certification of need by the agency. Two such installments had been drawn by December 1954. Once drawn, these funds become part of the general operating budget of the EPA and their use for specific projects cannot be identified.

National productivity centers were set up in each country which signed a Moody agreement. Counterpart funds, partly arising from the Moody agreement and partly from general counterpart, have been used to help these centers get their programs started. The normal pattern has been that after operations financed by initial counterpart allocations have indicated the worth of the centers, contributions for further support are made from the regular budget of the host country. This pattern does not always hold. As of June 5, 1954, centers in Belgium and Italy were still fully supported by Moody counterpart. In other countries, such as Germany and the Netherlands, the centers are financed partly by counterpart and partly by Government funds. In France, the center receives a large allocation from the French budget, as well as counterpart deposited against past technical assistance dollars.[3]

Table 5 below shows the planned sources and uses of funds under the special country agreements, as of June 1953.[4]

Inspection of table 5 shows that a total of over $113 million (in dollar equivalent) has been made available for use under the Moody agreements. Of this, nearly $64 million is for revolving loans, and the remainder for grants. The source of the funds is almost wholly counterpart, the bulk of it arising from the $100 million made available by the Moody amendment. Significantly, Germany contributed over twice as much of non-Moody counterpart as arose from the Moody amendment. Denmark, Greece, and Turkey contributed a substantial proportion from non-Moody funds.

Table 6 shows, by country of origin, the source of planned EPA expenditures for the 3 years commencing in fiscal year 1954. It also shows the expected administrative support from OEEC for that fiscal year.[5]

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[3] The foregoing information was furnished to the task force by letters from FOA dated December 10, 1954, and January 5, 1955.

[4] Report of basic agreements. OSR in Europe. June 1953.

[5] The same.

Table 5.—*Source and Use of Funds Under the 115 (k) Country Agreements*

[Millions of dollars (equivalent)]

Country	Allocation of 115 (k) aid	Program funds provided			Indicated use of funds		
		90 percent 115 (k) dollars	Other [1]	Total	EPA	Loans	Grants and other [3]
Austria	10.0	9.00	[2] 0.28	9.28	0.80	[3] 7.00	1.48
Belgium	1.0	.90	2.16	3.06	.08	[3] .50	2.48
Denmark	3.0	2.70	1.84	4.54	.24	.58	3.72
France	30.0	27.00	[2] 1.50	28.50	2.40	14.60	11.50
Germany	10.0	9.00	19.14	28.14	.80	23.85	3.49
Greece	1.0	.90	.60	1.50	.08	1.18	.24
Italy	22.0	19.80	.80	20.60	1.76	[3] 10.52	8.32
Netherlands	3.0	2.70	.26	2.96	.24	1.19	1.53
Norway	4.0	3.60	1.11	4.71	.32	1 41	2.98
Turkey	1.0	.90	.10	1.00	.08	([4])	.92
United Kingdom	9.0	8.10	.90	9.00	.72	2.80	5.48
Total	94.0	84.60	28.69	113.29	7.52	63.63	42.14
Undistributed	[5] 6.0						
Grand total	100.0	84.60	28.69	113.29	7.52	63.63	42.14

[1] Mostly from general 90-percent counterpart resources.
[2] Estimate.
[3] Preliminary.
[4] An unspecified amount of "Grants and Other" may be programed for loans.
[5] Includes $625,000 for 115 (k) programs in Uganda and Tanganyika.

Source: OSR Report of Basic Agreements, June 1953.

Table 6.—*Source of Funds for the European Productivity Agency* [1]

[Thousands of dollars (equivalent)]

Source	Freely convertible	Transferable [2]	Non-transferable [3]	Total
Austria		267	533	800
Belgium		80		80
Denmark		80	160	240
France		800	1,600	2,400
Germany		400	400	800
Greece		27	53	80
Italy		587	1,173	1,760
Netherlands		240		240
Norway		107	213	320
Turkey		27	53	80
United Kingdom		240	480	720
Total country contributions		2,855	4,665	7,520
OEEC		429		[4] 429
United States	2,500			2,500
Grand total	2,500	3,284	4,665	10,449

[1] To finance the activities of the Agency over the 3-year period beginning fiscal year 1954.
[2] Within the European Payments Union.
[3] Generally, for expenditure only in the donor country.
[4] To be made available from the OEEC's budget for support of the EPA's activities in fiscal year 1954 The OEEC intends to make further contributions in succeeding years, but these sums have not been fixed.

Source: OSR Report of Basic Agreements, June 1953.

Administration of these two amendments was difficult and slow from the outset. The process of negotiating agreements was protracted, with a good deal of the trouble arising over the issue of sharing the benefits of the program among owners, workers, and consumers. Representatives of the European countries were reluctant to engage themselves to share out indefinite or unknown proceeds in any definite way. The deadline for signing agreements was June 30, 1953; by that time 11 countries had come into the arrangement. But even after signing, it took time to put the agreements into effect. The first project—for the rehabilitation and expansion of the Belgian shoe industry—was not launched until December 1953.

Former Secretary of Commerce Charles Sawyer, after returning from a trip to Europe in 1952, recommended the repeal of both amendments. The combined report of the evaluation teams sent to Europe by the MSA in the spring of 1953 concluded that the amendments encouraged unnecessary spending by United States agencies, met with little understanding or appreciation, caused resentment, and interfered with long-established business practices and customs. The evaluation teams approved the aims of the amendments, but considered them unrealistic and also recommended their repeal. This conclusion was concurred in by the Senate Committee on Foreign Relations in its report on the Mutual Security Act of 1953. (P. 63.) The Moody amendment disappeared from the law; elements of the Benton amendment persist as the Thye amendment in section 413 of the Mutual Security Act of 1954.

But disappearance of the Moody amendment, and rephrasing and cutting down of the Benton amendment, have not taken care of a continuing problem arising from them. As table 6 above shows, over $63 million worth of local currencies have been provided for revolving loans to be made by the national productivity centers of the 11 participating countries. And EPA has a continuing capital of some $10 million more. As source of the capital, the United States has a continuing interest in its disposition. And the interest of the United States goes somewhat beyond this, insofar as our foreign policy calls for efforts to make our European partners into willing and economically powerful allies. But in pursuing this interest, even in the somewhat restricted fashion of supervising the continuing administration of $73 million equivalent in local currencies for increasing the productivity of European countries, the United States faces serious problems. Continued close supervision can only be accomplished at the risk of resentment over unwarranted interference in the political and economic decisions of sovereign states. And continued close supervision makes a continuing demand on our administrative resources, calling for United States personnel abroad, notwithstanding the ending of our programs of economic assistance. At least one chief of an

operations mission in a European country has cited the productivity program as a reason for continuing his organization in some form. Moreover, one current task performed by USRO is participation in the actual programing of assistance. The European Regional Office of FOA stated on October 18, 1954, that other aspects of FOA's support for OEEC were taken care of by a literal handful of people in Washington, and a small representational staff in USRO. The implication is that the EPA programing responsibility calls for a substantial number of people for an indefinite period.

IX. Emerging Problems

Technical assistance is supposed to solve problems—those of the underdeveloped areas, and those of our foreign policy. But technical assistance itself has brought a host of problems in its wake, and poses fresh ones for future public policy and action. They stem from the rapid growth and the unexpected ramifications of technical assistance, leading to the questions:

(1) What should be the overall scope of Government sponsored and financed technical assistance for the future?

(2) What are the problems of priorities and planning which we face?

(3) Can we phase out the Government's technical assistance; if so, how?

(4) What are the main problems of organization and administration we face if we continue this function?

(5) How can we evaluate the results of our work?

A. Growth of the Program

The most striking single aspect of our technical assistance program over the past 7 years has been its growth and ramification. Technical assistance or technical exchange started with ECA. It remained small there, so far as money costs were concerned; ECA was designed to rehabilitate and rebuild a highly developed economic mechanism. Only in a few areas outside of Europe, were its technical assistance functions dominant. But after the passage of the Act for International Development in 1950, technical assistance took rapid strides forward. Its progress was made chiefly in the underdeveloped areas by forced marches, under the joint impetus of cold war and humanitarian impulse. We have seen that technical assistance can be separated only with difficulty from other aspects of economic assistance. Even the use of separate organizational devices, such as TCA, did not keep technical assistance at the level of a know-how and show-how program. Demonstrations and surveys lead to demands for capital goods now.

The time has now come to take an overall look at the program, to judge the propriety of its scope and ramifications, and to square it with the future interests and needs of four foreign relations.

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B. *Overall Scope of Technical Assistance*

The questions arise whether technical assistance, as now conceived and authorized by law, is not too broad; whether the authority in the law is not an invitation to a program scattered too widely for effectiveness in the field, and too costly in skilled men and scarce equipment. Although the law imposes limits on both the fields and the purposes of these activities, those limits are so broad that TA could cover almost any current aspect of economic aid.

TA is potentially, if not now, an umbrella for the whole foreign aid program.

Yet it would be difficult to conclude that the specifications of the statute should be any less broad. All 10 fields enumerated for demonstrations, surveys, training, and similar projects clearly relate to the problem of improving the economic development and resources of the underdeveloped countries. And training in public administration is certainly relevant to the problem of equipping host countries to take advantage of technical assistance and to carry forward its fruits by their own resources.

The problem of keeping TA within the bounds of our country's interest and resources is one for Congress and the Administration. Control of appropriations is the most powerful weapon. For such control to be intelligent and effective, however, mid-range objectives and phases of technical assistance should be clarified and a better system of priorities and planning set up.

C. *Priorities and Planning*

1. *Existing Criteria*

Planning and programing technical assistance are either too broad, are not fully applied, or are lacking.

One obvious criterion, appearing in the Mutual Security Act as the requirement that participating countries shall contribute a fair share of the cost of each project, could be much more tightly applied. If we assume that we are carrying on technical assistance in at least 50 countries, and our total annual appropriations are of the order of $150 million, this means that an average of $3 million per country is called for. On the assumption that at least one-half of this amount will be spent in 5 countries (and India today is getting more than this alone), 45 countries will call for $75 million, or an average of less than $1.7 million per country. It is hard to believe that any sovereign state cannot spare such amounts for purposes in which it is genuinely interested.

A recent field survey by the Bureau of the Budget has shown that program planners in the field do not have a clear idea of how specific

projects are related to the long-range and the midrange objectives of technical assistance. While each project promises technical gain and can be related to our foreign policy on the ground that it will contribute something to the economic productivity of the country in question, in too many cases it is not clearly related to a series of intermediate tasks and objectives which contribute the most in the shortest time to specific long-range objectives. In the absence of such criteria, it is impossible to judge which of a number of projects is the most urgent. This is true whether planning is looked at from the standpoint of a field office or of Washington.

Other well-placed observers have called attention to deficiencies in our planning and control of technical assistance programs. They call for serious reflection in the light of current efforts to expand technical assistance in the Far East and Latin America.

Some of these items are found in the testimony of several witnesses before the subcommittee on the technical assistance program of the Senate Committee on Foreign Relations, Feb. 17, 1955–Mar. 4, 1955.

Mr. George Allen, Assistant Secretary of State, in referring to the community development program in India spoke of the Faradzbad project as not being self-supporting, probably not self-supporting in the future, and of the payments on loans for the project being in arrears.

The Reverend Fred McGuire of the National Catholic Welfare Council said that in Bolivia the TA technicians were so bogged down in administrative detail that they could not get into the field to work on projects. The program in Egypt bore the nickname "Chicken program" because the personnel were so busy scratching around in administrative details that they had not got down to actual work.

Mr. John C. Lynn, Legislative Director of the American Farm Bureau Federation, asserted that technical assistance appropriations were excessive and that the money had been used in part as economic monetary aid.

Marshall M. Smith, Acting Assistant Secretary of Commerce, said that in his experience, many technical assistance projects were hastily drawn without adequate consideration of United States objectives or evaluation of the ability of recipient countries to utilize the technical information.

Current FOA planning procedures, involving both Washington and the field, are a compromise between use of dollars or of projects as governing criteria. An effort is made to visualize country possibilities and needs without reference to cost. If anything, the dollar costs are kept high to offset expected cost by the Bureau of the Budget and by Congress. These loose plans are then brought within dollars possibilities as initially estimated by FOA program operators, and as later firmed up by action of the Bureau of the Budget, the White

House, and of the Congress. There has been considerable tendency in the field, however, to wait until a firm dollar figure is available and then to plan or improvise projects to spend that amount of money. The consequence is that money is not appropriated against firm project proposals. This procedure has been possible in a large way only because of a feeling that, under current international conditions, large quantities of money must be spent for foreign aid. Congress has not insisted on tight program statements and projects justifications as a precondition to appropriating funds. This is less true of technical assistance than of other forms of foreign aid, but it has been all too true of TA up to this point.

The alternative to projects tailored to available funds is to seek appropriations for selected and approved projects. In this case, requests for appropriations are built on firm determinations of what is needed and can be effectively spent in a country. Projects are pared down to available funds when Congress has acted. This type of process has its own difficulties. First among them is the difficulty of shaping up clear and definite projects when neither the officials of our foreign missions nor of the host country have a clear view of the economic requirements and potentials of the country itself. Without definite country plans, our field personnel and planners of the host government in the past have agreed on loose programs, projecting possible expenditures according to several broad categories, such as public health, roads, communications, and the like.

But assuming that planning procedures have developed to the point where projects are well thought out, integrated into the orderly development and the realistic needs of the host country, and justified in terms of the United States interest, there is some danger that our Government may be committed to projects and expenditures in the host country which cannot be carried through with available funds.

Both alternatives for the regulation of planning involve the risk of unwarranted expenditure of public funds. Under the first, the FOA official in the field is under temptation, if not pressure, to spend what is appropriated, even if he cannot find fully sound projects. Under the second, Congress is under some additional pressure to appropriate what may have been informally committed, despite efforts by field planners to put projects on a contingent basis. "Illustrative programs," however difficult to avoid in the field of emergency aid, are thereby fostered in the long-term fields of technical assistance.

The dangers of loose programing can be avoided if programs must meet a clear central standard.

2. *A Main Standard*

There is one and only one justification for foreign aid; the economic and political security of the United States. This standard includes anything that is deemed by high policy to further such security. But the overruling motive is United States security. If this results in social and humanitarian benefits, we should be both satisfied and grateful. The important thing to remember is that foreign aid was never intended to be, and should never be, permitted to become an instrument for reforming the world and uplifting the living standards of more than 1 billion human beings.

United States resources are limited. It is impossible for us, in the field of technical assistance, just as in the field of military operations, to cover every base and be strong at every point. Our resources of available skilled personnel are restricted, even if our financial resources seem easily equal to any prudent technical assistance demands on them. This brings us to a requirement for satisfactory midrange standards and criteria for planning.

3. *Mid-Range Standards*

If technical assistance is given, we should seek to improve the economic and political security of the United States by a concentrated, dramatic program, limited in time and cost, and looking to a phase-out of United States participation.

(*a*) *A Concentrated Dramatic Program.*—Despite the facts that we have spent close to a half billion dollars on technical assistance, that we have operated in most countries of the world, and that we have sent large numbers of skilled and respected specialists abroad in its interest, there is nothing which has emerged from our efforts which typifies and dramatizes the whole process. No single disease has been eliminated as typhoid or smallpox has been eliminated from the United States. No Jenner or Goethals stands as symbol for our work. It is difficult for anyone to point to a single technical program which has had a profound and lasting effect of real significance upon the general population of the country.

Perhaps, instead of nibbling at a host of problems in the countries where we work, we should pick 1 or 2 of the most vital needs, the solution of which not only is in the interest both of the host country and of the United States, but will also have a major impact upon the greatest number of people. It might be well to concentrate our forces and resources on this type of project.

(*b*) *Limited in Time and Cost.*—Our work in host countries should be within our means and theirs. We should have not only the money, but more important, the requisite number of technical specialists and

the demonstration equipment to carry projects through. The host country should contribute substantially to the project, not merely to comply with our wish, but as an earnest of its interest and capacity to apply the fruits of the project after it is demonstrated. The requirement of personnel should be met too, although in the case of the host country, this may mean successful completion of the training phase of the project.

(*c*) *Looking to a United States Phaseout.*—A phaseout of United States participation in a worldwide technical assistance program is no new idea. But first, two policy questions must be decided. Is technical assistance to be regarded as a long-term enterprise, and should we be prepared to engage in it as a government for an indefinite period? The long-range approach has been accepted by many political leaders and Members of the Congress representing both parties. The second question is where and when do we stop? The needs of an undeveloped country are varied and great. When one technical assistance program is completed another program opens up. There is always something new to do where the application of United States techniques promises large gains in the view of the United States technician. Hence new project proposals, often in new areas and activities. These proposals should be judged by clear standards of United States interest, to keep our activities under control and within the bonds of commonsense and an ability to perform.

D. Tighter Programing

The standards stated above do not apply themselves automatically. They must be built into the programing of operations for each country where we work. For each such country there should be specified program objectives, each broken down into definitely timed intermediate phases as guides to project planning and administration. Each individual project should be related to such a clear and specific plan, and each should make a measurable contribution to the objective.

Administrative progress toward tighter programing does not necessarily flow from experience. One of the oldest and most vigorous of our technical assistance programs has been that of the Institute of Inter-American Affairs. Yet the General Accounting Office's audit of IIAA operations for the fiscal year 1953 noted serious inadequacies in program planning; insufficient control from Washington or by office heads in the field; inadequate operational reporting, and a general failure to relate narrative plans to money projects.

The situation is not adequately covered by the allegation that the United States is interested only in making an impact, or filling a gap. The time for so-called impact programs, designed to show the people of a country or the world that the United States is interested in them

and wants to help them irrespective of specific manner, has gone by. And so have the "gap" programs. However important these may have been to the fiscal planner chiefly interested in monetary movements as an indicator of economic health, they play no proper role in the design and execution of a program of technical assistance as such. There is time enough, and enough experience in dealing with such affairs, for the United States to go into them with an eye for details and for specific accomplishments.

E. Phaseout

Ultimately we look forward to a world situation in which there is no requirement for one government to sponsor the large-scale export or technical knowledge and skill to others; where technical interchange will be carried on mutually, equitably, and freely among the nations of the world. As an obvious step toward such a situation, we look forward to a termination, at some future date, of our current programs of technical assistance.

In the meanwhile, so long as we feel that considerations of high policy justify a continuation of governmental technical assistance, we need to consider the effects of that program on our foreign relations. We want to preserve stability in our relations with friendly powers. And as a means thereto, we need to pursue a prudent and stable course in our technical assistance policy. Experience in Latin America after both World Wars shows the unwisdom of rapidly phasing out the elaborate programs of cooperation and neighborliness which we pressed so long as the strategic resources and potentials of Latin America were important to us in war. Any rapid increase in our current scale of Government technical assistance contains the same danger, increasing the difficulty of reducing commitments to foreign countries. This suggests the value of a small but stable program, concentrated on the most important targets, and clearly limited in cost and time. It also suggests the value of increased reliance on private technical assistance, which is in the mutual interest of the host country and of the private organization participating.

Our foreign policy requires us to maintain some flexibility in the technical assistance field, as in others.

We should be ready to help on some matters; our door should not be closed to calls for help on genuine problems from friends, neutrals, or even peoples associated with the enemy whose allegiance could be weakened thereby. But foreign peoples should realize that we are not prepared to help on everything everywhere.

Our Government has a legitimate and continuing interest in maintaining a small but fairly stable level of technical assistance as a means of keeping in touch with developments abroad, and influencing them

where legitimate in directions favorable to our economic, political, and military interest. This factor is not controlling, but should not be forgotten in evaluating technical assistance as a whole.

Despite these factors, however, there is much to be gained by a fairly early phaseout of United States Government-sponsored projects. The position of superior, which is unconsciously and often necessarily assumed by the person going from the technically superior culture to the technically inferior one, is bound to irritate the people of the host country if long continued. Their own self-respect and progress depends on their own development of their indigenous cultures and technical progress. And the expectation of never-ending United States aid is no spur to such development. The target should be a situation wherein there is a genuine exchange between the countries involved; where the United States stands to gain, and lets the other country know it. There are many fields in which this is already the case; culture and art in South America is in many respects far more creative and varied than ours. A close approach to equality in technical innovation and development will help too.

F. Organization and Administration

Several continuing issues of organization and administration, which have been touched upon in our paper on functions and the disposition of a central management agency to deal with foreign aid functions, require some elaboration here. These include:

(1) How should central programing and control be related to technical services furnished by the permanent agencies of Government, or by outside agencies?

(2) How should technical assistance be related to exchange of persons programs carried out under authority of other laws, and for somewhat different purposes?

(3) How best can program control of technical assistance projects be combined with such control over other aid activities?

(4) What disposition should be made of the IIAA?

(5) How much emphasis should be laid upon the U. N. as a means of carrying out technical assistance activities?

1. Central Management and Technical Services

The current organization of FOA, which is divided into an operations echelon and a technical services echelon, responds to a continuing problem of Government administration. It is further complicated by the administrative decision to get technical services insofar as possible from permanent agencies of the Government. These issues

emerge with special prominence in the technical assistance field, which offers the greatest possibility of using the technical resources of other Government agencies and requires a minimum central staff.

Should not more control over technical activities in the field be placed with the permanent agencies? They work normally in technical fields and can thus provide both specialist personnel and competent technical direction to subject matter specialists in the field. They are, in general, willing to take on more of this load and tend to resist the intrusion of administrative control from an outside agency over their technical leadership and direction.

However, the more technical autonomy they enjoy, the more they complicate central programing, management, and administration—including the correlation of technical aid with other foreign operations. This is of some importance in Washington, but can be particularly cumbersome and embarrassing in the field. If the head of mission abroad has to deal with a variety of specialists, each under the technical direction of and in some degree responsible to a department or agency of government in Washington, he will have a hard time keeping up with and maintaining control over the activities of all United States personnel working in his jurisdiction.

2. *Program Control and Project Intermingling*

These issues of central control in the field, where the authority of and control by the ambassador are at stake, also appear in Washington. There has been criticism in the past of the mingling of technical assistance with other forms of economic aid; educators and social workers in particular have resisted close association with economic and military assistance, predicting that their work would be made harder, and their position rendered suspect, if it were closely allied with diplomacy or military programs. Experience during the past 2 years does not seem to have borne out this fear. Even if it had, a serious question would remain as to whether, at the level of program planning and project control, technical assistance should not be integrated with our total program of foreign operations in a country or region.

From the standpoint of consistent policy and integrated operations, it is hard to avoid the conclusion that technical assistance should be so integrated. Such integration, however, might unduly foster the tendency, too strong as it is, for technical assistance projects to lead into development assistance or other forms of massive economic aid. This will remain a continuing problem for whatever agency is responsible for central management of foreign aid; for the administration and for Congress.

3. *Exchange of Persons*

Under current laws and procedures, at least two major forms of exchange of persons programs are now being carried on by our Government. A great deal of technical assistance is, in the last analysis, an exchange of persons program, one designed to export skills and techniques abroad by sending specialists, or bringing selected people from abroad to observe and practice them here. At the same time, the Smith-Mundt and Fulbright programs were designed less for exporting our technical skills abroad than as a way to affect favorably the climate of opinion abroad about the United States. Because the types of persons exchanged differ considerably, and the purposes of the programs are not identical, there is both explanation and justification for continuation of this apparent duplication. A continuing problem for future administration will be the reduction of nonessential elements of it.

4. *Disposition of IIAA*

The Institute of Inter-American Affairs (IIAA) is organized as a Government corporation. Although it was brought into TCA and transferred to FOA as an operating entity, it has never lost its formal status as a corporation, and enjoys a legal life until June 30, 1960 (sec. 1011 (b), Mutual Security Act of 1954). Thus it is certain to outlive FOA, and it must be specially articulated into whatever agency succeeds FOA, or allowed to continue on its previous relatively independent course. There seems to be no reason for continuing the corporation as such; the General Accounting Office has several times recommended that its status be changed to that of a normal Government agency. The special characteristics of the corporate form which seemed to justify its status have not been especially important—longer life, longer budgets, and program cycles, and the like. Its status as a corporation requires organizational form and procedures which seem unjustified by its actual functions and accomplishments—the keeping of corporation minutes, the use of a board of directors, separate disbursing officers, and a separate fiscal system. This is especially the case since the basic services so furnished can be given by the agency of Government bearing general responsibility for future foreign aid programs.

5. *Emphasis on the U. N.*

The pros and cons of continued, increased, or decreased participation by the United States in the United Nations technical assistance activities have been discussed at some length above. The question

remains whether we should do more or less through the U. N. or through other multilateral programs. As we noted above, the U. N. may face difficulty in expanding its programs, and the United States would not be able to decide unilaterally an issue involving many other countries. If we were to try to expand our work here, we could do so only if other countries involved were willing to expend their contributions even more. The United States already contributes a disproportionate amount of the U. N. budget, both in general and in the technical assistance fields.

There is a further question whether United States support of U. N. technical assistance should be made to the general program, or directly to the agencies which administer it, such as World Health Organization, International Civil Aviation Organization, etc. Our studies cast no light on this question, which is being examined by the Senate subcommittee on technical assistance programs.

G. Evaluation of Results

Another aspect of the technical assistance program, almost as striking as its growth and elaboration, is the absence of any overall and effective means of evaluating its results. This is partly because projects are so varied and so diffuse; many of them are so small, and they take place far away from home. Many are highly technical in nature, and results are apparent chiefly to technicians.

Such efforts at measurement to date have been made chiefly to get testimonials to support requests for funds. Such measurement is usually in the form of stories and anecdotes, is usually biased and unfavorable, or indeterminate results are played down.

Weak and sketchy efforts at evaluation are also a consequence of the lack of established criteria against which performance can be evaluated. Hence stronger programing, the establishment of more definite targets, and the relation of projects to them would help foster better evaluation, better aid, and create a situation in which evaluation could be more objective and effective.

X. Concluding Comments

There is a widespread impression that technical assistance, or technical cooperation, or point 4, is a relatively limited and cheap program. It is supposed to consist of know-how and show-how, dealing in the interchange of knowledge and skills, helping the peoples of underdeveloped countries to develop their resources in a balanced and integrated fashion. The early statements of Secretary Acheson and Dr. Bennett gave wide currency to this view. But experience with the program to date shows how wide ranging a program was conceived and put into operation, and how powerful are the forces which turn simple and limited technical assistance into massive economic aid.

We offer technical assistance not only to the underdeveloped countries; technical assistance and technical exchange are carried on with some of the most developed countries in the world. Moreover, in the underdeveloped countries, technical assistance opens up new perspectives for economic development, and whets local appetites for the capital resources to bring them to reality. In fact, our law and policy require us to see that the results of technical assistance will be absorbed and put to work by the host country.

Technical cooperation has grown from year to year. No one knows the precise number of projects now being carried forward by our Government in all fields; it numbers well in the hundreds. And no one has kept track since 1948 of all the projects which have been proposed, rejected, accepted, finished, dropped, or are still in operation. They number well in the thousands. While hope is often held forth that our Government will launch limited, long-term but ultimately self-liquidating programs, experience to date shows that these hopes are ill-founded. Specific projects may be liquidated or taken over by host countries, but programs of technical cooperation call for additional outlays by our Government, whether or not host country contributions are increased even more rapidly.

Technical assistance to date has opened up an infinity of possible activities toward which we are pushed by all those who feel that our Government must act to alleviate suffering, to alter economic practices, and to reorder the social hierarchies of underdeveloped countries throughout the world. Point 4 is a revolutionary undertaking, and is so recognized by most of its proponents and practitioners. And its very humanitarian quality, appealing as it does to the deepest emotions and sentiments of the American people, helps insulate it from reasonable criticism. Any suggestion that we are going too far, too

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fast, with too little resources and too little effect is met with emotional defensiveness.

Certain limits have braked the program somewhat—the scarcity of available experts and administrators to plan and run the programs; limits to United States and foreign funds; and the relatively slow-moving and primitive administrative and political systems of many of the recipient countries. Yet Americans characteristically force the pace. Governor Stassen has recently announced that we have some 1,750 technicians now in the field; the goal is 2,000! Are we dipping too deeply into our stock of personnel? Are we urging foreign governments beyond their means and capacities? Are we creating wants which host governments will find it difficult to meet without grants from our Government?

The time has come for a full-scale review of the status and future of our technical assistance programs. This review should include a reappraisal of the criteria of policy and interest which now govern technical cooperation. One necessary change should be to write into the law setting forth the technical cooperation policy of the United States, the condition that it is the policy of the United States and the purpose of title III of our Mutual Security Law *to further the foreign policy and to increase the security of the United States* by aiding the efforts of the peoples of underdeveloped areas to develop their resources. This criterion should apply to the whole field of technical assistance, and not merely to so-called technical cooperation.

It is almost universally agreed that the number and variety of projects and activities undertaken as technical cooperation are far too great. This is true of most country programs, as well as for technical cooperation as a whole. The result has been diffusion of effort; inability to recruit enough competent experts to man all projects; the raising of unwarranted expectations both at home and in host countries; and the spread of disappointment and frustration. New and tighter criteria must be elaborated to establish goals limited to the most important and definite achievements, and thus to set priorities for particular projects. In any one country, we should concentrate on one or two vital and dramatic fields. Projects should be within our capability to staff and support. They should be so designed that administration and financial support will be taken over by the host country, after the demonstration stage is well advanced.

One element which should perhaps be more prominent in the program of the future is that of humility. We need to guard against the unconscious arrogance that permits us to attack, as a dramatic project, the position of the "unemployed intellectual" in Asia. We fail to see that our intervention into such a question as this—involving the aspirations and dignity and self-respect of a large class of persons—may well produce the same results abroad as would happen

here if a commission of South Asians were to come to our Southern States to solve for us the problems of segregation.

In our impatient exuberance, we strive mightily to change others as rapidly as possible into our own image. With money to spend and a mission to perform, we are overeager to sell to the experts and politicians of host countries a variety of projects for which they may not be ready or equally eager. We despise the ruling classes, and adore the struggling masses. We thus strive for revolution in those countries where we work, in the name of frustrating the Communist revolution. A reordering of our political standards and objectives may therefore be appropriate.

All these considerations counsel caution. As we have seen, technical assistance is as broad as the fields of technological development, and can encompass almost anything within our programs of economic aid. There are real possibilities of an alliance between pressure groups interested in the support of distressed commodities at home and the proponents of technical assistance. The former are interested in sales of their special commodity; if the proceeds in foreign currency can be used for technical assistance as well as for other governmental obligations, so much the better. The latter are almost singlemindedly interested in technical assistance as such. The combination is politically powerful and make take us beyond the point of economic prudence or the harmonious conduct of our international relations.

It is not suggested here that our Government should drop all its work in technical assistance at any time in the near future. Our political posture abroad requires us to be ready to give essential and desired help in important areas, within sensible limits. Our military security as well as our political and economic health and stability may require continuing technical exchange and technical assistance. Both our intelligence requirements and our economic interest counsel us to maintain a certain minimum flow of technical experts and a modest program abroad.

The main submission here is that our projects should be limited to those which we can man, can measure, and can manifestly relate to a definite criterion of national interest, and to specified midterm goals. Demands for economic assistance growing out of these projects should be judged on their merits.

We should continue and sharpen our efforts to improve the climate for the flow of private investment abroad.

Private investment and government investment are not two parts of a single whole. They differ in many important ways, not least of which is their effect on the whole complex of private international trade which it is the purpose of our policy to foster. Private investment brings with it much more in the way of automatic technical assistance than government investment; it is likely to be more en-

during, and since it is motivated by the continuing hope of gain, more concentrated on those phases of assistance which are directly related to economic operations. Government funds, even if channeled to the maximum through private instrumentalities, never have quite the same effect. By fostering government-to-government economic relations, they tend to perpetuate and ramify the various interventions of the state into the economic field, at home and abroad. Since they are made in response to political policy, they may well distort the development of economic resources and institutions. So long as we have substantial private and Government operations abroad, Government policy should foster and supplement private efforts, and should be harmonious with them.

But we should not hope for too much, too soon. Nothing is so timid as $1 million—unless it is $10 million. Not only foreign country attitudes, but the attitudes and hopes of domestic investors are involved. As we build security in the world, and as the Communist menace is reduced, we can better expect capital to flow to countries now under the Communist shadow. But only if it is wanted, and if there is better prospect of gain than is offered by domestic outlets.

We need to reaffirm those policies and practices which look to a loosening of the bonds whereby the carriers of technical assistance—the technicians, teachers, and scholars—are kept from moving freely among the countries of the free world. We need to emphasize the urgency of cutting down the role of government in this field, especially that of our own Government. We need to foster full and varied private interchange, with Government playing only a limited and facilitating role. Only thus can we look to an early withdrawal of Government from the technical assistance field, while we as a nation continue to contribute to the political stability, the technical development, and the economic progress of the free world.

XI. Summary of Findings and Observations

1. Technical assistance, originally conceived as a limited program for the export of American skills and techniques, has grown and ramified well beyond that restricted concept. It is now authorized to work in 11 fields outside of military assistance. Its projects for demonstration, training, surveys, and the like lead powerfully to demands for massive economic aid, both in money and commodities. The program has become diffuse; effort is scattered; projects and programs call for more experts than we can find to man them; the impact of our technical assistance is difficult to measure objectively. The time has come for a fresh look at the whole program.

2. Existing criteria for planning and programing technical assistance are either too broad, or are not fully applied, or are lacking. We need to apply the standard of country contributions more rigorously. We need to create and apply midrange standards by which we can appraise specific projects, assign them priorities, and see that we get a full return for our investment.

3. Congress should no longer be asked to appropriate money for technical assistance on the basis of illustrative programs or impact programs. The administration should present specific projects which are integrated into the economic requirements of the host country and which serve the interest of the United States.

4. Projects should add up to a concentrated, dramatic program. Instead of trying to do a little of everything in each country, or pursuing openings as they happen to arise, we should confine our efforts in any one country to meeting 1 or 2 of the most vital needs in a manner which will help serve the maximum number of people and generate the greatest degree of good will.

5. Our programs should be limited in time and cost, and should work toward a phaseout of United States governmental technical assistance. Our programing should be tighter, with more specific program objectives and more definite phase lines against which accomplishment can be measured and individual projects evaluated. Programs must be related to money, people, and projects.

6. While we should strive to withdraw our Government from the technical assistance field as soon as possible, we need to consider the effect of any sudden withdrawal on our foreign relations. We need to foster private technical assistance. We may need to maintain a small minimum Government program in some countries, as a means of keeping in touch with developments abroad and influencing local situations in favorable directions. We must stand ready to help in genuine

emergencies, while reducing the impression that we are prepared to help on everything everywhere.

7. The issue of relating central programing and control over technical assistance to technical services furnished by the various Government agencies or outside sources can never be fully solved. We need to balance central control against technical direction, in the interest of maximum economy and efficiency. If we favor a central organization we may lose the advantage of existing Government resources. If we favor administrative autonomy for the various permanent agencies who send technicians abroad, we weaken central programing and control in Washington and by the ambassador in the field.

8. If we relate technical assistance closely to other forms of economic and military assistance, we may hamper the program in the field, and we may open the door to expansion of technical assistance into more massive and costly forms of aid. If we divorce technical assistance from central control and policymaking, we encourage free-wheeling, risk embarrassments, and lose the full impact of a totally integrated program of government operations abroad.

9. Exchange of persons programs under the Smith-Mundt and Fulbright programs overlap and duplicate work of technical assistance exchanges. Since the objectives of the two programs differ, as do the people involved, the duplication can be explained and may be justified. By placing the central management of technical assistance in the same agency as that of the other exchange of persons programs, administrative duplication and working at cross-purposes could be cut to a minimum.

10. The Institute of Inter-American Affairs should be divested of its corporate status, and reestablished as a unit of whatever agency of government is given responsibility for the continuing Government technical assistance program.

11. Continued participation in United Nations programs of technical assistance is a moot point.

12. Evaluation of results has been weak and sketchy to date. We need better mesaures of the efficiency and the effectiveness of our technical assistance programs and projects.

13. The Benton and Moody amendments have left us with a dilemma. Some $73 million of local currencies generated by United States spending are now being used, or are available for revolving funds to support productivity programs abroad. The United States has a proper interest in the disposition and continued effective use of this money. But for us to maintain an active interest in programing productivity operations, thus getting into such questions as sharing benefit between management, labor, and consumers, means serious interference in the economic life of sovereign states abroad. This can only lead to resentment. Is it not better for us to cease our inter-

vention in these productivity centers and to maintain necessary contacts through our embassies abroad. Thus we would permit activities which have proved their worth to be carried forward by the countries themselves.

14. Our increasing use of university contracts offers some values and presents some dangers. It is a step in the direction of shifting the burden of continuing technical assistance to American institutions which are almost unique aggregations of technical resources plus special experience in making them practically available to large numbers of people. But will these contacts remain vigorous once United States Governmental financial support is reduced or withdrawn? The universities face increasing domestic demands in the next few years; how will they be able to divide their scarce resource among various claimants? Since land-grant colleges, the main participants, are institutions of our State governments, domestic demands will take priority, and overseas commitments may suffer, to the detriment of our foreign relations.

The university-contract device results in the obligations of funds beyond the life of the Government agency obligating them; there will be an unavoidable gap in Government supervision and control of these contracts during reorganization of the Government's foreign aid operations; and the device tends to perpetuate Government-sponsored technical assistance and to support larger future appropriations.

15. Our best hope of continuing a vigorous program of technical assistance, while getting the Government out of the business, is to foster the technical assistance proffered by private agencies. The role of American business should be expanded. Well-operated and profitable American firms abroad can contribute to the welfare of the countries involved without unduly disturbing their cultures, living patterns, and ideologies. Particularly if management goes with our capital investment, our private enterprise abroad demonstrates a pattern for the people native to a foreign country to develop. Technical assistance so sent abroad is closely related to profitable economic operations; it is thus self-limiting. But it can exercise powerful leverage on the education, the technical development, and the economic opportunities within the host country. This form of aid has been important for a century or more; it has proved its accomplishment, and promises even more for the future.

Industrial Projects and Economic Development Under U. S. Aid Programs

By John H. Nelson

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INTRODUCTION

General

The United States has expended over $600 million on 143 industrial projects in Europe during the period 1948–54. The total cost of the projects was $2.225 billion, the difference between the 2 amounts being furnished from country resources. The industrial project program in Europe with United States aid funds has been practically completed. The program in world areas other than Europe has been in progress since 1948, but has no terminal date or authoritative estimate of probable total cost.

The purpose of this study is to present certain pertinent facts and observations on practices, policies, and philosophy relevant to industrial expansion under United States aid programs in such a manner as to suggest constructive criteria for current and future operations in this important field of United States Government-financed foreign aid programs. It is restricted to the operations of the FOA and its predecessor organizations. It is not intended as a detailed comprehensive statistical analysis of the subject but rather as an attempt in abbreviated form to present only the more essential facts.

In consideration of industrial expansion under United States aid programs there are certain observations to be noted that contribute to placing the subject in proper perspective. Generally speaking, all forms of economic aid contribute to a greater or lesser degree to industrial expansion.

For convenience, however, and to be more specific, industrial expansion may be divided into two classifications: (1) "Industrial projects" which lend themselves to individual or any selected group examination, and (2) all other forms of what is known as industrial development in the underdeveloped areas, more accurately described as "promotion of production" and which is all encompassing. Again, it is understood that industrial projects have been defined as integrated plans for major capital improvements requiring at least $1 million of ECA–MSA–FOA dollar financing to obtain modern and efficient installations within a reasonable time. This arbitrary limitation of $1 million is useful in consideration of the European projects but, as will be seen in subsequent sections of this study, it is not used as a criterion in identifying projects which are not strictly restricted by type to industrial projects as such in world areas other than Europe.

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Introduction

Industrial expansion within the purview of this study had its beginning in the Greek-Turkish Assistance Act of 1947, which provided for financial and other assistance for the maintenance of the national integrity and the survival as free nations of Greece and Turkey. This was followed by the Economic Cooperation Act of 1948 (Marshall Plan), its successive extensions, and later by the Mutual Security Act of 1951 carried forward to date on an annual basis in both of which emphasis was placed upon the strengthening of economies of the countries aided, through the promotion of their industrial and agricultural production, so as to permit them to become, as rapidly as possible, independent of extraordinary outside economic assistance; and upon the assurance of the production of adequate supplies of essential raw materials, and the transfer to the United States of strategic materials required to supply deficiencies or potential deficiencies in its own resources.

At the beginning of the Marshall plan it was recognized that Western Europe's most urgent need was a large-scale increase in production. To accomplish this, substantial capital investment was deemed necessary—

(1) To rebuild war-ravaged plants,
(2) To redress accumulated arrears in maintenance, replacement, and modernization.
(3) To finance new ventures in industry.

A problem second only to that of increasing the level of production was that of increasing productivity simultaneously and thus lowering costs so that European products could be marketed abroad competitively. This it was anticipated would produce the foreign exchange required to finance vital imports of materials and equipment.

Objectives

By mid-1950 the countries of Western Europe had largely achieved the production objectives originally set under the Marshall Plan. After Korea, however, production goals were increased again to allow for defense objectives. The large-scale industrial projects authorized under the Marshall Plan assumed greater importance than before and became basic not only to the civilian economy but also to rearmament and defense.

At this point, and for future reference, this change or transition in objectives in Europe should be noted; i. e., from rehabilitation and reconstruction to restore normal productive facilities to that plus increased production capacity for rearmament and (mutual) defense.

Again, in the Mutual Security Act of 1954, approved August 26, 1954, however, the objectives in Title II—Development Assistance, under which it is assumed that industrial projects of the type similar to those referred to on succeeding pages will, in general, be approved, are stated for the Near East, Africa, and South Asia, as "to promote the economic development" and "to help maintain economic and political stability" in these areas; and with respect to the other American Republics and non-self-governing territories of the Western Hemisphere, "to promote economic development."

The broadening of the objectives, for which assistance may be extended to industrial projects in the future, would suggest that the requirements of the maintenance of political stability may, in some cases, justify the approval of individual industrial projects which may not be, in and of themselves, completely justified from the engineering and economic point of view. Since the European program for industrial projects is practically completed with current and future operations occurring largely and to be anticipated in the Near East, Africa, South Asia, and the Western Pacific areas these broadened objectives are increasingly important. They present certain obvious difficulties in the problem of appraisal or evaluation since the contribution to political stability over and above considerations of engineering and economic points of view interjects the intangible elements or factors contributing to or detracting from political stability. More discussion of this important subject will follow in the treatment of those areas.

Organization

First, for convenience, it is proposed to examine the European industrial projects program for the period 1948 to 1954, inclusive, since—

(*a*) It is practically completed,

(*b*) It was more or less homogeneous in character,

(*c*) It was developed in an area of relatively high established-industrial development analogous to that of the United States,

(*d*) It was confined to a compact geographical area of relatively high living standards,

(*e*) Its individual projects were of relatively large unit cost,

(*f*) Competent independent engineering opinions of accomplishment are available, also much data from other sources,

(*g*) It may afford a basis of experience from which to measure the progress and conduct of similar operations current and future in other areas.

Second, it is proposed to examine the industrial development program for the Far East, Near East, South Asia, and Africa as distinguished from the industrial projects program in Europe since—

(*a*) It is in its initial or earlier stages of development,

(*b*) It is heterogeneous in character,

(*c*) It is being developed in areas lacking or greatly deficient in industrial experience, and chiefly agricultural,

(*d*) It extends over tremendous geographic areas of widely varying climatic, social, political, and economic status of relatively low standards of living among its estimated 760 million population constituting almost one-half of the free world and almost one-third of the entire world population.

(*e*) Individual projects are of relatively low unit cost but large in numbers,

(*f*) It is the area of greatest possible current and future concern to the United States,

(*g*) The potential offered for the absorption of United States financial aid in these areas is practically limitless,

(*h*) Unless clearly defined policies and principles are understood in relation to this program in this area, vast sums of United States public funds may be dissipated to no measurable advantage or in fact may contribute to creating liabilities for the United States of embarrassing proportions.

I. European Industrial Projects Program

European Industrial Projects Program, 1948–54—by Country

[From MSA Report—European Industrial Projects issued July 21, 1953, carried forward to June 30, 1954, in millions of dollars and dollar equivalents]

Country	Countries' own resources	ECA-MSA	Total cost
France	$838	$159	$996
Italy	268	168	436
United Kingdom	365	51	416
Turkey	331	80	411
Greece	81	36	117
Austria	47	36	83
Netherlands	41	27	68
Belgium	35	16	51
Norway	24	5	29
Portugal	19	10	29
International [1]	28	1	29
Iceland	10	9	19
Germany (Federated Republic)	10	3	13
Denmark	5	5	10

[1] Represents a hydroelectric plant located on the Inn River for the joint use of Austria and the Federated Republic of Germany. MSA approved $540,000 for financing out of a total cost equivalent of $28.6 million.

A word of caution should be noted in connection with the preceding caption "Countries' own resources." Counterpart funds generated by imports financed by dollar aid funds for many commodities, large quantities of machinery and equipment, etc., constitute an important but incalculable portion of these resources which, while technically provided by means of local currency, only came into being or availability as a primary result of dollar aid expenditures in general for purposes not necessarily directly related to a specific project. Thus in reality the United States contribution may be said to be in excess of the direct dollar aid financing for a specific project.

"For example, the French ask for permission to withdraw the equivalent of $50 million from the counterpart for use in the national railway system. This amount is withdrawn and becomes part of a several billion franc fund available for French railroads. After the money is used, and entirely as lipservice, the French report to us that certain parts of locomotives, certain parts of trackage, and certain parts of other equipment were paid for with the $50 million of counterpart. Under these circumstances, it becomes impossible to check end use or to examine the costs and conditions under which installations were made." From July 1953 Report of the Investigations Division of the Committee on Appropriations, United States Senate, by Mr. Alex. L. Hillman. This report adds—

* * * a paragraph contained in a report to Mr. F. Rousseau Lanus, Controller of Economic Affairs, SRE, from Mr. Andrew F. Patterson, Controller, Special Mission to France, dated July 2, 1952, reads as follows—

The counterpart funds thus withdrawn become commingled with the funds available to the French Treasury, and are later attributed by the French to certain specific items.

This situation in France is not unusual or exceptional but common to the control and accounting for counterpart funds as exercised by FOA generally throughout Europe and elsewhere.

While the European section of this paper is confined to industrial projects as such it should not be overlooked that industrial aid to Europe was not confined solely to projects and that United States grant aid in the form of dollar-financed imports of industrial materials in the same time period greatly exceeded the aid ($600 million) furnished in the form of financing for industrial projects themselves. Iron and steel products, nonferrous metals, machine tools, miscellaneous machinery and equipment, petroleum products, chemicals, hides, skins, textiles, etc., all raw materials for industrial processing and handling, are some of the items constituting this form of aid. It is practically impossible to give an accurate figure for this form of aid and such a figure would not be germane to this paper.

The above table covers 134 approved industrial projects for 13 countries, excluding 8 canceled or inactive projects. Of the total estimated cost of $2.6 billion and dollar equivalent, ECA–MSA dollar financing approved ($600 million) accounted for 22 percent of the total cost and the countries' own resources accounted for 78 percent.

Industrial Projects—Authorizations and Expenditures—by Type, Cumulative April 3, 1948–June 30, 1954

[In millions of dollars]

	(In relative order of magnitude)
Manufacturing:	
Authorization, $302 Paid shipments, $290	Iron and steel. Automotive products. Petroleum refining. Chemicals. Pulp and paper. Glass. Other.
Raw materials extraction:	
Authorization, $37 Paid shipments, $35	Coal mining. Iron mining. Potash mining. Oil drilling.
Transportation, Communications and Utilities:	
Authorization, $168 Paid shipments, $149	Power facilities. Roads. Air transport. Waterways and harbors. Communications equipment. Merchant and trading fleet.

Other:[1]

Authorization, $5.0	Irrigation and reclamation.
Paid shipments, $5.0	Grain storage and facilities.

[1] Exclude engineering and technical services: Authorizations, $5.4 million; paid shipments, $4.3 million.

Since the above figures are as of June 30, 1954, and the gap between authorizations and paid shipments then was only $34 million, or approximately 6 percent of the total authorizations, it can safely be assumed that for all practical purposes these projects have been completed. (NOTE.—This gap was reduced to $14,203,033 as of September 30, 1954.) Furthermore, comprehensive details are contained in a 42-page report issued by Mutual Security Administration on July 21, 1953, entitled European industrial projects. This published report was subsequently carried forward to June 30, 1954, in a report specially prepared for the Overseas Economic Operations Task Force of the Hoover Commission.

The total to date of the above tabulation is $518 million in authorizations and $484 million in paid shipments. The 2 largest types of projects are iron and steel and power facilities, which together account for $327 million of the total $518 million authorizations. These 2 plus 3 others—Petroleum refinery, raw materials extraction, and transportation and communication—account for over four-fifths of the total ECA–MSA funds authorized for industrial projects in Europe in the indicated period.

Congressional Comment—European Industrial Projects

In the report of the Senate Appropriations Committee on H. R. 6391, the Mutual Security Appropriations Act of 1954, printed as Report No. 645, 83d Congress, 1st session, the committee stated as follows:

Page 2.—There is some question in the minds of the committee members whether our assistance has always been administered intelligently and economically. Some question also exists whether the recipient countries have in all cases utilized this aid to their full advantage.

Page 5.—The committee has noted with concern that MSA has expended vast sums of money, but has made little or no effort to adequately supervise the activities into which this money was placed. In industrial projects alone, over $600 million has been approved since 1948 for 143 industrial projects, costing a total of $2,250 million. As of January 1, 1953, MSA had instituted no systematic plan of progress reporting or field checks for these projects. The committee feels that sound administration of any funds demands careful periodic inspection of any project into which those funds are placed.

The above statement of the committee followed exhaustive hearings before the Committee on Appropriations, United States Senate, 83d Congress, 1st session, on H. R. 6391. A limited number of pertinent references to the hearings follow for the twofold purpose of (1) indicating errors found by experience to be common to this type of operation by FOA, and (2) determining what, if any, corrective measures are provided in current operations to prevent repetition of these errors.

> The reasons given for this omission (careful periodic inspection) was that an alleged agreement among various policymakers that the cost of an adequate followup system would have placed an undue financial burden upon the mission at a time when personnel ceilings were being steadily reduced. (P. 768, above hearings.)

However, at about the middle of the period when this vast European program of industrial projects was in full swing, we note that the total administrative cost of MSA for all of Europe for fiscal year 1952 was $21,980,060, of which the then existing office of special representative in Europe amounted to $10,511,000. This meant that approximately 50 percent of the entire cost of MSA administration in Europe was manned by SRE acting merely as a coordinating office. In this total setup there were only two experienced steelmen for this, the largest single segment of the program ($227 million), one stationed in Germany where there were no steel projects and the other stationed in Paris headquarters, where he was denied permission to visit the various steel projects then in progress. The same policy applied to electric power, coal, petroleum, and others. (P. 472–481, hearings.)

Costs of Careful Periodic Inspections

In December 1954, as a consequence of the above hearings, two well-known consulting engineers were retained by FOA to make field examinations of approximately one-half of the 143 projects above referred to, and, as one of the results of these examinations, gave the following engineering estimate of the cost of periodic inspections:

> We have estimated approximately that for the same assumed program, involving 146 projects of various types, with a total estimated cost of $2,645 million and a dollar aid contribution of about $588 million, the organization of a chief engineer, 6 senior engineers, 6 assistant engineers, and 7 secretaries at standard civil service salary rates, would cost about $200,000 per year for salaries; and, assuming that one-third or 175, of the number of inspections that might reasonably be required in a year in which all of the projects were in progress would be by members of the group of full-time employees, would require about $100,000 for travel and subsistence expenses, making a total for the full-time group of about $300,000 per year (exclusive of costs other than salaries, travel, and subsistence expenses). Based upon our experience in inspecting 74 of the projects—we estimate that the total cost of performing two-thirds, or 350, of the number

of inspections that might reasonably be required through a group of independent consulting engineers, including both services and traveling and subsistence expenses, would be about $600,000, making a grand total for the full-time staff and the independent consulting engineers of about $900,000 per year. Even if an equivalent amount of time and expense would be required in each of 5 years, to cover the investigation, approval, design, construction, and completion of such a program, the total cost would still be only about three-fourths of 1 percent of the American aid in dollars, and about one-sixth of 1 percent of the total cost of the program. Such an expenditure might readily save many times its cost if it were intelligently expended and utilized.

Thus any suggestion that a "followup system would have placed an undue financial burden upon the mission" seems somewhat fallacious in view of the total current annual administrative costs in Europe in relation to the $900,000 estimate of annual cost suggested above.

Increased Productivity

Before proceeding to indicate some characteristic errors and inefficiencies in this program of industrial projects in Europe, reference is made to the previously mentioned collateral problem of increasing the level of productivity simultaneously with the increase of the physical properties of productive facilities.

This phase of the problem was one of the most complicated and extensive programs in MSA.

Space does not permit a full description, but an abstract of a report of the investigations division of the Senate Appropriations Committee. (Alex Hillman), printed in 1953, carries the following comment (p. 26):

It is sufficient to state as a part of this report that the objectives of the productivity program are so broad and are based upon so many unrealistic assumptions that the wisdom of continuing it along present lines may be seriously doubted.

The reasons for this conclusion may be simply stated: (1) the productivity phases of the program cover research, plant planning, improved factory methods, installations of mass production equipment and machinery, management-labor relationships, American trade-union techniques, changes in legislation, Government operations, and the policies of trade associations and labor unions, as well as broad informational and educational efforts aimed at the general public. These activities are predicated upon a belief that it is possible within a reasonable period of time to convert European governments, management, labor, and the consuming public to the American concept of industrial production, involving large output, low unit costs, high wages, increased markets, free competition, and collective bargaining between management and labor. There is no real basis for a belief that these objectives are susceptible of attainment within the predictable future, or that the effort should be undertaken by the United States Government at public expense. Actually, all the evidence indicates that, until the people of Europe—government, management, labor, and the consuming pub-

lic alike—change their fundamental habits of thinking, money spent in an effort to convert them to the American point of view is wasted * * * after 3 years of experience, it does not appear that the productivity program has effected any great change in the attitudes and methods of European industry and labor.

Examples of ECA–MSA–FOA Industrial Project Management

The following examples of ECA–MSA management of industrial projects in Europe have been selected to illustrate certain typical errors in the administration and management of these projects which should be corrected in current and future operations of any United States aid program involving industrial and other types of projects, irrespective of areas in which they may be located.

These cases are taken from individual project reports of the consulting engineers as reported to FOA on completion of their field investigations.

Case No. 1—Fertilizer Plant—Iceland
(Based on reports of consulting engineers) [1]

This project was approved and funds allocated before the site had been selected for the plant and before any reliable estimate of total cost could be made; the fact that the site selected was definitely more expensive to develop than other sites that were available; the difficulties that resulted from the selection of engineers on the basis of competitive bids and the acquiescence in this procedure by the engineers in violation of generally accepted practices with respect to professional engineering; the difficulties that resulted from the assumption by the Controller of FOA of the right to pass on the technical practices of the engineers under their contract; and the amounts that were added to the cost of the project by the determination to purchase European equipment after bids had been taken on American equipment and by the imposition of Icelandic import duties on materials and equipment required for the project.

The total cost of the plant, as estimated in 1951, was $7,215,990. This amount has already been expended and it is now estimated that some $720,000 additional will be required to complete the project. The $7,215,990 was to have been financed as follows:

Share capital	$615,000
Loan from counterpart fund	4,740,160
MSA/FOA loan	1,003,690
International Bank loan	857,134
	7,215,984

The following sums have been available by ECA/MSA/FOA for the project:

Loan, United States dollars	$1,000,000
Grant, United States dollars	2,029,000
Grant, EPU currencies	400,000
	3,429,000

[1] Maurice R. Scharff, Franklin J. Leerburger & Associates.

In addition, the International Bank loaned Iceland $854,000 for the project for purchases from EPU countries.

The total cost of the project has not yet been determined It is known, however, that there will be an overrun beyond the $7,215,990 estimated, due, among other reasons, to interest during construction and to overrun in time amounting to about 1 year.

The tangible excess charges to date are composed of the following:

Import duties	$962,000
Transmission lines Loading pier Pumping station	400,000
Additional special equipment	65,000
Testing	15,000
Claims for additional fees	145,000
	1,587,000

To this sum must be added interest during construction, the amount of which is not known at this time.

The plant is making a contribution to the economy of Iceland and is well laid out and apparently carefully operated. Whether it will produce fertilizer at the originally expected and hoped-for cost is doubtful. Nevertheless, the home manufacture of this much-needed material will save foreign exchange.

Case No. 2—Sorraia Valley Irrigation Project—Portugal
(Based on reports of consulting engineers)[2]

Application for a dollar loan for the purchase of American earth-moving and construction equipment to expedite work on the project was filed on January 11, 1950, and was approved October 26, 1950.

As originally submitted and approved, the project provided for the reclamation of 45,620 acres in the valley of the Sorraia River just above its junction with the Tagus River, in order to convert an area which had been principally used as grazing land for raising bulls for the bullring to the production of meat and dairy products for human consumption, and the increased production of vegetables, hay, oats, rice, and other products.

The entire cost of the project, including construction equipment, engineering, administrative expense, and all incidental costs not included in the estimates for the several subdivisions of the work, amounted to $15 million at the 1949 rate of exchange, and $13,125,000 at the present (October 1954) rate of exchange.

To finance the Sorraia project at the time of its approval, a loan of $2,100,000 (52,000 contos at the 1949 rate of exchange, and 60,000 contos at the present rate of exchange) was authorized for the purchase in the United States of earth-moving and other construction equipment, and for the purchase of water-wheels and generators for the 2 small hydroelectric plants. In addition, the ECA authorized the loan of 40,000 contos ($1,600,000 at the 1949 rate of exchange, and $1,400,000 at the present rate of exchange) of counterpart funds generated by grants prior to 1951 (no grants, but only loans, of dollar funds having been made since 1951) toward the combined cost of the Sorraia project, and the Silves project, another irrigation project in the south of Portugal. This amount was not divided, either in the records of the ECA or of the Portuguese Government, between the two projects, so that it is impossible to state how much of this counterpart loan was applicable to the Sorraia project.

[2] Maurice R. Scharff, Franklin J. Leerburger & Associates.

As a result of inspection (August 1954), it was found that the project, as it was actually being constructed, differs substantially from the project as originally planned and approved. Upon investigation it was learned that the project had been restudied and modified by a report of the Servicos Hidraulicos, approved by the Ministry of Public Works, dated July 1953. As far as could be ascertained, no notice or advice was given to the mission in Lisbon of this change in plans and estimates; and although the Lisbon mission had one of the most complete systems of periodic reports encountered in any of the missions, these investigations and reports were strictly limited to accounting for the allocation, authorization of procurement, placing of orders, delivery and use of equipment purchased with dollar funds, and there was no occasion for making, nor as far as could be ascertained did the staff of the mission make any inquiry or investigation that led to information regarding the revision of the plans and estimates for the project. As a result, all of the agency records, both in Lisbon and Washington, relate to the project as originally approved, rather than to the project as it is actually being constructed.

As the work is actually being carried out, in accordance with the provisions, in the report of July 1953, it now consists of two parts.

The revised estimate of cost in the July 1953 report is $6,104,000 for the Tejo portion of the project and $14,455,000 for the Sorraia portion of the project—a total of $20,559,000.

Notwithstanding that $1,660,000 procurement authorizations had been issued against the original fund allocation of $2,100,000, it was later decided to purchase the hydroelectric generating equipment, transformers, and traveling cranes in Europe and approximately $760,500 procurement authorizations were canceled. As a result, the project account was closed in June 1954 with all equipment purchased with dollars delivered, to a total amount of $897,852.80. This is only 4.4 percent of the present estimated total cost of the project, and, even if a substantial portion of the 40 million escudo counterpart loan for the Sorraia and Silves projects is assigned to the Sorraia project, the total American aid, including both dollar loans and counterpart loans, will be a small portion of the total cost.

The entire project, including the storage dams, the levee and drainage work, the pump stations, the hydroelectric plants, and the irrigation canals and distributors, is scheduled for completion in 1958.

The outstanding fact revealed by the inspection and supplemental investigation, however, is the extent to which the project has been changed in scope, location, cost, and economic results since it was originally submitted and approved, without the knowledge of the agency administering the American aid extended to it. Actually, the change appears to have been in the direction of a more substantial contribution to the economic strength of Portugal rather than in the opposite direction, although the reverse might equally well have been true.

If the intention of the administration of American aid on similar programs in the future is to be to assure more complete information as to whether or not expenditure of American funds is accomplishing the results for which they were appropriated, then consideration should certainly be given to the establishment of a more effective system of securing periodic reports and information than was available in connection with this project.

Case No. 3—Ore Loading Facilities—Port of Beira, Mozambique—Portugal
(Based on report of consulting engineers[3] and interviews with FOA officials)[3]

On October 13, 1950, the ECA completed a loan agreement with Portugal for this project. The amount in dollars was $670,000 and 5,300,000 Netherlands guilders, for which the dollar equivalent at that time was $1,394,736. It is to be noted that this was a loan agreement, and not a grant.

While the original dollar portion is given at $670,000 authorized as of December 31, 1954, only $642,196 had been spent as of that date.

A review of the loan agreement, dated October 13, 1950, indicates a discrepancy between the official records of the MSA statement of strategic materials projects furnished by FOA as of September 30, 1953, where the FOA dollar financing approved is shown as $670,000, while the loan agreement provided for an amount not to exceed $950,000, with a provision that if the Governments of the United States and Portugal agreed, this amount may be increased by amendment by the addition of another $150,000.

Following substantial criticism of this project, a report was made by Knappen-Tippet-Abbett-McCarthy, Engineers, on September 25, 1953, under a contract signed by FOA on June 16, 1953, which recommended improvements estimated to cost $297,000 to further improve existing facilities, but without a car dumper or crusher previously suggested as necessary for an acceptably efficient operation. Any additional expenditures made are to be for the account of the Portuguese port authorities and not to be financed by FOA.

Several factors, some not hitherto mentioned, would seem to have an important bearing on the question of the efficiency and usefulness of the facilities constructed under this project:

(1) All engineering design and construction was predicated on erroneous and incomplete data originally provided by a report resulting from a brief visit to Beira by an MSA employee not an engineer and with no competency in mineral ore production or handling.

(2) The large-sized ore lumps not provided for in the existing handling facilities financed by the FOA loan have a premium market value which would be destroyed in the process of reducing them to a size making them susceptible of handling by the established facilities.

(3) The above factor, plus the expected completion in less than a year of a railroad to serve the ore mine producing the large-sized ore lumps with the port of Lourenco Marques, which it is understood has facilities for handling, would obviate the relatively large capital expenditure necessary for additional special ore handling facilities at Beira at this time.

(4) Entirely apart from the fact that these facilities were provided by a loan and not grant aid, and notwithstanding a provision of the loan agreement establishing the right of inspection of progress at all times by FOA, no record exists of the exercise of this responsibility by the FOA or its representatives. Only after expressed concern by the Senate Appropriations Committee in 1953 was an effort made to determine its status.

Case No. 4—Zonguldak Coal Basin Development Project—Turkey
(Based on report of consulting engineers)[4]

On January 7, 1949, the Turkish Government requested allocation of $41,873,000 of ECA funds for the Zonguldak project of mining improvements, coal washeries, and transportation facilities. Local expenditures were estimated at $16,920,000.

[3] Maurice R. Scharff, Franklin J. Leerburger & Associates.
[4] Same.

The projects committee in Washington approved the finalized project on April 1, 1949, with an initial ECA dollar commitment of $10,131,000. Expenditures were classified under 10 project subheadings, including one for engineering services.

The original cost estimate submitted in March 1949 indicated a total of $58 million for nine of the projects not including engineering services. Review by mission experts and Weir Co. Engineers in March 1950 raised this total to $68 million, including engineering services, estimated at $3,145,000 covering a program extending into the year 1956.

A detailed review of all projects grouped together in this general development program by Weir Co. Engineers, in 1953, brought out the need for an upward revision of all prior estimates to a total of $89 million, of which $48 million was to be covered by foreign exchange and $41 million through local currency. This includes seven cost items amounting to $13 million which were either not included in prior estimates at all, or only partially so.

The ECA agreement included financing of a portion of the foreign equipment purchases and engineering services that would be needed. Figures available in the Ankara Mission indicated that as of December 2, 1953, the to-date ECA–MSA–FOA assistance had totaled in terms of dollars for both United States and European financing, $40,582,000. The balance of financing had been and would be accomplished in the future from Turkish Government resources. The overall Zonguldak basin development as presently contemplated has been estimated to cost a total of $143 million, of which the ECA/MSA/FOA contribution as given amounts to 28.3 percent. This is a Turkish nationalized project operated by a company known as EKI with limited liability and under direct control of Etibank, Ankara. It has a total capitalization of 50 million Turkish lira subscribed by the Turkish Government.

Conclusions and Recommendations

(1) The program undertaken by EKI was quite ambitious and complicated for successful timing. The engineering studies and decisions were basically sound.

(2) There are ample reserves to justify the capital expenditures made and in prospect. Some of the individual projects show costs which are considerably in excess of good American practice, though reasonably in line with European custom.

(3) Original completion schedules were faulty and conceived without due consideration of such factors of delay, as practical experience and sound judgment would suggest.

(4) With all authority for execution and control of the program in all of its phases vested in Turkish management, the political changes in administration resulting from the 1950 elections could not help but show a definite retarding effect on current progress. The aversion to delegate authority or accept responsibility in a politically dominated nationalized industry is not conducive to attract or to hold competent and energetic technical or management personnel.

(5) Failure to concentrate engineering supervision and direction for purposes of coordination of the many phases of the program until very late (1954)—and not as yet complete—introduced elements of disunity which retarded progress. An immediate detailed survey of the underground operations is advisable. Present and future needs and the magnitude of the program suggest that competent engineering supervision and technical assistance be continued indefinitely.

(6) The production of coal in 1952 was 81 percent of the original objective, and for 1953, within 98.5 percent. While certain cost estimates and forecasts were made at the beginning of this program, there is no evidence of a definite cost objective. It is doubtful if any cost reduction will result until a definite incentive exists to do so. The price realization has been fixed below production

costs by the Turkish Government and the Ministry of Labor discourages reductions in labor force to avoid political disturbances—there is an understandable lack of cost-consciousness throughout the Turkish administrative and supervisory groups.

(7) There is a definite need for training of the labor force in the use and maintenance of new equipment. Courses of a practical nature could and should be provided at the Zonguldak Minery School without delay.

(8) Turkish authorities should be impressed with the need for management personnel, mining engineers, and supervisors of all types and classifications to devote a maximum of their time underground and at working faces.

(9) The successful completion of the Zonguldak basin development for increased production of coal is of the utmost importance to the Turkish economy and its industrial progress. It thereby makes a definite and major contribution to the mutual defense effort.

(10) A project of such dimension and importance as Zonguldak justified the employment by the United States Mission in Ankara of competent technical personnel for the approval stage and currently until its completion. This was largely lacking. More authority and responsibility should be vested in the mission chief, and remote control attempted by Washington offices eliminated.

(Ed. Note).—This project really had its beginning in 1946 when the Turkish Government employed the services of a well-known American firm of consulting engineers. Subsequently at various times several other competent consulting engineers including mining engineers were retained. At no time, however, have these engineering services been coordinated and control of operations has been diffused and remains through Turkish management. Engineering services have cost in excess of $5 million.

Case No. 5—Power Project (Vigliena Plant)—Naples, Italy
(Based on report of consulting engineers)[5]

This project has two components, one 60,000-kw. steam-electric generating unit (project 17) and one 30,000-kw. unit (project 19). According to MSA report of July 21, 1953, the larger unit was scheduled for completion in March 1953. The smaller unit was scheduled for completion in October 1952. Both units are additions to the powerplant of the Societa Meridionale de Elettricita at Naples, Italy.

The project letter of application for the 60,000-kw. unit referred to an expenditure for turbogenerator, boiler, condenser, and auxiliaries, as well as for freight and technical assistance, all amounting to $6,508,000. The ECA/MSA authorization of $6,143,000 excluded $365,000 for ocean freight. Other nondollar expenditures were estimated at the equivalent of $2,080,000. The dollar equivalent of the total cost was estimated at $8,223,000. The MSA Statistical Report of July 21, 1953, states the total cost as $9,393,000 and MSA dollar financing as $6,143,000. The project letter of application for the 30,000-kw. unit was approved May 12, 1950, for $3,432,000, and was supplemented on June 26, 1950, by $220,000 for consulting engineering services, corresponding to dollar financing of $3,632,000. Total non-ECA money to be spent in Italy was the equivalent of $1,600,000. The 30,000-kw. unit was thus estimated to cost $5,392,000. The estimated total cost of the two units was therefore stated at $14,785,000 (equivalent to $164/kw.), of which $9,795,000 was dollar financing by MSA.

In a report dated June 8, 1954, found in the FOA office in Rome, prepared by W. M. Shepard of FOA, the 90,000 killowatts of capacity cost $19,400,000 (correspondent to $216/kw.), of which $9,795,000 was MSA financed.

[5] Maurice R. Scharff, Franklin J. Leerburger & Associates.

It was intended that the plant burn Sardinian coal (see separate report), but in August 1954 it was not equipped to burn coal but was capable of operating only on imported fuel oil. Foundations were being built for coal-handling equipment and it was indicated that possibly by April 1955 the plant would be prepared to burn the Sardinian fuel. Although the plant was designed as a high-efficiency, base-load generating station, it is actually being utilized as a standby station until the load has grown sufficiently to permit its advantageous use in the base supply. This was forecast for 1958 or 1959.

An additional $1 million will be spent for foundations and erection of coal-handling and ash-handling facilities. This will bring the total cost up to $19,800,000 corresponding to $220/kilowatt.

This is a plant designed as a base-load plant, but is operated as a standby plant.

It was authorized in 1949 and 1950; the design will therefore be about 8 years old by the time the station is brought into base-load operation. At $220/kilowatt this is an expensive standby plant. By the time base-load operations commence, advancements in the art may have made the plant relatively obsolete. In a country that desperately needs power-generating facilities, it is not apparent how an expensive standby powerhouse can be justified. The plant was intended to burn Sardinian coal, but cannot do this until coal and ash-handling equipment are installed.

One hundred and fifty personnel, more or less permanently standing by, can hardly contribute to the economy. Buying imported fuel oil instead of Sardinian coal is of doubtful value to the economy.

To the extent that this plant "firms-up" hydroelectric generation, it has some value, but whether that can justify the expenditure of some $19 million is questionable.

It should be noted that the adjacent M. Capuano plant is not being kept in operable status because of its age and inefficiency.

It may be that there are numerous other such old and inefficient stations, and if so, these could certainly serve with greater usefulness as reserve or standby stations than a modern, efficient plant for the simple reason that an efficient plant cannot effect any cost savings when it is not being operated.

It may be that the construction of this project was justified on grounds other than engineering considerations, but if so no evidence has been offered or is available on this phase of the subject.

On engineering-economic grounds alone, the plant could not be justified until it came into base-load use.

The MSA report of July 21, 1953, stated the MSA dollar financing of both projects to be $9,795,000 and the total cost to be $14,785,000. Total United States and nonlocal currency financing has actually been $10,198,000, but the total cost will be about $19,800,000 rather than $14,785,000.

Case No. 6—Sulcio Coal Project—Sardinia, Italy
(Based on report of consulting engineers)[6]

This project is located in the only mining area of consequence in Italy today. It is Government owned and controlled through an operating company. Support for this program was offered by ECA and approval given March 2, 1950, for dollar expenditures totaling $3,413,000 as part of a total additional investment from Italian sources of $10 million.

[6] Maurice R. Scharff, Franklin J. Leerburger & Associates.

(1) An increase in production from 1 million tons to a future 3 million tons within 3½ years, i. e., by October 1953.

(2) A cost reduction was anticipated from the previously $14 per ton to $7 per ton delivered to the Sardinian port of loading.

(3) To supply the fuel for old and new thermal powerplants along the west coast of Italy, expected to consume 44 percent of the increased production. Other industries on the mainland including building materials, ceramics, glass, textiles, transport, food processing, etc., were to absorb the balance.

The equipment authorized for purchase in the United States at an expenditure of $3,413,000 underwent some changes, so that the final procurement was apparently reduced to $2,800,000.

Based on dollar value, 67 percent of all equipment purchased has been installed and is in service (July 23, 1954), 56 percent was intended for underground use amounting to about $1,529,623, all of which was delivered over 2 years ago, but 55 percent of which is still unused and in storage at the various mine warehouses. Some of this equipment can and will be used in time, if market conditions warrant development for increased production. A considerable portion, however, is unsuited to the mining and physical seam conditions prevailing in this field.

Production schedules have not been met, with 1953 showing 1,032,701 tons as compared to 988,545 tons in 1949, and an objective of 3 million tons by October 1953.

A revision of completion schedules early in 1953, of Italian origin, indicating that completion would be achieved early in 1955, was without foundation and meaningless.

Italian Government agencies now admit that the development of extensive methane production, and of fuel oil produced in increasing quantities from national refineries established in recent years, seems to have completely changed the market prospects for Sulcis coal.

There is no escape from the feeling that the market difficulties of Sulcis coal in the past and recognizable in the future, as well as competitive prospects of gas, oil, and imported solid fuels, being known in 1949, should have received more mature consideration at the time the project was approved.

There has been no reduction in operating costs as far as can be determined with any degree of accuracy.

The operational losses of this project prior to 1946 totaled $1,244,000. They have continued to rise from year to year to constitute a considerable burden on the Italian economy. The combination of consistent operational losses through the years and deficit financing, requiring Government contributions granted irregularly by virtue of legislative provisions, following long-drawn-out proceedings, have combined to defeat whatever possibility may have existed of attaining the original oojectives.

(1) The objectives of this project have in no sense been realized. Production has remained practically stationary and costs show no improvement. If amortization for capital investments made were included, costs would be higher than at the inception of the program.

(2) More than 50 percent of the underground equipment purchased with United States dollars remains unused—part of this can be used eventually should the demand for increased production warrant installation. Part of the equipment is unsuited to mining in this area.

(3) Markets for Sulcis coal appear limited for two reasons: (*a*) Quality of coal and unsuitability for different consumer uses; (*b*) price, in the area of competitive fuels for both private consumers and Government plants.

(4) The type and quality of coal specified in the design plans for the new thermal-electric plant has been available, but whether quality requirements of other prospective consumers can be met, was not determined.

The cost of production cannot be reduced as long as—

(*a*) Mine production is limited and far below the capacity to produce;

(*b*) The existing labor force must be maintained intact and obvious reductions discouraged for political reasons;

(*c*) Discipline is lax and cost-consciousness is completely lacking in the supervisory ranks; and

(*d*) The cost sheet is burdened with high taxes, interest charges, freight rates, and excessive overhead charges.

(5) The Communist influence among the miner population is real, but not surprising. The house plant is of substantial construction, but of the "barracks" type, most unattractive and in marked contrast to that provided for supervisory personnel. Wages are much too low to meet the high cost of the necessities of life.

(6) The value of this mining operation as a contribution to the mutual defense effort can be discounted, since the miner population would be more inclined toward sabotage than work in the event of an emergency.

Since the Italian Government is extremely sensitive to political repercussions, it feels not only a responsibility toward both the populations of the mining towns and Sardinia, but to the people of Italy should the capital investment of 70 billion lira in these mining properties be sacrificed. It feels a definite responsibility to FOA and the European Steel, Iron, and Coal Community as well.

The solution or correction of the problems presented by this project are so complex and far reaching as to present no promise of accomplishment in the foreseeable future.

Case No. 7—Meatpacking Project—Erzurum, Turkey[7]

Prior to the entrance of the United States mission into the meatpacking program, the Turks with their own free dollars built a plant at Erzurum which was completed in April of 1950, but by December of 1952 the Turkish Government, despite repeated requests, had taken no steps to utilize this plant. In early 1950 the Turkish ECA mission agreed to finance with United States money a meatpacking plant to the extent of $1.35 million. The plan was forwarded to Washington for approval, but before this was received the Turkish Government entered into a contract with an American firm to prepare specifications for the plant. The United States mission's consultant never had access to these plans, contrary to the understanding with Turkey, and drawings proved unsatisfactory for the reason additional financing would be required.

The Turks would not agree to reduce the size of the project to conform with the agreement, and in May of 1951 the mission canceled the project and asked for the return of the money. Several months later the Turkish Government requested reconsideration of the project, and in March 1952 an American survey group observed the situation and reported on it. MSA in Washington requested a refund and $1,214 million was returned to MSA by the Turks. MSA then returned this money to be reprogramed in Turkey. Accordingly there was no penalty. Later $75,000 worth of tools were sent to Turkey in order for the Turks to utilize machinery at hand.

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[7] Source: Hearings, Committee Appropriations, U. S. Senate, MSA 1954, p. 760. Report—Division of Investigations Senate Committee on Appropriations Hearings, MSA, 1954, published 1953.

MSA sources report that full responsibility for the operation of any meatpacking plants was given to the Turks. Subsequently, two type B teams at a cost of $265,000 were sent to Turkey, one team to help in the setting up of operations at Erzurum, the other team to instruct Turkish technicians. These teams were later to assist in the construction of additional Turkish-financed meatpacking plants if the Turks were able to show that they could operate the Erzurum plant efficiently and profitably. The remainder of the $1,214 million MSA reports to have been spent on diverse projects under the Productivity and Technical Assistance Division.

Summary of Estimated Total Costs and FOA Financing for Projects on Which Project Reports Were Submitted [1]

Country	Project No.	Title	Total cost	FOA dollar financing, September 30, 1954 total
Austria	7	Alpine Montan Steel, Donawitz	$6,202,000	$4,208,494
	22	Natronzelstoff und Papierfabrik	5,319,000	1,016,776
	29	RAG, Oil Exploration, Styria	495,000	593,012
France	2	Mines Domaniales de Potasse d'Alsace	125,000,000	3,964,553
	3	Etablissement Charles Coquillard	2,000,000	981,828
	4	S. des Trefileries et Laminovis du Havre	2,000,000	1,084,462
	16, 16a	USINOR	60,574,000	11,919,346
	17, 18, 19	SOLLAC	147,072,000	56,509,184
	30	Shell-Berre Refinery	31,650,000	408,936
	32	RFPA Refinery, Donges	9,435,000	237,107
	34	CFR, La Mede and Gonfreville	11,000,000	2,484,920
	35	Esso Standard, Port Jerome	6,415,000	1,028,494
	86	Arrighi, Vitry-sur-Seine	20,000,000	2,444,383
	87	CIMA, St.-Dizier	13,000,000	4,551,000
	89	SIMCA, Nanterre	8,150,000	3,914,554
	90	S. A. Andre Citroen, Clichy	14,000,000	1,684,465
	95	S. Naphtachimie, L'Avera	12,418,000	1,913,000
	106	CFR, La Mede and Gonfreville	10,000,000	2,084,588
	107	Esso Standard, Port Jerome	10,000,000	1,545,888
	109	Shell-Berre refinery	8,850,000	232,288
	110	SA des Forges et Acleries de Dilling	7,430,000	2,050,000
	111	Acleries de Longwy, Mont St. Martin	7,210,000	2,114,000
	112	RFPA Cracking Plant, Donges	7,000,000	197,332
	113	Arrighi, Vitry-sur-Seine	15,350,000	541,173
Morrocco		150-kv. transmission system	4,530,000	(2)
Germany	12	Glaswerke Ruhr, A. G., Essen-Karnap	3,954,000	1,520,276
	15	Gewerkschaft Erdoel-Raffinerie	8,683,000	671,000
Greece	4	Aliveri lignite development	10,197,000	2,614,000
	9	Aliveri steam-electric plant	15,461,000	7,300,000
	10	Transmission and distribution, Eubean Gulf area	12,078,000	293,000
	11	Agra hydroelectric station	8,008,000	35,000
	12	Transmission and distribution out of Agra station	14,899,000	121,000
	13	Ladhon hydroelectric station	14,522,000	40,000
	14	Transmission and distribution out of Ladhon station.	10,045,000	(3)
	15	Louros hydroelectric station	2,966,000	45,000
	16	Transmission and distance out of Louros station.	951,000	12,000
	20	Engineering and technical services to Greek Government.	7,000,000	5,000,000
	21	Agra-Larissa 15-kv. transmission line	2,636,000	(3)
Iceland	2	Fertilizer plant, Reykjavik	7,240,000	3,279,000
	3	Sog River hydroelectric plant	8,658,000	3,939,998
	4	Laxa River hydroelectric plant	2,640,000	970,000
Italy	2	SGES steam-electric station, Palermo	11,050,000	6,134,000
	6	Aquila lubrication oil reforming plant	7,950,000	3,335,922
	9	FINSIDER—Genova, Naples, Piombino	135,347,000	32,471,517
	10	FIAT, Turin	69,379,000	22,474,745
	17	SME steam-electric station, Naples	9,393,000	6,143,000
	19		5,392,000	3,388,000
	20	S. Permolio, cracking units	4,984,000	1,534,000
	30	SISMA, Villadossola	5,326,000	2,544,000
	39	Sulcis coal mines, Sardinia	10,111,000	2,801,000
	41	STEI steam-electric plant, Tavazzano	10,877,000	2,680,000
	44	TERNI steel plant, Terni	4,895,000	1,406,600
	45	FALCK steel works, Milan	7,837,000	4,523,000
	48	AEM steam-electric plant, Turin	5,284,000	3,225,000
	54	REDAELLI steel plant, Rogoredo	3,125,000	983,000
	59	Montecatini olefin plant, Ferrera	18,670,000	2,410,000
Portugal	3	Oliveira steel tube mill, Madeira	1,340,000	847,614
	6	Sorrala Valley irrigation development	15,000,000	1,253,114
	7	Airport equipment, Portuguese Colonies	1,037,000	403,595
	50–2	Port facilities, Beira, Mozambique	2,065,000	591,160
Turkey	1	Zonguldak coalfields	45,000,000	14,234,436
	3	Zonguldak Harbor improvement	9,310,000	2,460,283
	4	Zonguldak coal handling equipment	7,000,000	(4)
	5	Zonguldak railroads	3,000,000	(4)
	2	Western lignite mines	16,000,000	2,120,272
	7	Sariyar hydroelectric plant	47,000,000	12,657,000
	13	Divrigl iron mines	4,512,000	990,161
	32	Grain storage facilities	7,907,000	2,489,153
United Kingdom	1	Steel company of Wales	240,000,000	25,397,092
	10	Shell Haven refinery	34,000,000	1,724,000
	12	National oil refinery, Llandarcy	48,000,000	2,838,000
	20	Petro-chemical plant, Grangemouth	17,000,000	6,016,640
	21	Ford Motor Co. plant, Dagenham	13,583,000	2,500,000
International	2	Inn River hydroelectric plant	28,600,000	516,966
Total			1,525,012,000	306,633,327

[1] From final report by Maurice R. Scharff, Franklin J. Leerburger, consulting engineers and their associates.
[2] Not available. [3] Not reported. [4] Procurement authorizations not yet issued.

Engineering Evaluation of European Industrial Projects

As a result of 1953 hearings before the Committee on Appropriations of the United States Senate, 83d Cong., 1st sess., on the Mutual Securities Appropriation Act for 1954, Mr. Maurice R. Scharff, and Mr. Franklin J. Leerburger, consulting engineers, of New York, were retained by contract by FOA in March 1954 for independent field investigations and recommendations on not more than 80 of the some 143 industrial projects of the European program. These 2 consulting engineers also had the assistance of 5 engineering associates selected for their competency in specific types of plants and operations. The number of plants to be inspected was subsequently reduced to 74 listed on the preceding table. Following are pertinent abstracts from the Scharff-Leerburger final report submitted to the Director, Office of Industrial Resources, FOA, under date of December 15, 1954.

Actual Costs Exceed Estimates

Although the estimated total costs, where reported in the project reports, exceed the original estimates by 24 percent, there were some projects in which the overruns far exceeded this average percentage:

Country	Project No.	Overrun [1]	Original estimated total cost	Percentage of overruns
France	17, 18, 19	$100,000,000	$147,000,000	68
	111	12,800,000	7,200,000	78
	112	7,700,000	7,000,000	110
Germany	15	8,000,000	8,700,000	92
Greece	11	7,500,000	8,000,000	94
	13	8,400,000	14,500,000	58
	15	1,500,000	3,000,000	50
	20	7,300,000	7,000,000	105
Italy	20	10,000,000	5,000,000	200
	41	5,900,000	10,900,000	54
Turkey	7	30,000,000	47,000,000	64
Total		199,100,000	265,300,000	75

[1] As previously pointed out, not always on a basis comparable with that of the original estimate.

However, in connection with the above, all of the overruns were paid for out of funds other than dollars provided by ECA/MSA/FOA.

Unfavorable Comments

Examples of unfavorable comments in project reports, with respect to design, execution, operation, and success in meeting objectives, are listed below:

Country	*Project No.*	*Comment*
France	2	One of the objectives was to meet the increasing needs of French agriculture. This has not been accomplished since French agriculture has not taken advantage of the increased quantity of fertilizer available.
Do	3	Error in judgment due to lack of experience resulting in installation of a single 4-high mill where several should have been installed.
Do	4	Same as for "3."
Do	17, 18, 19	Lack of coordination between production sales and marketing; lack of know-how at managerial level.
Do	95	Lack of central responsibility and central authority.
Do	110	Lack of experienced personnel.
Do	112	Failure to employ outside specialists and engineers; lack of incentive to design for low costs.
Germany	15	Change in design; no provision for cost control; no incentive for cost reduction in design and construction; no clear definition of authority.
Greece	10, 12, 14, 16	Unfavorable reports largely centered on failure to develop suitable distribution agencies.
Do	15	Location of plant and construction at this time without suitable provisions for marketing, possibly based on political rather than engineering considerations.
Italy	Part of 9 Cornigliano (Genoa).	Unsatisfactory engineering and planning.
Do	20	Fails to contribute to the economy and represents excessive expansion of refining capacity; there was a lack of a single competent engineering organization; there was inordinate delay in the United States in passing on the project (16 months); unsatisfactory engineering services by an American industrial contractor.
Do	30	This project will not benefit the economy of Italy; the plant is too far removed from the market.
Do	39	This project represents a failure to gage the market correctly; requires thorough and complete reorganization of management; was apparently designed and constructed for political rather than engineering reasons.

Country	Project No.	Comment
Turkey	2	The unfavorable comments on this project relate to lack of safety and inspection; lack of proper appreciation of the duties and obligations of supervisors and managers; unfavorable methods of mining; installation of three separate cleaning systems instead of 1 overall large one.
Do	7	Outstanding example of failure to concentrate authority and responsibility in the hands of a single competent engineering organization and failure of such an organization either to take command or quit the job. Final cost will probably exceed estimate at time of authorization by from 60 to 70 percent.
Do	1, 3, 4, 5	Failure to concentrate engineering responsibility in 1 competent organization; incompetent managing personnel; requirement for increased safety; requirement for relating production to market; excessive influence of politics.
Do	13	About the same comments as for projects 1, 3, 4, and 5.

Projects which were subject to other serious comments are as follows:

Country	Project No.	Comment
Iceland	2	The FOA Controller required to pass on engineering matters; FOA administration participated in consumating a contract for professional services on the basis of competitive price bidding.
Italy	17 and 19	The plant was designed as a base-load station with large investment to produce high thermal efficiency with the full intent of keeping the station in reserve and standby service for many years.
Portugal	6	The location and design of the project as a whole are different from those authorized by FOA. Although the revised project may be better than the one authorized, and even though it may be making a greater contribution to the economy than the original one would have, FOA was not kept informed of the change.

The 74 projects which were inspected represent about 50 percent of the total number of projects, and their estimated total cost amounts to $1,525,012,000, or about 58 percent of the total underestimated cost for all projects. The United States dollar participation was $341,270,000, or about 59 percent of the total dollar participation.

Almost all of the project reports indicate that, with a few exceptions, there were no projects on which systematic progress reports,

periodic inspection reports, and revised estimates of total cost, including all other currencies as well as American aid dollars, were available in the files of the Foreign Operations Administration.

It should be pointed out that unfavorable reporting with respect to design, execution of construction, the meeting of objectives, and operations runs all the way from minor adverse comments to serious criticisms. On the other hand, favorable reporting with respect to design, execution of construction, the meeting of objectives and operations may, nevertheless, leave a project subject to other serious criticisms. Examples of the latter are the Iceland Fertilizer Corp., the steam-electric power plant at Naples, and the Sorraia Valley irrigation project in Portugal, all three of which are treated in detail elsewhere in this paper.

Opinions and Conclusions

The following excerpts are taken from the final report of the consulting engineers [8] made to FOA on completion of field investigations of some 74 projects.

The most striking general conclusion, resulting from our participation in the inspections and from the project reports by our associates, is that, while there have been some unfortunate individual exceptions, the program of American aid through assisting in the financing of industrial projects has been, in general, an overall success. By far the larger proportion of the projects have been effectively carried out, taking into account engineering, construction, financial management, and coordination, and have accomplished to a substantial extent the objectives for which they were approved. As a result, they have made a substantial contribution to strengthening the economies of the countries in which they are located, and without doubt have been a major factor in the advances in industrial production and economic strength that have occurred in these countries.

Engineering Reports Prior to Approval

A second conclusion that results from comments in a number of the project reports is that it would be desirable whenever possible to require the submission of a complete engineering report on the proposed project, and a review of such report by engineers, employed or retained by the agency, prior to approval.

Engineering Responsibility and Authority for Design and Supervision of Construction

A third conclusion that appears justified is that in a program of this character it is of the greatest importance that engineering responsibility and authority, with respect to the design and construction of each industrial project, or portion of a project, at one location should be clearly concentrated in a single competent engineering organization. The projects inspected which have been outstanding successes in the program have, in every case, been projects with respect to which this requirement was complied with. Many of the projects as to which the results have been unsatisfactory have failed to meet this requirement, and this failure has been an outstanding reason for unsatisfactory results.

[8] Maurice R. Sharff, Franklin J. Leerburger & Associates.

In connection with the amendment of Bulletin PMCD No. 35,[9] it is suggested also that consideration be given to the development of this bulletin into a standard procedure and set of criteria applicable to the retention of engineering services directly by the Foreign Operations Administration, as well as to the approval of contracts between interested countries and engineering organizations. If this is done, consideration should be given to securing either an amendment to section 304 (*b*) of the Federal Property and Administrative Services Act of 1949, or else to securing a determination by the President under section 533 of the Mutual Security Act of 1954 (Public Law 665, 83d Cong., 2d sess.) that section 304 (*b*) of the Federal Property and Administrative Services Act of 1949 does not apply to FOA contracts for engineering services.

The cost-plus-a-fixed-fee form of contract for professional engineering services has a definite usefulness under some circumstances, as an alternative to contracts based upon a lump-sum fee, a percentage of cost, or per diem fees, and it would be helpful for the Foreign Operations Administration, in administering future industrial project programs, to be in a position to utilize this type of contract.

A fifth type of unsatisfactory result in connection with engineering practice has occurred, in some cases, where the European type of package or turnkey contract has been used, either without any independent engineer being associated with the work, and with engineering design and supervision of construction being carried out by employees of manufacturers or contractors; or where an independent engineer was retained by a contractor, or a subcontractor, without any direct responsibility or opportunity to report to the owner or to the Foreign Operations Administration.

Progress Reporting and Inspection

In the Greek-Turkish Assistance Act of 1947, it was provided that: As a condition precedent to the receipt of any assistance pursuant to this act, the government requesting such assistance shall agree (*a*) to permit free access of United States Government officials for the purpose of observing whether such assistance is utilized effectively and in accordance with the undertakings of the recipient government.

Section 115 of the Economic Cooperation Act of 1948 also provided, in subsection (*b*), that in addition to continued mutual cooperation of the participating countries in such a program, each such country shall conclude an agreement with the United States in order for such country to be eligible to receive assistance under this title. Such agreement shall provide for the adherence of such country to the purposes of this title and shall, where applicable, make appropriate provision, among others, for * * * (8) furnishing promptly, upon request of the United States, any relevant information which would be of assistance to the United States in determining the nature and scope of operations and the use of assistance provided under this title; * * * (9) (*d*) The Administrator shall encourage each participating country to insure, by an effective followup system, that efficient use is made of the commodities, facilities, and services furnished under this title. In order further to insure that each participating country makes efficient use of such commodities, facilities, and services, and of its own resources, the Administrator shall encourage the joint organization of the participating countries referred to in subsection (*b*) of this section to observe and review the operation of such followup systems.

The Mutual Security Act of 1954 also contains, in Title I, Mutual Defense Assistance, the following provisions: SECTION 142. *Agreements.*—No assistance shall be furnished to any nation under this title unless such nation shall have agreed to * * * (10) permit continuous observation and review by United States

[9] Official regulations of FOA setting forth the terms and conditions governing contractual relationships on all forms of contracts involving FOA financing.

representatives of programs of assistance authorized under this title, including the utilization of any such assistance, or provide the United States with full and complete information with respect to these matters, as the President may require.

Title II, Development Assistance, of the Mutual Security Act of 1954, contains no such specific provision, but provides that such assistance may be furnished on such terms and conditions as the President may specify. We understand that no such terms and conditions relative to this title have yet been specified by the President, but it seems reasonable to assume that they will not differ substantially in this respect from those prescribed by the Congress in the Economic Cooperation Act of 1948 and in Title I, Mutual Defense Assistance, of the Mutual Security Act of 1954.

It would appear, therefore, that ample justification and authority for systematic progress reporting and periodic inspections existed in the enabling legislation and the bilateral agreements. Notwithstanding these provisions, it would appear that, as suggested in the extracts from the record of the hearings before the Senate Committee on Appropriations, and from the report of the committee to the Senate, quoted at the beginning of this report, and as confirmed by almost all of the project reports, there have been almost no projects on which systematic progress reports to the Agency (other than reports of disbursements of United States aid dollars and end use reports on equipment purchased with such dollars) have been made, and none which have been subject to periodic inspection. (The only exceptions with respect to systematic progress reports seem to be the electric power and lignite mining projects in Greece, from their beginning; and since September 1953, only, the Sariyar and Zonguldak projects in Turkey. There appear to be no exceptions with respect to periodic inspections.)

In fact, this lack of systematic progress reports and periodic inspections appears to have been intentional rather than accidental.

This same point of view was brought out at page 769 of the record[10] when a member of the staff of the agency stated "We never did intend to take on the responsibility of running the projects," and a member of the committee replied, "There is a difference between running the project and actually supervising it so that the money can be stopped if it is not going correctly."

It is our opinion that such progress reporting and inspections could have been carried out with respect to these projects, and can be carried out in connection with any similar programs in the future, without infringing on the sovereignty of the participating countries, or their responsibility for the actual carrying out of the work, and with complete maintenance of the distinction between "running the project" and "supervising it so that the money can be stopped if it is not going correctly." Furthermore, we do not believe that the Congress would withhold its support, by means of necessary appropriations, from a reasonable program and organization for such progress reporting and inspections, efficiently and economically carried out. Neither does the necessity for care in the administration of such progress reporting and inspection to avoid effects harmful to the political or military interests of the United States in other directions suffice, in our opinion, to justify the omission of such progress reports and inspections.

In the last analysis, and regardless of the technical justifications and authorizations to which reference has been made, the need for such reports and inspections arises from the fundamental obligation of an executive agency, expending funds appropriated by the Congress for a specific purpose, to be able to advise the Congress from time to time as to whether or not, and if so, to what extent the results for which the money was appropriated are being accomplished.

[10] Hearings of Senate Committee on Appropriations, July 1953.

Additional justifications, if any were needed, are that it is only by such systematic reporting and inspections that the participating countries themselves and their engineers can successfully manage such complicated programs as these industrial projects; that it is only in this way that the maximum value of the projects for technical training of nationals of underdeveloped countries can be realized; and that it is only in the same way that the executive agency itself can be of the greatest possible assistance to the participating countries in foreseeing and assisting in the solution of their difficulties.

Periodic inspections should preferably be unannounced, if possible, and at irregular intervals, but sufficiently frequently, such as 2 to 12 times per year, as determined for each individual project, to inform reviewers of the progress reports as to the actual conditions on the job and the relative reliability and accuracy of the reports. The organization, which reviews the progress reports and makes the inspections, should be made up of professional engineers, with sufficient backgrounds of experience and judgment in the fields of design and costruction to enable them to analyze the projects initially to determine the reasonable period of progress reporting for each project and the number of inspections required for effective appraisal of progress and cost; to review and interpret the progress reports intelligently; and to recommend action for the solution of difficulties, or the decrease or cessation of further payments, if required. For this purpose the organization will have to be made up of engineers with backgrounds of experience in different technical fields, but it is believed that economy and efficiency will be promoted if the number of such fields and employed engineers is limited and if the staff organized for the purpose is required to utilize the services of engineers borrowed from other Government agencies, or of professional engineers in independent practice on a contract basis, to supplement the permanent organization as required. In any case, it should be a universal practice that every review of a progress report, and every periodic inspection, should be made the subject of a written report by the reviewer or inspector, which will conclude with a recommendation either that no action need be taken or that a specified action is required.

Organization of Foreign Operations Administration

The omission of provision for systematic progress reporting and periodic inspection, to which reference has been made, appears to us to have been paralleled by the omission of any engineering group, properly speaking, in the organization of the Foreign Operations Administration. So far as we have been able to determine, the functions of the various branches of the Division of Industrial Specialists in the Office of Industrial Resources, with respect to industrial projects, are to advise the area operations chiefs with respect to approval or disapproval of project applications from the industrial economics point of view, with incidental technical services relating to requirements and contracts for engineering services and to the formulation and implementation of such projects.

Some of the individual members of the Industrial Specialists Branches are actually men with engineering training and backgrounds, but these qualifications appear to be utilized primarily as a background for services in the fields of administration and industrial economics, and there does not appear to be specific intention to utilize their services for technical engineering work relating to design and construction or for systematic progress reporting and inspection, although incidental services of these kinds appear to have been supplied in some cases.

If an organization of professional engineers, with backgrounds in the design and construction of works in their respective fields, is to be provided to review systematic progress reports and to make field inspections, as we have previously

suggested, we believe that it will be necessary to create a new engineering group for this purpose in the Foreign Operations Administration organization.

If the suggested engineering group is provided, we believe that it will also be desirable to assign to it the review and recommendations of approval or disapproval of project applications for industrial projects from the engineering point of view, including the definition of the scope of the work, the organization of the engineering and construction, and the selection of the engineers.

If the functions of review and approval of industrial project applications from the point of view of industrial economics are to continue to be exercised separately by the technical branches of the Industrial Specialists Division, then the functions of the two groups should be clearly defined so as to avoid conflict or overlap.

It should be pointed out, however, that in such case, the functions of the two groups, and the qualifications required for their performance, are so related that consideration may well be given to combining the groups in a single organization.

Whether or not such combination is effected, it would appear that the organization set up to implement the suggested system of progress reports and periodic inspections should be either a part of the Office of the Director of the Office of Industrial Resources, with clear assignment of the same functions with respect to projects involving design and construction which originate in the Office of Food and Agriculture and the Office of Transportation, as with respect to projects originating in the Office of Industrial Resources; or else a part of the Office of the Deputy Director for Technical Services.

Insofar as progress reporting and inspections are concerned, this report is strictly limited to the consideration of their relation to industrial projects, in accordance with the provisions of our contract. It occurs to us, however, that in connection with the recent definition of "project type assistance," it may be desirable to extend a comparable system of progress reporting, including reports of physical progress and of expenditures in all other currencies, as well as in dollars, to some types of projects other than those which, like industrial projects, include design and construction work.

If such a development should come about, it would appear that the logical location for the unit charged with the operation of such a system of progress reporting and periodic inspections would also be in the Office of the Deputy Director for Technical Services * * *

Recommendations

These recommendations are abstracted from the final report made to FOA by Consulting Engineers Maurice R. Scharff, Franklin Leerburger & Associates, on completion of their field investigation:

1. It is recommended that, whenever possible, applications for approval of industrial projects be required to be based upon preproject engineering reports, preferably either by engineers assigned by other Government agencies or by independent consulting engineers, and that such reports be required to contain, in addition to clear definitions of scope and estimates of cost, recommendations regarding the organization of the engineering design and supervision of construction, and preliminary forecasts of time schedules for design and construction work.

2. It is recommended that in connection with any future program, involving projects such as those referred to in this report, the Foreign Operations Administration adopt as a basic principle that it will require complete responsibility

and authority for design and supervision of construction for every such industrial project or part of a project at one location, to be concentrated in a single competent engineering organization approved by the Foreign Operations Administration, and compensated in accordance with reasonable standards set by the agency.

* * * It is also recommended that engineering contracts be so drawn that engineers may be in a position to terminate their contracts without financial loss if their advice is ignored and it is thus made impossible for them to fulfill their professional engineering responsibilities.

3. In order to provide for satisfactory engineering contracts at reasonable compensation, it is recommended that PMCD Bulletin No. 35 (Revised), dated November 26, 1951, be further revised so as to make it applicable to engineering contracts entered into by the Foreign Operations Administration itself, as well as by participating countries; so as to eliminate any implication that contracting for professional engineering services on the basis of competitive bids will ever be required or approved; and to provide that engineers shall be selected on the basis of their qualifications, experience and previous accomplishments, with attention to compensation directed toward requiring that it shall correspond with reasonable standards similar to those now embodied, or to be embodied by further revision, in PMCD Bulletin No. 35 (Revised).

4. In order to permit the utilization directly by the Foreign Operations Administration of the cost-plus-a-fixed-fee form of contract for engineering services, in accordance with the reasonable standards now prescribed by PMCD Bulletin No. 35 (Revised), it is recommended that the Foreign Operations Administration undertake to secure either an amendment to section 304 (b) of the Federal Property and Administrative Services Act of 1949, exempting contracts for professional engineering services from its provisions, or else a determination by the President, under section 533 of the Mutual Security Act of 1954, that section 304 (*b*) of the Federal Property and Administrative Services Act of 1949 does not apply to Foreign Operations Administration contracts for engineering services.

5. It is recommended that a comprehensive system of progress reporting and periodic inspections of industrial projects be established for the purpose of assuring the efficiency of management of the design and construction of such projects; permitting the Agency to be of maximum assistance to the participating countries in anticipating and solving the difficulties that arise during the progress of design and construction; securing the maximum training value from the work for nationals of the country in which the project is located; and enabling the Agency to advise the Congress at proper times whether or not and to what extent, the expenditure of appropriated funds is accomplishing the purposes for which they were appropriated.

6. It is recommended that the responsibility for the submission of progress reports be clearly placed upon the participating country in each case by provision, if necessary, in the project agreements provided by the new procedures prescribed on the basis of "Operation Blueprint"; and that it be clearly understood that a principal responsibility of the engineering organization, to which professional responsibility and authority over the design and construction of each project has been assigned, will be to establish as an initial step, at the beginning of its work, schedules of progress on design and construction, and expenditures of dollar aid and other currencies by major physical subdivisions of the work; and thereafter to assist the government of the participating country and the owner of the facilities (in case American aid has been extended through the government to persons, municipalities or corporations), to comply promptly and completely with the requirements with respect to progress reporting.

7. It is recommended that project reports be required monthly, bimonthly or quarterly, as may be determined to be most appropriate for each project, and that such determination be made separately for each project by the engineering group in the Foreign Operations Administration responsible for progress reporting, after conference with the engineers responsible for design and supervision of construction. Such period should be determined on the basis of the nature of the project and the conditions under which it is being carried out, so as to secure the maximum contribution by such progress reports to the efficient and economical completion of the work.

8. In order to establish a basis for such progress reporting and to permit progress reports to be compared with forecasts made at the time of the approval of each project, it is recommended that the procedures and forms now prescribed for project proposals and approvals be modified or supplemented so as to show costs by major physical subdivisions as well as procurement categories, and that the "work plan schedule" called for by present instructions be expanded or supplemented so as to provide definite time schedules for the completion, for each major physical subdivision of the work, of field surveying, designs, preparation of specifications, placing of contracts for major equipment, manufacture and delivery of major equipment, employment, and construction.

9. It is recommended that the use of completely standarized forms of reports be determined and approved by the Foreign Operations Administration promptly after the approval of each such industrial project, after conference with the engineers responsible for design and supervision of construction, in such a way as to meet the general requirements outlined below, and to utilize to the maximum extent possible the reporting forms and procedures developed by the participating country and the engineers in responsible charge of design and construction to facilitate the efficient control and management of the design and construction work.

10. It is recommended that, at the very least, such progress reports should include for each reporting period a report, in tabular or chart form, of the progress, for each major physical subdivision of the work, on field surveys, designs, preparation of specifications, placing of contracts for construction and major equipment, manufacture and delivery of major equipment, employment and physical construction, with a comparison with the corresponding schedules originally submitted at the time of approval or prepared after approval; together with a financial report showing, for each major physical subdivision of the work, the expenditure to the end of the reporting period, both in United States dollars, in other currencies and in total, and corresponding estimates of cost to complete and of total cost, and a comparison of such revised estimate of total cost with the original estimate submitted at time of approval, or prepared after approval.

11. It is recommended that the systematic progress reports, previously referred to, be supplemented by periodic inspections at the site of construction work, to be made without advance announcement, if possible, and at irregular intervals of 2, 3, 4, or 6 months, as determined to be appropriate in the case of each project, depending upon the type of project, the conditions under which it is being carried out and indications contained in progress reports as to the desirability of inspection. Such inspection should be made by professional engineers with backgrounds of experience in design and construction in the various industrial fields in which the projects are included and should be followed, in each case, by a written report describing the inspection, commenting on the conditions observed and on the accuracy of the progress reports that had been submitted, and recommending either that no action by the Foreign Operations Administration is necessary, or that specified action be taken

for the improvement of progress reports, for contributing to the success of the construction work, or for increasing, reducing or discontinuing American aid.

12. In order to administer the proposed system of progress reporting and periodic inspections, it is recommended that there be established in the Office of the Director of Industrial Resources of the Foreign Operations Administration (or in the Office of the Deputy Director for Technical Services, in case it is determined that it is desirable to extend the procedure to projects involving design and construction work which are sponsored by offices other than the Office of Industrial Resources, without engineering aspects of such projects) a group which might be known as the Engineering Division, to be headed by a chief engineer, with such number and types of senior engineers and assistant engineers, with necessary clerical and secretarial staff as may be required to accomplish the functions outlined below, for the type and size of program for which these functions are to be performed.

14. It is also recommended that once such an engineering organization, as suggested, has been set up, its authority and responsibility with respect to the recommendation of approval of the selection of engineers, of engineering contracts, of activities under engineering contracts, and of payments of reimbursement of cost and compensation or fees in connection therewith, be clearly defined and that the Controller's function in connection with such contracts be limited to accounting, auditing, and the authorization of payments in accordance with the approval of the chief engineer and the director.

II. Industrial Development Program for Far East, Near East, South Asia, and Africa

Costs

The United States apparently will spend approximately $900 million on economic development in these areas in the current fiscal year (1955). It will be seen how closely industrial development is associated with this program.

Economic development in these indicated areas is financed in the current fiscal year from a total fund availability in excess of $1.336 billion, which is the grand total of appropriated funds for these areas for fiscal year 1955 under the four categories of direct forces support, defense support, development assistance, and technical cooperation. It is in "excess" of the given figure since no credit is given in this amount for unexpended but committed balances carried forward from previous years or for counterpart funds. These are both substantial amounts. For example, unreleased balance of counterpart funds as of July 1, 1954, for these areas totaled in dollar equivalent $379.6 million, but for purposes of this paper the amounts themselves are not of primary importance except in their overall general magnitude.

While at first glance there may be some question of the propriety of including the categories of direct forces support and defense support as financing substantial amounts of economic development, such is believed to be a fact. For example, the $700 million originally intended for direct forces support for military operations in Indochina, due to cessation of hostilities there, became available for economic assistance in substantial measure for other areas. The amount of $205 million originally requested for the rehabilitation and relief of Korea in the legislative process was appropriated under the category of defense support.

The best estimate that can be arrived at would indicate that somewhere between one-half and two-thirds of the $1,336,600,000 plus, available in the current fiscal year, is being expended for various forms of economic development in the Far East, Near East, South Asia, and Africa, or perhaps roughly some $900 million. What the cumulative figure for the calendar years 1949 to date may be has been impossible to determine with the time and data available to us.

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Again, as an example of its impressive magnitude may be cited the facts that since the cessation of World War II in the small country of Korea alone, exclusive of military aid the United States has spent $1.84 billion in economic aid and rehabilitation, with only $80 million in addition contributed by sources other than the United States. Furthermore, a carefully prepared report (Tasca) presents estimates that expenditures of approximately one billion dollars a year for 5 years would be necessary to bring the Korean economy up to the status of 1949.

The amount actually devoted specifically to industrial development is impossible to determine with any measurable degree of accuracy for the simple but obviously apparent reason that in general all forms of economic assistance contribute to promotion of production of which in turn industrial development is a most important segment even though it cannot fairly or accurately be defined in terms of individual industrial projects.

United Nations Estimate of Capital Requirements

The Economic Commission for Asia and the Far East of the United Nations in its annual survey has recently stated, according to press reports, that, excluding the mainland of China and comparatively well-industrialized Japan, capital investment needs of the area approximate $5 billion yearly. Available domestic savings were estimated at $2 billion and external financial aid now available at $1 billion.

"Thus a $3 billion gap has to be bridged," the Commission reported, and an inflow of foreign capital to that amount for a period of 5 to 7 years "might make all the difference between a stagnant economy and an expanding one."

The Commission found a "welcome trend" among most Asian countries in the last 2 years to overhaul their legislation so as to encourage the influx of private investment capital as well as intergovernmental aid.

However, it should be pointed out that the above figures are theoretical estimates, doubtless prepared with all possible accuracy but which in themselves do not properly include reference to the collateral problems involved in capital investment of the indicated magnitude. Ability to absorb capital on such a scale, even if the capital per se were available are not presently demonstrable.

As has been noted above, in Europe we have been dealing with an industrial projects program, while in the other areas of the world the extension of a similar program can be more accurately described as "promotion of production" or, alternately, as "industrial development." These areas are generally described as "underdeveloped"

which, consciously or unconsciously, becomes a synonym for "under-industrialized." This leads to an overreadiness to accept industrialization as the panacea or cure-all of all economic ills common to the areas under consideration.

Illustrative of the difficulty in segregating industrial projects or industrial development in these areas is the tabulation headed "Projects for major capital improvements for Near East, South Asia, Africa, and Thailand," presented in Appendix A prepared by FOA in January 1955 in response to a request from the task force for a tabulation or list of industrial projects. Similar tabulations for Formosa and Korea have been included in the separate country studies for those two countries.

In an attempt to apply some degree of rationale to industrial development programs, FOA was requested to supply the criteria or yardstick used in evaluating and approving industrial programs. The following constitutes a verbatim copy of their reply dated March 2, 1955:

General Guidelines for Developing Industrial Programs in FOA Countries

FOA industrial programs are developed in accordance with United States policies and objectives as well as the needs of the participating countries. The development and review of programs and projects is a continuous process; consequently the data that could be classified as "guidelines" are exceedingly voluminous—the major portion of FOA/W correspondence with the United States Operations Missions (USOM's) expresses FOA/W's viewpoint regarding the development and execution of programs and projects. Accordingly, the following paragraphs are confined to a description of the programing process, since the majority of general guidelines are furnished to the missions during the course of this process.

Preparatory to evolving the FOA program for the coming year, guidelines are developed for USOM use in preparing preliminary programs. These guidelines are developed within the framework of FOA general and country policies by an intra-agency working group. The working group then makes a tentative determination of the relative emphasis to be given to each field of endeavor—e. g., industry, labor, agriculture, and public services.

On the basis of these instructions, the USOM, in cooperation with country productivity centers (or other agency representing the participating country), prepares and submits to FOA/W a preliminary program with fairly detailed descriptions of proposed projects and activities. This is reviewed by the FOA/W working group, and the results of the review are transmitted to the USOM.

Based on this preliminary review and subsequent changes in economic or other factors, the working group agrees to tentative allotments by area, country and activity when notification as to amounts of funds available for each area is received. The proportionate share of funds assigned to any field of activity will vary from country to country depending on conditions in the country and United States objectives. New guidelines are then developed for USOM use in revising the program. These revised guidelines take into consideration such factors as changes in international or individual country conditions, congressional directives, changes in appropriations, etc.

On receipt of the revised program from the USOM, the working group makes a detailed review. The USOM is informed of those projects or activities which are considered of first priority, those which are considered doubtful, and those which have been disapproved. (The USOM, of course, has the right to request FOA/W to reconsider any of the working groups' decisions.)

The USOM then issues the necessary documentation, e. g., Project Proposal and Approval (PPA), and Project Implementation Order (PIO), to implement the project. These documents are checked by the interested FOA/W offices, to assure that the proposal is technically feasible and is in line with United States policy and the approved country program.

In brief, the above indicates that neither the field missions nor FOA/W have any known specific criteria or yardstick and that each proposed industrial program or project must run the gamut of the above tortuously described procedure.

Since the beginning of World War I practically all underdeveloped areas have had a deep concern in emerging from a colonial type of economy which forced them into the position of producing food and raw materials for the industrialized nations and made them dependent upon the more economically advanced areas for most types of manufactured goods. The urge to greater self-sufficiency has been stimulated by shortages caused by two world wars and the imbalances of purchasing power produced during the depression of the 1930's, when the prices of food and raw materials sustained a relatively greater depreciation than did the cost of manufactured products. Communist influences seized upon the resulting dissatisfactions, unrest, and uncertainties to further advance acceptance of the Communist ideologies.

The cumulative effect of these experiences, plus the termination of colonial relationships, has convinced public opinion in most underdeveloped countries that the quick cure-all for their internal economic and social difficulties lies in a program of industrialization calculated to make them in a greater measure independent of industrialized nations for many categories of both consumer and capital goods.

Obviously this conviction as it is now expressed by political leaders in many of the backward countries is an oversimplification of the underlying problem and cannot be justified in any such general terms.

United Nations

A recent report prepared by the United Nations Department of Social and Economic Affairs on processes and problems of industrialization in underdeveloped countries noted that—

There are numerous examples of countries embarking on ambitious projects on the basis of no more than the general desire to industrialize and with astonishingly inadequate information concerning all the relevant technical, social, and economic data upon which the success of the project so greatly depends.

Industrialization, the report asserted, should be considered as "a process of growth."

"The feasible rate of industrialization is thus not governed merely by the problems associated by the erection of factories," the report added; "it is a function of an organic type of growth in which the essential feature is the mutual dependence of the various sectors that are involved."

The United Nations Department suggested that programs of technical assistance to underdeveloped countries might usefully include resource and market surveys and preinvestment evaluations. Technical assistance in such fields, the report remarked, might go far to avoid misdirection and waste in planning for industrialization.

The opportunities for, and the necessity of, a certain measure of what may be roughly classified as industrialization are very real in practically all of the underdeveloped areas. However, the matter of determining what is sound and capable of fulfillment under existing world and local conditions should be a matter for careful planning by the respective governments, business communities, foreign and domestic financial interests, and the various United States agencies who may be involved if we are to play any constructive part in the program.

Potential Contribution of Industrialization to Underdeveloped Areas

Fundamentally, industrialization involves two gradual changes:

(*a*) The substitution of tools and improved technology for unskilled manual labor and

(*b*) The transfer of surplus labor from inefficient extractive or agricultural work into the production of other additional goods to be used in an improving standard of living.

Countries traditionally agricultural will not find it possible to develop industrial employment opportunities at the rate at which added employment will be required, unless very major stimulus and aid are provided. It is doubtful that even with substantial aid employment can be provided for substantial portions of normal population increases. To the extent that public health services, environmental sanitation, and improved diets are already augmenting otherwise normal rates of population growth throughout these areas, the provision of employment by industrialization becomes a diminutive factor in the improvement of overall living standards.

Industrial development should in general center initially on the creation and growth of small manufacturing plants. These should start with the nuclei of existing blacksmith shops, foundries, machine shops, repair and service facilities. The addition of small quantities

of new equipment plus upgrading of local craftsmen by elementary forms of trade school training with coordinated vocational training for more advanced work is a correct and sound approach. While not spectacular or dramatic it nevertheless provides the basis for more ambitious projects.

However, this approach is seldom made on a sizable scale and major attention is centered on a few large and very costly projects which cannot continue to operate with even a moderate degree of efficiency without the existence of small maintenance and service plants.

Such a down to earth approach was recently developed in Pakistan by an experienced highly competent American industrial engineer but immediately became magnified by the senior officials of the FOA mission into a National Institute idea which destroyed its useful application to the problem at hand in any practical sense.

Planning involving industrialization is currently being carried on in Iran, Iraq, Turkey, India, Ethiopia, Pakistan, the Philippines, Formosa, Afghanistan, and other countries. Such planning usually has a number of common and basic faults, among which the following are prominent:

(1) It fails to recognize that industrialization is not a short term operation, but is in fact a long range development of continuing process requiring from 3 to 10 years to demonstrate its usefulness or practical measure of achievement expressed in either increased gross national product or persons employed. (See previous reference to United Nations report.)

(2) The capital investment required to activate these plans is beyond present or foreseeable availabilities of capital from domestic and foreign sources. In 1954, the United States Chamber of Commerce through its economic research department conducted a survey of postwar investment per job in the United States. The study was restricted to industrial and public utility companies constructing new facilities since 1945. Analysis of the data revealed an average (median) postwar investment per job of $13,281. The lowest figure was $10,305 and the highest $38,117. In other words, a billion dollars of capital investment provides employment for approximately 10,000 persons in the United States. Some approximation of the same figure would apply elsewhere.

(3) If the required capital were available, the assimilation of these resulting projects into the overall economies of the host countries is highly questionable for many reasons. Among these are lack of managerial and technical operating personnel, nonexistence of marketing and distribution facilities, noncompatibility with prevailing political, social, and economic thinking.

(4) Most commonly in developing a new industrial project the strongest single argument advanced in its favor is the lowered cost of a given domestically produced article or commodity unit as compared with the laid down duty paid cost of the same article or commodity from foreign sources. These differences are offered as gains to the national economy expressed in savings of foreign exchange and lowered prices to consumers, thus contributing to increased public purchasing power and lowered costs of living. Most frequently, however, when such a plant comes into operation prices are based on whatever the "traffic will bear" and aside from savings in foreign exchange there is no increase in public purchasing volume, merely a transfer of source; the consumer is not benefited, and the benefits accrue to a very limited number who control the operation, aside from the increased employment provided in the plant. This is somewhat of an oversimplification but nevertheless a very real problem not usually apparent in the planning stage. It is not an argument against the profit incentive of private enterprise but obviously the common existence of this situation very readily can lead to support of socialistic or other forms of government control.

(5) Without the coordinate development of industries the resulting imbalance may create conditions almost as unfavorable as those already existing in many undeveloped economies.

(6) Nearly every undeveloped country is deficient in certain basic services, without which no privately promoted and financed industrial growth can take place. In this category are railways, inland waterways, telecommunications, port works, power and irrigation. These services cannot be developed or expanded without large expenditures for the procurement of capital goods, and they are not likely to show for an extended period the operating profits that would make them suitable for financing through normal banking channels.

(A) The government of nearly every undeveloped area is confronted with the task of helping its people to raise a pitiably low standard of living and to produce more food, either for domestic consumption or export, to combat a growing world shrinkage in per capita food supplies. Those countries possessing deposits of industrially usable materials also have an interest in augmenting production at a time of critical world shortages that seem likely to continue for an indefinite period.

(B) If food and raw materials could be produced in increased quantities and transported efficiently and rapidly from the places of production to the centers of consumption and ports of export, a sound basis could be laid through

increased jobs, more local currency and better living for the promotion and development of ancillary or collateral industrial projects of modest size that could, to a great extent, be financed with local private capital.

(7) It has been rather dogmatically stated upon occasions that the formation of capital in undeveloped areas is not adequate for the realization of needed industrial programs. It is suggested that this statement is not entirely exact. The experience of various industrially backward countries in different parts of the world tends to prove that wherever basic facilities exist and an industrial opportunity with prospects of substantial profit comes into being, somehow or other private capital makes its appearance and projects, if not too large, can be and are carried through with little or no foreign participation. Naturally these projects are generally modest in size to start off with and are almost invariably related to, or dependent upon, the operation of the basic services already referred to. The opportunities for profit result from the existence of those services. It is to the expansion of those services, therefore, that the United States might well confine itself in an examination of the economic aid that could most properly and effectively be afforded to the undeveloped countries. This approach, there is every reason to believe, would coincide with the aspirations of the beneficiary countries and would not conflict with other projects that foreign corporations, domestic interests or governments of the undeveloped countries might have in mind and which should be encouraged on a self-help basis in accordance with the free enterprise system.

(8) A choice of projects should necessarily be made on a selective basis upon the assumption that economic aid funds, in the absence of some acute crisis in Asia demanding widespread aid, will be distinctly limited by Congressional action. Accordingly, it is essential to deal with first things first, and to avoid an approach that might lead to unprofitable diffusion of time, money and effort.

(9) As to the nature and volume of industrial development that can reasonably be considered or promoted with United States Government aid in the undeveloped areas it is, of course, clear that no two countries can be measured by the same standard. Nevertheless certain factors are common to virtually all of the industrially backward nations and should certainly serve as a guide for any research or planning.

With the exception of Japan, and possibly India, heavy industries should not be encouraged in any present planning. If opportunities for such industries do exist, the realization of the projects should be limited to essential lines of production that

can be carried out so efficiently that they can compete with world prices to the advantage of the producing country. This implies the existence of sufficient quantities of available raw materials, satisfactory transportation, skilled labor, adequate management and technical supervision and an ability to procure, install and utilize all of the machinery and equipment that is involved in the construction of any large industrial plant.

(10) Industrial projects promoted by the respective countries largely to satisfy nationalistic aspirations, such as steel mills, electric furnaces, chemical processing and plants for the production of heavy machinery and equipment do not ordinarily fit into a sensible industrial program for undeveloped areas under present conditions.

(11) The preceding observations are fundamental but unfortunately frequently overlooked in day to day policy determinations. Nevertheless there are fields in which industrial development is not only desirable but necessary and it is within those fields that United States aid might well be concentrated especially in respect of those projects of basic essentiality which either cannot or will not be undertaken without United States Government financial assistance.

(12) Foreign governments should not be charged with the full burden of criticism for overly ambitious and impractical plans for industrialization. The excessive liberality with which the United States through the medium of the aid programs has supplied personnel for technical cooperation and technical assistance has given large impetus to this movement and must share the criticism. In the absence of any clearly defined United States policy on industrialization it is readily understood that American enthusiasm and pride in our own industrial progress when coupled with local political ideas of overly ambitious nationalistic hopes for overnight achievement in industrial progress, however grandiose or impractical, frequently results in unrealistic plans impossible of successful achievement.

(13) For all intents and purposes there is no present limitation on the number of technical assistants that may be furnished to foreign governments in these areas beyond the ability to recruit them. While funds appropriated for the administrative expenses of the aid programs is specifically limited in amount and use, the availability of funds for technical assistants for foreign service is only limited financially by the sum total of all appropriations for direct forces support, defense support, development assistance, and technical cooperation. The balance between the use of

these funds for technical assistance and all other purposes is purely discretionary with the FOA.

(14) While in theory this assistance is furnished to host governments only on specific request, it is generally acknowledged that considerable prompting and sales effort is exercised by USOM officials precedent to the formality of such requests.

(15) The tendency of a technical assistant assigned to a particular country to perpetuate his continued employment there by promoting bigger and ever continuing projects has been recognized. This condition is usually attributed to the congressional practice of annual appropriations calling for annual justification for fund requests for successive annual programs. On closer examination it would appear that the causes for this situation do not stem solely from congressional policy but are inherent in two features of the practices of aid program administration: one, the common assignment of these technicians for a fixed 2-year tenure of office at a foreign post, and, two, no mobility or pooling of technical talent for assignment to specific tasks of predeterminable time requirements. This criticism is pertinent to industrial development and would not be applicable in such fields as public health, education, etc.

(16) Again, it is reluctantly noted that since an objective of the aid programs in the areas under consideration may be designated as a contribution to political stability a readily available excuse for a project not sound from an engineering or economic point of view is provided. The tendency to use this device to account for failures in proper consideration of engineering and economic factors is obviously apparent.

(17) It would appear that in attempting to administer large scale economic aid in the form of industrial development in these areas the many long established functions and experienced personnel of the Department of Commerce should be utilized. Such is not the case. Some few technicians were supplied by the Department under the State-controlled TCA operations but where these have been transferred to FOA they are specifically and rigidly prohibited from all direct communications with the Department of Commerce. One of the most glaring faults of this policy is the almost complete official isolation of American industry and the domestic business community from participation in the programs.

Recommendations

As a result of United States experience in recent years certain observations or recommendations suggest themselves:

(*a*) *Public funds should never be used where private capital is available.* More than lip service should be given to this unquestionable principle. As part of the documentation requesting approval of a given project should be a form of certification signed by the responsible field aid officer to the effect that all possible means for securing private capital have been carefully explored and give no promise of availability.

(*b*) *Grant aid should be kept to a minimum within the framework of specific policy definitions.* These policy definitions where they presently exist are so vague and so flexibly interpreted as to permit of approval of practically any undertaking approved by a field officer. The chief and all deciding criteria seem to be largely the availability of funds.

(*c*) *Loan aid should not be extended to the point where debt repayment becomes extremely burdensome or impossible.* The new device of "soft" loans advocated by FOA to be granted for periods up to 40 years with interest and principal optionally repayable in either dollars or local currency would seem to be grant aid cloaked in the guise of loans for all realistic purposes.

(*d*) *Activities of United States Government lending agencies should be carried out in the closest possible cooperation with those of the World Bank.*

(*e*) *FOA and Export-Import Bank relationships and areas of responsibility should be clearly defined and coordinated.* That the so-called "soft" loans referred to above will lessen, if not destroy, the opportunities for conventional type loans by the World Bank, Export-Import Bank, and private banking interests would seem apparent. More detailed consideration of this subject is imperative. Direct investment should be encouraged with full recognition that the present investment climate of the world is not conducive to the normal flow of private capital overseas and that the export of private capital can be encouraged but not compelled.

(*f*) *Until private capital once more seeks foreign investment on a broad scale, some measure of United States Government financing in various parts of the world seems inescapable and necessary.* New techniques of investment appropriate to current conditions should be thoroughly explored and developed. They will constitute a vital part of any aid program.

(*g*) *Countries benefiting from United States aid programs should be told at a very early date that the United States will not*

extend loans or grant aid to any country for industrial development normally financed by private capital until those countries have taken positive steps to improve their own investment climates. This policy should be firmly and unequivocably stated and maintained.

(*h*) *The Far East, Near East, South Asia and Africa require assistance to produce more food and raw materials and to improve basic services as a foundation for industrial expansion and development with the aid of private capital.*

(*i*) *Technical assistance and technical cooperation activities should be carefully reviewed to eliminate duplication and to determine what projects can be properly terminated.* It may well be found that a substantial number of projects can now be taken over and absorbed by the participating countries themselves without undue hardship.

(*j*) *Except in limited and exceptional instances, technical assistance and technical cooperation should not be used to promote capital expenditure requirements where these are beyond the means of the host country and create increasing demands for grant aid.*

(*k*) *Engineering talent and experience should be of paramount importance in the administration of aid funds for industrial development.* Past records demonstrate the constitutional inability among certain senior personnel responsible for foreign aid operations to understand the need for using and depending upon competent engineering services. Staff and field engineers are vital to a successful operation in this field.

(*l*) The potential capital requirements of industrialization in these areas is of such stupendous proportions that United States fiscal policies must limit economic aid assistance funds to carefully screened requests for technical assistance, leaving capital provision to other sources whose availability is predetermined before such technical assistance is provided.

(*m*) If any exceptions to (*l*) above are made, aid funds should be restricted to joint participation with local funds in enduring public works such as highways, port development, potable water, flood control, power, railroads, storage facilities, airports, etc., and not in commercial or industrial projects.

(*n*) Officials and employees of the United States Government participating in industrial development should remain in a strictly arms-length advisory capacity and not occupy managerial or controlling positions.

(*o*) Since populations in these areas are 85 to 90 percent agricultural, aid funds available should be applied in somewhat the same proportion to the basic needs of this population group. Ex-

tension and soil conservation services, land banks, cooperatives, experiment stations and land grant colleges in their local equivalents are obvious musts. Public health services and public school systems are a self-evident need.

(*p*) Concentration in the three fields of activity of agriculture, public health and education would drastically reduce the size of aid requirements, have the greatest possible impact on the maximum number of people and be of a permanent and enduring character. This would seem to be the logical approach to increased political stability, rather than a hodge-podge of industrial projects.

A well-administered aid program would no doubt produce many incidental benefits and advantages for the participating countries; if it does, well and good. The thing that msut be constantly and consciously avoided is allowing the incidental benefits to the participating countries to become the central purpose and objective of the program. The real value of our foreign aid must be found in its contribution to the strength of the United States.

Appendix A

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IRAN

Project No. 65–23–001

Date of original approval and supplements: June 28, 1952. Amendment No. 1, August 28, 1952.
Type of project: Fars Cement Plant.
Host country contribution (thousands): 20,000 rials. (approximately $300,000).
US$ (FOA) contribution (thousands): 1,100.
FOA procurement or contracts authorized: 1,097 (thousands).
Expenditures (thousands): 877.
Status of project: Estimated date of completion, March 1955. As of October 16, 1954 contractor stated project was 90 percent complete.

To complete partially constructed cement plant of the Sherkate Sahami Cement Fars near Shiraz, Iran; US$ to purchase equipment; Iranian Plan Organization to finance all local rial costs. Upon completion plant will have rated capacity of 200 tons of cement per day.

Project No. 63–23–008

Date of original approval and supplements: June 28, 1952. 1st extension, February 17, 1954.
Type of project: Tehitsazi cotton mill.
Host country contribution (thousands): 35,000 rials (approximately $538,000).
US$ (FOA) contribution (thousands): 1,662.
FOA procurement or contracts authorized (thousands): 1,212.
Expenditures (thousands): 582.
Status of project: Buildings are in process of construction and substantial amounts of textile machinery have been delivered. Spinning-mill machinery will be ready for operation as soon as electric cables arrive.

To expand cotton mill near Tehran which will on completion be owned and operated by Iran Weaving Co. US$ to be used to purchase and erect and train Iranians to use opening, picking, spinning, winding, slashing, bleaching, printing, and finishing machinery; upon completion will have rated capacity of 1,360 yards per hour. Iranian plan organization to finance local costs.

Project No. 65–55–002

Date of original approval and supplements: June 5, 1952.
1st extension, November 4, 1953.
Type of project: Tehran water treatment plant.
Host country contribution (thousands): All local costs.
US$ (FOA) contribution (thousands): 2,060.
FOA procurement or contracts authorized (thousands): 2,048.
Expenditures (thousands): 1,043.
Status of project: All reservoirs except No. 2 reservoir have been completed. Also construction completed or nearly completed for pipeline grid system, Karaj intake works, detritus tanks, etc.

To construct a water treatment plant including a ferric chloride plant to service inhabitants of Tehran area. US$ to pay for machinery, equipment, pipe fittings and reinforcement steel, Tehran water supply organization to finance all local costs.

Project No. 65–22–073

Date of original approval and supplements: November 11, 1953.
Type of project: Karaj Dam.
Host country contribution (thousands): 118,000 rials. (approximately $1,815,000).
US$ (FOA) contribution (thousands): 1,400.
FOA procurement or contracts authorized (thousands): 150.
Expenditures (thousands): None as of June 30, 1954.
Status of projects: Dam and upper power plant to be completed in about 5 years.

To construct multipurpose dam in vicinity of Tehran. US$ to purchase machinery, cement, contractual services, etc. Dam will irrigate approximately 64,000 acres, provide potable water supply to city of Tehran, and related power plant will have an initial installed capacity of 33,000 kw. First stage of project will involve relocation of Karaj-Chalous road, construction of powerplant, switchyard, substations, and transmission line to Tehran. United States Export-Import Bank now considering $18 million loan to meet major portion of foreign exchange costs of dam.

LEBANON

Project No. 68–13–001

Date of original approval and supplements: June 30, 1954.
Type of project: Agrarian development.
Host country contribution (thousands): L£2,543[1] (approximately $795,000).
US$ (FOA) contribution (thousands): 2,500.
FOA procurement or contracts authorized: 239 (thousands).
Expenditures (thousands): None.
Status of project: Grain storage facilities to be constructed not later than June 30, 1956.

To construct and equip grain storage facilities for 33,000 tons estimated to cost $1 million. Storage facilities to include unloading and loading equipment; power unit and equipment for weighing and cleaning. Also to increase wheat and other food products by purchasing tractors and related farm equipment, fertilizer, wheat, seed, etc.

Project No. 68–12–002

Date of original approval and supplements: June 30, 1954.
Type of project: Village water supply.
Host country contribution (thousands): L£4,880 (approximately $1,525,000).
US$ (FOA) contribution (thousands): 2,000.
FOA procurement or contracts authorized: None.
Expenditures (thousands): None.
Status of project: To be completed in 2 years.

To develop domestic village water supply projects for the districts of Rachaya Ad-Daniyah Akkar, Jabel Amel, Al-Kharab, and Central Bekaa by constructing pumping and purification plants, drilling wells, constructing pipelines to each village to more than 200 villages. Also erect 1 or more reservoirs, fountains, and washhouses in each of these villages.
Preliminary surveys and topographical surveys have been completed in most of the districts.
United States (approximately $1,668,000) to purchase and install pumps and powerplant pipes and fittings. Balance of United States contribution to assist in providing engineering surveys and studies required.
Two years will be required to complete all work contemplated.

[1] Include L£850,000 for estimated value of 19 agriculture extension centers provided by the Government of Lebanon.

Project No. 68–31–003

Date of original approval and supplements: June 30, 1954.
Type of project: Public oads development of Lebanon.
Host country contribution (thousands): L£12,500 (approximately $3,906 thousands).
US$ (FOA) contribution (thousands): 1,500.
FOA procurement or contracts authorized: 1,500 (thousands).
Expenditures (thousands): None.
Status of project: Beirut Maameltein project to be completed by June 30, 1955.

To assist in building the Beirut-Maameltein section of the international coastal highway connecting Beirut, Tripoli, and Homs, and linking Lebanon, with Syria and Turkey, and to assist Lebanon in its 5-year program by providing approximately 60 percent of road equipment required and providing engineering services. United States ($500,000) to purchase bulldozers, dumping trucks, shovel tractors, asphalt boilers, asphalt sprayers, asphalt mixers, 12- and 14-ton rollers, compressors, etc. Balance of US$ to finance engineering services to local costs. The Beirut-Maameltein section is 14.2 kms.

JORDAN

Project No. 1

Date of original approval and supplements: June 17, 1954.
Type of project: Irrigation development of general wadis outside Jordan Valley.
Host country contribution (thousands): JD. 543 (approximately $1,567 thousands).
US$ (FOA) contribution (thousands): 1,467.
Status of project: To be constructed not later than June 30, 1956.

To build new irrigation facilities including dams on 3 rivers (Wadi Abdun, Wadi Duhuleil, and Wadi Zerka), and the construction of diversion canals and storage reservoirs and to restore and improve existing systems.

Project No. 2

Date of original approval and suplements: June 30, 1954.
Type of project: Roads improvement.
Host country contribution (thousands): JD. 304 (approximately $876 thousands).
US$ (FOA) contribution (thousands): 1,155.
Status of project: To be constructed not later than June 30, 1956.

Provide equipment and services for the construction of new major highways joining north and south Jordan tying into present trunk roads and improvements of access roads.

PAKISTAN

Project No. 09–52–07

Date of original approval and supplements: May 17, 1952, April 1, 1953, January 11, 1954.
Type of project: Construction fertilizer factory.
Host country contribution (thousands): Rps. 17,000.
US$ (FOA) contribution (thousands): 10,500.
Status of project: Union Chemique Belge, a Belgian firm awarded contract. Estimated completion of installation of compressor by August 1, 1956.

Project No. 04–04–24

Date of original approval and supplements: February 20, 1954.
Type of project: Karachi water supply.
Host country contribution (thousands): Rps. 5,688.
US$ (FOA) contribution (thousands): 1,750.
Status of project: Construction will be started by March 1, 1954. All equipment will be ordered before May 1, 1954 for delivery before June 30, 1956. Construction of the tunnel is expected to be completed within 18 months and construction of the pumping plant within 3 years.
FOA procurement, etc. (thousands): 388.
Expenditures (thousands): None.
The construction and placing in operation of a fertilizer factory, including power station and auxiliary services, capable of producing 50,000 tons of ammonium sulphate per year. To be built at Mari Indus-Doud Khel.
FOA procurement, etc.: 10,500 (thousands).
Expenditures, etc.: 2,204 (thousands).

To provide a water supply and sewage disposal system for the immediate needs of Pakistan's capital city and capable of sound expansion as the city grows.
To bring 60 million gallons of water per day from the Lower Sind Barrage canal to Karachi; expand existing trunk mains and distribution arrangements at Karachi and providing a 24-hour-per-day supply of water for consumers and provide an expanded network for the disposal of the increased discharge of sewage waters. Assistance in design and in supervision of construction will be provided by contract.

Project No. 01–04–26

Date of original approval and supplements: January 30, 1954.
Type of project: Ganges-Kobadak irrigation.
Host country contribution (thousands): Rps. 10,000.
US$ (FOA) contribution (thousands): 1,950.
Status of project: Procurement of equipment in process.

Project No. 01–04–28

Date of original approval and supplements: February 22, 1954.
Type of project: Taunsa Barrage.
Host country contribution (thousands): Rps. 30,000.
US$ (FOA) contribution (thousands): 3,500.
Status of project: The construction schedule contemplates the execution of contractual documents as soon as possible and before June 30, 1954, the completion of the gate fabrication as soon as possible and before June 30, 1956, and completion of project construction before June 30, 1957.
FOA procurement (thousands): 3,497.
Expenditures (thousands): None.

To provide adequate water supply during the dry season by perennial pump irrigation from the Ganges River in the Kushtia District of East Bengal, and to remove surplus water during the monsoon season by an open drainage system. These facilities will increase agricultural production on approximately 250,000 acres of land.

To increase the food supply and improve the agricultural economy of Pakistan by constructing a barrage across the Indus River near Taunsa, providing ultimately irrigation therefrom for about 750,000 acres of new land and supplemental water for an additional 675,000 acres now irrigated with inadequate inundation water supply and achieving the settlement and cultivation of this area on a sound economic basis, by small cultivators.

A concrete barrage, or diversion dam, 5,000 feet long, will be constructed across the Indus River, near Taunsa. Two canals each 92 miles long and carrying 9,000 cubic feet of water per section will be constructed to provide perennial water supply to existing inundation canals.

INDIA

Project No. 07–04–20

Date of original approval and supplements: March 30, 1954.
Type of project: Rihand valley development.
Host country contribution (thousands): Rs. 166,900.
US$ (FOA) contribution (thousands): 11,000.
Status of project: This first phase is expected to be completed in a period of 6 years.
FOA procurement or contracts authorized: 2,600 (thousands).
Expenditures (thousands): None.

To assist in the first phase of the development of the water resources of the Rihand River for the agricultural and industrial development of the eastern and southeastern districts of the State of Uttar Pradesh.

It is proposed to construct a dam approximately 300 ft. high and 3,000 ft. long which will create a reservoir 180 sq. miles in area, holding 8.6 million acre-feet of water. The powerplant will have an initial installed capacity of 240,000 kw. In addition to the dam and powerplant, the project will include the construction of an extensive system of transmission and distribution lines to carry the power to the areas where it will be used.

INDIA—Continued

Project No. 09-60-21

Date of original approval and supplements: March 31, 1954.
Type of project: Madras powerplant.
Host country contribution (thousands): Rs. 29,200.
US$ (FOA) contribution (thousands): 2,900.
Status of project: To be completed by 1957.
FOA procurement or contracts authorized: 2,900 (thousands).
Expenditures (thousands): None.

To increase the generating capacity of the Madras City steam powerplant by 30,000 kw. during the next 3 years; to meet the increasing demand for power in the industrial city of Madras and to provide thermal generated power for the electric grid which serves the State of Madras.

It is proposed to acquire the following equipment and supplies from outside India: 2 150,000-lb./hr. water tube steam boilers, 2 steam turbines; 2 15,000-kw. alternators; indoor switchgear, unit transformers, cables, and accessories for complete control and operation of the units to be installed. Circulating water system exclusive of cooling towers, but including circulating water pumps, piping, motors, valves, and accessories.

Project No. 09-60-23

Date of original approval and supplements: April 2, 1954.
Type of project: Rajasthan power facilities.
Host country contribution (thousands): Rs. 17,800.
US$ (FOA) contribution (thousands): 3,600.
FOA procurement or contracts authorized: 2,251 (thousands).

To assist in the renovation and augmentation of the 19 thermal power stations in the state, and the extension of transmission and distribution lines to distribute the additional power to be provided.

This project will not only assure more dependable power to present users but will also enable additional farmers to pump water for irrigation purposes and will permit increased processing of agricultural products in the rural areas. The extension of the distribution and transmission system will provide power to the salt works at Sumbhar and the marble industry at Makrana. Additional power will be provided to Jamsar which will benefit the mining operation and permit the establishment of a sulfur recovery plant.

Project No. 01–04–11

Date of original approval and supplements: June 1952.
Type of project: River valley development.
Host country contribution (thousands):
US$ (FOA) contribution (thousands): 9,889.
FOA procurement or contracts authorized (thousands): 9,430.
Expenditures (thousands): 3,886.

The following plant equipment and supplies are proposed to be acquired: 11 turboalternator units; 2 50-kw. alternators; 2 60-kw. diesel generating sets; 1 100-kw. alternator; 1 100-kw. diesel generating set; 1 150-kw., 2 200-kw., and 3 250-kw. diesel generating sets; and other accessories and parts.

To provide TA, equipment and supplies to assist in the construction of dams, irrigation canals, and powerplants, under the schemes included in the 5-year plan.

The Hirahud project was undertaken to construct a dam 3 miles in length and 150 ft. high across the Maharadi River about 9 miles upstream of Sambalpur in Orissa State. Two canals are also included and 2 powerhouses. Proposed to be completed during the next 4 years.

The Kararpar scheme on the Tapi River in Bombay State forms part of a comprehensive project for the development of the Tapi Valley. It includes the construction of a storage reservoir and powerhouses. Construction of the weir and canal started in November 1949 and is scheduled to be completed by 1953–54. The first irrigation from the canals is expected to begin in the middle of 1953.

The Mahi project involves the construction of a dam across the Mahi at Kadara in Bombay State, another dam across its tributary and a canal system. Scheduled to be completed by 1955–56.

The Ghataprabha scheme involves construction of a 44-mile canal in progress.

The Tunga Aricut scheme consists of the construction of an overflow dam across the Tunga River in Mysore State with 2 canal systems. Construction of the project was started in 1946 and is expected to be completed by 1955–56. Estimated cost: Rs. 20,000,000.

The Gangapur project involves the construction of a storage dam across the Godavari River in the State of Bombay to irrigate approximately 45,000 acres. The dam was finished June 1954 and total project is expected to be completed by 1957. About 10,000 acres will be irrigated in 1954–55. Estimated cost: Rs. 33,400,000.

INDIA—Continued

The Jawai project includes the construction of a storage dam across the Jawai River in the State of Rajasthan. In addition to furnishing irrigation water for 46,000 acres, the reservoir capacity of 160,650 acre-feet of water will also regulate floodwaters for the protection of property and crops. Work on the dam is already underway. The canal system consists of 14 miles of lined main canal and 80 miles of river canal. It is estimated that the project will be completed in 1956 at an estimated cost of Rs. 32,300,000.

The Saurashtra irrigation scheme includes 6 individual schemes for the improvement of the irrigation systems. These include a dam across the Macchu River with a canal system; expected to be completed in October 1956. Estimated cost: Rs. 12,460,000.

The Sasoi scheme consists of the construction of a reservoir 42,000 acre-feet capacity; expected to be completed in October 1956. Estimated cost: Rs. 7,600,000.

The Aji scheme comprises the construction of a storage reservoir 23,460 acre-feet capacity; expected to be completed in October 1956. Estimated cost: Rs. 8,000,000.

The Brahmani scheme involves the construction of a storage reservoir 61,000 acre-feet capacity; expected to be completed in November 1956. Estimated cost: Rs. 10,000,000. The Moj scheme consists of the construction of a 32,000 acre-feet storage reservoir. Expected to be completed November 1954. Estimated cost: Rs. 8,100,000.

The Malan scheme comprises the construction of a storage reservoir 13,100 acre-feet capacity, work already underway; expected to be completed by October 1955. Estimated cost: Rs. 4,200,000.

Project No. 07–04–06

Date of original approval and supplements: May 31, 1952., June 25, 1953.
Type of project: Ground water irrigation.
Host country contribution (thousands): Rs. 44,450.
US$ (FOA) contribution (thousands): 19,530.
Status of project: A view to completion within 36 months from the date of the contract.

To construct and equip approximately 2,650 tube-wells for groundwater irrigation in selected areas in India where feasible and desirable.
FOA procurement or contracts authorized (thousands): $18,795.
Expenditures (thousands): $7,662.

Project No. 07–78–12

Date of original approval and supplements: March 27, 1953.
Type of project: Ground water exploration.
Host country contribution (thousands): Rs. 12,000.
US$ (FOA) contribution (thousands): 3,500.
Status of project: The drilling will begin as soon as possible with a view to completion within a period of 36 months from the date of the contract.

A nationwide survey of the economic supplies of ground water in India for purposes of irrigation and related uses. This project proposes to drill approximately 350 exploratory wells in suitable areas throughout India for the exploration of the ground water potentialities.
The exploratory drilling and equipment of wells will be conducted under contract.

Project No. 01–60–31

Date of original approval and supplements: June 14, 1954.
Type of project: Grain storage.
Host country contribution (thousands): Rs. 1,500.
US$ (FOA) contribution (thousands): 1,539.
FOA procurement authorized (thousands): 1,539.

To assist the GOI in exploring the advantages of new types of construction of godowns for storage of food grains. This project will provide for 2 silo elevators, each with a capacity of 10,000 tons. Prefabricated metal storage facilities with a capacity of 50,000 tons will be provided.

Project No. 04–05–25

Date of original approval and supplements: April 6, 1954.
Type of project: National water supply.
Host country contribution (thousands): Rs. 105,000.
US$ (FOA) contribution (thousands): 3,100.
FOA procurement or contracts authorized (thousands): 2,199.

The initial nucleus for an all India water supply and sanitation project with the purpose of reducing the incidence of water- and filth-borne diseases. Will assist in the establishment of an adequate Public Health Organization in the Ministry of Health of the GOI; the training of sanitary personnel; procurement of equipment, supplies and materials; establishing design standards and providing consultant services on technical problems as may be required.
Designed to improve water supplies and sanitation in approximately 10,000 villages and 25 municipalities during the remaining 2 years of the 5-year plan. It is proposed to acquire under this project the following types of equipment: pumps, well drilling rigs, trucks, jeeps, jeep station wagons, air compressors, well casing, galvanized iron pipe, and cast-iron water pipe.

THAILAND

FOA Industrial Projects Approved, Procurement Authorization Amount, and Status of Projects as of June 30, 1954

[In thousands of dollars]

Fiscal year originally approved	Type of project	Description	PA amount	Status of project	
				Percent completed	Expected completion date
1954	Road construction, Thailand Northeast Highway.	Construction of a 200-mile defense highway from Saraburi to Ban Phai. Designed to carry H20 military loads and connect the Bangkok and Central Plains area directly with the road net of the relatively isolated Northeast Provinces. It is expected to be of great value economically by permitting increased trade and accelerated economic development in the northeast. An engineering contract, a construction contract, and the procurement of construction equipment are being financed by FOA. The Thai Government will contribute the equivalent of $1 million in local currency. Some FOA funds may need to be used to generate additional local currency.	[1] $33,000	----------	June 1956.

[1] An additional $3.5 million programed in fiscal year 1955. Current cost estimate for total job is $22 million. Consideration being given currently to reducing scope of project.

It should be noted that the projects discussed in the immediately preceding tabulation are those calling for major capital improvements in the indicated areas and are not strictly comparable with the industrial projects in Europe presented in the forepart of this paper. They are illustrative of the great diversification of capital-aid activities in the Near East, South Asia, and Africa. Their individual character should be distinguished from the correlated industrial projects of Europe which relate directly, in most instances, to a larger and more established economic complex.

Industrial projects, as such, in the Far East are discussed in greater detail in the country papers for Formosa, Korea, and the Philippines.

Surplus Agricultural Commodities

By Edward P. Herman and Charles A. H. Thomson

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INTRODUCTION

Agricultural surplus commodities enter into the foreign aid program in two major ways: (1) as emergency and famine relief, and (2) as a source of foreign currencies. More generally, they can be said to be used to build up the economies of friendly nations abroad. Both the Mutual Security Act of 1954 (Public Law 665, sec. 402) and the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) provide for the sale of agricultural surplus commodities abroad and for the use of the proceeds to further the purposes of the two acts. The former act is a foreign aid bill; the latter is primarily domestic in import. The purposes of the two acts are not wholly in harmony, as will become clear from the discussion which follows. The administrative situation which arises from the diverse purposes and administrative requirements of the two acts is complicated to say the least.

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I. Section 402, Mutual Security Act of 1954 (Public Law 665)

Section 402 of the Mutual Security Act of 1954 provides that "not less than $350 million (of the funds made available pursuant to this act) shall be used to finance the export and sale for foreign currencies of surplus agricultural commodities or products thereof produced in the United States, in addition to surplus agricultural commodities or products transferred pursuant to the Agricultural Trade Development and Assistance Act of 1954 and *in accordance with the standards as to pricing and the use of private trade channels*, expressed in section 101 of said act." [Emphasis supplied.] In substance, section 101 provides that efforts will be made—

(*a*) To safeguard usual marketings of the United States and to assure that sales under the act will not unduly disrupt world prices of agricultural commodities;

(*b*) To use private trade channels to the maximum extent practicable;

(*c*) To develop and expand the demand abroad for agricultural commodities;

(*d*) To secure commitments from participating countries which will prevent resale or transmission to other countries; and

(*e*) To make effective use of the currencies received from the sale of agricultural commodities.

Section 402 also specifically provides that the foreign currency pro ceeds received from the sale of $350 million of surplus agricultural products shall be used for the purposes of Public Law 665, with particular emphasis on the purposes of section 104 of the Agricultural Trade Development and Assistance Act which are in harmony with the purposes of the Mutual Security Act. As spelled out in section 104, these purposes are:

(*a*) To develop new markets for United States agricultural commodities;

(*b*) To purchase or contract to purchase strategic critical materials;

(*c*) To procure military equipment, materials, facilities, and services for the common defense;

(*d*) To finance the purchase of goods or services for other friendly countries;

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(*e*) To promote balanced economic development and trade;

(*f*) To pay United States obligations abroad;

(*g*) To promote multilateral trade and economic development through established banking facilities abroad; and

(*h*) To finance international educational exchange activities.

Section 402 also authorizes the President to use or enter into agreements with friendly nations or organizations of nations to use, for the purposes outlined above, the foreign currencies accruing to the United States under this section.

The Mutual Security Appropriation Act of 1955 (Public Law 778) limits the use of foreign currency by providing, in section 104, that "* * * hereafter *foreign currencies generated under the provisions of this Act shall be utilized only for the purposes for which the funds providing the commodities which generated the currency were appropriated.* * * *" This means that the foreign currency proceeds from dollar funds obligated, for example, under chapter 3 of the Mutual Security Act for Defense Support, *may be used only for defense support* and only in those countries authorized to receive such support.

II. Agricultural Trade Development and Assistance Act of 1954 (Public Law 480)

The Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) is primarily an act to aid United States domestic agriculture and to dispose of surplus commodities. However, it is also the stated policy of the act for the United States to use foreign currencies arising under it—

> * * * to expand international trade, to encourage economic development, to purchase strategic materials, to pay United States obligations abroad, to promote collective strength, and to foster in other ways the foreign policy of the United States.

The specific purposes for which these foreign currencies can be used are stated in section 104 of the act, and are summarized in paragraphs (*a*) to (*h*) in section I of this chapter.

A surplus agricultural commodity is defined in the act as "any agricultural commodity or product thereof * * * produced in the United States, either privately or public owned, which is or may be reasonably expected to be in excess of domestic requirements, adequate carryover, and anticipated exports for dollars as determined by the Secretary of Agriculture."

The act authorizes the sale of surplus agricultural commodities *in excess of the usual marketings of such commodities*, through private channels, and with payment in foreign currencies. Sales under the act are limited to a total of $700 million until June 30, 1957.

Section 102 of the act provides that the Commodity Credit Corporation—

> 1. Shall make available for sale hereunder * * * surplus agricultural commodities heretofore or hereafter acquired by the Corporation in the administration of its price support operations; and
>
> 2. Shall make funds available to finance the sale and exports of surplus agricultural commodities from stocks owned by the Corporation or pledged or mortgaged as security for price support loans, or from stocks privately owned, if the Corporation is not in a position to supply the commodity from its own stocks.

This section further provides "that to facilitate the use of private trade channels, the Corporation, even though it is not in a position to supply the commodity, may finance the sale and exports of privately owned stocks if the Corporation stocks are reduced through arrangements whereby the private exporter acquires the same commodity of comparable value or quantity from the Commodity Credit Corporation."

In order to further facilitate and maximize the use of private channels of trade, the act provides for the issuance of letters of commitment against "funds or guarantees of funds supplied by the Commodity Credit Corporation and for this purpose accounts may be established on the books of any department * * * of the Government, or on terms and conditions approved by the Secretary of the Treasury in banking institutions in the United States." The purpose of this provision is primarily to provide for the reimbursement in dollars to private firms which sell commodities under the act which otherwise would have to sell for local currencies.

Title II of the act provides that $300 million additional may be expended over a 3-year period to furnish emergency assistance to friendly peoples in meeting famine or other urgent relief requirements. Transfers under this title may be on a grant basis, and must come from surplus stocks of the Commodity Credit Corporation. Under this title the foreign government may or may not have to pay for the commodities with foreign currencies, depending on the situation. The decision is left with the President. This authority has been delegated by Executive Order of September 9, 1954, to the Director of Foreign Operations Administration.

The foreign currencies shall be deposited to the credit of the United States in special accounts in banks overseas under regulations prepared by the Secretary of the Treasury, and any department or agency of the United States Government using such currencies for the purposes of the act shall purchase them from the Treasury with appropriated dollars for an amount equivalent to the dollar value of the currency used. The dollar proceeds are then transferred to the Commodity Credit Corporation. This means, for example, that if the Department of Defense wishes to use sterling to construct an airfield in Britain, it may purchase it with dollars from this account, and the Commodity Credit Corporation will receive the dollars. However, the President may waive this purchase provision. Authority to waive it has been delegated to the Director of the Bureau of the Budget.

The act also provides for three-party agreements so that the local currencies acquired from the sale of commodities in one country might be used, for example, for the purchase of industrial equipment there for sale to a third country. Provision is also made for barter arrangements.

III. Executive Order Dated September 9, 1954, With Respect to Administration of the Agricultural Trade Development and Assistance

Under this order, the Department of Agriculture is directed to administer title I of the act *except*—

(*a*) The Secretary of the Treasury is to prescribe regulations governing the purchase, custody, deposit, transfer, and sale of the foreign currencies received under the act.

(*b*) The Director of the Bureau of the Budget is to fix from time to time the amounts of foreign currencies accruing under the act, to be used for each of the several purposes of section 104.

(*c*) The Foreign Operations Administration is to administer the expenditure of local currencies for economic aid and development purposes (sec. 104 (*d*), (*e*), and (*g*)).

(*d*) The Department of Defense is to administer the local currencies used for defense purposes.

(*e*) The Office of Defense Mobilization is to administer the funds used for the purchase of strategic materials.

(*f*) The Department of State is to administer the funds for financing international educational exchange activities.

(*g*) The various agencies of the Government affected are authorized to pay United States obligations abroad.

(*h*) The Department of State is to negotiate and enter into bilateral and multilateral agreements with friendly nations abroad covering both the purchase of the surplus commodities and the use of the local currencies accruing therefrom.

In addition, the Foreign Operations Administration is authorized to administer title II, which has to do with emergency assistance abroad.

IV. Principal Differences of the Two Acts

The Mutual Security Act provides, on the one hand, that the products sold to friendly nations must be surplus agricultural commodities, but does not restrict them to those handled by the Commodity Credit Corporation under the price support program. On the other hand, it has been administratively determined that, under the Agricultural Trade Development and Assistance Act, sales will be limited to surplus commodities included in the price support program. Further, section 402 of the Mutual Security Act does not limit sales to amounts in excess of normal United States exports. Sales under the Agricultural Trade Development and Assistance Act are limited to amounts in excess of such normal exports. The $350 million under the Mutual Assistance Act must be used in fiscal year 1955. The $1 billion under the Agricultural Trade Development and Assistance Act may be used within 3 years, or by June 30, 1957. Under section 402, the bulk of the foreign currency proceeds will be used for the benefit of the country receiving the commodities and for program uses planned in advance of such sales. Under Public Law 480 there will be a significantly greater use of proceeds to finance the movement of goods to third countries. Also there will be greater freedom under Public Law 480 to spend foreign currencies for projects which will directly benefit the United States.

In short, section 402 of Public Law 665 is part of a mutual assistance bill, while Public Law 480 is primarily a domestic bill which utilizes the foreign assistance program as one tool to accomplish its main purpose. In fact, the purposes of the two bills conflict to some degree. Public Law 480 is designed to increase the market for United States agricultural products abroad. If efforts made under Public Law 665 to increase production abroad of commodities in surplus supply in the United States are successful, the need for such imports will drop.

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V. Current Programing Procedure for the Two Acts

Programs under the two acts are joint programs, both with respect to the sale of commodities and the use of foreign currencies. A program for each country is prepared by the Foreign Operations Administration and presented to an interdepartmental staff committee chairmaned by Agriculture and composed of FOA, State, Budget, Defense, Office of Defense Management, and Commerce. This committee reviews the program both with respect to amounts, kinds, and grades of commodities to be exported and the use of the local currencies to be received for such commodities. FOA proposals to date have undergone only minor changes with respect to the amount and kinds of commodities to be included. With respect to the use of the local currencies, there have been more important adjustments. If any agency on the committee objects to the action taken by the Committee it can appeal to the Interagency Committee on Agricultural Surplus Disposal, chaired by Mr. Clarence Francis, special consultant to the President.

After agreement has been reached by the interested United States agencies with respect to each country program, negotiations are initiated by the Department of State with the assistance of the Department of Agriculture or FOA, or both, with the foreign government concerned to reach a bilateral agreement with respect to the agreed United States program. As of October 1954, a United States position had been reached on four major programs, totaling $425 million. Ten other major programs were nearly complete. It was expected that all the remaining programs would not exceed $100 million. When bilateral agreements for all of them have been negotiated, it is expected that the total amount of surplus commodities to be eventually exported under both the Mutual Security Act and the Agricultural Trade Development and Assistance Act under this year's program (not necessarily exported in fiscal year 1955), will amount to the full figure authorized by the two acts, or $1,050 million. Actually, the Foreign Operations Administration very probably would have financed for fiscal year 1955, even without section 402, or the Agricultural Trade Development and Assistance Act, in the neighborhood of $350 million of such commodities, in the normal course of its business. In fiscal year 1954, for instance, the total amount financed by FOA approximated $500 million.

The Foreign Operations Administration has had 6 years' experience in programing not only exports of agricultural products but also

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the use of local currencies engendered by such exports. The Department of Agriculture could assume, in a fairly short period, responsibility for programing the export of the commodities with a small increase of its present staff. It could not, however, program the use for general economic development abroad of currencies received from the sale of agricultural products, without building up a completely new organization. Representatives of the United States Department of Agriculture have agreed with this appraisal of the Department's capabilities.

VI. Practical Operations Under the Joint Program

After a bilateral program agreement has been negotiated by State, and commodity agreements have been reached with a foreign government, the latter issues import licenses to private concerns for the specific products which it has agreed to import. The commodity agreement (similar to FOA procurement authorizations) specifies the approximate quantities and grades of commodities which will be taken, and the maximum dollar amount thereof which may be purchased. In addition to the import licenses, the foreign government must also arrange for the deposit to the account of the United States of the foreign currency purchase price of the commodity under the regulations set up by the United States Treasury. The system is then ready for the foreign importer to do business through his usual trade connections in the United States, and to contract to purchase from a United States exporter. In the case of commodities under Public Law 480, the United States exporter, by arrangement with the Commodity Credit Corporation, and financed by a *dollar* letter of credit guaranteed by a letter of commitment issued by the Commodity Credit Corporation, supplies commodities which he has either purchased from the Commodity Credit Corporation, or commodities from his own stocks, and delivers them overseas exactly as he would in any ordinary commercial transaction.

If he delivers from his stocks, he then replenishes his inventories by purchasing equivalent stocks from the Commodity Credit Corporation. Commodity Credit Corporation is reimbursed in dollars for its stocks which were disposed of for local currencies when the latter are sold for dollars to United States Government agencies for purposes under the act. Any differences can be made up only by possible future appropriations.

If the transaction is one financed by the FOA under section 402, the Commodity Credit Corporation receives dollars for the commodities from the exporter. These dollars come from dollars appropriated for purposes of the Mutual Security Act.

If the American exporter does not have the commodities in stock which he has contracted to sell, he can "buy" from the Commodity Credit Corporation. Actually the Commodity Credit Corporation delivers the commodity to the foreign importer and it never passes through the American exporter's hands. The price at which the commodity is sold has actually been fixed by the Commodity Credit Corpo-

ration and the amount which the American exporter receives is, in effect, an agreed-upon commission from the Commodity Credit Corporation for handling the business. However, for accounting purposes, the transaction is recorded as a purchase and sale, at an agreed upon price differential. Department of Agriculture specialists do not consider this a commission transaction. In any case they feel that the United States exporter performs a real service at a lower cost than it could be performed by Agriculture.

In a few countries, such as Yugoslavia, where the foreign government is its own purchasing agent, the government deals with the United States exporter. In a very few cases (e. g., Liberia), the Commodity Credit Corporation does contract directly with either the foreign government or the foreign importer.

So far as the Foreign Operations Administration is concerned, transactions are handled as they have been in the past, except that FOA will receive 100 percent of the proceeds from the sale of the commodity, rather than 10 percent in counterpart funds, with the balance of the counterpart remaining in a special account in the Treasury of the foreign government. The procedure is that a procurement authorization is issued by FOA to cover agricultural commodities in the same manner that a procurement authorization is issued to cover, for example, machinery and equipment. The procurement authorization is an obligation charged against program funds allotted to a particular country. *It is the duty of the FOA controller to see (1) that the proper amount of local currency is received for the commodities for which funds are obligated; and (2) that the local currencies received are used for the same purposes for which the dollars producing them were appropriated;* i. e., if the dollars come from defense support appropriations, then the local currencies generated from such appropriations must be used for defense support. The Controller's function in this instance is under the overall supervision of the Bureau of the Budget.

The foreign government to which the procurement authorization is issued may either ask for a letter of commitment from FOA to finance purchases either from a private supplier, or the Commodity Credit Corporation, as outlined above; or it may come in for reimbursement, if it uses its own dollar funds to finance such purchases. This is precisely in accord with normal FOA fiscal procedures.

VII. Control of Local Currencies

The foreign currency proceeds of sales made under Public Law 480 are deposited to the account of the United States in banks overseas and their disposition is controlled in the first instance by the Bureau of the Budget. The Bureau agrees to an allotment of the funds to various United States Government agencies for purposes specified in the act.

The agencies themselves, after purchase of the currencies from the Treasury, suballocate the funds to specific projects and, when contracts are executed to carry out the projects, or when project agreements are entered into with a foreign government, the local currency funds are legally obligated. The Treasury has issued a regulation providing that currencies cannot be purchased which will exceed the amount estimated to be required for a 30-day period. The dollars used to purchase the local currencies are transferred to the Commodity Credit Corporation by the Treasury.

In the case of section 402 of Public Law 665, the Bureau of the Budget, through its normal apportionment procedures, releases dollars to FOA for the purchase of surplus commodities for various purposes under the act, but does not specifically approve the use of the local currencies received from the sale of the commodities. The local currency accounts are audited, however, by the General Accounting Office. One purpose of the audit is to see that the currencies are spent for the purposes for which the dollars are appropriated. The local currencies accruing to the Treasury from the sale of commodities are transferred to FOA account as soon as they are received, and can be drawn down by FOA as required to meet its obligations in the countries where such obligations have been incurred.

The records of FOA are set up to account for local currency obligations, amounts available for obligation, and unexpended balances of amounts obligated. Similarly, the Department of Defense has such accounts set up either in local currencies or, in certain instances, in the dollar equivalent of such currencies.

When surplus commodity legislation was being considered for fiscal year 1955, serious thought was given in both the Senate and the House to a proposal that the local currencies be made subject to congressional appropriation the succeeding year, just as the dollars generating the currencies were appropriated. This proposition was rejected because it was felt it would make it impossible to negotiate any bilateral agreements. No country would be in a position to know at the time of negotiation how much or for what purposes the local currencies received by the United States from the sale of surpluses, which the

foreign country was negotiating to purchase, would be available for expenditure by the United States.

The various powers, duties, and responsibilities arising under Public Law 480 are vested in the President. By Executive order of September 9, 1954, authority to carry out the various provisions of the act is assigned to a number of agencies: Agriculture, FOA, State, Treasury, Defense, ODM, and the Bureau of the Budget. Administration of those portions of the act relating to surplus agricultural commodities is carried out in effect by a committee composed of a number of these agencies. No single agency of Government bears full responsibility for this phase of the foreign aid program.

The situation is similar with respect to the Mutual Security Act of 1954 (Public Law 665); its powers are vested in the President, and delegated by him to the various executive agencies by Executive Order 10575 of November 6, 1954. Responsibilities arising under the act relating to surplus agricultural commodities and the foreign currency proceeds from their sale are allotted jointly with those of Public Law 480 by the same interdepartmental committee.

VIII. Findings

1. The use of agricultural surplus commodities as part of the foreign aid program is authorized by two separate laws (the Mutual Security Act of 1954, and the Agricultural Trade Development and Assistance Act of 1954), which differ in purpose and orientation. The Mutual Security Act deals with strengthening the economies of friendly countries abroad, and with other matters pertinent to our foreign relations. The Agricultural Trade Development and Assistance Act is primarily domestic in orientation, and is designed to aid United States agriculture and to push the sale of surplus agricultural commodities abroad. A secondary purpose is to use such commodities to further the foreign policy of the United States. Insofar as operations under the former act are successful in increasing agricultural production abroad, the possible market for United States agricultural production—and surpluses—is diminished. Nevertheless there is a considerable harmony between the two laws. Both make available commodities and foreign exchange usable for various government purposes abroad—military, political, and economic. Both create duties and responsibilities for a variety of Government agencies, most notably the FOA, the Department of Agriculture, the Treasury, and the Bureau of the Budget.

2. The question arises whether it is not desirable to clarify the conflicts of purpose and complexities of legal and administrative arrangements which stem from the present state of these two laws. The conflicts of purpose are rooted in domestic political forces which lie outside the purview of the task force. These forces are more interested in a larger sale of surplus agricultural commodities and a larger income for United States agriculture, than they are in the principles of multilateral trade, the avoidance of dumping of United States products abroad, or the strengthening of foreign agriculture as a part of an overall strengthening of foreign economies. Policy formation, programming, and administration of foreign aid and surplus commodity disposal will have to take these forces into continuing account. There is no formula which will resolve the resultant differences automatically.

A seemingly needless complexity is the placement of authority for emergency and famine relief by use of surplus agricultural commodities in the Agricultural Trade Act instead of the Mutual Security Act. It would be simple to shift title II of the former act to the latter act, but little or nothing would be gained thereby beyond more simplicity and elegance in the law.

3. A provision of law requiring that a specified amount of funds appropriated for mutual security purposes shall be spent for surplus agricultural commodities introduces inflexibility and needless complexity into the program, opens the way to excessive authorizations and appropriations for mutual security purposes, and sets a precedent for use of mutual security funds and activities to increase the sales of any distressed commodity in which enough political interest can be mustered to force through legislation to support sales and prices.

The provision in the 1954 Mutual Security Act requiring that $350 million of funds appropriated under its authority be spent for surplus agricultural commodities illustrates the situation. It cannot be said with finality that this provision has as yet affected the program in any marked way. It is probable that $350 million would have been programed in this way during fiscal year 1955 in any event; during the preceding year $500 million was so programed against a legislative requirement of $200 million. Yet it is highly probable that the total fiscal year 1955 authorization would have gone down by $350 million without farm-bloc support for this proposal.

The possibilities for the future are more threatening, despite current legislative restraint and understanding of the limitations of this device. The way is opened for an alliance between legislators favoring high farm-price supports and those favoring large and continuing programs of foreign aid. Even if dollar appropriations are not available, specialists in foreign aid can still work with foreign currencies paid for surplus United States commodities. This is true both at home and abroad, and raises the question of the continuing interest and responsibility of the United States Government in the management of such funds, both in the first use and in subsequent uses. The United States has a proper and continuing interest in the initial use of foreign currency so secured. But, if these funds are used to set up banking or investment functions, the question arises as to the value and consequences of a continuing United States participation in decisions about the use of repaid loans or liquidated investments. Control and a voice in important economic decisions abroad must be weighed against the resentments and difficulties arising from the intervention of the United States in the internal affairs of a sovereign state. It also raises a question of necessary personnel and the possible extension of aid functions "on a long-range basis not expressly contemplated by the authorizing and appropriating legislation."

The earmarking of dollar aid for surplus agricultural commodities leads to the appearance if not the reality of pressure on recipient countries to take our surplus commodities. This is hard to distinguish from dumping, in its effects on world prices, world trading relations, and the distribution of agricultural production worldwide.

4. Of those objects permitted under Public Law 480 for the ex-

penditure of foreign currencies arising from the sale of agricultural commodities, three give rise to serious question for the future. These are the powers to use such currencies—

(1) For financing the purchase of goods or services for other friendly countries (third-country uses);

(2) For promoting balanced economic development and trade among nations; and

(3) For loans to promote multilateral trade and economic development, made through established banking facilities of friendly nations, or in other ways.

These powers have been delegated by the President to FOA. The other objects enumerated in the act (sec. 104) are much more specific, relating to defense, strategic materials stockpiling, exchange of persons, and the payment of United States obligations abroad. They are therefore much less of an invitation to uncontrolled elaboration.

Third-country uses are complicated at best. An example would be the use of Italian lira arising from the sale of surplus United States cotton for the purchase of machinery for use in India as part of our foreign aid to the latter country. For such an operation to be successful, the supervising United States agency would have to see that the currency was available when needed, arranging for the sale of cotton if necessary; that the Italian machinery could be designed and produced according to specifications arising from joint United States-Indian agreement; that delivery could be made in time to meet the requirements of the Indian development plan; and that the various accounting and auditing steps involving the Italian aid program, the Indian aid program, and the fiscal relations of domestic United States agencies are all carried through. It should be obvious that any extensive third-country operations would open the door to the development of a multinational merchant-banker business on a grand scale. This would tend to prolong the life of aid programs in the participating countries and to have an adverse effect upon United States exporters.

The power to use foreign currencies for promoting balanced economic development and international trade is as broad as the foreign economic aid program itself. So long as this power stays in the law, there are both authority and resources for a continuation of the foreign aid program.

The power to use foreign currencies for loans to promote multilateral trade and economic development is almost equally broad, and brings special complexities arising from the lending process. If such loans are made through established banking facilities, the question of continuing supervision of the programing and administration of loans arises. As original source of the funds, the United States Government

has a clear initial interest, and may easily be drawn into a long-continuing and difficult relationship with the governmental and financial institutions of foreign countries.

The object of promoting *balanced* economic development requires the United States Government to judge the state of foreign economies, and to intervene to support those sectors which, in its judgment, are weak or lacking. Finding the occasion for such intervention, and carrying it out, contain many pitfalls.

There is also the danger of unwitting or unwarranted interference with the organization and operation of private international trade. In its efforts to carry out elaborate three-party agreements, and to alter the normal direction and course of foreign economies, the United States Government may easily go too far in disturbing the growth, the health, and the stability of normal international trade.

There is a further danger—temptation to the inclusion of a wide variety of distressed commodities in the list of sources of foreign currency. This is an invitation to an alliance between groups with a vested or special interest in foreign aid, with those who desire governmental support for any such commodities. The result may well be a continuation of aid programs well beyond the time when the foreign policy of the country requires them—even to the point where such programs interfere with the harmonious relations of our country with other powers.

It is worth noting, in passing, that the authority under the act to use foreign currencies for payment of United States obligations can be most salutary. This is not related to the dramatic issues of foreign aid, but is nevertheless related in a solid manner, insofar as it is a step toward the treatment by the United States Government of foreign currencies as good money. Part of the problem of currency convertibility lies in the reduction in the demand for dollars. Insofar as the United States Government can use pounds, francs, lira, kroner, or other foreign currencies to meet its obligations, it can reduce its own demand for dollars, and support by its use of other currencies the demand for them which is essential to their convertibility. In this connection, it is also worth mentioning the point that our foreign aid program, insofar as it tries to facilitate international trade by making dollars available to United States suppliers, postpones the day when United States business becomes fully accustomed to using foreign currencies, and to build up foreign balances, thus increasing demand for these currencies against dollars and contributing to the possibility of free movement of trade without government intervention.

5. Under provisions of title II of the Agricultural Trade Act of 1954, it is possible for a foreign government to be granted surplus agricultural commodities for purposes of emergency relief. If local currency funds are generated as a result, they should be treated as any

other counterpart funds and used for the general purposes of mutual security legislation. The United States has a proper interest in such disposition since these funds have been purchased, in effect, with appropriated moneys.

6. Administration of the various powers, duties, and responsibilities relating to the use of surplus agricultural commodities in the foreign aid program is distributed among a number of agencies. This situation is unsatisfactory but unavoidable. If a special management agency or unit were set up to supervise operations under the foreign aid program, it might be possible to centralize further some of these functions in the new agency. It would still be necessary to use an interagency governmental committee to program and approve the sales of surpluses and the use of the proceeds abroad. The Department of Agriculture could take over other functions arising from the Agricultural Trade Development and Assistance Act with a small increase in staff.

Offshore Procurement

By Paul A. Neuland and Homer S. Fox

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Offshore Procurement Program

Background

Offshore Procurement (OSP) may be defined as the purchase of military equipment and supplies from sources outside the United States for delivery under the Mutual Defense Assistance Program (MDAP) to friendly foreign countries. It does not include the procurement abroad of supplies for the United States armed forces.

When plans were first made for MDAP, no consideration was given to the possibility of procuring military equipment offshore for delivery to our allies. It was visualized that this equipment would be taken from existing United States stocks. However, the Korean War upset this plan and the equipment and ammunition in United States stocks which had been earmarked for MDAP deliveries in Europe were diverted to the Far East. The size of MDAP in Europe was also greatly expanded to counter the threat of similar armed attack in the West. United States stocks were therefore unable to provide the essential MDAP end-items. It was decided to place substantial amounts of these orders offshore. This had the effect of helping to establish a mobilization base for war production in friendly countries to provide the maximum amount of replacements, spare parts, and ammunition close to the actual fighting front in case of war. It was hoped that OSP might gradually assist the NATO countries to produce part of their own material for defense and help to restore the European capacity for the production of munitions and military equipment which had been largely destroyed by the war. The plan looked to the maintenance of production in selected foreign plants which would be distributed geographically in accordance with United States strategic views.

In addition to achieving a well distributed industrial mobilization base for war production, certain collateral objectives of OSP were (inter alia) to assist the civilian economy through additional dollars and increased employment, to reduce the cost of MDAP deliveries through lower transportation and labor costs, and to provide political support against communist infiltration into labor unions.

Relationship of OSP to MDAP

OSP orders are placed only to fill specific and approved military deficiencies within MDAP; hence OSP is necessarily an integrated part of MDAP programing and execution. Prior to each fiscal year,

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extensive bilateral conferences are held between the United States Military Assistance Advisory Group (MAAG) and the foreign military authorities in each country receiving United States military aid, to determine how much of the total logistical requirements of the military forces to be contributed by each country for mutual defense can be supplied in sufficient time through its own procurement and production capacities.

These conferences result in an agreed list of military equipment and supplies which can be supplied only by the United States or with United States assistance, if they are to be had at all or in sufficient time to meet the threat.

The country lists then pass through a rather complicated series of reviews and screenings locally and regionally in Europe as well as in Washington, with a view to determining what portions shall be obtained from existing United States stocks, from new procurement in the United States, or from OSP. Advice as to political and economic considerations is obtained from the Department of State and FOA, respectively.

Incidentally, although a few OSP contracts have been placed in Spain, Yugoslavia, the Federal Republic of Germany (particularly West Berlin), Japan, Formosa, and the Philippines, the bulk has been placed in Western Europe.

First Three Years of OSP

During fiscal 1952, OSP contracts totaling approximately $630 million were let in Europe. Over one-half of these contracts were let in France, one-fourth in Italy, and the remainder in the United Kingdom, the Netherlands, Greece, Belgium, Luxembourg, Denmark, Norway, Germany, and Switzerland, in the order of decreasing amounts. These contracts included naval vessels, electronics equipment, ammunition, and spare parts. The volume of OSP contracts placed in France includes over $200 million of so-called "Lisbon-type" aid, i. e., existing contracts taken over by the United States in accordance with a pattern established at the meeting of the North Atlantic Council at Lisbon in February 1952, for the primary purpose of giving budgetary support to the French Government.

During fiscal 1953, OSP contracts totaling over $1.5 billion were let in Europe. These contracts covered ammunition, naval vessels, jet fighter aircraft, tanks, artillery pieces, radio and radar equipment, and a wide range of other materiel such as spare parts for weapons, vehicles, and aircraft.

During fiscal 1954, OSP contracts in the amount of $378 million were let, making a cumulative total of $2.6 billion for the first 3 years. However, payments for deliveries through these 3 fiscal years

amounted to only $673 million. The remainder of the items contracted for were in the pipeline at the end of fiscal 1954, with dates of anticipated delivery ranging from a few months to several years. This points up one of the major problems which has developed in OSP; namely, the rather exceptional delays which have occurred in several important contracts, due either to inadequate preliminary preparation or to other reasons. In some cases this may well be expected to result in the delivery of unnecessarily obsolescent equipment.

Procedures for OSP Operations

In the beginning of fiscal 1952, the United States Government began a series of bilateral negotiations with various foreign countries, for the most part in Western Europe, to establish OSP procedures.

OSP contracts are let by the procurement officers of the three services in the various United States field commands. Although the MAAGs have no responsibility for placing OSP contracts, they provide contacts for procurement officers with the Country Team.

The procurement officers place them under procurement authority issued by the Assistant Secretary of Defense (ISA) on the basis of refined programs developed by the three military departments to supply the necessary end-items within the limits of available MDAP appropriations. No information has been made available by the Department of Defense to indicate the detailed nature of these programs in advance of the issuance of the actual procurement authority, as will be noted in the various tables to be set forth in the course of this paper.

Criteria and Policies

Department of Defense Directive 2125.1 dated January 8, 1955, provides current policy guidance for OSP. Emphasis is placed on assisting "friendly countries to achieve the maximum amount of indigenous production of military equipment and materials to meet the requirements of their forces." Procurement is required "in accordance with sound military procurement practices with respect to price, quality, and delivery." Exceptions (from pricing policy) however may be made in Europe by the Defense Representative at Paris, "based on the essential security interests of the United States," and in other areas by the Assistant Secretary of Defense (ISA).

The directive also includes certain provisions of the Mutual Security Act of 1954 and of the Mutual Security Appropriations Act for 1955, which require procurement in the United States (and thus in effect prohibiting OSP) when adverse effects upon the United States

economy would outweigh the advantages of OSP; when procurement abroad would be detrimental to United States security interests; or when OSP would result in unjustifiable costs or delays.

Security Clearances

The United States Congress has declared that it is United States policy to strengthen free labor unions overseas by such programs as OSP. The Department of Defense has accordingly directed its procurement officers to deny OSP contracts to firms which consistently and materially support the Communist Party or Communist-sponsored organizations or which engage in certain activities favoring the Communist program.

The procurement officer obtains these security clearances from the country team, to which he sends a list of the firms which have been invited to bid or to submit proposals. Clearance is not required for contracts amounting to less than $100,000. Provisions are made for appeal to the Defense Representative at Paris, and even to the Assistant Secretary of Defense (ISA), should clearance be denied by the country team.

Economic-Defense Clearances

The United States Congress has also declared, through the Mutual Defense Assistance Control Act of 1951 (the Battle Act), that no assistance whatsoever shall be supplied to any nation failing to cooperate in regulating the export of certain strategic commodities to the Soviet bloc, and no military, economic, or financial assistance should be supplied to any nation unless it cooperates in programs for regulating such exports.

Political and Economic Considerations

Political and economic considerations have entered into the letting of OSP contracts to a degree apparently not at first contemplated. As one example, the United States agreed at the meeting of the North Atlantic Council at Lisbon in 1952 to pick up the check for over $200 million in contracts which the French Government had already placed for war material for Indochina.

As mentioned above, this was not OSP in the original meaning of the term but rather direct budgetary support, although justified as being for military objectives. It is generally agreed that this type of aid achieves very little of OSP's original and specific objectives. This is brought out by the fact that one of the contracts thus financed by

the United States was for the procurement of a very large amount of 105-mm. howitzer ammunition at $48 a round, which was later found to have been an exorbitant price since in the following year similar ammunition was contracted for under regular OSP procedures at $30 a round, which was further reduced by improved productivity in fiscal 1954 to $21 a round.

Again, shortly before the Italian elections in 1953 the decision was made for political and economic reasons that $150 million of OSP contracts would be placed in Italy. The specific items and firms were to be selected by the procurement officers of the three services so that they could apply normal procurement procedures to the maximum extent possible in carrying out this mission.

Extensive criticism was leveled at certain of these contracts on the score that the bidder was able to receive the award only because of alleged subsidization by the Italian Government, which in turn was financed to a considerable extent by the United States Government. For instance, the document entitled "Foreign-Aid Program in Europe," published by the Senate Appropriations Committee in July 1953, reveals the following details of this arrangement (p. 25):

> There is considerable conflict between the simple procurement objectives of Defense and MSA's efforts to bolster the economies of, and to extend dollar aid to, the individual countries. Only recently an invitation to bid for certain ammunition was offered to industrialists in the various countries of Europe, and the lower bidder was unquestionably a British manufacturer. For tactical reasons, MSA wanted to place this order in Italy, and eventually made an arrangement with an Italian industrialist to take the order because, even though he could not do it at the contract price, he was subsidized by the Italian Government for the differential. In the end the United States paid for this higher price, because while the Italian Government subsidized the manufacturer, we in turn subsidized the Italian Government. This transaction with the Italian industrialist is known to every manufacturer in Western Europe and has resulted in a great deal of ill will. Quite naturally, industrialists do not like to submit tenders and, having made the lowest bid, have the order taken away from them and given to someone else because that becomes politically expedient.

Subsequently, political and economic pressures, both from the United States side and from the NATO countries themselves, have influenced in varying but considerable degree the placing of OSP contracts. In Washington there is consultation between the interested agencies. For example, during consideration of the fiscal 1954 program, the Department of Defense requested and obtained from FOA recommendations as to the amounts of OSP contracts which might advantageously be placed in each country for economic reasons.

In the field, the Defense Representative in Paris has the responsibility of balancing the political and economic aspects of OSP against its purely military aspects and of making appropriate recommendations, either informally to the respective local procurement officers or to the Department of Defense. He in turn receives recommenda-

tions from the country teams and from the local country governments.

Another instance of directed procurement occurred in the spring of 1954 when, although a reputable Spanish firm was the lowest bidder for certain 80-mm. mortar ammunition, a Yugoslav firm was given the contract under strong protest from the disappointed Spanish firm. This decision was reportedly made, among other considerations, because the ammunition was destined for delivery to Yugoslavia.

Although it appears to have been customary for many such decisions to be made on an informal basis by representatives of the Department of Defense in the field, the decision to place this OSP contract in Yugoslavia was made in the Department of Defense and the directive to the field on this matter was signed by the Assistant Secretary of Defense (ISA).

These and other exceptions have come to represent a large proportion of the total program and have been based primarily on other than military reasons. As a result, a great deal of confusion and delay has resulted, in addition to widespread ill-will caused by the failure to have a larger proportion of the contracts placed with the lowest bidder in competitive public bidding.

No Formal Advertising for Bids

Department of Defense Directive No. 2125.1 dated January 8, 1955, states in paragraph III.D. that all OSP contracts will be placed by negotiated procurement. Officials in the Department of Defense have stated that the essential feature of this type of procurement is the lack of formal advertising rather than the lack of competitive bidding. They further state that formal competitive bidding could not be employed for about two-thirds of the entire $2.6 billion placed in OSP contracts to date, since they were either directed for placement in specific countries (principally France, Italy, and the United Kingdom), or were for items produced by a "sole source," or were placed on a government-to-government basis. Officials in charge of the program state that the remaining one-third of the OSP contracts in the amount of approximately $0.8 billion have been placed through a limited type of competitive bidding on the part of a number of firms selected on the basis of the procurement officer's assurance that they could perform satisfactorily.

However, criticisms have been expressed that inviting only a few selected firms to bid is a far cry from public competitive bidding. It is further claimed that this has caused a great deal of ill-will toward the United States and has held up progress toward an expansion of free enterprise, an increase of productivity, and the other economic objectives of OSP.

United States Army

About 60 percent of all OSP contracts have been let by procurement officers of the United States Army. Ordnance items, particularly ammunition, account for the vast bulk of these contracts. Over 95 percent of all OSP contracts placed by the United States Army have been in Europe, most of the remaining in Japan, and a very small amount in Formosa.

The Army Ordnance Procurement Center in Europe, which is located near Mannhein in Germany and has branch offices in each of the European countries, has placed the bulk of the Army's OSP contracts. The chiefs of these branch offices are responsible only to USAREUR Headquarters and are not members of the respective country teams, but they have in practice coordinated their procurement activities with the country teams, obtaining general advice and assistance in addition to the necessary security clearances for proposed contractors.

The following table reflects the cumulative volume of the United States Army's operations under OSP:

Cumulative Volume of United States Army's OSP Operations

[As of Dec. 31, 1954, in millions of dollars

Commodity category	Procurement authority issued	Contracts awarded	Materiel accepted	Vouchers prepared for payment
Electronics and communications equipment	$82.3	$82.3	$33.8	$38.8
Artillery and fire control	86.1	74.2	15.5	15.5
Tanks and combat vehicles	110.0	110.0	68.1	68.1
Motor transport vehicles	17.3	17.3	11.6	11.6
Ammunition	1,222.6	1,003.4	340.6	341.6
Engineering equipment	15.2	15.2	4.5	4.2
Special military support	224.5	224.5	202.0	202.0
All other	10.1	10.1	2.7	2.7
Total	1,768.1	1,537.1	678.8	684.5

NOTE.—In this and in other charts to follow, the last column (expenditures) frequently exceeds the preceding column (acceptances). This is due to progress payments on partial completions. However, even though there is no "acceptance" in such cases, the item paid for becomes property of the United States Government.

Source: Special compilation prepared by the Comptroller in the Office of the Assistant Secretary of Defense (ISA).

As an illustration of some of the problems involved in the placing of OSP contracts by the United States Army, the following summary is given concerning the procurement of Centurion tanks in the United Kingdom through two contracts totaling $107.4 million. Six hundred eighteen Centurion tanks were ordered during fiscal 1953 and 170 more during 1954. The dollar value of each tank is approximately $136,000, of which $126,000 represents the cost of the tank itself and the remaining $10,000 represents the cost of the trailer and spare parts with which each tank is equipped.

When the first of these two contracts was being considered, it reportedly received strong opposition from military technicians in every

echelon of the Department of the Army, on the score that tank production lines in the United States were then slowing down because the initial and reserve United States requirements for M–47 tanks to be committed in Korea had been met, and that it would be preferable to place MDAP tank orders with American factories to keep domestic production lines going in case of recurring emergencies. The United States Army's technical experts felt that this consideration was much more important than developing an industrial mobilization base for tanks in Europe. However, after these technical and military points of view had reportedly been discussed on all levels with the Department of State and the Mutual Security Administration against the background of the pertinent political and economic factors, the Department of Defense gave instructions to place the contract for Centurion tanks in the United Kingdom.

All of the Centurion tanks ordered under the two existing contracts are earmarked for delivery to Denmark and the Netherlands. Five hundred and fifty-eight of these tanks had actually been delivered as of October 1, 1954. The other NATO countries receive M–47 tanks under MDAP, which are produced in the United States of the same model as those presently assigned to United States armored units in Korea.

United States Navy

The United States Navy has a moderate OSP program, having placed only about 18 percent of all contracts let under OSP to date. Most of its activity has been in Europe, with very small amounts being placed in Japan and Formosa. The following table reflects the volume of the United States Navy's operations under OSP:

Cumulative Volume of United States Navy's OSP Operations

[As of Dec. 31, 1954, in millions of dollars]

Commodity category	Procurement authority issued	Contracts awarded	Materiel accepted	Vouchers prepared for payment
Vessels	$256.6	$256.5	$3.6	$97.7
Electronic equipment	20.4	20.3	3.5	4.4
Other vessel equipment	4.8	4.8	2.0	1.2
Aircraft and aero equipment	26.8	19.8	10.8	8.5
Ammunition	79.9	61.2	8.6	7.7
Other ordnance equipment	16.7	16.7	14.5	14.0
Special military support	53.7	53.7	36.6	40.5
Total	459.0	433.0	79.5	174.0

Source: Special compilation prepared by the Comptroller in the Office of the Assistant Secretary of Defense (ISA).

There is one significant difference in OSP operations of the United States Navy from those of the other two services, namely, that its field

operations are directly supervised by the Bureau of Ships at Washington. This Bureau maintains branch offices at Rome, Lisbon, Madrid, London, and Copenhagen. Bureau representatives maintain close contact with these field offices. Emphasis is placed on letting contracts in the country which is to receive the vessel under MDAP.

During the hearings before the House Appropriations Subcommittee on the Mutual Security Act of 1954, a great deal of attention was given to the opposition of the United States shipbuilding industry to awarding such contracts abroad instead of to American shipyards. General Stewart, at that time Director of the Office of Military Assistance in the Department of Defense, had the following to say on this subject (p. 78–80 of the transcript):

> The State Department passed this problem to us and we had quite a meeting, at which representatives of the yards, owners, and representatives of labor appeared in a day-long meeting with us, and they put up an excellent case, in showing that the building of these ships abroad was depriving American workmen of labor.
>
> As a result of that meeting, we recommended, on my level, that almost exactly 50 percent of what we had intended to buy abroad in ships in 1954 be purchased in the United States. My memory on that is that it involved the sum of $27 million, and that recommendation was approved, and ships at that value which we intended originally to buy in Europe are now being bought in the United States.
>
> The reason we did not bring the rest of the procurement in ships home here was because of the peculiar nature of the ships which made it highly desirable that they be built at the place they were going to be used.
>
> I state that to show you that in accordance with the policy of the Secretary of Defense the effect upon American industry will be considered.

United States Air Force

The United States Air Force also has a moderate OSP program, having placed not more than 22 percent of all OSP contracts, the bulk of them in Europe and small amounts in Japan and the Philippines. The following table reflects the cumulative volume of the United States Air Force's operations under OSP:

Cumulative Volume of United States Air Force's OSP Operations

[As of Dec. 31, 1954, in millions of dollars]

Commodity category	Procurement authority issued	Contracts awarded	Materiel accepted	Vouchers prepared for payment
Aircraft and spares	$356.9	$440.1	$12.2	$24.4
Electronics and communication equipment	49.6	25.5	2.5	2.2
Ground powered equipment	15.1	13.6	11.0	10.9
General equipment and maintenance supplies	39.9	30.4	13.2	13.0
Ammunition and explosives	22.2	21.9	1.9	1.9
Special military support	117.5	117.5	110.8	107.2
All other	15.6	14.1	2.7	2.7
Total	716.8	663.1	154.3	162.3

Source: Special compilation prepared by the Comptroller in the Office of the Assistant Secretary of Defense (ISA).

The United States Air Force has placed and programed several OSP contracts in the United Kingdom which merit some comment because of their size and the questions they have provoked.

The first of these contracts was placed in April 1953 for the procurement of 465 Hawker Hunter fighters with spare parts, tools, and other equipment, at a total cost of $140 million. This contract is more fully described in a staff report to the Senate Appropriations Committee dated July 2, 1954, entitled "United States Aid to British Aircraft Program," and an excerpt therefrom containing portions of a report prepared by the General Accounting Office is set forth in appendix A.

The second contract was made in June 1954 for 50 additional Hawker Hunters and relevant materiel at a total cost of $22 million.

A third contract was placed on a conditional basis in June 1954 for 177 Javelin fighters at a total cost of $65 million. This agreement was conditioned upon the evaluation and acceptance by the United States Air Force of a production model of the Javelin which, it was thought, would be ready for testing by autumn of 1954. However, the production model crashed and test flights cannot be made until another production model is available. It was hoped that the plane would be turned over for evaluation by April or May of this year.[1] Meanwhile, the funds are obligated but not finally committed.

There seems to be little doubt that the latter two contracts were executed in June 1954 to obligate the funds against fiscal 1954 appropriations in order to meet the June 30 deadline. The question that may be raised is whether this action constituted good judgment in view of what was then known about these planes and their limitations.

The present program to procure aircraft under OSP out of fiscal 1955 funds calls for approximately $100 million to be used in the procurement of 223 Javelins, provided the forthcoming evaluation proves satisfactory. At the moment, these funds are earmarked under an informal executive agreement reached with the British Government in April 1953 for United States assistance in meeting United Kingdom commitments to NATO and in the modernization of the British Air Force. If not obligated prior to June 30th of this year, these funds will lapse and reappropriation will be necessary.

The present status of the planes under contract can hardly be described as satisfactory. There is a question as to how much of this money, if any, can or should be salvaged.

More detailed information regarding these very involved transactions and the present status of the planes can be found in the Senate Appropriations Committee staff report, above cited, and in the country study on the United Kingdom prepared by the staff of this task force.

Other OSP contracts for aircraft have been placed on the Continent.

[1] The evaluation of the Javelin has again been deferred since a combat-equipped production model cannot be made available until the late autumn. This would be a year later than originally planned.

Belgium has received a contract for Hawker Hunters produced under license from the United Kingdom, and the Netherlands has received a contract for the productioan of Hawker Hunterers under a similar license. Both of these contracts are behind schedule for much the same reasons as the United Kingdom contracts.

The French Government has received an OSP contract for a substantial number of Mystere fighters. It is reported that performance on this contract is satisfactory. A moderate slippage which occurred when the production schedule was adjusted to permit the incorporation of several engineering changes has been of little consequence.

Lastly, an OSP contract for the production of 50 F-86's in Italy was placed with Fiat at Torino, where these airplanes were to be assembled from component parts furnished from the United States by the North American Aircraft Corp. Performance is stated to have been satisfactory. The details of a follow-on order under this contract are now being negotiated, although it is understood that serious difficulties are presented by the growing prevalence of Communist elements in the labor unions at the Fiat plants.

OSP Statistics by Country

The following table gives a breakdown of the cumulative totals of OSP statistics by country. The column given in previous tables for "Procurement authority issued" is missing from this table, because procurement authorizations are issued for commodity categories, not for procurement in specific countries. The detailed breakdown within each country for contracts placed by the United States Army, Navy, and Air Force is omitted as not being essential for the purposes of this study.

Cumulative Volume of OSP Activities by Country

[As of Dec. 31, 1954, in millions of dollars]

Country of production	Contracts awarded	Materiel accepted	Vouchers prepared for payment
Worldwide total	$2,633.1	$912.5	$1,020.9
Total for Europe	2,508.0	862.4	975.3
Belgium-Luxembourg	143.4	23.7	22.9
Denmark	16.7	.9	4.1
France	1,027.6	471.0	540.0
Germany, Federal Republic of	19.1	7.2	7.8
Greece	35.0	10.1	10.1
Italy	434.8	161.8	189.3
Netherlands	79.4	12.5	20.8
Norway	26.9	6.7	6.7
Portugal	18.3	(1)	1.4
Spain	9.7	(1)	.3
Switzerland	43.8	0	1.5
Turkey	9.4	.7	.7
United Kingdom	624.7	163.9	165.8
Yugoslavia	19.1	3.9	3.9
Total for the Far East	125.1	50.1	45.6
Japan	110.2	40.0	37.2
NGRC (Formosa)	13.8	9.2	7.5
Philippines	1.2	.9	.9

[1] Less than $50,000.

Source: Special compilation prepared by the Comptroller in the Office of the Assistant Secretary of Defense (ISA).

Incidental Benefits of OSP

Perhaps the most publicized benefit from the OSP program has been the accrual of dollar exchange to the countries receiving contracts. This is a genuine benefit, although incidental to the original purposes of OSP. Another genuine incidental benefit is increased employment in those countries receiving contracts. It is claimed also that the working people so employed realize more clearly than in some other sectors of the aid programs that the United States is the source of the benefit. Claims for other incidental benefits, such as effectiveness in "combating communism," reduction in price levels, and improved productivity are more difficult to sustain or to evaluate.

Cancellation of OSP Contracts

The record appears to be almost free of cancellations under OSP. As far as can be ascertained, the only cancellations have been one contract of the United States Navy in Belgium and one of the United States Army in Japan. The United States Air Force is not known to have had any cancellations whatsoever. It is quite possible that a few cancellations in appropriate circumstances would have speeded up the whole program and would have produced other advantages.

Officials in the Department of Defense seem to attach great importance to the preaward survey as being the best time to insure proper performance and to preclude the possibility of having to cancel the contract later on.

It is claimed that the cost of cancellation is so prohibitive that almost any other reasonable alternative is preferred, for instance, delays in delivery, particularly since many target dates were originally known to be highly overoptimistic. United States procurement officers are said to regard the failure of contractors to meet such deadlines as providing a means to exert pressure in other respects. Officials in charge of this program state that this is a field in which procurement officers are properly allowed to exercise a certain amount of discretion as to conceding such minor points in order to get indigenous factories into full production.

OSP Payments in Local Currencies

Sections 402 and 502 of the Mutual Security Act of 1954, based on section 550 of the Mutual Security Act of 1953, earmark large amounts of funds available under the act for financing the purchase of surplus agricultural products in the United States for sale to foreign countries in exchange for local currencies and provide that these local cur-

rencies may be used, among other things, to pay for items delivered under OSP. Department of Defense Instruction No. 2125.7 dated October 15, 1954, directs that procurement officers consult with the country team on matters relating to the substitution of local currencies for dollars in OSP contracts and that an effort be made to obligate local currencies instead of dollars by amending contracts already placed in Europe and Formosa, particularly those negotiated from government to government. In Japan, payments are to be made on existing OSP contracts in both dollars and yen on a 50–50 basis. There appears to be no provision for the use of counterpart funds to pay against OSP contracts. Foreign governments have been reluctant to accept local currencies, and not much business has been done on this basis. Local currencies in the amount of about $80 million, resulting from sales of agricultural surpluses, have been programed for use in OSP during fiscal 1955, mostly in Japan, Italy, and France.

Impact of OSP on United States Labor Situation

As has been noted above, legislation has provided that OSP contracts may not be placed abroad unless the Secretary of Defense certifies that no harm is thereby caused to domestic industry in the United States. Although this provision was sponsored to a large extent by manufacturing and industrial interests, its main support appears to have come from those interested in promoting employment opportunities in the United States.

Following a series of hearings on the subject, the Senate Foreign Relations Committee reported to the Senate that "testimony given to the committee by representatives of the Department of Defense indicated that efforts are being made to restrict offshore procurement to cases where it is essential to the establishment or maintenance of a production base to enable our allies to defend themselves."

OSP Programing During Fiscal 1955

No procurement authorizations were issued by the Department of Defense for the placing of OSP contracts during the first 7 months of 1955, either against new funds or against carried-over funds, from the 5 previous fiscal years. This long delay was caused by a number of factors, such as the protracted staffing of the new Executive order, according to which MDAP funds were transferred from the President directly to the Department of Defense, and the preparation of regulations to carry out the reservations expressed by the United States Congress with regard to this program.

In addition to the funds carried over into fiscal 1955, the administration had requested approximately $300 million in its total MDAP

request as the amount to be allocated to OSP in fiscal 1955, covering the following categories on a worldwide basis:

Ammunition	$98, 000, 000
Aircraft	82, 000, 000
Electronics	58, 000, 000
Ships	28, 000, 000
All other	34, 000, 000
Total	300, 000, 000

However, the United States Congress cut this request by about 20 percent, so that an estimated $240 million is earmarked for OSP for fiscal 1955.

It was not until February 5, 1955, that the first procurement authorizations, accompanied by the necessary findings and determinations mentioned previously, were issued by the Assistant Secretary of Defense (ISA), as follows:

Procurement Authorizations for OSP During Fiscal 1955

[As of Feb. 5, 1955, in millions of dollars]

	Europe	Far East	Worldwide
Total	[1] $233. 6	$11. 4	$245. 0
Army	175. 4	11. 4	186. 8
Tanks and combat vehicles	5. 8	0	5. 8
Artillery	20. 3	0. 6	20. 9
Ammunition	142. 1	9. 8	151. 9
Electronics	7. 2	1. 0	8. 2
Navy	34. 4	0	34. 4
Vessels (Modernization)	25. 3	0	25. 3
Vessel equipment	3. 0	0	3. 0
Ordnance equipment and supplies	6. 1	0	6. 1
Air Force: Aircraft and spares	23. 8	0	23. 8

[1] 14.0 in Canada.

Officials in the Department of Defense have stated that the small portion of funds from fiscal 1950–54 which remains to be committed will undoubtedly be obligated before the end of this fiscal year. It appears extremely doubtful that the newly appropriated funds for fiscal 1955 will have been completely committed by that time.

Estimates for OSP in Fiscal 1956

No estimates are presently available as to the amount to be requested for OSP in fiscal 1956. However, it may be assumed that the gradual tapering-off process will continue and that the amount allocated for OSP next fiscal year will be somewhat less than the $240 million made available for fiscal 1955.

Summary Observations

I. The cumulative total of $2.5 billion in OSP contracts placed through fiscal 1954 makes this one of the more important mechanisms for extending military and economic assistance abroad. It represents about 20 percent of all MDAP commitments during the 3 fiscal years through June 30, 1954, and a substantial part of the total foreign aid extended during that period. However, its effectiveness has probably been considerably less than it might have been if its primary application had been limited to the original military objectives.

II. Originally intended to help restore European production facilities for munitions, to broaden the strategic production base, and to facilitate in various ways the supply of military goods in the European sector, OSP was promptly seized upon as a ready instrument for the accomplishment of a wide variety of economic and political objectives as well. Attempts were made to place OSP contracts for the purpose, among others, of supplying dollars to countries with a large dollar deficit; of reducing unemployment; of "combating communism;" of encouraging free trade unions; of improving productivity; of encouraging competition and free enterprise; and of fighting cartels. Frequently these objectives conflicted with the effective carrying out of the military purposes of the program, which resulted in confusion and long delays in the placing of contracts. The compromises reached were often unsatisfactory from all points of view. Much ill-will was caused by the failure to invite public bids and to award contracts to the lowest bidder on a general competitive basis. This dissatisfaction and other adverse effects may have more than offset any possible benefits in other directions. Directed and negotiated contracts could not be avoided, of course, if any serious attempts were to be made to utilize the program for the multiplicity of objectives indicated above and they could be justified on this basis. Unfortunately, much advance publicity was given to open competitive bidding and, when this course was not followed, the adverse reactions were significant.

III. Where OSP is to be continued, greater emphasis should be placed on effective preaward surveys to insure compliance with specifications, and the attainment of increased productivity. Greater emphasis should also be placed on international competitive bidding as an effective method of diminishing the power of cartels and monopolies in the area of price fixing.

IV. There is evidence indicating protracted delays and poor performance in certain large OSP contracts now outstanding. A review of these contracts seems desirable with a view to possible cancellation.

V. The use of OSP contracts as a device to make more dollars available to certain countries is open to criticism, unless the contracts can be justified on technical grounds and result in getting the best possible items at the best possible price, with the best possible deliveries, consistent with the military objectives to be obtained.

APPENDIX A [1]

Offshore Procurement of Aircraft

The offshore purchase of British aircraft had its inception in the procurement of a large number of British fighters for allocation to other NATO countries. It did not form part of the present RAF modernization program, but it does give an interesting background against which the present offshore procurement is being more or less patterned. Attention is called to the section entitled "Fiscal year 1953 OSP program."

The report made for the Division of Investigations by the General Accounting Office above cited has this to say on the subject of offshore procurement of United Kingdom aircraft:

INTRODUCTION

The policy of purchasing military aircraft from the British Government for NATO forces arose from a need in 1951 for frontline fighter aircraft. At that time the United Kingdom and France were the only European countries having the technical ability to produce acceptable fighter aircraft.

A program whereby United States-produced fighter aircraft would be furnished to NATO countries had the following disadvantages: Problems of maintenance, replacement of parts, and the development of overhaul facilities.

It was believed that offshore procurement (OSP) of aircraft would give the following advantages: Jet aircraft could be produced in Europe at lower unit cost than in the United States; there would be no stocking of United States parts for the aircraft; and there would be a simultaneous establishment of overhaul facilities.

NATO PLAN

In July 1952, the North Atlantic Council adopted the plan for the procurement of 1,700 fighter aircraft to cost an estimated $400 million. The United States portion of this program was set, at this time, at 950 aircraft at a cost of $225 million.

FISCAL YEAR 1953 OSP PROGRAM

On August 12, 1952, the Secretary of the Air Force advised the Secretary of Defense that the Air Force was unwilling to be the procuring agency. The reasons given were that the purchase of European fighter aircraft was considered a political and economic problem rather than a military one, that the program was not militarily acceptable, and that the Air Force lacked the personnel to carry out this program. The documents relating to the above are probably available in Washington.

[1] Excerpt from Report of the Investigations Division of the Senate Appropriations Committee entitled "United States Aid to British Aircraft Program" dated July 2, 1954.

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In any case, SRE (the Office of the Special Representative in Europe of the Mutual Security Administration) was given the negotiating responsibility on a government-to-government basis.

The Department of Defense has been requested to permit an examination of the documents referred to in the General Accounting Office report. The request has been denied upon the ground that the record has no relevance to the present program and refers merely to an internal difference of opinion within the Pentagon. It was further suggested that no useful purpose could be served by reviving the issue since the matter had been amicably settled, the offshore contracts let and all the money either committed or spent.

Hawker Hunter Contract

The General Accounting Office report continues:

HAWKER HUNTER CONTRACT

On January 10, 1953, USAFE received the Hawker Hunter procurement directive.

In April 1953, a contract review board consisting of four officers in the United States Air Force considered the proposed contract (AF 61 (514)—332) and approved it. According to their report, the philosophy of contracting with Her Majesty's Government rather than with a manufacturer is to place the responbility of administering the contract with the British Government. This would obviate the necessity for United States Air Force inspection, engineerng, and administrative control.

On April 23, 1953, contract (AF 61 (514)-332) was signed by Mr. J. L. Grey of the Ministry of Supply and Messrs. B. D. Loofburrow and J. B. Leist of the Air Materiel Command. The major features of the contract are:

"(1) Amount of agreement is $140,074,200 to be paid in United States dollars chargeable against fiscal year 1953 appropriation. Breakdown is:

465 Hawker Hunter fighters complete as well as technical data at $207,000 each	$96, 255, 000
Spare parts and equipment	38, 373, 200
Special tools and ground-handling equipment	3, 220, 000
Special training aids	2, 226, 000
Total	140, 074, 200

"(2) The agreement is subject to the relevant provisions of the memorandum of understanding relating to offshore procurement of October 30, 1952.

"(3) Deliveries are scheduled to commence in March 1955, and be completed by July 1, 1956.[2]

"(4) If the unit cost of the planes is determined to be more than $207,000 then the number of planes delivered will be less than 465. If the unit cost is less, then more planes will be delivered under the contract.

[2] The report on European trip of Senator Styles Bridges, Committee on Appropriations and Armed Services, and Senator Stuart Symington, Committee on Armed Services, which was released on May 30, makes the following statement on p. 7: "It is doubtful if the schedule of deliveries to the United States for the North Atlantic Treaty Organization will be met. It would appear there will be considerable delay in the planned delivery of the first 25 aircraft."

"(5) United States Government representatives have the right to verify certifications made by the British. They also may verify that end items conform to standards, drawings, designs and specifications; and that the quantity of end items specified is delivered."

We were informed by officials of the LPFO (London Procurement Field Office Headquarters USAFE) that they received very little cooperation from the British Ministry of Supply. As a result, they find it very difficult to keep informed of the status of the offshore procurement contracts which are their responsibility.

COST OF AIRCRAFT

The determination of the final cost of the procured aircraft will be made by the British Government. The LPFO is not permitted to make a verification of the costs to determine that the British Government has not made a profit in the transaction.

This is covered by the memorandum of understanding and standard-agreement clauses dated October 30, 1952, relating to the United States offshore procurement program in the United Kingdom:

"SECTION 16—REFUNDING OF EXCESS RECEIPTS

"* * * The compensation payable by the United States Government to Her Majesty's Government as specified in the individual agreements shall reflect only the cost to Her Majesty's Government of performing the agreements. * * * In the computation of any excess receipts to be refunded, the agreements between the two Governments covered by this memorandum shall be considered collectively and not individually."

This arrangement could also bring about the possibility that a profit to the United Kingdom Government on the Hawker Hunter contract would be offset against a loss on another offshore-procurement contract. The suspicion prevails among the officials of LPFO that this might happen. They cited, as a case in point, an ammunition contract awarded to the United Kingdom Government at a price which they believe is below the cost of producing the ammunition. They think this was done deliberately to get the contract for British manufacturers.

Public Lending and Private Investment

By Steuart Pittman and Charles A. H. Thomson

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INTRODUCTION

Issues of public lending and their relation to private investment abroad have posed serious problems for public policy and action since World War II. The amount and direction of private investment is the foundation of our plans, and a full flow of international private investment remains an ultimate objective of our policy. But it was early decided that private investment alone could not meet, fully enough or in time, the requirements of our economic, political, and military policies. Given the necessity for a program of government economic assistance abroad, much of the subsequent debate turned on whether this assistance should take the form of loans or grants. If loans, on what terms? Should loans be fully bankable, somewhat softer, or little more than a cloak for grants in the form of debts that would never be dunned or paid? The relations of private investment to technical assistance were noted, but never adequately clarified in our subsequent policy and action.

The result to date has been a variety of government programs to lend money on terms of varying stringency, to improve the climate for private investment, and in other ways to encourage private investment to flow abroad. These programs pose questions for public policy today. The programs and the emerging problems are set forth below, and followed by a summary of findings and observations.

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I. Public Lending Activities

A. FOA Lending Activities

1. Background

In the first few years of the Marshall Plan one of the most active questions before the Congress and the Executive branch was whether the multibillion dollar aid program should be on a grant or a loan basis. This recent bit of history is worth recalling in view of FOA's proposed new program of loans on lenient terms, which is described below. The Export-Import Bank for several years preceding the Marshall Plan had assumed the burden of financing European reconstruction. The decision to embark on a new form of financing was partly based on the assumption that the borrowing countries of Europe were "loaned up" in the sense that their credit was no longer a good enough risk for the Export-Import Bank to assume.

However, it was felt that a gap existed between the Export-Import Bank's standard of reasonable prospects for repayment and an outright grant. It was believed that there might well be further capacity for repayment in Europe if the terms of the loans were sufficiently lenient. The authorizing committees of the Congress were particularly enamored of the idea that a dollar note from a bad credit risk was better than nothing from the standpoint of the United States taxpayer. The result was the ECA program loan. These loans, made through the Export-Import Bank acting as agent for ECA, were agreements to repay a negotiated part of the annual aid allotments over a period of 35 years, with interest at 2½ percent (a fraction above the cost of the money to the United States Treasury). The possibility of repayments in local currencies was expressed in a provision for renegotiation by mutual agreement. Even though this provision did not weaken the legal basis for United States claim for dollars, it put a color on these loans which probably has the practical effect of making them junior to all other dollar obligations. However, there have been no defaults to date.

In each of the Marshall Plan years the Executive branch, with varying degrees of success, resisted Congressional preference for loans over grants on the theory that Europe had become "loaned up" even for the ECA type of easy loans. Nonetheless, the aggregate amount of loans of the above described type was around $1,300,000,000.

These loans were characterized at various times in Senate debates as "fuzzy loans" and "disguised grants." There has been considerable difference of opinion both in the Executive branch and the Congress

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as to their justification. The principal argument for them has been the simple one that a potentially bad loan is better than a gift from the standpoint of the United States taxpayer. On the other hand, it has been strongly argued, particularly by Treasury and Export-Import Bank officials, that to increase a borrowing country's dollar obligations beyond reasonable prospects for repayment can do more harm than good to that economy by destroying its credit standing and by reducing its opportunity to borrow on a sound basis from the Export-Import Bank, the International Bank, or possibly from private sources. It has also been urged that the strings which can be attached to grants, but not so readily to loans, namely, counterpart, end-use checks, etc., increase the effectiveness of the aid and hence reduce the need for, and ultimate level of, assistance. Furthermore, it has been said that the International Bank and the Export-Import Bank roles are undermined by placing United States foreign aid on a loan basis; the good loans are tainted by the bad; borrowers have less incentive to produce bankable projects.

2. *Current Lending Policy*

The question of loans versus grants in the foreign aid programs arose again during 1954 as a result of the Randall Commission recommendation, and rising congressional sentiment in support thereof, that wherever possible economic aid be in the form of loans rather than grants. The response of the Executive branch has been a loan program which is about to reach the stage of negotiation with aid recipient countries. The amounts involved are much smaller than in the Marshall Plan days; they probably will not exceed an aggregate of $200 million in fiscal 1955.

The terms which have been agreed to by the various agencies and departments of the Government are these: A maximum term of 50 years; annual interest at not less than 3 percent if payments are to be in dollars, and not less than 4 percent if payments are to be in foreign currencies; interest payments will be postponed for the first 3 years and principal for the first 4 years. The borrower will have an option of delivering a note payable in its own currency or in dollars; it can shift during the life of the loan from foreign currency to dollar payments but not vice versa. Local currency repayments can be used for any United States Government expenditures in that country but not in third countries; local currency payments will be computed at the exchange rate at the time of making the loan so that the borrower bears risk of devaluation. There is provision for renegotiation for payments in strategic materials or other methods of payment. The agreement will provide that the United States take account of the economic position of the borrower in using local

currency. The loan agreements permit advances to be made by the United States Government in foreign currencies rather than in dollars. However, as a practical matter any local currency advances will be from the proceeds of surplus agricultural sales, which is in effect an advance of a dollar commodity rather than local currency.

3. *Current Balance of Grants and Loans*

FOA has informed the following countries that they must take a specified part of their aid allotments for fiscal 1955 on a loan basis, and that the terms will be negotiated within the above described limits:

Egypt	Pakistan	Yugoslavia	Spain
Israel	Turkey	China (Formosa)	Iran
India	Greece		

All of these countries except Iran were offered the choice between loans repayable in the currency of the borrower or in dollars. Not surprisingly, they all took the local currency option. Iran was required to take a dollar loan, presumably because of the recent oil settlement. Iran offers an interesting case study in the interaction of the FOA loan program and the Export-Import Bank, as Iran is currently negotiating loans with both agencies.

4. *Use of Foreign Currencies for Aid*

A new and large source of United States Government held foreign currencies is developing from the agricultural surplus program. Our statutes permit the use of foreign currency proceeds from the sale of agricultural surpluses for loans within the buying country.[1] Plans for making loans in foreign currencies have not advanced much beyond the decision on terms summarized above. However, one of the main lines of thinking on this subject is the possibility of making loans to provide capital to new or existing development banks in the recipient countries. The present view in FOA seems to be: (1) That contributions to development banks, whether in foreign currencies or dollars, should be in the form of loans on the extremely lenient terms described above; and (2) that the objective should be to provide a basis to attract private capital on terms more favorable to the capital. It is expected that most of these development banks in Asiatic coun-

[1] The agricultural surplus program, as is more fully pointed out in a separate paper on that subject, has its roots in both the Mutual Security Act of 1954 and the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480). Authority for lending local currency proceeds of sales has been given in both acts. The above mentioned 10 countries do not include the as yet unknown countries which may receive loans from agricultural surplus sales proceeds generated under P. L. 480. It is understood that the terms of the loans will be the same regardless of which surplus program generates the currency.

tries will necessarily be Government-owned, at least initially. Although the danger of possible inflationary effects of such institutions in certain of the underdeveloped countries is recognized in FOA, there seems to be confidence that standards of operations can be imposed by agreements negotiated in the course of making loans, which would avoid adverse economic effects. No detailed plans are known which define the role of the United States Government in these banks and the methods of directing their operations toward the sound objectives which FOA has in mind.

It should be noted that the public financing of development banks is not new to either the Export-Import Bank or the International Bank. The International Bank has made five loans through central financing institutions, and the Export-Import Bank has made several, including one recently to the Philippines. The International Bank in particular has used its prestige and influence as well as its creditor position to play a prominent role in the administration of the foreign borrowing banks. Even so, the International Bank experience has not been a universally happy one; the case of Turkey brings out some of the practical difficulties of participation by a foreign government or international organization in anything so intimate to the national economy as a Government-owned development bank. Relations between the International Bank and Turkey have been exceedingly strained to say the least.

If loans repayable in foreign currencies are to be a continuing method of financing foreign aid, innumerable complications may be expected to occupy various agencies of the Government for years to come. Under the above-described terms, the United States Government will be legally free to do with its foreign currencies anything it wishes, except to undermine the exchange position of that country by using its currencies for expenditures in third countries. If the amounts accumulated are substantial this could represent a considerable force in the economy of the borrowing country, which would be entirely within the control of the United States Government. Even if the United States Government is successful in negotiating such terms, it seems unlikely that the United States will, as a practical matter, use its power freely, as indicated by the proposed expression in loan agreements that the United States will take account of the foreign economy in using currency. In any case, the accumulation of foreign currencies in this manner and under these conditions would seem to be a serious potential source of future international friction, and its effect on international monetary affairs at any given time over the next 50 years is entirely unpredictable. While the amount of such loans depends on current negotiations, the significance of this financial device arises less from the total loans than from the extent to which it sets a pattern for financing economic development in countries

which cannot afford to borrow on more conventional terms from more prudent bankers.

5. *Conventional Loans*

In addition to the above-described revival of a form of the Marshall Plan technique of easy loan financing, it is worth noting the less extensive use of more conventional loan methods in the foreign aid programs. From 1950 to 1952 a series of loans aggregating $62.5 million were made to finance various industrial projects in Spain. Several loans were also made to finance projects in the overseas territories of participants in the Marshall Plan. All of these loans were made on terms ranging from 15 to 20 years at interest rates between 3 and 3½ percent. The proceeds were limited to financing the projects justifying the loans and were not merged with annual aid allotments. The Spanish loans were negotiated by the Export-Import Bank and followed Export-Import Bank lending policies in all respects, even though the funds were authorized by Congress as part of the MSA aid program. The reason for this arrangement was partly a desire on the part of the executive branch to make a special case of Spain in view of the attitude of the European participants in the Marshall Plan toward Spain. There was political advantage in treating the Spanish aid program which Congress forced upon the Administration as a part of the Export-Import Bank's regular business, even though the bank refused to make further loans at that time to Spain for financial reasons. Although the Spanish Government guaranteed repayment, borrowers were private or quasi-public industrial concerns. The several loans to the overseas territories were negotiated by MSA under MSA policies, and the Export-Import Bank role was limited to that of agent and collector, as in the case of the above-described program loans.

At the present time the only loans for specific projects on conventional terms are those made by the Export-Import Bank out of its own funds. FOA and the bank have recently worked out a system of coordination whereby FOA missions abroad have an opportunity to call the bank's attention to what they consider to be meritorious loan projects. Thus the bank, in theory at least, stands ready to provide financing out of its own funds to projects initiated through the FOA aid programs provided that these projects qualify under the bank's present policies.

6. *Foreign Aid and the Export-Import Bank*

It will be seen from the above that the relationship between foreign aid and Export-Import Bank activities has run a varied course. All

of these loans have been made and administered by the Export-Import Bank, with the bank acting merely as an agent for FOA in all respects except as to collection. However, the Spanish loans are a case where the bank has acted fully under its own policies and procedures and has carried the full relationship with the borrowing country, including negotiations and end-use checks by personnel in the field, and has processed and approved loan projects with only a paper participation by MSA (except for occasional, largely unsuccessful, efforts by MSA to provide adequate notice of pending procurement to the MSA "small business" mailing lists and to locate some procurement in other aid recipient countries). Then there are the few project loans to the overseas territories which were very similar to the Export-Import Bank loans, except that MSA handled the negotiations and all other aspects of the relationship with the borrower under procedures created for purposes of grant aid. Finally, there is the current attempt to direct the bank's attention, at least in part, to loans initiated from, and in furtherance of, the foreign aid programs.

Foreign aid and Export-Import Bank activities have been nominally coordinated through the National Advisory Council on International Monetary and Financial Affairs. In fact, there has been little coordinating except to keep the two activities out of each other's way insofar as possible. (The recent tendency toward bilateral consultation has not yet provided evidence seriously to qualify this statement.)

The latest form of FOA loans seems to be predominately in local currency obligations, and hence competition and conflict wih the Export-Import Bank is reduced to a minimum. However, there is an obvious need for more positive cooperation if foreign economic development is to continue to receive financial support from both the foreign aid programs and the Export-Import Bank.

B. Export-Import Bank Operations

This section examines in more detail than in the preceding one the origin and development of the Export-Import Bank's relationship to the mutual security program.

1. Development

Between 1934 and 1939, while the domestic economy was depressed, the bank was primarily engaged in the Government's total program to stimulate the United States economy. By 1939 there was a world seller's market for United States production, and there has been very little need or demand by exporters for government or private credit

facilities (other than the very short term commercial credits to clear international transactions) until about the middle of 1953.

Starting in 1939 the resources of the bank were devoted more and more to the defense needs of the United States. From 1939 to 1944, there were two main categories of defense-inspired loans: First, developing strategically located sources of materials, e. g., the development of tin mines in Argentina, tungsten in Bolivia, iron in Brazil, aluminum in Canada, and rubber in Haiti; second, a series of Latin American loans responsive to the inter-American resolution initiated by the United States in January 1942, calling for hemisphere defense solidarity, including loans to provide strategic transportation facilities and to stimulate local Latin American production of food and commodities to replace imports cut off by the war.

There followed a brief period of loans to relieve the effects of the abrupt termination of lend-lease while large amounts of material were in the pipeline of manufacture and delivery.

Between the termination of lend-lease and the institution of the Marshall Plan (1945–48), the bank was heavily called upon for emergency reconstruction financing. Reconstruction of war-torn economies was represented to Congress as an important justification for increasing the bank's lending authority from $700 million to $3,500 million in 1945. This is the largest single increase in the bank's lending authority, and it was made chiefly for purposes of war reconstruction rather than directly for the stimulation of United States exports, which is sometimes said to be the bank's only proper function. The principal beneficiary was France, which received two large loans in 1945 and 1947, aggregating $1,200 million. The 1945 British loan, amounting to $3,750 million during this same period, was made and administered directly by the Treasury without using the facilities of the Export-Import Bank.

Since 1948, the bank's activities have been largely responsive to the high priority given to foreign economic development by the United States Government as a means of dealing with the advance of communism and of meeting the supposed problem of the excessive strength of the dollar in the world economy. During this period the Korean war brought about an acceleration of United States stockpiling activities in which the bank played a prominent part through loans out of its own funds and also out of funds authorized under the Defense Production Act.

During the period from 1945 to September 1954, 64 credits have been extended to United States exporters in excess of $160 million. The bank has from time to time advanced dollars to foreign central banks to permit purchase of United States agricultural products on short to medium term credit. The bank has also, on several occasions, advanced dollars in considerable amounts for short and medium term

to foreign central banks to meet serious arrears in their dollar exchange transactions. The purpose has been a combination of bailing out American exporters and emergency support for a friendly foreign economy. The most recent example is the $300 million loan to Brazil.

2. *The Current Position*

The foregoing shows that since 1939, the bank has largely pursued objectives of the same type that inspired the aid programs handled by ECA, MSA, and FOA. In fact, the genesis of the study in 1947 leading to the ECA legislation was a decision that the bank could not continue its heavy lending for European reconstruction under its statutory criterion of "reasonable assurance of repayment." The bank staff attributes about 52 percent of its outstanding loans to direct defense and war reconstruction purposes.

Some essential statistics concerning the bank's position and performance are worth emphasizing. The bank has shown a profit after paying to the Treasury the cost of its funds (on both borrowings and the capital stock) in each year of its life. It has accumulated reserves out of earnings amounting to $330 million. Defaults written off are about one-tenth of 1 percent of accumulated earnings. Nonpayments of principal not yet declared in default amount to $4.4 million, all one Chinese loan. Earnings are increasing between 5 percent and 10 percent a year. The bank has estimated, on the basis of scheduled repayments, that it can lend $5 billion over the next 10 years without drawing down Treasury funds.[2]

As of September 1954, $1,667 million was available for new loans. This reflects the recent increase in the bank's lending authority from $4.5 billion to $5 billion. This occurred, incidentally, without noticeable opposition from Congress at a time when the FOA request for less than half that amount, namely $224 million, to finance the strictly economic assistance part of the mutual security program was the subject of bitter debate and considerable modification by Congress.

The bank employs 134 people here in Washington and none abroad, handling its foreign business through the traveling of its Washington personnel. Its annual budget is slightly over $1,070,000.

3. *Exporter Credits and Development Loans*

Recently there has been a good deal of publicity regarding the bank's activities. On the one hand, the bank's announced new exporter "line of credit" policy, followed by a half dozen completed exporter credits, has created considerable expectation that the bank is turning its atten-

[2] Chart 23, p. 1012, hearings, June 14, 1954, on S. Res. 25 and 183, Senate Banking and Currency Committee.

tion from carrying out foreign policy objectives to assisting United States exporters. On the other hand, the bank has been used by the administration, in the recent conference at Rio de Janeiro, as the principal hope of increased United States Government financing of Latin American economic development.[3] It is not clear what this means in the light of the prevailing Treasury view that development-type loans should normally be handled by the International Bank, and only made by the Export-Import Bank for special reasons of United States national interest. However, a sharp reduction in appropriations for FOA-type economic aid could well increase executive branch pressures on the Export-Import Bank to use its funds to meet emergency or other high priority financial requirements of foreign governments.

The announced new policy on exporter credits does not appear to involve a broadening of the criteria under which the bank approves credit applications. In one way, the standards are tightened in that participation in the credits by the exporter or his bank must be larger than in the past (15 percent of the foreign obligation was formerly typical, whereas 25 percent seems to be the bank's present objective).

The principal liberalizing effect of the new policies is administrative; the scope of review of applications for export credits is reduced. This is made possible by processing applications as lines of credit within agreed ceilings for specified products to specified countries. The qualifications of the exporter and of the importer, the beneficiary of the credit, are thus reviewed only once for a series of credits. Likewise, the balance-of-payments position of the importing country is assessed only once when the line is opened rather than with each transaction. Inasmuch as the bank's export credit activities have been limited by failure to crystallize the bank's policies and relationship to other parts of the Government and from the resulting difficulties and delays in developing acceptable applications, these changes, together with public and congressional pressure, may be expected to increase the volume of exporter credits.

4. *Export-Import Bank versus IBRD*

There have been efforts recently to distinguish between exporter credits and development loans for the purpose of avoiding duplication between the International Bank for Reconstruction and Development and the Export-Import Bank. The distinction is not as meaningful in operations as it may be in theory. Both banks are concerned primarily with productive capital equipment of the type justifying medium or long-term financing. Whether such equipment is financed through

[3] The proposed International Finance Corporation was also mentioned at Rio, but it should be remembered that this Corporation would be managed by IBRD; the United States would hold about one-third of the votes; fifty-odd countries and Congress have yet to accept the proposal.

suppliers or through the importing enterprise, the use the equipment is to be put to, i. e., the project, must be examined. The Export-Import Bank has no intention of providing a financial facility to United States exporters without regard to whether it is contributing to political monuments or well-conceived industrial developments in backward countries.

Furthermore, it seems likely that United States equipment manufacturers can and will organize their applications for financing either on a "development" project basis or on an individual supplier credit basis depending on the best chance of obtaining favorable loans under the policies of either of the two banks at any given time. This is true whether the project is basic development (harbors, roads, etc.) or industrial plant development.

The distinction created by the International Bank's limitation by its charter to loans to governments, or against Government credit, is also somewhat illusory in operation. Capital equipment imports into backward areas generally justify either central bank or Government guaranties. In most of these countries the national credit is no better than, or inferior to, the central bank's credit standing. If the International Bank's charter limitation is to be used to distinguish primary spheres of operations between the two banks, it may be expected to affect the manner in which many loan applications will be set up, but not to confine each bank to a different kind of banking business.

Does the International Bank make a United States Government bank for foreign loans unnecessary or otherwise undesirable? That question involves an analysis of the need for assuring United States exports its share in public international financing, the degree of tangible and intangible control exercised by the United States in the International Bank, and the extent to which United States national objectives can or should be met by foreign loans. It is sufficient to point out that loans to stimulate United States export trade and loans to develop foreign economies cannot be clearly distinguished in their operations and their economic effect.

Under today's conditions, the United States Government cannot engage in an international banking activity to stimulate our exports except under standards which confine it to the objectives of our foreign economic policy, namely, to stimulate foreign economies and thereby to advance the level of world trade. Accordingly, the activities of the Export-Import Bank, whether they be called exporter credits, development loans, stabilization loans, war or reconstruction loans, are inseparably entwined in the other activities designed to further United States economic policy, mainly those presently administered by FOA.

II. Encouragement of Private Investment Abroad

A. FOA Activities

The most important contribution made by FOA to the encouragement of private investment abroad is in the effect of the more central mutual security program activities on the investment climate. This contribution is especially notable when they are handled with sufficient regard for opportunities to stimulate private capital. These activities include certain types of technical assistance, direct economic aid of the project type, participation in control of local currency counterpart funds and the use of the influence which some FOA missions have achieved in the course of administering aid programs. Most of the economic side of the mutual security program can be oriented toward the objective of a transition from a program of government to one of private investment, trade and exchange of knowledge. This has been the announced objective of the President and the Director of Mutual Security and it has been carried into practice to some degree.

Efforts of FOA to encourage private investment abroad consist of a series of activities, most of them new, which have not yet crystallized into anything that could be called functions, plus two established operating programs; namely (1) The investment guaranty program, and (2) a number of other activities including the small business contact clearinghouse program.

1. Investment Guaranty Program

(*a*) *Nature of the program.*—This activity can be better understood as an insurance than as a guaranty function (even though the premiums are not determined on an actuarial basis and hence there is probably a subsidy element). The risks insured against are—

(1) Inconvertibility of investment receipts (capital or earnings) and, in countries with multiple rate systems, deterioration of the rate applicable to the investor in relation to the predominant exchange rate (which means there is protection against discriminatory exchange rates, but not against general devaluation).

(2) Expropriation or confiscation, in the broad sense of loss of control or prevention of payments on debts, by foreign governments or governing authorities in effective control.

The President, following the Randall Commission recommendations, proposed to the Congress the addition of war-risk coverage. For the third time (previously in 1950 and 1952), this extension was passed by the House and rejected in conference with the Senate. An important element of war-risk insurance is, however, covered under the present guaranty authority which covers expropriation by governing authorities come to power through war or revolution. Thus, all but physical damage from military action is covered by the expropriation guaranty as now written.

(*b*) *Administration.*—The program is administered by a small staff in FOA: 3 or 4 professionals and 2 secretaries, plus part of the time of 1 member of the general counsel's office and 1 member of the Controller's office. Major policy questions are occasionally taken to the National Advisory Council on International Monetary and Financial Problems, and the State Department has been consulted frequently on individual investment proposals raising possible conflicts with foreign policy and on the initiation of the program in new countries. The Export-Import Bank's work is reimbursed by FOA; billings have been running at the rate of $500 per month.

(*c*) *Performance to date.*—The record to December 1954 indicates a very limited movement of investment under guaranties. The total amount of guaranties issued is $48.1 million for 68 guaranties ($2.6 million for 7 expropriation guaranties and $45.5 million for 61 convertibility guaranties) over a period of nearly 6 years.

In assessing past performance, the following additional facts must be considered:

(1) Pending applications number 121 for both types of guaranties (about $130 million). Although a clear upturn in interest in the program over recent months is evident, the relatively large volume of applications is not an accurate guide to the future, as many of them are never pressed to completion. However, the current level of applications is over 50 percent higher than at any time prior to last spring.

(2) The coverage of guaranties has been expanded gradually. Both the Congress and the executive branch have taken a cautious experimental view of it. The present coverage, including protection against expropriation and rate differentials in multiple exchange rate systems, has been available for less than half of the life of the program. The program has only recently undergone a thoroughgoing overhaul for the purpose of fully exploiting its potential without sacrifice of sound financial principles. The changes are reported to have attracted widespread interest.

(3) Experience to the end of 1954 has been almost exclusively with Europe. No guaranties have yet been issued for invest-

ments in the underdeveloped countries where political risks are greater, and only six non-European countries have so far agreed to participate in the program (Philippines, Israel, China (Formosa), Haiti, Japan, and Thailand), making a total of 20 participating countries. Convertibility and expropriation insurance are available in the following countries:

Austria	Japan
Belgium	The Netherlands
China (Formosa)	Norway
Denmark	Philippines
France	Portugal
Germany (Federal Republic)	Spain
Greece	Thailand
Haiti	Turkey [1]
Israel	United Kingdom [1]
Italy	Yugoslavia

(4) There is reason to believe that a significant number of holders of guaranties would probably have invested without guaranties. But, there is considerable evidence that the availability of guaranties influenced decisions to explore and negotiate opportunities resulting in investments in circumstances which, when examined more closely, did not appear to warrant taking out a guaranty for a fee.

(5) As in the case of any private insurance operation, public acceptance of this program depends to some extent on investor experience when guaranties are called upon. Because of the potential diversity of events insured against, the value of the contract will be judged by performance as well as by its language. To date, there is no performance to judge, as no guaranties have been called.

(6) There is some evidence that more requests would come in from potential American investors if it were known that guaranty agreements were available or in prospect. For example, requests for guarantees in the amounts of $4 million, of $5 million, and $750,000 were received by FOA in January 1955, in connection with proposed investments in Brazil, Columbia, and Argentina, respectively. None of these countries are members of the program.

(7) There has been a minimum of effort by ECA, MSA, or FOA to promote understanding of the uses which might be made of guaranties, largely due to lack of high level attention and to skepticism over the success of such efforts. FOA is currently undertaking a variety of measures to increase awareness of the possible usefulness of the program.

[1] Convertibility insurance only.

(*d*) *Objections to the program.*—The program has been slow to cover non-European countries, partly for lack of a positive approach by the United States Government, but even more for lack of interest or opposition on the part of the underdeveloped countries in which the program might operate. The specific objections of foreign countries to the program (clearly registered by only three countries) are to the requirement that they recognize that the United States Government may take over the position of American investors in the event of expropriation and pursue the claims through diplomatic channels, resorting to international arbitration if necessary. This requirement has been one of a number of provisions contained in an intergovernmental agreement which has been a condition to initiation of the program in any country.

The program has acquired the reputation of being administered in a sticky manner, with excessive caution and unnecessary inquiries into private affairs. FOA has recently instituted a new system of administering the program,[2] which is designed to make the insurance more readily available and to make its availability more predictable and widely known from its literature and regulations without the necessity for trips to Washington. However, the program is a selective one, requiring the exercise of judgment by Government personnel to determine that the investment furthers the broad objectives of the mutual security program (the standard of approval imposed by statute). It has proved difficult to be specific in establishing ground rules to narrow the area of discretion in determining that the investment has economic benefit and does not conflict with United States foreign economic policy (e. g., antitrust policy, East-West trade). FOA is now seeking a procedural solution by offering qualified letters of approval which commit FOA in large part on the basis of preliminary applications made in the early stages of the investment negotiation.

A more basic objection to the guaranty program has been the charge that it tends to produce discrimination between American businesses operating abroad. This conclusion is drawn from the fact that only new investment is eligible with the result that existing investment not only fails to have the benefit of insurance protection, but it must meet the new competition brought in through this program. Concern over this competition is more for access to limited foreign exchange and special treatment by the Government than it is to direct business competition. It is also said by some critics that foreign governments will tend to favor guaranteed investors over unguaranteed investors; others reach the opposite conclusion that foreign exchange will be conserved for the unguaranteed investors, leaving it to the United

[2] The program as presently administered is laid out in a newly issued pamphlet entitled *Investment Insurance Manual.* This manual includes the formal regulation, FOA Regulation 4, governing operation of the program.

States to provide dollars under the guaranties. These criticisms are answered, in part, by the following facts:

(1) The majority of the outstanding guaranties cover additions to unguaranteed existing investments; thus the principal beneficiaries of the program have been those who might be the victims of any discriminatory effects.

(2) The conditions imposed on foreign governments participating in the program are to some extent a deterrent to adverse actions of the foreign governments, and this deterrent applies to both guaranteed and nonguaranteed investments.

(3) These conditions expressly preclude foreign exchange discrimination resulting in calls on the guaranties.

(4) In many countries the governments are committed to principles of nondiscrimination through commercial treaties or otherwise.

(*e*) *Appraisal.*—It can be concluded that this program is not inherently discriminatory in its practical effect, but that its administration should be constantly watched by those operating the program, and by any other part of the Government responsible for the treatment of American investors abroad, in order to assure that it is operated in a manner contributing to improvement of investment conditions abroad, rather than the reverse.

There is considerable evidence from guaranty applicants that complete coverage of risks of war and revolution would be a significant factor to United States investors in certain countries. These eventualities are usually beyond the control of the government concerned and, therefore, not open to some of the criticism leveled at the present program, as outlined above. It is, however, open to a new objection in that domestic investment is perhaps equally exposed to the risk of all-out war. However, it seems logical to suppose, and there is evidence to support it, that investors would prefer to confine their commitments to this country in the face of the prospects of a general war. If the purpose of the program is to induce investors abroad to take foreign investment risks, it seems clear that insurance against war risks during this cold-war era would tend to reduce one substantial obstacle to investment in certain countries.

From FOA experience with investors interested in expropriation guaranties, it appears that the need is quite frequently for protection, not against expropriation as the term is generally understood, but rather against repudiation by foreign governments of written commitments laying out the essential conditions which have attracted the investment. This is particularly true in the extractive industries in the underdeveloped areas. These types of investment, while not large in number, often have a high priority in terms of United States Government objectives. Coverage of risks of this character would

require insurance adaptable to individual investment transactions, under broader legislation and careful administration. Such insurance would have the advantage of providing a backdrop against which the foreign government can more effectively offer conditions attractive to investment, thus leaving the initiative with the foreign government where it belongs.

One of the most important applications of this program has been to arrange for the licensing of patented and unpatented American technology to foreign concerns. In view of the extensive efforts which the United States Government is making to transfer industrial technology to foreign countries for purposes of their development, this side of the guaranty program has a growing significance. It permits the transfer of protected industrial technology under privately negotiated conditions, and it encourages a kind of business relationship which influences foreign people toward American business methods and attitudes, without inviting the conflict which so often exists between foreign capital and local nationalism.

FOA has been giving attention to the possible use of its guaranty authority to stimulate the movement of United States portfolio capital abroad (investment trust companies, funds or companies set up to finance international trade of approved types, foreign bond placements with United States institutional investors). The legislative authority is not well adapted to this objective, and there has been little tangible result. Any serious effort to stimulate a significant increase in the rate of United States investment abroad must be at least in part addressed to the large accumulation of investible funds in the hands of the various financial and fiduciary institutions of this country. Experimentation in this direction could be more effectively undertaken by the Export-Import Bank under its present broad loan-guaranty authority reinforced by the authority to guarantee equity investments against risks peculiar to foreign investments. Legislative flexibility and the bank's experience are needed. Furthermore, any guaranties of insurance or portfolio capital would closely relate to the bank's regular loan activities, and hence should be its responsibility if only to avoid interagency confusion and conflict.

Guaranties will never be a major influence on the flow of investment; they will be decisive only in the still scarce instances when the investment motive—unusual earnings prospects, development or maintenance of a name and market in countries to which exports are difficult, assuring sources of materials, low cost production of components—outweighs the many uninsurable foreign risks.

The practical difficulty of defining important elements of the noncommercial risks of investment abroad prevent their full coverage in guaranties, which must be sufficiently precise to be relied upon for business purposes. The variety of actions available to a harassing

foreign government defy prediction and are frequently inseparable from risks of a type to which domestic business is exposed. This is true, to some extent, of the specific risks of inconvertibility and expropriation covered under the present program; it is less true of the risks of war and revolution. The principal reason for not proposing legislative coverage of regulations, taxes, etc., which may smother the enterprise in ways more costly to the investor than outright expropriation, is that they are not risks susceptible to adequate definition for insurance purposes.

The authority to issue guaranties extends to June 30, 1957 (sec. 413 (4) of the Mutual Security Act of 1954). This was done in recognition of the need for an appearance of continuity in offering assistance to private investors. However, it appears likely that the disposition of this program will be put up to the Congress in the coming session because the level of applications ($130 million)[3] is overtaking the level of funds remaining available ($139.7 million, out of the $200 million authorized fund).[4] Without additional borrowing authority (these are public debt funds, i. e., authorized borrowing from the Treasury, rather than appropriations), the program could continue on a more selective reduced basis, as new funds become available from reductions in outstanding commitments and from fees. However, it seems likely that the administration will seek to continue the recent growth in this program, despite its recognized limitations, if only because a high priority has been given by the President to the encouragement of private investment abroad and very little that is specific has been found that can be done about it.

(*f*) *Suggested changes.*—If insurance of this type should continue to be provided by the Government as one means of assisting private United States investors abroad, consideration should be given to improving the prospects for its sound administration by relocating this activity in the Export-Import Bank. The bank is already administering outstanding guaranty contracts; it has the proven experience and capacity to deal with private financial and investment transactions; guaranties are more closely related to the bank's project-type lending activities than to any of the FOA activities.

If it is determined to transfer the guaranty authority to the bank, the bank should have the opportunity to free the program from its historical roots in the foreign aid programs and the resulting legislation and legislative history which is unnecessarily elaborate. To accomplish this, the administration should submit to Banking and Currency Committees' legislation amending the Export-Import Bank Act to permit the bank to insure equity investments, which are consistent

[3] Not all of this will result in guaranties.

[4] This figure has a complicated basis: it takes account of cancellations and reductions of outstanding guaranties; the quite unrelated information media guaranty program (administered by the United States Information Agency) operates out of the same fund.

with the objectives of United States foreign economic policy, against risks peculiar to foreign investment, which the bank determines to be noncommercial in nature and susceptible of insurance treatment.

Resulting improvements in the program would be:

(1) Benefit from the high standing of the bank with American business and financial communities and from the continuity of a permanent agency;

(2) Flexibility in the coverage of risks to meet individual investment circumstances;

(3) Greater flexibility in standards of approving investment prospects;

(4) Flexibility in requirements imposed on foreign governments, both as to project approvals and as to treatment of currency and claims to which the bank might become subrogated (the bank has demonstrated a capacity to deal with foreign governments as a banking institution, rather than as a Government agency);

(5) The size of the funds out of which guaranties are written could be determined on the basis of the bank's financial position (a small fraction of the presently available unused lending authority could readily take care of a much larger investment insurance program than FOA has in sight), and the funds could revolve (at present, dollars recovered from currencies and claims to which the United States may become subrogated do not return to the program);

(6) Insurance of equity investment could and should be administered hand in glove with insurance (or guaranties against specified risks) or private loans accomplishing investment purposes.[5]

2. *Other FOA Activities*

(*a*) *General.*—In recent years FOA and its predecessors have been carrying on a sporadic effort to locate significant investment opportunities abroad and attract investor attention to them. Until about a year ago, the principal such activity had been the Contact Clearing House Service for gathering and disseminating licensing and investment opportunities here and abroad (described below). The attitude in FOA and its predecessors had been that this kind of activity required broad dissemination to avoid charges of discrimination and some of the dangers of Government employees engaging in activities which might in some ways be associated with the brokerage function.

[5] There is some uncertainty at present as to whether FOA will guarantee loans, other than intercompany loans; the bank has recently announced its readiness to guarantee loans against specified risks.

There was considerable skepticism of the need for the United States Government to supplement private sources of information about foreign investment opportunities.

FOA has initiated missions to Turkey, Portugal, and the Gold Coast designed to encourage improvement of investment conditions. The approach differed markedly, country by country. The first and most productive of these missions was a well-publicized trip by Clarence Randall and a few associates, to Turkey, which contributed to bringing about important amendments in the Turkey investment law. Turkey was selected for this trip particularly because the mission in that country had, perhaps more than any other FOA mission, done a great deal over a period of 2 years to create an interest on the part of the key Turkish officials in taking the steps necessary to attract foreign capital and had done considerable work with those officials on the more technical problems involved. Hence, it was believed that the groundwork would be laid for achieving quick results by bringing to bear a man of Mr. Randall's stature. The Turkish Government made good use of the publicity attending the Randall trip, and the resulting modification of their investment law has attracted widespread attention. Opinion differs as to the significance of the changes in the law, but it was certainly some improvement. Several current negotiations by important American firms for investments in Turkey were influenced by, if not caused by, the Randall visit and its results.

The origin of the Randall mission goes back about 2 years to a decision by a now defunct interagency committee on the problem of encouraging private investment abroad (at one time, 14 agencies participated) to the effect that "pilot programs" be developed for a few selected countries the example of which might be influential with other countries and that the spearhead of these programs should be missions composed of well-known American business and financial leaders. The time which elapsed from the making of this decision and the Randall trip exceeded 1 year. This was partly attributed to the inevitable standstill occasioned by a change in administration, but must also be attributed in part to the lack of a central place in the Government to determine the purpose and scope of such a trip and to make the arrangements. Although FOA ultimately played the central role, it was originally a joint enterprise between FOA, State, and Commerce. The need for a point in Government to initiate, carry through, and follow up such missions has greatly facilitated the creation in FOA of the Office of Trade Investment and Monetary Affairs, which has, rightly or wrongly, filled the vacuum created by interagency differences of opinion as to what to do about private investment and how to do it.

It should not be expected that the Randall mission approach to improving investment conditions can be employed simultaneously in many countries. In the first place, it would only be successful if the

country has become ripe for the effort, as was Turkey, and this condition does not exist in many foreign capitals. Secondly, the effectiveness of the missions would be defeated by duplication of effort on many fronts at the same time; the caliber of participants would necessarily suffer, as would the possibility of focusing high-level attention abroad on investment conditions.

(*b*) *The Contact Clearing House Service.*—The Contact Clearing House Service is a quite different technique of finding and disseminating investment opportunities. It is rooted in FOA's small-business services and comes closest to duplication of Commerce's activities.

This Service is designed to establish direct communication between American and foreign concerns interested in exploring the possibilities of investment or licensing arrangements. It does this by distributing in the United States proposals from abroad which are largely for investment or licensing arrangements combining foreign manufacturing facilities with American technology and equipment. Some of the proposals offer foreign patents and processes for use in this country. It also distributes abroad proposals of this type from American firms which are either looking for licensing or investment opportunities abroad, or are seeking foreign patents, processes, and techniques.

Foreign proposals are collected by "field counselors." These counselors—foreign banks, trade associations, and chambers of commerce—volunteer their time and effort in the interest of their local business communities. Proposals so collected are sent to the Contact Clearinghouse Service in Washington where they are published in releases such as the attached exhibit D. These Contact Clearinghouse summaries are distributed in the United States as follows: to a mailing list of approximately 5,000 private American concerns and individuals which have requested that they be kept informed of such opportunities; approximately 740 banks, chambers of commerce, trade associations, and other business service groups; the United States Department of Commerce field offices; the Small Business Administration field offices; and military small-business specialists located throughout the country. A total distribution of about 9,000 copies is made.

American proposals are gathered by the United States volunteer field counselors, also members of banks, chambers of commerce, trade associations, and the like, by correspondence and by personal visits to the Washington Contact Clearinghouse office, where they are summarized and transmitted through the various FOA missions to the overseas field counselors, who make distribution in their areas. Where there is no FOA mission, the summaries are sent directly to the field counselors. There are more than 7,000 field counselors serving in the United States and abroad, all volunteer.

In addition to the distribution outlined above, American and foreign propjosals are "crossed" by sending copies of the foreign proposals to the American Contact Clearinghouse Service registrants.

The Contact Clearinghouse Service makes no investigation of either the American or foreign registrants. Recipients of the information are informed that there has been no screening and are advised to take the usual business investigative precautions before entering formal negotiations.

A spot-check on results was made on the first 1,000 foreign and the first 227 American proposals with the following findings: 59 reported they had concluded agreements; 561 reported they were either in active negotiation or in contact.

(*c*) *Appraisal.*—The above-described FOA activities are a series of episodes or activities which are being formed into a program which encompasses three separable functions: (*a*) Locating, reporting, and disseminating foreign investment opportunities; (*b*) advising and guiding prospective United States investors; and (*c*) influencing foreign governments to improve investment conditions. Each of these functions appears also in the Departments of Commerce and State; the first two in Commerce and the third in State. However, there is little doubt that FOA has plunged into a more positive and active effort to encourage investment abroad than have the permanent departments.

In judging the above-described activities as Government functions and deciding whether, if continued, they should be organized in close relationship to other mutual security program activities, thought should be given to the possibility of creating an advisory body or commission, composed of both Government officials and private persons of high standing, which might, operating through a small staff and drawing consultants from private life, undertake (*a*) to influence foreign governments to create favorable investment climates and arrange for the best United States guidance on methods of attracting United States capital; (*b*) to assure that the United States Government conducts its activities with sufficient regard for the objectives of a high level of international investment and trade; and (*c*) to direct the attention of United States investors to unusually important investment opportunities abroad, which might point the way for additional investment or provide a pilot basis for (*a*) above.

Such a group would incidentally provide a working liaison, as distinct from the many existing advisory units, between the United States Government and business and financial circles. Some observers feel that it is unrealistic to expect permanent Government employees to do effectively some of these things, and that high priority attaches to the encouragement of private investment during a period of transition

from large-scale United States Government expenditures abroad to increased trade and investment.

B. Department of Commerce Activities

Responsibility for foreign commerce matters was lodged in the Department of Commerce (then the Department of Commerce and Labor) by an act of Congress in 1903, which transferred to it certain activities from the Departments of State and Treasury. The most pertinent of the statutory provisions authorizing the present Commerce activities is 15 U. S. C. 175, which provides:

> It shall be the province and duty of the Bureau of Foreign and Domestic Commerce, under the direction of the Secretary of Commerce, to foster, promote, and develop the various manufacturing industries of the United States, and markets for the same at home and abroad, domestic and foreign, by gathering, compiling, publishing, and supplying all available and useful information concerning such industries and such markets, and by such other methods and means as may be prescribed by the Secretary of Commerce or provided by law.

1. Statistical Services

The Bureau of Foreign Commerce maintains several series of basic statistical information about American investment abroad, which are published in the Survey of Current Business. The most notable recent achievement is the publication, in 1953, of the results of a census of United States business abroad. This census is believed to be the only comprehensive source of basic statistics on outstanding United States investment abroad. The information is gathered largely through questionnaires to businesses which are known to have foreign income (Internal Revenue Bureau identifies such companies for Commerce). Commerce is under a statutory obligation to protect information submitted in confidence (15 U. S. C. 176b).

Although there has been a certain overlapping of statistical reporting for public consumption in the field of foreign trade and investment between State, Treasury, and Commerce in recent years, Commerce officials now feel that there is clear recognition that primary responsibility and most of the work rests with Commerce, that there is no substantial duplication, and that other departments have cooperated in making available source material gathered in the course of their operations.

2. Commercial Intelligence

The commercial intelligence services of Commerce originated at the time of the First World War out of the need to inform United States

businessmen about the worldwide trading relationships of the Germans, particularly in Latin America. After the war, it was determined, on the advice of a commission of business people, that this service should be continued as an aid to Americans doing business abroad. In the intervening years, it has become firmly imbedded as a responsibility of the Government.

At present, detailed information about foreign concerns is gathered, checked, and disseminated by Commerce. The principal medium for publication is the World Trade Directory, a list of every important foreign concern, including information about its capitalization, management, business relationships, and its importance and reliability in its field. Its coverage includes manufacturers, agents, banks, exporters, importers. Commerce also issues from time to time lists of foreign concerns by industry, known as industry lists.

At the request of American businessmen, Commerce will make a check of any foreign person or firm, making a charge of the cost of cables and the field investigation.

3. *Guidance to Prospective Investors*

Commerce maintains country experts who are available to talk to anyone with a bona fide interest in international trade and investment problems. The officials engaged in this activity acquire a good deal of information and impressions from private persons with which they confer as well as from Government sources. The body of knowledge and some of the judgments thus acquired are drawn on quite frequently by American businessmen with specific or general interest in foreign opportunities.

As guidance to prospective investors, Commerce has recently initiated a series of country manuals which provide fairly detailed information bearing on investment conditions in a particular country. Manuals for Venezuela, Colombia, India, Pakistan, and Union of South Africa have been published and others are in process. Sales of these investment guides have been at the average rate of 2,500 copies a year. Commerce also sends to established mailing lists, on an irregular basis, a "Business Information Service, World Trade Series," each issue of which covers, on a country basis, one of the following subjects: (*a*) summary of basic information, (*b*) economic review, (*c*) how to establish a business, (*d*) living and operating costs, (*e*) tariff and tax information, and (*f*) legislation affecting investments.

4. *Finding and Disseminating Investment Opportunities*

It has been the practice to make information about foreign opportunities available through trade associations. In those instances where

particular companies have been approached, care is taken to assure that at least a few other concerns have the information in order to avoid any embarrassment from appearing to favor a single company. Also the embassy staffs, including commercial attachés in the field, pass along specific investment information to interested American businessmen who are traveling in their area. On occasion, Commerce officials have been visited by foreign businessmen seeking sources of capital or a continuing business relationship. The response has been to set up conferences with interested Americans, usually arranged through the Commerce field offices in that part of the United States where there is likely to be some interest. The commodity experts on the domestic side of Commerce are frequently brought in to such consultations and their industry contacts generally play a part.

The Foreign Commerce Weekly, published and sold by Commerce, contains thumbnail identifications of foreign business opportunities under the headings: (*a*) export opportunities, (*b*) import opportunities, (*c*) licensing opportunities, and (*d*) investment opportunities. The investment opportunities are reported after screening by the embassy staff in the country concerned. They are generally several months old at the time of publication.

5. *Budget*

All of the foregoing activities are apparently proceeding modestly for lack of funds. During the several years preceding FOA, funds were obtained from TCA appropriations for a part of these activities. At the moment, FOA and Commerce have been unable to agree on their respective responsibilities in the investment activities field, and FOA is currently suspending fiscal contributions which it formerly made to support the function. Commerce requested sufficient funds from Congress this year to carry on more active efforts in the foreign investment field but failed to obtain them.

C. *Proposed International Finance Corporation*

In his messsage to Congress concerning foreign economic policy on January 10, the President said in respect to the proposed International Finance Corporation:

> As a further step to stimulate investment abroad, I recommend approval by the Congress at the appropriate time of membership in the proposed International Finance Corporation, which will be affiliated with the International Bank for Reconstruction and Development. This corporation will be designed to increase private investment in less developed countries by making loans without Government guarantees. Although the corporation will not purchase stock, it will provide venture capital through investing in debentures and similar obligations. Its operation will cover a field not dealt with by an existing institution.

This proposal originated in a report in March 1951 of the International Development Advisory Board, a body appointed by President Truman and headed by Nelson Rockefeller. The main purpose of the original proposal was to promote economic development by channeling private capital to productive investment in underdeveloped countries, both through equity participation and by means of direct loans to private enterprises for development purposes without Government guarantees. The International Bank is now prevented by its statutes from taking such measures.

On November 11, 1954, Secretary Humphrey stated that the administration would ask congressional approval for United States participation in a proposed International Finance Corporation which would be organized as an affiliate of the International Bank. The Corporation would be an inter-governmental body created by agreement open to signature by any member of the International Bank. Its initial capital would be provided by member countries through subscription to its stock, but would be empowered to sell its obligations and its portfolio securities in private capital markets to raise additional funds. Its authorized capital would be $100 million. The subscription of each member country would be in relation to its stock in the International Bank. The United States subscription would be approximately $35 million. IFC's charter would not come into effect until $75 million had been subscribed by 30 countries. The proposed organization would not directly provide equity financing.

In discussing the proposal at the United Nations, the U. K. delegate pointed out that while attraction of private capital is one of the proposal's main aims, private capital can only be attracted ultimately by appropriate internal policies of the governments concerned. While the proposed IFC may have a valuable function as a channel for conveying private capital to countries in need of it, it will not direct capital to any particular area unless there is a sense of confidence, stability, and fair treatment of the investors.

When put to a vote, a draft resolution concerning the proposal passed the Economic Committee of the U. N. by a vote of 44 to 0, with 5 abstentions (the Soviet bloc). At the plenary session of the U. N. on December 11, 1954, the resolution was approved 50 to 0, with only the 5 Soviet-bloc members abstaining.

Further action by the United States depends on the will of Congress before which the matter now rests.

III. Questions for Consideration

The foregoing discussion of our public lending activities, and the encouragement of private investment abroad, give rise to several general questions of public policy, and to several further questions which relate to the responsibilities and operations of the FOA, the Export-Import Bank, and the Department of Commerce.

A. General Questions

Several important general questions of public policy emerge from the field as a whole. These are:

(1) Should we continue our Government program of investment guaranties? Has the function been justified by results to date? If generally justified, should it be continued on a broader more restricted scale?

(2) Should we continue our policy of making loans which are repayable in the local currencies of the borrowing countries?

(3) Should we take special steps to foster the international flow of portfolio capital?

B. Questions Concerning FOA Operations

1. FOA Lending Activities

(*a*) Is there any need for such an organization as the FOA to play a major part in the development of loan policy, or in applying it to economic assistance?

(*b*) Should foreign currencies deriving from surplus sales be used for development banks?

(*c*) What should be the relation of any future management for economic aid to the Export-Import Bank?

2. FOA Activities To Encourage Private Investment Abroad

(*a*) Why is a special agency needed to publicize economic opportunities abroad when other agencies of Government are in the field that bear statutory responsibilities to discharge the functions of commercial intelligence and calling the attention of United States citizens to such opportunities?

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(*b*) How can we avoid discrimination among business firms in the United States, while maintaining an effective and limited program of informing them of investment opportunities abroad?

C. Export-Import Bank Lending Activities

It is assumed, as a matter of general principle, that only United States security or defense objectives should justify financing foreign economic development at the American taxpayer's expense. Expressions of the administration's position over the last 3 years, particularly to Congress, have been in line with this principle. The main qualification has been that—

(1) The defense-security objective has been given a broad meaning, including economic and social stability in key areas (Iran, India, Pakistan, Egypt, Guatemala, etc.); and

(2) Foreign economic development has been financed on a loan basis through the Export-Import Bank without any clearly expressed defense or security justification.

Application of this principle to the lending activities of the Export-Import Bank raises certain questions. There are other fundamental questions about Government lending which should also be considered, including the extent to which United States objectives can be met by relying on the International Bank's lending activities, and the desirability of using loans rather than grants to finance aid programs essential for United States security in countries not qualifying for Export-Import Bank loans (e. g., Formosa).

The questions are these:

1. Is there a place for loans justified primarily by the objective of maintaining or expanding world trade and economic development, as distinct from security-defense objectives?

(*a*) Are such loans justified by the interests of that segment of the United States economy (and taxes derived therefrom), which has grown dependent on foreign markets during the last 15 years of high United States Government expenditures abroad?

(*b*) Is the United States' stake in a stable world economy such that dollar credit facilities must be provided by the Government on a minimal, selective basis until conditions at home and abroad permit private United States lenders to step in?

(*c*) Is the answer affected by prospects for the bank to continue its consistent record of profitable operations and, if so, what are those prospects?

(*d*) Can it be assumed that the bank's activities are, or can be, so administered as to stimulate the investment of private loan

and equity capital, rather than competing with it or postponing the conditions abroad which will attract such capital?

2. Is it in the United States national interest that the bank be available as a flexible instrument of United States foreign policy to make loans for security-defense objectives insofar as possible without lowering the bank's financial standards? (The desirability of "fuzzy" loans is not raised in this paper.)

(*a*) Is its existence as an agency and as a fund (over $1.6 billion presently available for new loans) an invitation to the executive branch to buy our way out of tough foreign relations problems without recourse to Congress and the appropriation process?

(*b*) Can defense-security objectives be achieved through loans in a world already carrying heavy dollar debt without lowering the financial standards which the bank has generally succeeded in maintaining?

(*c*) Can the bank's financial standards be associated with the security-defense criterion in attempting to keep requests for foreign assistance under control?

D. Department of Commerce Activities

Granted the value of continuing some form of Government program to encourage private investment, and noting the statutory obligation of Commerce to provide information of investment opportunities and statistical services, is Commerce at present well enough staffed and financed (1) to carry out these informational and statistical responsibilities at an adequate level? and (2) to play its full part in improving the climate of overseas investment?

IV. Summary of Findings and Observations

A. General

1. It has been taken for granted that it is in the public interest to rely to the maximum on private investment abroad to help create conditions for economic progress, political stability, and military security. And our Government should do what it can through established channels and instrumentalities to improve the climate of overseas investment. Therefore a continuation of a sound program of government guaranties against devaluation, expropriation, or nonconvertibility of capital or earnings into dollars may be justified, under present conditions, despite lackadaisical administration and little results to date.

There is some question whether the guaranty program goes to the root of the matter; that is, does it affect those aspects of the investment process which really determine an investor's decisions? It does not touch such relevant areas as losses arising because a foreign government defaults on conditions offered prior to receiving an investment.

Our guaranty program to date, at best a transitional device, should not be allowed to deflect attention from the root problems of increasing the flow of foreign investment. While experience to date shows that these guaranties have not been in great demand, and there has been no case in which a warantee has come in for redress under their terms, these reasons do not fully support a conclusion to drop the device.

Administration of the program should be placed in permanent agencies of the Government—the Treasury and the Export-Import Bank—working in the framework of high policy.

2. We do not yet have adequate experience by which to judge the future effects of our policy to allow foreign countries to repay assistance loans in local currency. This may give rise to some complications, but as has been argued in our paper on surplus agricultural commodities, the more general use of world currencies may be a condition precedent to full restoration of currency convertibility, and a reduction of excess demand for dollars.

3. We have not yet adequately explored the efforts or machinery required for increasing the international flow of portfolio investment. Such investment can supplement direct investment by the founders of new enterprise.

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B. FOA Operations

1. Experience of the past few years gives little reason why such an organization as FOA is needed for the full development of United States Government policies covering public lending activities abroad. Such matters are appropriately considered by the permanent agencies of Government, working in the National Advisory Committee on International Monetary and Financial Problems. FOA has been a member of this group, and there is some justification for its membership on the ground that operational experience may give some useful suggestions for the development of high policy. Such a continuation could be effectively accomplished through the representation of the Department of State on that committee, if the central management of future economic aid is located in that department. It seems obvious that any such central management agency of the future would work within the limits of established policy, arranging for loans rather than grants to the extent that high policy requires it.

2. The issue of use of local currencies derived from repayments of assistance loans for underwriting development banks has been examined in connection with the general problem of surplus agricultural commodities. There seems to be some justification for a wider use of local currencies. But the problems of continuing United States participation in the policy formation and operations of banking institutions of foreign governments include risks of undue interference with the economic decisions of foreign states, and consequent resentment and tension.

3. FOA's relationship to the Export-Import Bank seems to have been one of mutual harmony and effective collaboration. This is because the Export-Import Bank has been used fully as an instrumentality to carry out government loan operations. Naturally any future agency concerned with the central management of economic aid should continue to take advantage of the bank's facilities, working under the supervision of those permanent agencies of Government which exercise political and fiscal responsibility.

4. There seems to be no reason to continue a special agency in existence to encourage private investment abroad. The Departments of State, Commerce, and Treasury share responsibility under Presidential direction and the law for the various facets of this program. There may need to be some additional staffing to bring their activities more nearly in line with current requirements. A continuing problem for the future will be to maintain an adequate service of information of foreign investment opportunities to United States business, while avoiding discrimination between firms on the one hand, and an excessive program on the other.

C. Export-Import Bank Operations

1. The main general question raised by the use of the Export-Import Bank as an instrument of security policy, is the constant problem of reconciling the criteria of security and defense with those of reasonable prospect of repayment. About 52 percent of the bank's outstanding loans are made for direct defense and war reconstruction purposes. The remainder are for a variety of economic objects, including the stimulus to investment of private loan and equity capital.

2. Experience to date indicates that the loans of the Export-Import Bank have not competed to any significant extent with operations of private capital; this is due in part to the extent to which the bank's own policies and operations have concentrated on fields in which private capital is not forthcoming. There remains the possibility that such competition might arise at a future date.

3. The continued participation of the United States in the International Bank, and probable support of its new subsidiary, the International Finance Corporation, do not constitute unwarranted duplication of the activities of the Export-Import Bank. Under today's conditions, United States Government activities in the international banking field to stimulate exports must meet the standards of our foreign economic policy—to stimulate foreign economies and thereby to advance the level of world trade. A United States Government agency is required to ensure full compliance with our policy objectives.

NATO Infrastructure Program

By Paul A. Neuland

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INTRODUCTION

When the North Atlantic Treaty Organization (NATO) came into being in 1949, it provided initially for little more than agreed goals of military forces to be contributed by member States. Original requirements for facilities to support these integrated combat forces were conceived of as being provided by the national facilities then available within the collective territories of the NATO countries. At the same time, however, it was realized that these collective national facilities alone would not be sufficient to meet the needs of such an international fighting force.

Additional facilities, therefore, had to be constructed for NATO's specific needs. Since these facilities obviously had to be spotted according to NATO's overall tactical defense plans, it would have been manifestly unfair and unrealistic to expect one NATO country to share the expense of constructing facilities on its own territory far out of proportion to its own national needs, while another NATO country would be paying relatively little or nothing for the increased strength such facilities would give to NATO's system of collective defense. It was therefore agreed that the cost of constructing these supplementary NATO facilities would be distributed among all NATO countries.

The NATO infrastructure program was thereupon started, using a word taken directly from French railroad terminology, which means the roadbed upon which the ties and rails are laid. NATO's "infrastructure" is thus conceived of as the basic framework of those military facilities which are needed for the effective support of NATO's integrated combat forces. It consists of such essential facilities as war headquarters, telecommunications, airfields, naval bases, jet fuel distribution and storage systems, radar and loran installations, and training areas.

The NATO infrastructure program is thus a program for the construction of public works of a military nature. It may be considered as having been set up in seven "slices," each slice representing the construction carried on under the program for successive calendar years from 1950 through 1956. The total cost of the entire program is fixed at approximately $2 billion, to which the several NATO countries (Iceland alone being exempted, because of its weak economy) have agreed to contribute, in the following amounts and percentages:

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NATO Infrastructure Contributions and Percentages by Country

[Based on cost estimates as of June 30, 1954]

Country	Contributions	Percentages
Belgium	$119,679,000	5.82
Canada	119,227,000	5.80
Denmark	55,054,000	2.68
France	335,061,000	16.29
Greece	14,447,000	.70
Iceland	0	.00
Italy	112,828,000	5.48
Luxembourg	3,452,000	.17
Netherlands	88,565,000	4.31
Norway	45,181,000	2.20
Portugal	2,732,000	.13
Turkey	26,652,000	1.30
United Kingdom	274,951,000	13.36
United States	859,328,000	41.76
Total	2,057,157,000	100.00

Through special arrangements made by France, the United Kingdom, and the United States, a number of infrastructure projects have been financed by the Federal Republic of Germany on its own territory out of occupation costs, all of which projects are responsible to NATO requirements and are available to NATO in case of need. Through May 1954, the total value of these projects in Western Germany was approximately $207 million, and it is considerably higher at the present time. This outside contribution to the NATO infrastructure program will not come in for discussion in the remainder of this paper.

The total cost and the United States share of the NATO infrastructure program by slice are shown in the following table:

Total Cost and United States Share of NATO Infrastructure Program

[Based on Cost Estimates as of June 30, 1954]

Calendar year	Slices	Total cost	United States gross percentage	United States gross cost
1950	First	$88,200,000		
1951	Second	351,761,000	48.10	$169,197,000
1952	Third	534,960,000	42.76	228,749,000
1953	Fourth	424,483,000	42.28	179,468,000
1954	Fifth	251,628,000	42.86	107,848,000
1955	Sixth	226,632,000	42.86	97,135,000
1956	Seventh	179,493,000	42.86	76,931,000
		2,057,157,000	41.76	859,328,000

NATO Infrastructure Program

The First Three Slices

It may be helpful at this point to indicate in some detail how the NATO Infrastructure Program was developed. It began in calendar 1950, when NATO took over the infrastructure program which had just been started under the Brussels Treaty by the five Western Union nations, namely, Belgium, France, Luxembourg, the Netherlands, and the United Kingdom, all of which had also joined NATO. This retroactively labeled the "first slice" of the NATO infrastructure program, and the United States did not share in its cost.

Canada and the United States both joined in financing the second slice (for calendar 1951), which was approved by the North Atlantic Council at Ottawa on September 20, 1951. The original United States position was that we should contribute only 25 percent of the total cost. However, the other nations urged that our share should be approximately 78 percent, in accordance with our ability to pay, which was the basis used in determining this percentage as our proper share of the expenses of the United Nations. However, the United States insisted that ability to pay was not the only factor, but that another important consideration was the ability of the European NATO countries to provide such things as lumber, labor, and concrete, all of which items were to figure largely in program costs. The United States also pointed out that each of the European NATO countries ultimately stood to benefit by assuming title to the new facilities. However, they pointed out in turn that the residual value of such facilities would be charged against them should NATO eventually be liquidated.

The result of all these exploratory discussions was that the United States agreed to raise its contribution to approximately 48 percent of the cost of the second slice, a percentage which was somewhat higher than the percentage which we felt inclined to accept for succeeding slices but which we recognized as fair for this one time, in view of the fact that we had not contributed to the first slice.

The third slice (for calendar 1952) was approved by the North Atlantic Council at Lisbon during February 1952. Denmark, Italy, and Norway joined in financing it.

The Fourth Slice

When preparations began for the fourth slice (for calendar 1953), great dissatisfaction was expressed by many NATO countries with re-

gard to the large increases in actual construction costs over original estimates. It should be noted that the allocations for the earlier slices were open-ended, so that each nation would bear its proportionate share of any cost augmentation which might result from price increases. During the negotiations for the fourth slice, therefore, it was agreed that not only would annual programs be approved in advance by the North Atlantic Council, but also that each project would be submitted for approval by the council as it came along. A system of close fiscal control was also started, in an effort to correct the weaknesses of the earlier method whereby fiscal operations were based only on illustrative estimates which ultimately turned out to be unrealistic.

Because of apprehensions within NATO as to the heavy financial burden brought upon them by the NATO infrastructure program, the fourth slice was broken down into two parts. Part A included only top-priority projects and amounted to slightly over half of the total fourth slice; it was approved by the North Atlantic Council at Paris during December 1952, Greece and Turkey joining with the other NATO nations in sharing its cost. Part B included the remaining projects; after being kept in suspense for some months, it was ultimately approved, Portugal joining with the other nations in sharing its cost.

The fourth slice thus appears to have represented the most critical phase in the history of the program, and a great deal of publicity was given in various NATO countries regarding their dissatisfaction with its financial aspects. Lord Ismay, Secretary General of NATO, made the following remarks at Washington on March 12, 1953, in an address before the National Press Club:

> I should mention a word about infrastructure, that is, the construction of commonly financed facilities, such as airfields, communications, and so forth. At the last ministerial meeting (of the North Atlantic Council), General Ridgway asked for an additional infrastructure program amounting to nearly $450 million. The council at that time made provision for about one-half of this total, taking into account particularly those projects which had to be got under way early in the spring to take advantage of good building weather. Decision on the other half was postponed.
>
> This was unfortunately misunderstood by some sections of the press as a denial by NATO of one-half of General Ridgway's requests for the defense of Western Europe. In fact, the amount of money involved amounts to less than three-tenths of one percent of the total being spent on defense.
>
> In principle, the council has now agreed that the remaining number of projects requested by General Ridgway last December will be financed, although no agreement has yet been reached as to the exact share to be assumed by each country. That is now being worked out. The NATO countries will be spending nearly $700 million in 1953 on infrastructure, two and a half times what was spent in any previous year, and we expect to complete an average of an airfield a week in 1953.[1]

[1] *Department of State Bulletin*, Mar. 23, 1953, p. 428.

NATO's mounting concern with these economic problems, according to an article by Mr. Charles Spofford in the Foreign Affairs Quarterly Review for October 1952, was in part due to its avoidance of such problems during its early years. He observed:

> If measures to ease the economic strain caused by the defense buildup are within the realm of national action only, then NATO has created pressures which it can do nothing to relieve. * * * NATO may therefore have reached a critical stage in its development. In its advance toward its military objectives it has uncovered most of the hard economic questions but has avoided dealing with them.

An article by Mr. Drew Middleton entitled "NATO Changes Direction," which appeared in the Foreign Affairs Quarterly Review for April 1953, also emphasized this development. Mr. Middleton observed that, "after 3 years of feverishly seeking divisions, air squadrons, and destroyer flotillas," NATO was finally concentrating on stabilizing the forces it had on hand and on expanding the logistic bases on which its troops, planes, and ships had to operate.

The Remaining Slices

When the fifth slice was initially considered by the North Atlantic Council at Paris during April 1953, the decision was made to treat what was then thought to be the remainder of the entire NATO infrastructure program as a whole. A ceiling amount of $700 million was allocated to complete it in three more slices (for calendar years 1954, 1955, and 1956). Incidentally, the United States percentage, which had varied for the four preceding slices, was fixed at 42.86 percent for these remaining three slices. The fifth slice, based on this overall determination, was ultimately approved by the council in December 1953.

The program for the sixth slice was approved by the council in December 1954 and is presently being carried out. The program for the seventh slice is currently being staffed and will be submitted to the council for approval in November 1955.

Although the council has agreed that the NATO infrastructure program would end with the seventh slice, and although the Department of Defense so informed our Congress last spring, the proviso was always made that additional infrastructure projects might perhaps be required, should any additional military forces be committed to NATO or should new weapons be introduced. Latest information received from the Department of Defense indicates that such new requirements have actually come about, partially because of routine needs for the maintenance, replacement, and modernization of existing facilities, but principally because of the adoption of new tactical principles based on the need for greater dispersal of NATO facilities to survive

an initial atomic attack. The future programs for an eighth slice and possibly succeeding slices are presently being drawn up by SHAPE and SACLANT, and will be submitted by them to NATO's military standing group and to NATO's top civilian echelons for approval in a few months. It is not anticipated that details of these supplementary programs will be available in the Department of Defense until July 1955, or possibly later.

Tax Refunds to the United States

It will be noted that both the total cost and the United States share of the NATO infrastructure program, as given in the above tables, are gross figures, representing the amount which the United States was actually assessed. However, the United States Congress has consistently placed a prohibition upon the use of military-assistance funds for the payment of taxes in connection with our participation in acquiring or constructing defense facilities in foreign countries. Incidentally, this prohibition extends not only to the United States contributions for the NATO infrastructure program, but also to those for the offshore procurement program and for direct purchases abroad of supplies and services for the United States armed forces. In order to comply with this provision, the United States Government has negotiated tax-relief agreements with each of the countries concerned, as part of our bilateral arrangements for mutual security. Each of these agreements lists specific taxes from which the United States is to be exexmpt, the exemption to be effected by deductions from the assessed charges.

It is estimated that $80,478,000 will be the total amount of taxes thus credited to the United States within the NATO infrastructure program, as presently approved. This sum may be regarded as distributed among the other NATO countries, thus effecting slight increases of their respective contributions. The United States share is thereby reduced to a net figure of $779,261,000 (barely below the United States legislative authorization of $780 million as a ceiling figure), which represents a reduction in the United States share of the total cost from a gross percentage of 41.76 percent to a net percentage of 37.86 percent.

It is understood that discussions are presently going on in the NATO infrastructure committee about extending such tax-deduction privileges to the other NATO countries and allowing host countries to be credited certain amounts for utilities and overhead expenses.

Funding of the United States Share

In keeping with the decision made by the North Atlantic Council at Paris in April 1953 that the cost of the entire program is to be kept

at about $2 billion, section 104 of the Mutual Security Act of 1954 (Public Law 665 of the 83d Cong.) placed a limit of $780 million as the total United States share of this program.

$169 million of appropriated United States funds was earmarked for the NATO infrastructure program for fiscal 1952, $140 million for fiscal 1953, $150 million for fiscal 1954, and $100 million for fiscal 1955. This makes a total of $559 million presently available for the United States share of this program, with $221 million to be appropriated for the last two slices. Present indications are that the Department of Defense will request that $122 million be appropriated for fiscal 1956, leaving a remainder of $99 million for fiscal 1957. Minor changes as between these two figures might be necessary for various fiscal reasons, on the details of which it is not believed necessary to elaborate in this study.

Obligations and Expenditures

It is not appropriate in this paper to review the complicated history of actual obligations and expenditures under the NATO infrastructure program. It is enongh to say that actual obligations have lagged behind actual fund availabilities in succeeding slices, and that expenditures have in turn lagged considerably behind obligations. The rate of obligations and expenditures is determined by the speed of construction, which is beyond the unilateral control of the United States, It is estimated that $535 million of the $559 million made available by the United States through fiscal 1955 will have been obligated by June 30, 1955, and that $420 million of this amount will have actually been expended. It should be noted that the enabling legislation directs that funds appropriated for this program are to remain available until expended, which obviates the need of recurrent legislation to continue the availability of such funds in succeeding years.

Other Related Expenditures

The Mutual Security Act of 1954 authorizes the expenditure of $50 million for other infrastructure programs outside of NATO. This provision was specifically included as a measure of prudence, in view of the possibility that the development of joint defense pacts in other parts of the world might necessitate the use of limited sums for infrastructure-type construction elsewhere than in Europe. However, no appropriations under this authorization have been requested by the President or made by the Congress.

Section 408 of this act authorizes the appropriation of a maximum of $3.2 million for payment by the United States of its share of the

expenses of the civilian side of NATO. This covers the expenses of NATO's civilian headquarters and of the United States Mission to the North Atlantic Treaty Organization and European Regional Organizations (USRO). However, only $1,169,000 was actually appropriated for this purpose for fiscal 1955.

A special assessment is made on all NATO countries outside the normal NATO infrastructure program to finance the capital and operating expenses of NATO's many peacetime military headquarters. It is estimated that these expenses will have cost between $25 and $30 million through fiscal 1955. The United States share of this assessment has been 45 percent of the capital expenses and 22.5 percent of the operating expenses, and is taken from general United States military-assistance funds.

NATO installations developed under this program must meet certain minimum standards and requirements laid down by SHAPE and the other NATO commands. If a given country wishes to have additional facilities constructed at a NATO installation which is to be manned by its own forces, it must pay for the additional cost of these special facilities. This has been found particularly necessary for Canadian and United States forces, which operate more than 3,000 miles from their home sources of repair and resupply, whereas European forces operate for the most part within or close to their home areas and do not need such additional support facilities. During the 5-year period from fiscal 1950 through fiscal 1954, appropriations for United States military construction in the NATO area, exclusive of United States contributions to the NATO infrastructure program itself, have amounted to approximately $1.5 billion, broken down into $281 million for the Army, $130 million for the Navy, and $1,132 million for the Air Force, making a total of $1,543 million. Of this total, approximately $400 million has been spent for United States augmentation of NATO infrastructure facilities in the forward NATO areas, and the balance has been used to provide airfields and other facilities for the United States Strategic Air Command and other components of the United States Armed Forces.

It should be mentioned that the other NATO countries also incur certain expenses in addition to their assessed monetary contributions to the NATO infrastructure program and the tax deductions in favor of the United States. As host nations, they also provide land free of charge, the monetary value of which is estimated at approximately $200 million. Further, they provide free of charge such utilities as electrical, water, and sewage connections, the monetary value of which is estimated at approximately $100 million.

Programing for First Six Slices

Approval has been given by the North Atlantic Council for proceeding with projects under the first six slices of the NATO infrastructure program in the amount of $1,789,466,000, which will be expended for the construction of facilities in the several NATO countries according to the following breakdown by country:

Belgium	$137, 019, 000
Canada	----------
Denmark	56, 220, 000
France (including North Africa)	831, 038, 000
Greece	89, 731, 000
Iceland	504, 000
Italy	259, 998, 000
Luxembourg	5, 342, 000
Netherlands	64, 126, 000
Norway	126, 136, 000
Portugal	12, 880, 000
Turkey	178, 750, 000
United Kingdom	27, 722, 000
United States	----------
Total	1, 789, 466, 000

Another breakdown of these same fund allocations for approved programs, according to category or facility, is as follows:

Airfields	$968, 090, 000
Signals	338, 049, 000
War headquarters	33, 816, 000
Jet fuel supply systems	258, 724, 000
Naval bases	141, 463, 000
Radio navigational aids	13, 524, 000
Radar warning installations	4, 272, 000
Training facilities	31, 528, 000
Total	1, 789, 466, 000

The remainder of the funds in the total program are unprogramed. They include funds for the naval portion of the sixth slice, the entire seventh slice, and an unprogramed contingency fund of $70 million, which has been created by placing in reserve a portion of each slice to take care of cost increases, particularly in the second, third, and fourth slices.

Noteworthy progress has been made recently in the actual construction of facilities within the approved program, as compared with the delays which characterized earlier years. For instance, 152 of the planned 174 airfields are expected to have been sufficiently completed by December 1955 to meet minimum military demands under wartime conditions, and all of them will have been completed for beneficial occupancy by the summer of 1956.

Construction of facilities for the storage and distribution of jet fuel and related supplies is also proceeding most satisfactorily. Thirty percent of the required pipelines and 50 percent of the required storage facilities will have been completed by June 30, 1955. The remainder will have been completed by June 30, 1957, by which time 4,600 miles of pipeline and 400 million gallons of storage facilities for jet fuel will be available. Tactical airfields throughout the NATO area will thus be linked up with ports on the Atlantic and Mediterranean coasts for continuous supply of jet fuel by the NATO tanker fleet. Considerable discussion went on during the hearings last spring as to the danger of such pipelines being sabotaged. Officials in the Department of Defense replied that this was an ever-present but not insurmountable danger and that in any event there was no other way to keep a large jet air force flying for any effective time, since pipelines had been found to be the only practical way of fueling even a conventional-engined air force during World War II.

More than half of 211 approved telecommunications projects were completed during calendar 1953; the remainder are scheduled for completion by the end of calendar 1955. The construction program for war headquarters is practically completed. Similar progress is reported for the other categories, but the above should be sufficient to give an indication of the rate and manner in which established objectives of this program have been reached.

Development of Programs

The development of the NATO infrastructure program involves a vast cooperative effort which begins with the formulation of requirements by the Supreme Commanders of the several NATO commands, namely, by General Gruenther at Marly near Paris, for the Supreme Headquarters Allied Powers, Europe (SHAPE); by Admiral Wright at Norfolk for the Supreme Allied Command, North Atlantic (SACLANT); and by Admiral Creasy and Air Marshal Boothman at London (as Joint Supreme Commanders) for the Channel Command (CHANCOM), which includes only the United Kingdom, Belgium, and the Netherlands. By July 1st of each year, these Supreme Commanders send their recommendations for consolidated infrastructure programs for the next calendar year within their areas to NATO's military standing group, which is located in the Pentagon and is composed of representatives of the United Kingdom, France, and the United States. At the same time, the Supreme Commanders send their recommendations to NATO's International Staff and to NATO's Infrastructure Committee, both of which are located in Paris.

The recommended programs are then thoroughly screened by these top military and civilian echelons, particularly by the technical experts

in NATO's international staff, who are directly supervised by an American, Mr. Eugene Merrill, and remotely supervised by NATO's infrastructure committee, the United States Representative on which is Mr. Walter Martin, a member of the staff of Mr. John L. Holcombe, deputy comptroller of the Department of Defense for Europe, who in turn comes under Mr. Wendell Anderson, the defense adviser in USRO. It may be observed parenthetically that all of the American civilians who represent the United States within the various segments of NATO are members of USRO under Ambassador Hughes, whose deputy is Mr. Edward Martin.

After the several NATO echelons have screened the proposed program, it is submitted by NATO's military standing group to the individual NATO countries for further consideration. In the United States, the Joint Chiefs of Staff first screen it, then the Office of the Assistant Secretary of Defense for International Security Affairs, then the Secretary of Defense himself, and lastly the Department of State, which forwards it to USRO together with the agreed United States position on the proposed program when it comes up for consideration before the North Atlantic Council, where it is first acted upon by the permanent representatives (including our Ambassador Hughes), and then by the foreign ministers themselves (including our Secretary Dulles).

Fiscal and Other Controls

The above allocations of responsibility for the NATO infrastructure program have resulted in the adoption of extremely rigid procedures for fiscal control, international audit, end-use inspections, and international competitive bidding, all of which were inaugurated with the fourth slice, to be applied as well to all unfinished projects under preceding slices. Approval by the North Atlantic Council of the recommended program authorizes its execution and sparks the rigid budgetary control procedures into operation. As construction sites are finalized and as the detailed plans, specifications, and cost estimates are developed for each project within a host country, authorizations to commit funds are made by NATO's Infrastructure Payments and Progress Committee, the United States representative on which is also Mr. Walter Martin. This committee performs additional screening and then grants authority to commit such funds as are justified by the circumstances of each case.

It may be noted that United States contributions to such funds are committed by NATO and obligated by the Department of Defense, rather than being both committed and obligated by Department of Defense like other military-assistance funds. Payments are made quarterly in advance, based on estimates of expenditures for the fol-

lowing calendar quarter as submitted by the host country and approved by the NATO Infrastructure Payments and Progress Committee. It is interesting to note that the proportionate ratio of each member nation is carried down through every project authorized within the program. Reports are received in the Department of Defense from its representatives in USRO on a day-to-day basis, and a project-by-project review is thus made possible well in advance of the submission of the quarterly bills. Assurance is thus had that every other NATO country contributes its share at the same time as the United States does, or else our own payment would be held up—a development which happily has never occurred.

As commitment authorizations are granted by NATO's Infrastructure Payments and Progress Committee, NATO's international staff notifies each delegation of its required contributions, on the basis of cost estimates. The program is then executed in each country by and under the authorities in that country. They must adhere to NATO standards and are subject to inspection by a NATO inspection team composed of a representative of NATO's international staff, of the appropriate military headquarters which will man the facility, of the representatives of the user nation, and of the representatives of the host country. At least two inspections of the physical site are made by this NATO inspection team, one during the course of construction, and the second upon completion of the facility. Thus, although the host country is responsible for issuing invitations for bids and for awarding the contracts, NATO takes appropriate steps on its own to insure that quality and other construction standards are properly maintained.

Final audit is performed by NATO's International Board of Auditors for Infrastructure, which is composed of representatives of France, Italy, Norway, the United Kingdom, and the United States. This board was created in 1953 during the excitement over the fourth slice, and is responsible directly to the North Atlantic Council. The United States representative on this board is Mr. Charles M. Bailey, director of the European branch of the General Accounting Office, which is located at Paris. The fact that this board is the final auditing echelon for expenditures within the NATO infrastructure program illustrates quite clearly that the financial protection of the United States Government in this whole program is achieved only through international fiscal control, simply because the program itself is international in substance and scope.

International Competitive Bidding

Beginning with 1953, contracts were let for the construction of projects within this program on the basis of international competitive

bidding. This system was begun largely at the insistence of the United States, the United Kingdom, Canada, and the Netherlands. The other NATO countries have been anxious to have this system applied for projects outside their own territorial limits but for various reasons it seems for the most part to run into obstacles within their respective borders, mostly because of a multitude of barriers which are inherent in any organization based on a grouping of sovereign authorities, each of which is empowered to issue laws, decrees, and regulations within its sovereign territory which may have a prohibitive result on the full development of this system.

However, international competitive bidding is, at least in principle, the agreed procedure except in cases where there is a governmental monopoly or where the NATO facilities are expansions of national facilities being constructed by the host country. In the latter case, since the original contractor has his equipment and personnel right on the spot, it is generally more advantageous for NATO to negotiate the contract with him rather than to offer it for competitive bidding. Such contracts are given additional careful scrutiny by NATO's international staff to insure that exorbitant profits and unrealistic cost vouchers are precluded.

The United States Department of Commerce has established procedures for the distribution of information concerning invitations to bid on this program to firms in this country through the *Foreign Commerce Weekly* and various secondary informational media. American firms are supposed to write directly to the agency of the host country specified in the announcement or invitation. Like all bidders in other countries, they must establish their competence and responsibility, generally by submitting a résumé of their background and experience. If a copy of this résumé is sent to the United States Department of Commerce, this Department will undertake to certify qualified firms to the United States representative on NATO's Infrastructure Payments and Progress Committee, which will in turn pass this information on to all NATO countries in the form of consolidated lists of certified firms. The United States Government does not undertake to render special assistance to any American firm in obtaining such contracts or in easing restrictions which may be placed on them by other NATO countries. Many American firms have been successful already in obtaining such contracts. However, a large number of these contracts have been for the supply of material and its installation, rather than for the construction of the fixed facilities themselves.

Economic Gain to NATO Countries

In such a vast program of military public works, it is natural to ask how much national economic benefit is received by the countries to

which NATO construction projects have been allocated. These countries have obviously benefited from such basic economic factors as the stimulation of production, the reduction of unemployment, and the increase in their dollar balance. What is particularly at issue, however, is the economic gain accruing to the host country in terms either of capital gains or operating revenues, since it assumes title to the facility, which in many cases may be used for civilian peacetime purposes while awaiting emergency use by NATO.

However, it has been found that such a line of inquiry seems unrealistic in connection with a grouping of nations wherein mutual security and mutual defense are the prime and overwhelming objectives. It has been emphasized again and again that the NATO infrastructure program, like all other NATO programs, is based on obligations which we have freely assumed under treaties negotiated by the executive branch of our Government and confirmed by the legislative branch, and that it is pointless to attempt to analyze the gains which may accrue to host countries where facilities are actually constructed, because the question of what incidental national gain is received becomes practically meaningless when viewed against the broader perspective of the importance of adequate preparations for collective defense.

Further, it is virtually impossible to isolate such economic benefits. Let us say that a project has been completed for expanding a nation's own telecommunication facilities between points X and Y, and that 20 additional circuits have been constructed to supplement the 10 which were already there. All 30 of these circuits would be available for civilian use during peacetime, and all 30 would be available for NATO use should war break out. It is obviously difficult to attempt to break down the proportions of the respective equities engendered by each of these availabilities. Nevertheless, certain procedures have been established in an effort to determine at least what percentage of the operating revenues received from the civilian use of such facilities is due to NATO's supplementary construction, and this amount is charged against the host nation.

To continue the illustration, should these 20 additional circuits have been routed, at the host country's request, through a city or town some distance off the straightest or most economical line between points X and Y, the technical officials in NATO's international staff would determine the additional cost which such a routing would entail and the host country would be assessed the full amount of this difference. On balance, it thus appears that every possible precaution is taken to prevent what might be called national profiteering, and that the NATO infrastructure program, as presently administered and con-

trolled, has surprisingly few soft spots, considering the magnitude and complexity of the program.

Relationship to Other United States Activities

The National Security Council gives broad guidance for United States participation in the NATO infrastructure program from the point of view of national policy. The formulation of the detailed United States position on various points is worked out by the Department of Defense in consultation with the Department of State. The United States position is practically always determined on the basis of purely military considerations. Sometimes unilateral United States military objectives might enter into the picture and suggest that NATO airfields should be located where they might also serve as emergency landing fields for the United States Air Force's Strategic Air Command, say in Iceland.

Only in rare instances does the United States position appear to be influenced by collateral considerations of foreign policy. This might occur when there is question of extending to non-NATO countries the privilege of bidding on infrastructure contracts, or when it appears that existing treaties might have to be revised in order to allow infrastructure projects to be located in certain areas. However, the rarity and relative unimportance of such compromises effectively points out that the Department of Defense has the almost exclusive responsibility in the Executive Branch for staffing this program.

Definitive United States positions are eventually translated into concrete proposals for presentation to the North Atlantic Council by the Secretary of State or his permanent deputy. Since all decisions of the council are on a unanimous basis, any such proposal must be accepted by 13 other nations in order to carry. It may be assumed that the other countries will naturally view such proposals in the light of their own national interests.

No evidence has been noted that FOA, either at Washington or through its missions in NATO countries, has attempted to influence either the development of the infrastructure program, the allocation of projects to certain countries, or the awarding of contracts to this or that bidder. Section 102 (*c*) of Executive Order 19575, dated November 6, 1954, specifies that the Department of Defense will administer the military assistance program subject to coordination by FOA, and that it will keep FOA fully and currently informed on projects undertaken within this program, including all matters relating to the utilization of funds. These provisions extend of course to the NATO infrastructure program, which is a portion of the larger military assistance program.

In view of the essentially military nature of this program, it appears that FOA has exercised little or no coordination with regard to it, other than to incorporate the request for infrastructure funds in its consolidated annual budget for mutual security. It might therefore be properly questioned whether FOA or its successor agency should exercise even nominal coordination over this program.

However, it would appear to be highly desirable for the Department of Defense to continue to furnish information concerning projects and the utilization of funds within the NATO infrastructure program to FOA or its successor agency, because such information may well reflect upon the dollar balance of that country within the European Payments Union and may therefore have a direct bearing upon its need for trade with or aid from the United States.

Possibility of Paying in Local Currencies

United States officials connected with this program have stated that, during the preparation for the negotiations leading to the establishment of the NATO infrastructure program, the United States considered the possibility of using local currencies instead of dollars for United States payments under this program. However, it is said that this was not proposed during the actual negotiations.

One of the main reasons, it is said, was that all of the countries where infrastructure projects were foreseeably to be constructed, except Belgium, were at that time receiving substantial economic aid from the United States. The United States was endeavoring to have these countries increase their defense budgets, intensify their participation in the European Payments Union, and take vigorous steps to counteract the inflationary pressures inherent in capital development.

The United States representatives reportedly felt that to cut down on dollars in this program would make it necessary to supply additional dollars in other programs. As a result, at the meeting of the North Atlantic Council at Ottawa late in 1951, the United States went along with the proposal that payments would be made in the currency of the contributing country, which would be converted by the host country into its own currency in accordance with local exchange regulations. This meant in effect that the United States was to pay dollars at official rates for all payments under this program.

Some of these dollars have undoubtedly found their way back to the United States in payment for goods and services purchased by the host countries from American contractors on infrastructure projects. However, the greater part of these dollars in most if not all of the host countries are used to purchase local currencies with which to pay nondollar construction costs.

Since the transfer of dollars for this purpose has the effect of providing additional economic assistance to meet balances of payments

and to lessen any dollar gaps, the question may be raised as to whether this type of economic assistance should be continued throughout the completion of slices six and seven, in view of the apparent decision of the United States Government to extend no further economic grant aid to Western Europe. Might it therefore not be possible for the United States to reimburse host countries for nondollar expenditures with local currencies available to the United States either from counterpart funds or from the sale of surplus agricultural commodities? Or are we so far committed to the contribution of dollars with respect to slices six and seven that a renegotiation of our present undertaking is now impossible?

Regardless of what might be done to reduce our dollar contributions to slices six and seven, some thought should be given to the possibility of using available local currencies for the supplementary slices which may turn out to be required because of the changes in modern warfare, as has been indicated above. In other words, what is to be our policy in providing dollars that can not be identified with dollar expenditures under this program? The decision may vary with our readiness to extend additional economic aid to one country and our reluctance to do so with regard to some other country. However, the problem exists and it appears to have a definite bearing on the planning of future United States foreign aid programs and on the aggregate volume of economic assistance to be granted to a particular country under an integrated program.

Summary of Findings and Conclusions

1. Infrastructure in NATO parlance means those fixed facilities which are necessary for the support of NATO's integrated combat forces, such as airfields, telecommunications, and war headquarters. The construction of such facilities has been undertaken as part of the collective defense effort of the 14 sovereign NATO countries. This program therefore has its justification as an essential component of NATO.

2. This program began in calendar 1950 and has been authorized to continue through calendar 1956. The program for each of these 7 years is called a "slice," each of which is presented to the North Atlantic Council for approval at the time of the annual review.

3. The total cost of these seven slices is fixed at approximately $2 billion, which is financed on a common cost-sharing basis. The United States net share is approximately $780 million, or 38 percent of the total. Funds for the United States contribution of $221 million to the last two slices are authorized but remain to be appropriated.

4. Fiscal and other controls over United States contributions can be exercised only through multilateral channels. Notwithstanding a

somewhat loose management of funds in earlier years, it appears that procedures are now in force which are well calculated to protect United States financial interests. One of the most recent measures along these lines has been the establishment of NATO's board of auditors for infrastructure, the United States representative on which is the director of the European branch of the United States General Accounting Office.

5. All United States elements in NATO should continue their efforts to expand the area of international competitive bidding for infrastructure contracts, even though prospects for success in this direction are admittedly somewhat dim.

6. In view of the essentially military nature of infrastructure, it might be questioned whether or not FOA or its successor agency should continue to exercise even nominal coordination of the Department of Defense in the administration of the program. It may be that the only guidance required is that given by the National Security Council for overall policy and by the Department of State in working out the details of the United States position in the North Atlantic Council.

7. Some of the economic benefits resulting from this construction program, such as the stimulation of production and the lessening of unemployment, are too intangible to be accurately ascertained. On the other hand, constant effort is made to prorate capital gains and operating revenues accruing to host countries as debits against them. United States officials in charge of the program consider it inappropriate to demand a rigid accounting of such incidental economic benefits in a multilateral enterprise wherein mutual security in mutual defense are the prime objectives.

8. The United States is presently committed to paying dollars for its contributions to this program. Should not the United States endeavor to pay in local currencies that part of our contribution which is not needed to meet dollar costs? Local currencies might be available either from counterpart funds or from the sale of agricultural surpluses. The other NATO countries would undoubtedly oppose any such proposal most vigorously, on the ground that these dollars are necessary to preserve their economies on a sound basis and thus maintain their relatively high defense budgets. However, such claims should not be accepted as valid generalizations but should be tested against other indications of the economic deficiencies of individual countries.

9. In any event, the improved dollar balance of the host countries by virtue of United States infrastructure contributions must be considered as a factor in reviewing their requests for economic assistance through other United States aid programs.

Overseas Personnel Administration

By David A. Robertson

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INTRODUCTION

Foreign aid activities and related overseas economic operations are integral parts of diplomatic relations which the United States conducts with some 77 nations through 68 embassies, 9 legations, and 167 consulates maintained in 105 countries. Foreign aid programs have been carried on in most, but not all, of these nations.

Overseas economic operations generally, and foreign aid operations in particular, require competently trained officers recruited from many walks of life and fully representative, in excellence and variety, of the best of American citizenry.

The Foreign Operations Administration, which the Commission has suggested be studied in all its aspects, engages in a host of activities in the fields of economics, commerce, industry, agriculture, finance, labor, public health, education, and information through its substantial staffs of foreign aid specialists working in FOA field missions. While some of these missions are partially integrated with the regular embassy and consular organizations, many such missions function independently, receive instructions from and report on foreign aid and related developments directly to FOA in Washington, and make representations to and conduct negotiations with foreign governments. Thus their activities directly affect the position and the effectiveness of the ambassador. They are also interrelated with overseas economic operations carried on by the Foreign Service or by other principal agencies of the Government which conduct operations overseas, whether as part of the regular embassy and consular organizations or separately, through independent personnel systems.

The Hoover Commission recognized the importance of overseas economic operations to the Nation when it established a task force to make studies in this field. It is significant that the Commission specifically called for a study of the general problem of staffing arrangements, according to a memorandum of August 11, 1954, in the following language:

> III. Study the general problem of staffing American Embassies abroad with specialists from the Commerce, Agriculture, and Labor Departments.

Other items in the scope of inquiry, such as surveying the work of FOA in all its phases and recommending ways by which the Government agencies involved in overseas economic operations can operate with more efficiency and economy, also entail consideration of staffing and related personnel arrangements.

The task force has, from the outset of its studies, attached great importance to enabling the United States to speak with one voice

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abroad, that of the ambassador in each country. As studies on staffing arrangements progressed, it became evident that the position of the ambassador could be strengthened in a number of ways. Measures to strengthen the ambassador's position and to enable him to speak effectively for the United States in his country are developed herein in terms of a unified foreign service, a career service for overseas economic specialists, staffing and reporting procedures among the foreign affairs agencies in Washington, the role of the chief of United States diplomatic mission, and personnel needs for today and tomorrow.

This report attempts to provide for the use of the task force an adequate overall view of personnel engaged in administration of foreign affairs functions, particularly those employed in connection with overseas economic operations and foreign aid activities.

[1] "Foreign affairs," as used herein, includes overseas economic operations and foreign aid activities.

I. Development and Extent of a "Unified Foreign Service"

Prior to the turn of the century the United States did not engage extensively in overseas economic operations. Such operations as were undertaken fell within the purview of the Department of State, perhaps partially in consequence of the fact that the Departments of Commerce, Agriculture, and Labor had not as yet been established. In 1842 Congress authorized the reporting under the supervision of the Secretary of State of information concerning foreign tariffs, commercial systems, and regulations. In 1856 consuls and commercial agents of the United States in foreign countries were authorized to procure and transmit authentic commercial information to the Department of State.

The first provision for special agents to investigate trade conditions abroad with the object of promoting the foreign commerce of the United States was contained in an Appropriations Act dated March 3, 1905. In the period 1905–14 the special agents were sent abroad in connection with the promotion of foreign trade, largely of a temporary or roving character, without permanently established headquarters in foreign countries. During the subsequent period of 1914–27 the so-called commercial attachés service was organized upon a longer term basis by authority granted in annual appropriations bills. Permanent legislative status for a separate Foreign Commerce Service under the direction of the Department of Commerce did not occur until March 3, 1927, when the Hoch Act was approved by Congress. Similarly, a separate Foreign Agricultural Service under the direction of the Department of Agriculture was authorized and established under Public Law 304, approved June 5, 1930.

A coordination agreement executed between the Departments of State and Commerce on July 27, 1933, provided that the commercial attachés were to report through the Secretary of State instead of direct to Commerce, and that instructions to commercial attachés were to emanate from the Secretary of State.

The concept of a "unified Foreign Service" had its roots in the Rogers Act of 1924, consolidating the diplomatic and consular corps. However, the economic specialists of the separate foreign services of Commerce and Agriculture were not integrated into the Foreign Service administered by the State Department until Congress approved Reorganization Plan No. 2 in 1939. The period of World War II was marked by the establishment of separate personnel systems for

temporary agencies such as OSS, OWI, and FEA. However, these personnel systems were terminated by a transfer of the temporary agencies to State in the fall of 1945. The Foreign Service Act of 1946 confirmed the concept of a "unified Foreign Service" and formalized by law a marginal participation of the Departments of Commerce, Agriculture, and Labor in the administration of the Foreign Service by the Department of State. The approval of the Marshall plan in 1947 was accompanied by the establishment of a separate personnel system for ECA. When Reorganization Plans 7 and 8 took effect in 1953, separate personnel systems were established for FOA and USIA. A separate agricultural attaché system under the direction of the Department of Agriculture was authorized by the Agricultural Act of 1954.

Implicit in the development of a "unified Foreign Service" has been its administrative control by one agency in Washington, the Department of State, and the assignment of overseas economic specialists under a single personnel system to the staff of the regular embassy and consular organizations under the direction of the ambassador in each country.

A number of major studies have been made during the past few years on overseas administrative personnel problems. Reports containing the findings of these studies strongly support the concept of a single foreign affairs personnel system for the specialists of the foreign affairs agencies, in such terms as would include those engaged in foreign aid activities and related overseas economic operations. Foremost among these reports are those prepared by the first Hoover Commission in 1949; the Secretary of State's Advisory Committee on Personnel (the Rowe Committee) in 1950; the Brookings Institution in 1951; the Secretary of State's Public Committee on Personnel (the Wriston Committee) in 1954; and the personnel adviser to the President—a progress report on the latter having been submitted to the House Government Operations Committee on March 16, 1954.

The first Hoover Commission, in its report of February 1949 on "Foreign Affairs," lent its support to a "unified Foreign Service" by recommending that the personnel in the State Department and of the Foreign Service, above certain levels, be amalgamated into a single foreign affairs service to serve at home or overseas and constitute a safeguarded career group administered separately from the general civil service. It further proposed that this foreign affairs service be utilized to meet the needs of other agencies (engaged in overseas economic operations) by a recruitment therein of specialists from these agencies and from business, labor, and other sources. It also suggested that these agencies should obtain appropriations for their specialists, and that while employed overseas these specialists should constitute an integral part of the embassies to which they are

assigned and be under the direction of the ambassador in each country.

The Rowe Committee in its report of August 1950 lent its support to a "unified Foreign Service" by expressing the belief that it should be a unified system, operating under a common set of principles, and offering a satisfying type of public service. It added that this personnel system should be created separate from the existing civil service system to meet our peculiar responsibilities in the field of overseas operations.

A Brookings Institution report gives its support to a single foreign affairs service in the following language:

> The issue most prominent in public discussion of foreign affairs personnel in recent years has been the recommendation of the [first] Hoover Commission, subsequently reaffirmed by the Rowe Committee, that a single foreign affairs service be created, in which the departmental staff of the State Department and the Foreign Service would be consolidated.[1]

The Brookings report goes on to observe that during the postwar period the problems of personnel administration in foreign affairs (including overseas economic operations) have grown in urgency and complexity. Of three major efforts to find a solution—the Foreign Service Act of 1946, the Hoover Commission reports of 1949, and the Rowe Committee report of 1950—only one resulted in basic action; and

> None has represented a search for a comprehensive system which would provide a program of personnel administration for all overseas civilian personnel.[1]

The Brookings report adds that the failure to provide adequately for recruitment and retention of specialized personnel, the failure to provide for easy interchangeability of staff, the failure to give effective attention to executive personnel—are compounded by a fourth difficulty, the existence of the several different personnel systems for the administration of foreign affairs staffs (including staffs handling overseas economic operations).

The above-cited Brookings report sums up emphatically in the following language:

> These several systems, operating without the stabilizing influence of an accepted basic concept of what the system should provide and how they should be related to each other, have produced a wasteful, unnecessarily competitive, and moral-damaging personnel environment in the foreign affairs program. This condition is the result of differences in the appointment process, in the tenure of employment offered, in the opportunities for advancement and transfer, in compensation, in allowances and leave systems.

The Wriston Committee, in its report of June 1954, also recommended an integration of the personnel of the State Department and Foreign Service, where their functions converge, into a single administrative system composed of some 3,900 officers. A staff study

[1] Brookings Institution report of June 1951 entitled, "The Administration of Foreign Affairs and Overseas Operations."

made for the Committee estimated that maximum long-range strength of the Foreign Service officer category might reach 6,200 if the Foreign Service is considered as the principal source of trained officer personnel for FOA and USIA.

The study of overseas personnel by the President's personnel Adviser, in substance, has this to say: United States Government activities overseas fall into two categories: first, projections overseas of domestic activities which are largely the concern of the civil service; and second, representations to and dealings with foreign governments, assistance to foreign economies, and information on United States aid to foreign peoples, which are best covered by a separate foreign affairs personnel system having a planned relationship to other personnel systems of Government.

The establishment of a unified Foreign Service or a single foreign affairs personnel system would involve the consolidation of a number of existing systems. The numerous personnel systems governing the staffing of American embassies and consular establishments with overseas economic specialists from FOA and the other foreign affairs agencies range from participation in one or more of the three personnel subsystems of the Foreign Service to varying independent overseas personnel systems established under different laws and administered by foreign affairs agencies other than the State Department. The principal features of some of these varying systems are set forth below.

The Foreign Service Act of 1946 authorizes three personnel subsystems:

(1) A *Foreign Service Officer Corps* is the only career service for officers, based primarily on entry at the bottom and promotion through the ranks, on a basis of merit, to the positions of counselor, minister, and ambassador. Entry is by successful completion of prescribed written, oral, and physical examinations and subsequent appointment by the President by and with the advice and consent of the Senate.

(2) A *Foreign Service Reserve Corps* is authorized for specialists on a temporary basis. Appointments are for nonconsecutive periods of not more than 4 years each of any person regularly employed in any Government agency. Appointments are made administratively by the Secretary of State to a particular class and based on age, qualifications, and experience. Pay and allowances are commensurate with those provided for the Foreign Service Officer Corps.

(3) A *Foreign Service Staff Corps* is authorized for the administrative, fiscal, and clerical personnel of the Foreign Service. Appointments are by the Secretary of State and based on educational and experience qualifications in light of the standards required for the particular job to be filled. Pay scales are inferior to those prescribed for the other two corps.

The Mutual Security Act of 1954 authorizes the Director of the Foreign Operations Administration to establish a separate personnel system to perform the purposes of the act at home and abroad. The Director has authority to employ or assign persons abroad who will receive pay and allowance at any rates provided for the Foreign Service Reserve and Foreign Service Staff by the Foreign Service Act of 1946, as amended. These overseas personnel receive instructions from and communicate directly with FOA.

The Departments of Agriculture and Treasury, USIA, CIA, and Defense service attachés in varying degrees engage in overseas economic operations under separate personnel systems established under different laws. Generally speaking, the Departments of Commerce and Labor support the concept of a "unified Foreign Service," but there has been strong sentiment favoring new arrangements for overseas economic specialists serving in the Foreign Service. In response to this sentiment, the Bureau of the Budget approved a new arrangement on December 21, 1954, giving Commerce increased personnel responsibility for trade commissioners, and recently the State and Labor Departments have agreed on new personnel procedures applicable to labor attachés.

II. A Career Service for Overseas Economic Specialists

The Foreign Service Act of 1946 is the only act designed for overseas personnel management. It provides a career service for the overseas personnel of the State Department, but not for the specialists of the other foreign affairs agencies. While the Foreign Service Act contains a provision for lateral entry into its officer career service, known as the Foreign Service Officer Corps, this provision has been so circumscribed by restrictions of law and regulations that only 51 candidates have been approved for admission from 2,378 applications filed during the period 1946–54.[1]

The Foreign Service Reserve Corps is designed, as stated before, not as a career service for specialists, but with appointments limited to a statutory tenure not to exceed 4 years. This corps could be reformed to constitute a career service for the overseas economic specialists of the other foreign affairs agencies, as well as a service in which short-term specialists could be placed, by eliminating the statutory 4-year limitation on tenure and by continuing the Secretary of State's authority to make appointments administratively. Qualifications for entry into the re-formed Foreign Service Reserve Corps could be tailored to meet the overseas economic specialist requirements of the foreign affairs agencies. If the goal is to be achieved of a single foreign affairs personnel system for all foreign affairs personnel, including foreign aid and overseas economic specialists, reasonable standards should be applied for lateral transfer on a selective basis from the Reserve Corps into the Foreign Service Officer Corps. A prudent administration of lateral entry would strengthen the diplomatic corps by enabling specially qualified specialists to move into the officer career service and up to the positions of counselor, minister, and ambassador.

An observation in respect to the lateral entry of specialists made by the Task Force on Personnel and Civil Service in its report of February 1955 seems timely:

> One thing the task force wishes to reemphasize. It does not propose to establish a "closed" civil service which can only be entered at the lowest level. In this country where there is substantial mobility in business, industry, professions, and the educational world, lateral recruitment on a genuine merit basis of open competition provides an opportunity to enrich the civil service.

[1] Wriston Committee report of June 1954, chap. 4.

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The foregoing could be equally applicable to the Foreign Service in respect to enrolling highly qualified overseas economic specialists. The Wriston report observes that the Foreign Service is critically deficient in overseas specialists versed notably in economics, labor, agriculture, commercial promotion, business administration, and other skills—specialties that have become indispensable to the successful practice of modern diplomacy.

III. Revised Staffing and Reporting Procedures

At the present time the United States Government is handicapped by the lack of simplified personnel and staffing procedures in Washing applicable to the foreign affairs agencies which perform overseas functions covered by the Mutual Security Act. This group includes FOA, the Departments of State, Commerce, Agriculture, Labor, Treasury, Interior, Defense, and HEW, and USIA and GSA. The transfer of FOA functions to the State Department would not solve this problem but rather emphasize the need for finding a solution. One means of simplifying existing personnel and staffing procedures, which currently differ for each agency concerned, might be for the State Department to execute a standardized bilateral agreement with each agency performing overseas economic operations. These agreements could be patterned along the following lines, which are based on principles advocated by the first Hoover Commission:

(*a*) A recognition that the specialists of the foreign affairs agencies engaged in overseas economic operations and foreign aid activities would serve abroad as an integral part of a single foreign affairs personnel system as a substitute for, and a simplification of, the numerous varying separate personnel system.

(*b*) The State Department, supported by the other foreign affairs agencies, will present to the Bureau of the Budget and to Congress a unified budget for the Foreign Service in which will be included sums for the overseas personnel of these agencies. When this budget is presented to the Appropriations Committees of both Houses, it would then be the responsibility of each of the other foreign affairs agencies to appear before these committees and justify that part of the budget applicable to them (salaries and allowances for its personnel, administrative support services, clerical support, and hire of local employees).

(*c*) Each foreign affairs agency, in consultation with the State Department, would designate the posts where the funds appropriated are to be used and detail the staffing and other arrangements for its overseas economic specialists. If Congress appropriates less than is requested, the agency affected would promptly inform the State Department in what posts and countries the reductions should be made.

(*d*) Provision could be made for the entry of the overseas economic specialists of the foreign affairs agencies into the Foreign Service Reserve Corps, which could be reformed to constitute a career officer service for specialists by a removal of the 4-year limitation in tenure in order that appointments could be made administratively on a permanent or temporary basis according to the needs of the service. Qualifications for entry should be determined by the foreign affairs agency concerned. State should enroll, assign, transfer, promote, and select-out the specialists in this corps under procedures approved by the foreign affairs agencies, subject to the availability of funds and a character approval of each candidate by the Secretary of State.

(*e*) A revised reporting service is required to provide economic information needed for the determination of foreign policy and for the guidance of the business, agricultural, labor, and other communities. There seems to be little doubt that the present system is cumbersome, wasteful, and inefficient.

The various aspects of this problem might be dealt with as follows:

Single-time or special-purpose economic reports requested by a single foreign affairs agency could be transmitted by the specialist officer direct to that agency, subject to the comment of the Ambassador and with copies available for transmission to the Department of State. Copies of economic reports prepared for two or more agencies, such as the reports called for under the comprehensive economic reporting program, after being reviewed by the chief of mission, should be transmitted to the Department of State for circulation to the other interested agencies. Technical economic background information could be transmitted by any foreign affairs agency directly to its overseas specialist at any post, with information copies to the Department of State and ambassador. Requests for information could continue to be transmitted by the foreign affairs agency through the Department of State to the embassy or consulate. However, the Division of Foreign Reporting, currently staffed with State Department personnel, could be replaced by a joint service group staffed by employees from the foreign affairs agencies concerned. Thus it should be possible for employees of Agriculture assigned to the group to review the requests emanating from the Department of Agriculture, with similar arrangements for the other agencies. Personnel assigned to the group should have special knowledge of the reporting requirements of their agency and work within the limitations of specialists assigned abroad. In addition, the following remedial measures could also be undertaken to strengthen the reporting service:

(1) The survey requested from the Bureau of the Budget to assess the importance and end-use value of all types of reports should be completed as soon as possible;

(2) An effort could be made by the State Department to have the reporting personnel use greater selectivity in choice of subjects for voluntary reports.

IV Role of Chief of United States Diplomatic Mission

Executive Order 10575 of November 6, 1954, defines the functions of the chief of United States diplomatic mission, as representative of the President, in the following terms. He serves in each country as the channel of authority on foreign policy and provides foreign policy direction to all representatives of United States agencies in his country. He coordinates the activities of representatives of United States agencies (including the chief of economic and technical assistance missions, military assistance advisory groups, foreign information staffs, and other representatives of agencies of the United States Government). He assumes responsibility for assuring the unified development and execution of all United States programs in his country. More particularly, in the language of the Executive order, each chief of United States diplomatic mission, with respect to the programs and the country concerned, is responsible for:

(1) Exercising general direction and leadership of the entire effort.

(2) Assuring that recommendations and prospective plans and actions of representatives of United States agencies are effectively coordinated and are consistent with, and in furtherance of, the established policy of the United States

(3) Assuring that the interpretation and application of instructions received by representatives of United States agencies from higher authority are in accord with the established policy of the United States.

(4) Guiding the representatives of United States agencies in working out measures to prevent duplication in their efforts and to promote the most effective and efficient use of all United States officers and employees engaged in work on the said programs.

(5) Keeping the representatives of United States agencies fully informed as to current and prospective United States policies.

(6) Prescribing procedures governing the coordination of the activities of representatives of United States agencies, and assuring that such representatives shall have access to all available information essential to the accomplishment of their prescribed duties.

(7) Preparing and submitting such reports on the operation and status of the programs referred to in the introductory portion of this subsection as may be requested of the Secretary of State by the Secretary of Defense, the Director of the Foreign Operations Administration, or the Director of the United States Information Agency, with respect to their respective responsibilities.

(8) Recommending the withdrawal of United States personnel from the country whenever in his opinion the interests of the United States warrant such action.

Ordinarily the foregoing authority for a chief of United States diplomatic mission should be sufficient to enable the United States to speak with one voice in each country, the voice of the chief of mission.

This has not necessarily followed. The growth of a tendency to send specialists abroad under independent personnel systems and assigned to separate missions, not a part of the embassy, each encouraged to act autonomously, has contributed to the result that the United States has spoken with numerous, often conflicting voices. According to an October 1954 study for the Senate Appropriations Committee, FOA missions are operating independently abroad and, in many instances, the ambassador does not exercise control over the FOA official in his territory and his advice can be ignored, no matter how competent the ambassador may be. Confusion has also arisen when more than one ambassador has been assigned to a single country.

There are a number of measures which could be undertaken that would contribute toward enabling this country to speak effectively with one voice abroad, that of the ambassador. Simplified arrangements standardizing staffing and reporting procedures among the foreign affairs agencies, along lines mentioned above in section 4, would enable these agencies to get together and resolve their administrative problems in Washington and thereby reduce the likelihood of the conflicts being passed on to the ambassador or being publicly aired abroad, to the embarrassment of this Nation and its envoys. The substitution of a single foreign affairs personnel system for the numerous and varying systems currently employed and the assignment of overseas economic specialists to the regular embassy and consular organizations would strengthen the position of the ambassador by enabling him to administer such personnel through his regular deputies and under the established line of command. The ambassador is the representative of the President, and as such, should be accorded the requisite line authority over all American Government personnel assigned to his country. Because of the multiplicity of his responsibilities in the field of overseas economic operations, the ambassador must rely to a great extent on his staff. A competent staff can best be assured for him, as well as for the foreign affairs agencies engaged in overseas economic operations in Washington, by a sound recruitment and training program for officers on a career basis. Furthermore, a sound career development program should enhance the stature of officers scheduled to assume the heavy responsibilities of counselor, minister, and ambassador in the future.

In order that the scope and complexity of the ambassador's position may be better understood, there is set forth a list of the United States agencies and their representatives engaged in overseas economic functions in the United Kingdom, subject to the supervision of the ambassador. This list is not all-inclusive, as the ambassador has other fields of responsibility:

1. *Department of State*

Overseas economic operations of State and other agencies carried out in the Economic Section, Embassy, London, and in the economic sections of the consulates in the U. K.

2. *Foreign Operations Administration*

FOA aid programs carried out by an independent mission (USOM) partially integrated with the Embassy Economic Section, with the chief of FOA mission serving concurrently as Minister for Economic Affairs and the deputy chief of FOA mission serving concurrently as counselor for economic affairs.

3. *Department of Commerce*

Maritime Administration. Maritime attaché has status of Foreign Service reserve officer and is charged with investigating costs of ship construction and ship operation.

Bureau of Foreign Commerce represented by officers of the Foreign Service in the embassy economic section.

4. *Treasury Department*

Treasury finance representative serves concurrently as financial adviser to the ambassador and to the chief, FOA mission.

Treasury customs representative from the Bureau of Customs.

5. *Department of Agriculture*

Agriculture attaché in the agricultural attaché system directly represents the Department of Agriculture.

6. *Department of Defense*

(*a*) Army attaché reporting overseas economic and other developments.

(*b*) Naval attaché reporting overseas economic and other developments.

(*c*) Air attaché reporting overseas economic and other developments.

(*d*) Military Assistance Advisory Group (MAAG) representing all three services. Chief of MAAG is one of officers comprising so-

called country team along with the ambassador and chief of FOA mission.

7. *General Services Administration*

Public and cultural affairs officers in an independent mission responsible directly to USIA.

9. *Department of Labor*

Labor attaché who is a Foreign Service officer.

In addition, there are petroleum, shipping, and civil air sections in the Embassy, London, staffed by officers of the Foreign Service.

V. Personnel Needs for Today and Tomorrow

A close relationship exists between our overseas economic and military programs and their impact on our national security. Effective planning and conduct of these complex activities of the United States Government requires adequate numbers of trained and qualified employees. There is the necessity of seeing that our present programs are administered and carried out by the best available personnel, and at least of equal importance is the continuing need for assuring the people of the United States that their overseas activities will be conducted in the future with skill, ability, and a clear understanding of our national interests.

The personnel requirements of our overseas economic operations can only be met through an adequate recruiting and training program specifically designed to meet the needs of the agencies concerned.

An extensive interest has been expressed in the need for career training of foreign affairs personnel performing overseas economic and other functions by the President in his 1955 budget message, by the Wriston Committee in its report of June 1954, and by the House Foreign Affairs Committee in its report on the Foreign Service Act of 1946.

Three proposals for the establishment of career training facilities have been put forth recently: a Foreign Service scholarship training program, a Foreign Service Academy, and a Foreign Service Institute.

The proposal for a Foreign Service Scholarship Training program is one of the principal recommendations of the Wriston Committee report of June 1954. This program is patterned after the Navy's Reserve Officer Training Corps system. Its recruitment and training provisions are designed for personnel of the State Department and Foreign Service but not for the overseas specialists of the other foreign affairs agencies. The idea is to enlist promising candidates into a two year training program at the end of the sophomore year. Recruitment is based on State quotas according to population, on closer relations with the universities and colleges—the principal source of officer candidates, and on appointments by the President and members of the Congress. Candidates receive a Federal grant for 2 years for education at an accredited college of their choice, subject to an agreement on the part of the applicant to complete the course and to serve in the Foreign Service for at least 6 years. The Commission on Education and International Relations, established under the American Council

of Education, has indicated there are good reasons for considering this proposal at a graduate rather than an undergraduate level. At an undergraduate level the student is seeking an education, is a minor, and it is too early for specialization. At the graduate level the individual is more mature, is choosing a career, and is at a logical point to undertake specialized training.

The proposal for a Foreign Service Academy is the subject of several bills introduced into the House of Representatives over the past several years. The academy proposal is patterned after the institutions at West Point and Annapolis so successfully used for recruitment and basic training by the Army and Navy. Current bills would provide training of overseas personnel for the Foreign Service, FOA, and Departments of State, Commerce, Agriculture, and Treasury. Appointments would be by members of Congress and the President. Undergraduate training would be provided for 4 years.

A proposal for reforming the Foreign Service Institute is also contained in the Wriston report. It calls for a fulfillment of the intent of Congress as expressed by the House Foreign Affairs Committee in its report on the Foreign Service Act of 1946 and as provided in the act itself. The training and instruction contemplated by Congress could be provided by a lower school at a graduate level and an upper school at the service war college level on a single campus, with attendant advantages in terms of efficiency, economy, and educational impact. Under the above act, career training could be furnished to the overseas personnel of all foreign affairs agencies.

VI. Personnel Systems for Key Agencies

The Secretary of State's Public Committee on Personnel (the Wriston Committee), in its report of June 1954, indicated that some 24 Government departments and agencies have American personnel stationed abroad in foreign areas. The United States maintains 68 embassies, 9 legations, 167 consulates, in 105 countries. In addition, there are numerous special missions and a few independent offices overseas.

A report on a study of overseas personnel problems, dated March 16, 1954, was submitted by the Personnel Advisor to the President at a hearing before the International Operations Subcommittee of the House Committee on Government Operations. The highlights of this report are summarized as follows:

Early in the summer of 1953, at the request of the President, his Personnel Advisor undertook a study of overseas personnel problems. This program stemmed in part from the President's message to Congress on June 1, 1953, accompanying Reorganization Plans 7 and 8 for the establishment of FOA and USIA. In his message, the President stated that he was not satisfied with the provisions contained in those plans relative to the handling of personnel; and that he would request that the matter be studied critically and that recommendations be made for a better solution.

The goals of this study are broad: Establishment of sound and effective management practices, elimination of inequities to individuals, establishment of broader career opportunities in foreign affairs, and improvement of United States prestige abroad. The Foreign Service Act of 1946 is the only act that was designed for overseas personnel management. It was written by planning groups within the Department of State, designed just for the State Department and not the other foreign affairs agencies. The Foreign Service Act is not easily extended to include civil service employees of State and other foreign affairs agencies. The act itself did not envisage or provide for the variety and scope of present-day foreign affairs activities.

One of the things that is being looked into is whether the Foreign Service Act emphasizes career diplomat development with adequate provision for program staffing or for development of topflight administrative and program operators as distinguished from diplomatic

representation, negotiation, and reporting. These conclusions had been reached: There is a current need for a foreign affairs personnel system. This foreign affairs personnel system must have a planned relationship with the civil service system and with all other systems of personnel management.

United States Government activities overseas fall into two broad categories. In part, these activities are extensions overseas of domestic activities; for example, most Defense Department activities in foreign countries. There is a second type of activity overseas: reporting on foreign developments, representations to and negotiations with foreign governments, assistance to foreign economies, and information on United States aid to foreign peoples. Examples of the latter type of activity may be found in FOA, USIA, Defense attachés, military missions, and Departments of State, Commerce, Agriculture, Labor, Treasury, and Interior.

There were some 30,000 Americans and 75,000 locals employed by the United States Government in foreign areas as of November 30, 1953. About one-third of this number were employed by the State Department and the other agencies engaged in the foreign affairs functions of reporting, representation, negotiation, aid and information activities. The other two-thirds were employed for the most part by Defense in connection with military installations and missions. (See following table and chart on page 458 listing by agency of United States Government employees in foreign areas.)

Citizenship of Federal Employees Serving Overseas—September 1954 [1]

	Total	Americans	Aliens
State	15,094	5,530	9,564
Foreign Operations Administration	4,181	2,110	2,071
Defense (Attaché Personnel)	2,000	1,400	600
United States Information Agency	7,314	1,017	6,297
Commerce	304	259	45
Agriculture	342	198	144
Health, Education, and Welfare	243	198	45
Interior	195	195	
Justice	106	102	4
Treasury	125	88	37
American Battle Monuments Commission	856	63	793
Labor	95	62	33
General Services Administration	72	57	15
Veterans Administration	389	46	343
Atomic Energy Commission	18	18	
Others	16	8	8
Total	31,350	11,351	19,999

[1] United States Civil Service compilation as of September 1954.
Defense personnel listed represents only those engaged in service attaché work at the embassies.

There are many variations in the personnel systems employed to staff American establishments abroad with specialists from the 24 agencies concerned. They range from participation in 1 or more of the 3 personnel subsystems of the Foreign Service to separate foreign services maintained by the individual agencies. The principal fea-

tures of the personnel systems employed for six of the key agencies engaged in the foreign affairs functions of foreign reporting, representation, negotiation, and aid program operations are set forth below.

Foreign Operations Administration

The Mutual Security Act of 1954 authorizes the FOA director to establish a separate personnel system to perform the purposes of the act. Personnel employed overseas in effect constitute a separate foreign service and receive pay, allowances, and benefits provided for the Foreign Service Reserve and Foreign Service Staff in the Foreign Service Act of 1946. The director has authority to make appointments to these corps. The overseas personnel receive instructions from and communicate directly with FOA. They are paid out of MSA funds obtained from Congress by FOA.

In a letter of June 1, 1953, to the heads of all executive departments, the President stipulated that the chief of the United States diplomatic mission in each country must provide effective coordination of, and foreign policy direction with respect to all United States Government activities in the country. To the maximum extent practicable, there should be integrated supervision of personnel performing related economic or information activities in each foreign country. Appointments of all chief representatives abroad of the two new agencies (FOA and USIA) and of the chiefs of military assistance advisory groups abroad, should be cleared with the Secretary of State. This letter was sent out at the time Reorganization Plans 7 and 8 were submitted to Congress.

According to an October 1954 report on European mission for the Senate Committee on Appropriations, FOA missions are operating independently and not in support of American political objectives. FOA ministers or chief of missions are primarily responsible to FOA. In many instances, our ambassador does not exercise control over the FOA official in his country and his advice can be ignored, no matter how competent the ambassador may be.

Department of Agriculture (Agricultural Attachés)

The Agricultural Act of 1954 makes the Department of Agriculture responsible for the direction of the work of the Agricultural Attaché System at United States missions abroad and in effect establishes a separate agriculture foreign service.

In respect to United States agricultural matters, the Secretary of Agriculture is authorized by title VI of this act: (*a*) to acquire information abroad, (*b*) to interpret and disseminate information in the

United States, (*c*) to investigate abroad factors influencing agricultural exports, and (*d*) to conduct other related activities. He is also authorized to: (1) present to Congress as a part of the regular budget of the Department of Agriculture the needs of an agricultural attaché program, (2) appoint and assign personnel abroad, with the concurrence of the Secretary of State, to be attached to diplomatic missions and to enjoy diplomatic privileges, immunities, and benefits equivalent to those of the Foreign Service personnel of comparable rank. Agriculture is authorized to communicate with and receive reports directly from its attachés. Each attaché while serving abroad is subject to the general coordinating authority of the chief of mission in his country.

Under an interim agreement, Agriculture will transfer funds to State to cover the costs of administrative support abroad and of reporting services at posts where no agricultural attachés are stationed. There are 55 agricultural attachés and assistant positions in 40 countries. It is planned to increase this number in fiscal year 1956 to 81 positions in 52 countries.

The Secretary of State has observed recently that in the process of transferring the control and direction of agricultural attachés to the Department of Agriculture, it has become clear that this arrangement tends to weaken the Foreign Service and to disunify the conduct of our foreign relations.

Department of Commerce

In October 1954, the Department of Commerce submitted to the State Department a "Proposed Plan for Specific Purposes Services and Reporting Activities for the Department of Commerce." The principal features of this plan are as follows:

1. Commerce will seek funds from Congress (as a part of State's regular Foreign Service budget) for the salaries and allowances of Commerce attachés and trade commissioners, for administrative support services, for clerical support, and for the hire of local employees.

2. Commerce will designate the posts where the funds are to be used and detail the staffing, and other arrangements.

3. The State Department will appoint economic counsellors, Commerce attachés, and trade commissioners as Foreign Service Reserve officers at the request of Commerce. Commerce will be responsible for the qualifications of such personnel; and State will enroll, assign, transfer, and promote them as requested by Commerce, subject to the concurrence of the Secretary of State.

4. Economic counselors, commercial attachés, and trade commissioners will be subject to the direction and supervision of Commerce

in respect to their technical and substantive duties. The performance of these duties for Commerce will be under the supervision of the chief of mission.

In its "Revised Draft of Outline for Proposed Report" dated December 21, 1954, the task force noted its approval of the foregoing plan proposed by the Department of Commerce.

A counter-proposal of the State Department dated December 4, 1954, accorded to Commerce an increased personnel responsibility for trade commissioners but reserved to State the primary administrative control over commercial attachés and economic counsellors. Its principal provisions follow:

1. State will give Foreign Service appointments to commercial attachés and trade commissioners in accordance with the Foreign Service Act of 1946. However, Commerce will be responsible for determining the qualifications of the trade commissioners, subject to the approval of the Secretary of State. State will give full consideration to Commerce recommendations in the appointment, assignment, transfer, and promotion of commercial attachés and trade commissioners.

2. Trade commissioners will perform their duties for the Department of Commerce under the supervision of the chiefs of mission in their country of assignment and with guidance of the Department of Commerce. They will accept other assignments from the chiefs of mission in related fields that do not detract seriously from the overall performance in behalf of Commerce Department programs.

3. Appropriations for trade commissioners and the necessary administrative support will be separately identified in a separate line in the State Department budget. Commerce will cooperate with State in the appropriation request for this item before Congress.

4. Copies of communications between trade commissioners and Commerce will be furnished to State and to the chief of mission.

In approving the State Department counter-proposal on December 21, 1954, the Bureau of the Budget made the following stipulations: Trade commissioners will report to and be under the supervision of the principal economic officer of the United States mission, acting on behalf of the chief of mission. Instructions from the Department of Commerce and reports to Commerce will be transmitted through the State Department, or if transmitted direct, copies will be given simultaneously to State. Trade commissioners will be primarily responsible for rendering specialized services in connection with the export and import interests of foreign traders and investors of the United States.

Department of Labor (Labor Attachés)

The Department of Labor is committed to the "unified Foreign Service" concept visualized in the Foreign Service Act of 1946. It

believes that, through administrative rather than legislative action, the responsibilities of State and Labor can be more clearly delineated.

There are 33 labor attaché and assistant positions in 29 countries, primarily recruited through "lateral appointment" in the Foreign Service Officer Corps, the Foreign Service Reserve Corps, and Foreign Service Staff Corps, administered by the State Department. Communications between the Labor Department and these attachés flow through the State Department. While stationed abroad these officers are subject to the general coordinating authority of the chief of mission.

According to the Department of Labor, there has been unnecessary delay and confusion in the filling of Labor attaché vacancies in the past. For the lack of a strong central administrative office in the State Department, the Labor Department has had to deal with the 4 regional bureaus as if they were 4 separate State Departments. Each bureau applies its own criteria, occasionally conflicting with lines laid down by another bureau. Recently the Secretary and Under Secretary of Labor and the Under Secretary of State for Administration have agreed upon a new procedure which, when implemented, should eliminate this problem. Under this procedure the Department of State will prepare detailed qualification standards for each of the Labor attaché positions; the Department of Labor will review these standards and recommend whatever changes might be necessary; the Department of State will promptly inform the Labor Department whenever a Labor attaché vacancy develops; the State Department will give prime consideration to the candidates recommended by the Labor Department.

Where it has missions abroad, FOA insists on having a labor adviser irrespective of the presence of a Labor attaché. As a consequence, confusion and duplication arise as to who shall serve as the principal adviser on labor for the chief of mission and the USOM director. This problem has been solved in some countries by the elimination of 1 of the 2 officers, but not in others.

All resources for preparing and justifying a budget for the Labor attaché program have not been adequately used. The budgeting process has been largely decentralized to each geographic bureau of the State Department and there has been little global planning of a Labor attaché budget. The result has been (*a*) Labor attaché positions have not been budgeted in posts where they are clearly needed, (*b*) there is global imbalance in the program which gives undue emphasis to certain geographic areas and (*c*) the knowledge, resources, and contacts of the Labor Department have not been adequately used in justifying the Labor attaché budget to the Bureau of the Budget and congressional appropriations.

Department of Defense (Service Attachés)

The Army, Naval, and Air attachés are employed abroad under the separate personnel systems of the three services. They are paid out of funds obtained from Congress by the Department of Defense for the three services. Their allowances more often than not exceed the allowances of other officers of comparable rank at the embassies.

These attachés receive their instructions from, and report directly to, their individual departments. They operate under security and communications procedures which differ from those of the embassies. Their reports cover a wide variety of economic subjects as well as other matters. They are circulated outside of Defense to State but seldom to the other interested departments of Government. The chief of mission has the opportunity to comment on them, if he so desires, when sending copies to the Department of State.

According to a training manual of State's Foreign Service Institute, the Army, Naval, and Air attachés are integral parts of the staff of the chief of mission, acting as advisers in their respective fields. The standing instructions of the three services place the attachés under the supervision of the chief of mission in carrying out instructions received from the service departments. In the case of irreconcilable conflict between instructions from the chief of mission and his home department, the attaché follows the directive of the former until the matter is referred to Washington for adjustment. Actually the situation varies. In some places the chief of mission exercises strong leadership with the attachés serving as integral parts of his staff. In others, the attachés function more or less independently, contributing little to the central functions of the embassy.

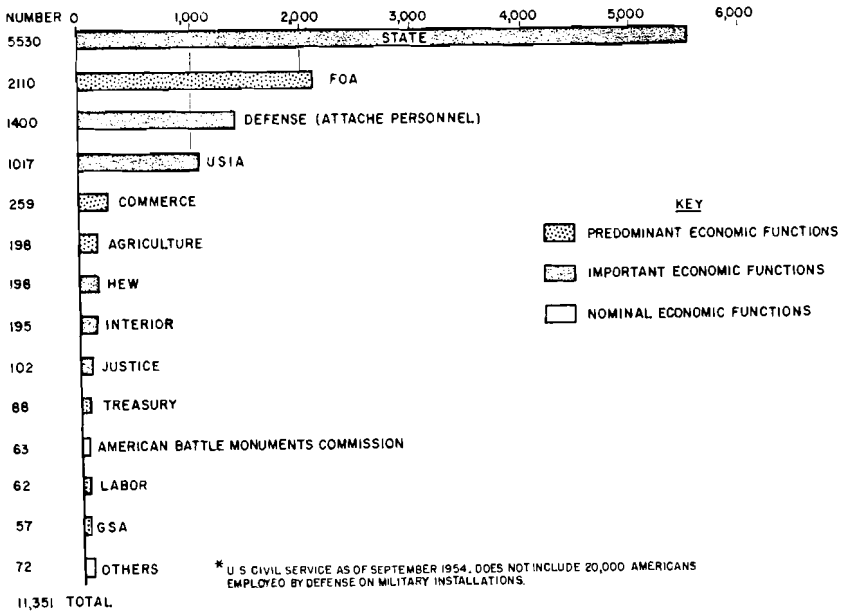
Treasury Department (Treasury Attachés)

Statutory authority for sending Treasury representatives abroad is derived from section 10 of the Gold Reserve Act of 1934 (Public Law, 73d Cong.). Treasury representatives are paid from interest accruing on the stabilization fund established as a result of the devaluation of the dollar in 1933. Therefore, the funds and number of personnel are not subject to usual budgetary processes and congressional review. However, Treasury has made conservative use of its authority, employing attachés only at a small number of the embassies. These representatives are employed by the Treasury Department, compensated in accordance with the general schedule of the Civil Service Commission, and remain civil service (not foreign service) employees while working abroad.

Under instructions from the Treasury Department, they prepare specialized reports of a financial character for that Department. They

communicate with Treasury through the State Department, but sometimes send their reports direct to Treasury. They also prepare the financial section of the comprehensive economic reporting program for their countries which is transmitted to State and in turn circulated by State to the other interested agencies. These attachés assist, under the supervision of the chief of mission, in the negotiation of agreements with foreign governments on financial matters. They also serve as financial advisers to the USOM director in those countries where there is an FOA Mission. They work in close cooperation with the diplomatic mission and are subject to the general coordinating authority of the chief of mission.

AMERICAN PERSONNEL IN FOREIGN COUNTRIES *



VII. Economic Reporting Service of the Department of State

Before 1939, economic reporting overseas was divided between the Commercial Attachés and the Consular Service. The former prepared the general economic reports, and covered the special fields of finance, trade, investment, etc. The latter answered trade inquiries, prepared trade lists, World Trade Directory reports, and reported on general economic matters relating to their consular districts.

In 1939, the foreign representatives of the various Government departments were consolidated into a centralized United States Foreign Service administered by the Department of State. This integration has been made the subject of a separate study.

During the Second World War major reporting programs were developed by a number of Government agencies for obtaining information needed in the prosecution of both military and economic warfare and for propaganda purposes. After the war the residue of these programs was transferred to the Department of State. This included the Foreign Economic Administration, Office of War Information, Coordinator of Inter-American Affairs. In making these transfers, the President stated that "the nature of present day foreign relations makes it essential for the United States to maintain informational activities abroad as an integral part of the conduct of our foreign affairs."

In 1948, the Economic Coordination Administration (ECA) was established and immediately embarked upon an extensive system of independent economic reporting for its own guidance in connection with foreign aid programs.

The administration of the State Department's reporting system was further refined by Executive Order 10249 of June 4, 1951. (Annex) This order authorized the State Department to assign priorities to requests from other departments, and to limit the total volume of requests to the resources available for this work.

The Department of State determined standards under which requests for information are accorded priorities on a scale from 1 to 5. It also formulated a list of reporting programs covering economic activities and developments in each of 129 foreign posts. These re-

ports submitted regularly are known as Comprehensive Economic Reporting Programs (CERP).

In addition to the CERPs, what are known as single-time requests are sent out from State to the field. Such requests sometimes involve extensive information of interest to specific business groups in the United States. However, the greater number of single-time requests are for trade and business data, World Trade Directory reports, trade lists, etc.

During the year 1953, the number of single-time reports requested was 20,045. Of these, 17,310 were for the Department of Commerce, 1,930 for State, 439 for Agriculture, and 366 for other departments. In this year, a total of 69,160 economic dispatches and telegrams, including the CERPs and voluntary reports was received from the field.

These figures do not accurately portray the value of the reporting service to the various departments, or the difficulty and time involved in obtaining the desired information. Many of the single-time requests can be answered with little effort, while some calling for a large amount of specialized information and field investigation may involve many manhours of work.

Before sending any request to the field, the State Department: (1) Goes through its files to ascertain whether the information has already been received and is therefore immediately available; (2) whether the information can be obtained by the foreign service reporting officers; (3) whether it is sufficiently important to justify the work involved; and (4) the relative importance of the request, to determine the priority which should be given it.

This service rendered to the other departments involves the whole range of economic reporting including national income, public finance, budgets, foreign trade statistics, East-West trade, cost of living, wages, production and consumption statistics, imports and exports, and other subjects.

It has been the policy of the Department of State to assign higher priorities to United States Government requirements for information as opposed to the needs of private individuals. Thus requirements involving the national security, and requirements arising out of United States regulatory programs have been given higher priority than those from private individuals or groups. Trade lists and World Directory reports receive the lowest.

The volume of information called for by the State and other Departments in the form CERPs and single-time reports has been far in excess of the manpower available to provide it. As a result, a substantial backlog has developed of low priority cases which are either submitted too late to be of any value when received, or are not answered at all. As of June 30, 1954, there were 2,071 requests outstanding which were more than 90 days old and of these, 1,996 were requests

emanating from the Department of Commerce, nearly all being World Trade Directory reports and trade lists which carry the lowest priority.

There is no doubt that this backlog could be eliminated by assignment of additional personnel for this work, although the assignment of more personnel might only result in more reports being requested. Another reason given for the failure of the reporting officers to keep abreast of their work is the slowness of the Department of State in replacing economic officers who are transferred or resign from their posts. This leaves a mission staff short-handed sometimes for a protracted period.

As a result of delays in obtaining commercial information through established channels, many businessmen have adopted the practice of writing direct to economic officers at the missions abroad. Replies are sent to these correspondents through the Department of State. This practice tends to give an advantage to certain inquirers over others, and weakens the position of the Department of Commerce as the main contact with the business community.

All CERP and voluntary reports are graded, and a functional analysis report is prepared every 6 months in the Department of State for every economic officer abroad.

The staff of the Foreign Reporting Division in State consists of 10 officers and 18 clerical personnel. In 1950, the total was 50. The work of the nine officers (besides the director) is divided as follows: two on priorities and appropriateness of requests, five on the evaluation of economic reports of each foreign mission, two on preparing instructions for CERP's, which must be constantly revised to profit by experience and meet new developments; and the preparation of a manual of economic reporting now in course of preparation.

As the Government department responsible for advising American businessmen, the Department of Commerce must call upon the Department of State economic reporting service for a great deal of up-to-date information to be used for the guidance of American business and for the Department's own use. This department has been gravely dissatisfied with the services rendered by the Department of State, and especially with the functioning of the priority system under Executive Order 10249. Some objections are: (1) Commerce requires specialized information; the data requested by State in the CERP's is sometimes too generalized; (2) Too much emphasis is placed by State on analytical reports; Commerce would rather get factual data and have their own specialists in Washington to analyze it; (3) State Department officials are not in a good position to assign priorities to requests since they are not familiar with the requirements of Commerce and the end-users in the business community, and they tend to overlook the time element which is so important in business. Commerce realizes the difficulty of promptly fulfilling all requests with

the limited manpower available and has taken steps to screen all requests before submitting to State to determine their importance and timeliness.

The Department of Agriculture has also been highly critical of the foreign reporting service. One of the important responsibilities of this department is the disposal abroad of surplus agricultural products, as expeditiously as possible. To this end, Agriculture needs facts and figures promptly on a current, not historical basis, and the priority system often prevents the acquisition of such information in time to be of use. The State Department officials are not in a position to know the needs of Agriculture and the users of agricultural services, yet it has been fixing the priorities, often very low ones, for agricultural requests, without regard to the perishable nature of agricultural commodities, and the rapid price fluctuation in the agricultural market. The Agriculture Department feels that it should be able to call on the agricultural specialists in the foreign service for trade promotion work in connection with the disposal of agricultural surplus abroad but that it cannot use these men effectively so long as they are under the direct administrative control of another department.

Under the Agricultural Act of 1954, the Secretary of Agriculture is authorized to appoint such personnel as he determines to be necessary and, with the concurrence of the Secretary of State, to assign such personnel to service abroad.

Funds in the State Department budget which it was determined would have been used for agricultural reporting in fiscal year 1955 in the amount of $1,200,000, were transferred to Agriculture, plus an additional $200,000 for additional agricultural activities.

With so many persons involved in the work of economic reporting, most of them on a part-time basis which varies for individuals from 5 to 75 percent of their time, it is impossible to produce any precise figures on the total cost of the reporting service. However, some figures are available for total overseas economic activities of the department. These show that during 1953, 1,040 man-years were devoted to economic activities, out of a total of about 7,000 man-years spent on all forms of activity, including political, administrative, etc. Probably from one-half to three-quarters of the economic activity was in the field of reporting. The cost of the economic activities overseas, i. e., salary and expenses of personnel, was about $6,000,000, out of a cost for all overseas activities of $42,000,000. These figures for dollars and man-hours do not include activities in Germany and Austria.

Thus is may be estimated that about 10 percent of the man-years and 14½ percent of the cost of the overseas operations of the State Department are devoted to economic activities.

It appears that the present system is cumbersome, expensive, and there is serious doubt whether the vast volume of reports now called for justifies the time and money spent. A report of the Senate Appropriations Committee in August 1954 requested the Bureau of the Budget to make a comprehensive survey and assess the importance and end-use value of all types of reports being requested and prepared. To date (March 1955) the Bureau of the Budget does not appear to have started to make such a study.

Alternatives to the reporting service have been suggested, for shifting the responsibility from State to other interested departments as has recently been done in the case of Agriculture and as some persons favor in the case of Commerce. However, such shifting would involve no saving in dollars or in the number of persons employed, unless these departments can see their way to cut down on the amount of reporting which they will require. In fact, it is already apparent that the cost of Agriculture reporting and related Agricultural economic activities will be increased substantially for the fiscal year 1955.

Appropriations are the chief stumbling block in the way of providing a service more satisfactory to the various departments since, if the volume of reporting is to be kept at the level desired, without any backlog of unfilled requests or any priority system, more people will be required and the number of people employed is governed by the appropriations. It is impossible to do away with the priority system so long as a larger work load is thrown on the State Department than its foreign service personnel can handle. The only alternative to priorities is more people, or a decentralized reporting system.

Agriculture now assumes full responsibility for reporting in its field wherever agricultural attachés are stationed. However, they are only expected to be located in 59 countries or regions. A considerable amount of reporting has been done and will continue to be needed from districts not important enough to warrant the assignment of a full-time agricultural attaché. Until now this part-time work has been done by the foreign service staff, usually consular officers. In the future, some method will have to be worked out for Agriculture to reimburse State for these services. Furthermore, so long as the Agriculture attaché was a foreign service officer it was normal procedure for him to call on and supervise other foreign service officers in connection with his work. Now that he is an official attached to another executive department he can hardly feel free to do so.

The main issue is the extent to which this function of the State Department is of value to the United States Government and to the business, agricultural, labor, and other communities. Questions are posed on which a number of investigators have found it impossible to arrive at any conclusions on this point.

The reporting service has grown up and changed in form over the years through a series of experimental procedures, hasty attempts to cure a chronic illness by drastic treatment. The arrangement between State and Commerce of 1932 which authorized the commercial attachés to call direct upon the Consular Service for assistance was altered the very next year to provide that contact between the two services should be through the Secretary of State. The attempt in 1951 to solve the problem of too few people and too much work-load by setting up a system of priorities administered unilaterally by the Department of State was a typical instance of making a bad situation worse. The priority system by making one agency the arbiter over others could not help but cause bad feeling. Nor did it help to solve the basic problem of getting all the work done. It simply left it to the Department of State instead of the men in the field to decide what part of the work would be done too late or not at all.

Earnest exhortations to screen requests carefully, to apply priorities judiciously, to weigh the potential value of the information and compare it with the cost of getting it, have not been fruitful.

One of the main difficulties is the fact that appropriations for the reporting service, to cover the requirements of the other departments and agencies are part of the State Department appropriation and are divided and used as the State Department sees fit with not enough attention paid—so it is said—to the needs and desires of the others. Furthermore, until very recently all the reporting personnel overseas in the Foreign Service were under the complete administrative control of the State Department. Now the Department of Agriculture has succeeded in breaking loose from this system and will have its own corps of agricultural attachés reporting to that department, but there is no certainty that this system will work better or will long endure.

ANNEX TO CHAPTER VII

EXECUTIVE ORDER 10249

Dated June 4, 1951

Prescribing Regulations With Respect to Foreign Service Reporting Functions

By virtue of the authority vested in me by section 311 of the Foreign Service Act of 1946, 60 Stat. 1002 (22 U. S. C. 846), and as President of the United States, I hereby prescribe the following regulations with respect to the reporting functions of the Foreign Service of the United States:

SECTION 1. As used in this order, the words "foreign data" shall mean any data obtained or to be obtained, in foreign countries, including reports, statistics, and publications.

SEC. 2. Subject to the provisions of this order, the Department of State shall obtain for any Federal department or agency, through the Foreign Service of the United States, such foreign data as such department or agency may request through the Department of State.

SEC. 3. The Secretary of State is authorized and directed to prepare and maintain, for use in carrying out the purposes of this order: (a) A comprehensive statement of the types of foreign data appropriate to be obtained through the Foreign Service which would be of substantial use to the United States, with due attention in the preparation of this statement to the relative importance of the several types of data; and (b) standards which shall govern the determination by the Department of State to transmit or not to transmit to the Foreign Service, for action, any request for foreign data, and which shall also govern the assignment of priorities by the Department of State to the several requests transmitted by it to the Foreign Service for action. In connection with the preparation of the said statement and standards and any revision thereof, the Department of State shall afford interested Federal departments and agencies opportunity for consultation and shall accord their advice appropriate consideration.

SEC. 4. The Department of State may assign priorities to requests for foreign data, which priorities shall govern the Foreign Service in connection with the furnishing of the requested data; and it may take such measures as may be necessary or appropriate to keep the work falling upon the Foreign Service by reason of the furnishing of data to Federal departments and agencies within the resources of the Foreign Service available for such work. In carrying out the provisions of this section the Department of State shall, to the extent practicable, be guided by the determinations of any other department or agency requesting foreign data as to the relative priorities of any two or more requests made by such department or agency.

HARRY S. TRUMAN

The White House,
(F. R. Doc. 51-6606; Filed June 5, 1951; 10:18 a. m.)
Copied from Federal Register of June 6, 1951.

VIII. Problems of Foreign Service Reporting

A study entitled "Problems of Foreign Service Reporting" has been recently completed by Mr. Alan J. Kraft, of the Investigations Division of the Senate Appropriations Committee, under the direction of Mr. Paul E. Kamerick, chief of investigations.

Through the kindness of the Senate Appropriations Committee and the Senate Committee on Government Operations, which now has jurisdiction over this document, it has been made available to this task force. In part this report reads as follows:

Budget Bureau Survey

Criticism of the State Department's handling of the reporting problems led to a survey by the Bureau of the Budget in 1951. As a result of this survey, Executive Order 10249 was issued, strengthening the control of the Department of State. The Bureau also made recommendations which resulted in the development of the present comprehensive economic reporting program (CERP).

Since 1950 the reporting function of the Department of State has been criticized by the other executive agencies concerned with that function. The criticisms have been mainly directed at the system of priorities devised by the State Department for the handling of reporting requests received from the agencies. Actions by the State Department in that regard have been called inequitable and arbitrary by the agencies concerned for the reason that budget considerations put State in the position of deciding the priority of requests received from the various agencies, and sending out the requests which seemingly were the most urgent.

Need for Central Control

Each of the executive agencies involved is interested primarily in the reporting problems directly affecting itself. It is certainly not to their discredit that the agency executives seek to obtain as many informational reports as possible for the end-users served by their agency; however, in order that the utmost efficiency and economy be obtained for the entire Government structure, it is necessary that certain compromises be reached.

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There now exists no central authority either willing or able to make final adjudications of interagency disputes. Too much executive time, therefore, is spent in negotiation and in discussion of the problem arising in the foreign reporting field and in efforts to seek solutions. As a result of the time thus spent, it is apparent that the conclusions of the first report on Foreign Service reporting still are largely true; i. e., that the present system of foreign reporting gives every appearance of being cumbersome, expensive, and of uncertain effectiveness.

It is obvious also that, although the interested agencies are making serious efforts among themselves to contribute to the solution of the problem, such agencies are powerless to affect a concrete solution due to the lack of authority of the executives involved to resolve the issues conclusively.

End-Use Survey

It was hoped to include in this report the results of the examination referred to above, concerning the end uses to which economic reports are put, which examination is being made by the Bureau of the Budget at the request of the Investigations Division of the Appropriations Committee. However, since the results are not yet available, the information must be omitted at this time. It is imperative, however, that an examination of the end use of reporting be completed with dispatch, for the reason that field officers of the Foreign Service generally complain that too little material is received from the State Department in Washington criticizing and evaluating the reports submitted from the field.

Lack of Critical Evaluation of Reports

The Foreign Service is restricted by budgetary requirements to certain prescribed staff complements abroad, and the workload, therefore, must be tailored to meet the capacity of such staff complements. It is detrimental to efficient operation to have to resort to guesswork in the selection of subject matter for voluntary reporting to Washington. Too often a Foreign Service official will write a lengthy report for submission to Washington just on the chance that the material is such as is required, although he does not know for certain that in the ultimate the material is of a desirable or necessary nature.

The State Department Division of Foreign Reporting sends to the foreign service posts on an annual basis a so-called evaluation report concerning the reports submitted by the post over the past year. The personnel abroad apparently do not feel that this provides sufficient

direction for most effective operation. More frequent reports of evaluation and correction would permit greater selectivity in the submission of reports to Washington and would substantially reduce the amount of time wasted on surplus reporting. Such reduction would allow much more time to be devoted to reports of a substantial and desirable nature, and would thereby increase the effectiveness of the Foreign Service as a source of information for the Government.

It is indicated that the State Department in Washington is more efficient at lauding the merits of a report received from the field than it is at indicating to the field that a report received from the field is discarded without notification to the reporting officer that such reporting is considered useless. The officer, therefore, in the absence of constructive criticism, continues to devote time to the regular submission of such report and of similar reports.

This situation can and should be revised in order that useless reports be eliminated and more useful reports encouraged. In order to properly perform this function, it is extremely important that the State Department be thoroughly aware of the value of each report to the end-user Government agency and to the customers of the end-user agency outside of Government, otherwise the situation cannot be intelligently resolved.

Cost of Reporting

The same observation holds true with regard to the reports required on a repetitive basis by the CERP, and the spot reports required with such frequency as to be part of the regular function of the reporting officers abroad. It is virtually impossible to estimate the cost of reporting as desired by the Senate Appropriations Committee or to attempt a program of substantial reduction and revision of the reporting program until the end uses of the reports have been thoroughly explored. Furthermore, the very important project of attempting to put foreign service reporting on a more self-sustaining basis must of necessity mark time pending completion of such examination.

Changed Status of Agricultural Attachés

Since the publication of the first staff report on Foreign Service reporting, a new problem has arisen in the field. Public Law 690, Title VI, passed by the 83d Congress, 2d session, has given rise to an entire new set of questions and problems relating to the position of the agricultural attaché abroad and to the general conformation of the Foreign Service operation.

While it is yet too early to thoroughly analyze the situation presented by the new organizational structure, it is apparent from the research conducted by the Investigations Division in seven foreign posts abroad and in the executive agencies in Washington that the separation of the agricultural attachés from the rest of the Foreign Service seemingly will increase rather than decrease the amount of administrative problems, decisions, and costs. It is indicated that a burden will be placed on the chiefs of mission and on the agricultural attachés abroad which burden will impose responsibility for resolution of issues which properly should be resolved on an executive level in Washington.

Administrative Problems Created

For example, an entire set of administrative problems arise relating to the relationship between the agricultural attaché at a foreign post and the administrative officer at that post. A question arises concerning budgetary and fiscal controls; and whether an overall allocation will be made from estimates of the agricultural attaché, or from the Foreign Agricultural Service, or both.

Another problem concerns the approval that will be necessary for reallocation of such budgetary items if such reallocation is considered indicated. The degree of control exercised by the embassy administrative section over the operations of the agricultural section is in question. Doubt exists as to what rules or regulations will govern the procurement by the agricultural attaché of such housekeeping services as motor vehicles, furniture, travel, etc.

With respect to communications, it must be decided what dispatch forms will be used; arrangements must be made for the handling of cables between the United States and the agricultural attaché abroad. Who will sign the cables, and who will clear cables directed to the United States from the embassy? Arrangements must be made for reimbursement to the State Department for the use of its cables and the personnel operating the communications system.

Visits of commodity specialists and other agricultural visitors abroad must be provided for. Will the State Department Foreign Service pay the expenses of such visits, or will the Department of Agriculture be responsible for such expenses? Physical arrangements must be made for such visitors.

"Housekeeping" Functions

It is the general opinion of the agricultural attachés interviewed abroad as well as the officials of the Department of Agriculture inter-

viewed in Washington that the State Department should retain control over such "housekeeping functions" on a reimbursable basis, since that Department has the facilities and the experience. This creates more problems, such as how such reimbursement will be decided upon; and the criteria to be used. Furthermore, arrangements must be made for appraisal of the reporting job done by the agricultural attachés in the field; and for the State Department to obtain agricultural information considered necessary for its own use but not required by the Department of Agriculture in Washington.

It is obvious from the foregoing questions as well as from a multitude of other questions similar in nature which have arisen in the course of the investigation abroad and in Washington, that the administrative problems in the agricultural reporting field have seemingly been enlarged rather than simplified. It would appear from this investigation that much administrative adjustment and regulation must be accomplished before the United States can again present a unified diplomatic front abroad.

It is difficult to perceive how the cost of foreign reporting can help but increase under the new system of dual control, much less be reduced in accordance with the expressed wishes of this Committee.

Future of Foreign Service Reporting

In the course of the present investigation, there have been indications that other agencies of Government would favor following the precedent established by the Department of Agriculture. In other words, a further division of the Foreign Service into its separate component parts seemingly is desired by at least some of those component parts. The motivation seems to be that the agencies involved would thereby be enabled to obtain more information more rapidly if each agency were to have control over its attachés, as is now the case with the agricultural attachés. It is further reasoned by the agencies involved that the matter of obtaining appropriations for such reporting service would be simplified for them by dividing the appropriation among several agencies.

Further Division Question

It is the studied observation of this division that such further bifurcation of the Foreign Service would be a backward step in the conduct of United States diplomatic relations. It was the unanimous feeling among United States officials on an executive level abroad that unification of the Foreign Service is a most important factor, in fact a vital factor, in the conduct of United States foreign affairs.

Grave concern was expressed regarding the possible effect of the change in status of the agricultural attachés, and even graver concern over the possibility of further division of the Foreign Service. The impression received by this division was that such declarations were not mere self-serving observations aimed at preserving the Foreign Service as such, but rather were observations of experienced and seasoned foreign officers who have seen the workings of the old system of multiple foreign representation and have great reservations about returning to that decentralized system of operation.

It is generally opined that such bifurcation of Foreign Service reporting would add to the financial burden of the United States rather than detract from it. It is felt that such action would add immeasurably to the burden of the chief of each mission abroad. Such chiefs of mission would have an uphill battle to maintain control over the personnel of the missions since the employees would be responsible to several individual agencies rather than to one central authority. This is bound to cause uncertainty on the part of the personnel as to procedure and responsibility no matter how strongly the lines of authority are spelled out. The United States would thereby be placed in the position of having to air its internal problems in close proximity to other nationals, a situation not to be desired.

The action with regard to the Department of Agriculture can be partially reconciled by the fact that the Department of Agriculture traditionally has had more direct contact and correspondence with its attachés than has any other agency of the Government. The Department of Commerce, for example, has over the years had little or no direct contact and supervision over the personnel of the economic sections of the foreign missions. In many cases the Department of Commerce does not even know the names of the personnel serving commercial interests abroad, while, as aforementioned, the Department of Agriculture is and was in direct contact with its personnel abroad.

Differential in Staff Complements

In line with the problem of evaluation of reports received from the field, a question arises concerning an apparent discrepancy between the authorized staff complements of Foreign Service missions and the actual complement of workers on the job. It has been observed that the State Department in Washington often is under an erroneous impression that a particular post is staffed with more workers than actually are present. For that reason the State Department justly feels that a certain reporting load can be imposed on the post with the exception that the load can be met without overburdening the staff of the post. However, it often is found that the post actually is

suffering from a staff shortage due to illness, leave, or merely unfilled positions.

It is not infrequent that the State Department in Washington is unaware of the staff shortage in the field, and therefore a general misunderstanding arises between Washington and the field as to the failure of the mission to comply with reporting requirements. Furthermore, when such a condition exists in the foreign post, the necessity for meeting the required reporting schedule makes it virtually impossible to give time in sufficient quantity to the task of reporting on a voluntary basis such information as is vital to the smooth functioning of the United States foreign representation, and more particularly to the collection of such information.

More Voluntary Reporting Desirable

A general feeling obtains both in the Foreign Service abroad and in the State Department in Washington that a more efficient system of foreign representation could be accomplished if the required reporting schedules were reduced to an even lesser quantity than now is required, and the voluntary reporting enlarged beyond the present practice. In order to give effect to this plan, however, directional and correctional material mentioned heretofore must be forthcoming from Washington.

It is obvious even to the casual observer that the persons most expert and most aware of the foreign problems confronting the United States are the personnel on the spot in the areas of trouble and in the areas of potential trouble abroad. It is the general feeling that such experts should not be limited in the selection of material reported to their home office, by the imposition of too much required repetitive reporting. It is through such curtailment that much valuable information often is lost, because of the uncertainty in the field as to the value of such material and the uncertainty as to whether or not the submission of such data will be important enough to warrant higher priority treatment than that of a required report on which a priority has been placed in advance in Washington.

Since the field personnel are the people best qualified to judge the importance of subject matter taking place abroad, they should not be limited in the scope of their reporting by maintaining burdensome reporting requirements on other subjects, thereby crowding the area of voluntary reporting into near nothingness. In order to accomplish this end in an orderly manner, however, it is important that the proper amount of evaluation material be provided by Washington as heretofore suggested, in order to aid the field officers in the proper exercise of their discretion.

Too Much Administrative Reporting

Another factor adding to the problem of efficient and economical reporting is the large amount of administrative reporting required of the foreign missions by the State Department in Washington. In this area also there is room for both quantitative and qualitative improvement.

It is a truism to say that time spent on administrative reporting is of necessity taken from time spent on economic reporting, since the same personnel in many cases perform both functions. The decision must be made as to which type of reporting is the more important and which is the more desirable. It is the general opinion in the field that the amount of administrative reporting can and should be reduced in favor of enlarging the area of economic and political reporting.

A large amount of the routine economic and commercial intelligence reporting can be done by local employees in the foreign missions, whereas the administrative reporting must be done for the most part by American employees on an executive level. It follows, therefore, that the most desirable course of action would be to reduce to a bare minimum the amount of administrative reports transmitted to Washington and enlarge thereby the other types of reporting which can not only be done at less cost by local employees, but which are more important to United States interests in these times of delicate international diplomacy.

Shortage of American Clerical Personnel

Another serious problem burdening the Foreign Service in its effort to provide comprehensive reporting from abroad is the acute shortage of American clerical personnel seemingly prevalent throughout United States foreign missions.

As a matter of law, classified material must be handled only by American citizens having satisfactory security clearance. This of necessity limits the amount and type of work which can be performed by local clerical employees. The classified material then is forced to wait for the attention of American personnel, who often are too busy with more pressing matters to deal immediately with such material. When it is realized that this applies to the creation, transmittal, filing, and destruction of all classified matter, it is easy to see that this area is one in which bottlenecks can and usually do easily result.

It is the policy of the administration and particularly of the Senate Appropriations Committee to minimize expenditures in every possible manner, but to preserve an efficient system of operation while so doing. In the case of our foreign missions, great care should be taken to avoid the former end being attained only at the expense of the latter.

Point of False Economy

There is in every efficient large-scale operation a minimum level below which any further reduction of funds will cause diminution in the efficiency sought. This level can well be labeled the "point of false economy." From observation of the mechanics of the Foreign Service abroad, it would seem that in our efforts to attain economical operation, we have reached and possibly even passed the point of false economy.

The bottleneck created in the handling of classified data in most posts due to lack of American personnel greatly adds to the growing problem with regard to efficient submission of reports to Washington. Thus the State Department becomes the subject of perhaps undue criticism from the other executive agencies, resulting from the reporting delays due in large part to the above described situation.

As a further solution to this problem, however, it would be well for the Department of State to once again evaluate its system of classification of security data.

Any possible reduction in the amount of classified material to be handled overseas would aid greatly in the clearance of the reporting bottleneck created by such material, and would help reduce the need for more personnel as herein indicated.

Immobility of Personnel Between United States and Foreign Posts

Over the many years in which the United States Foreign Service has existed in one form or another, a situation has been created which, although not a prime cause of the reporting problem, is enough of a contributing factor to warrant treatment in this report. There seems to be insufficient mobility of Foreign Service personnel between the United States and the foreign missions. Cases have been reported in which a Foreign Service officer has spent only a few weeks in the United States out of the past several years, and has devoted the remainder of that time to acting as United States representative in one or perhaps several widely separated diplomatic missions. This gives rise to speculation as to the qualifications of such an individual to reflect accurately American attitudes abroad or to select properly material for submission to the United States, since he himself has not been directly exposed to United States attitudes and problems in many cases for several years at a time.

In such a case, the officer must rely on secondhand information provided him by the State Department in Washington. Another dilemma is thereby created because an analogous situation is prevalent in that area. It too often occurs that the personnel in Washington relied

upon by the field officers for advice and counsel, are themselves unfamiliar with the problems confronting the field officers, since they have either never been abroad in a representative capacity, or have been in the United States for so long a period as to become unfamiliar with practical considerations which are pertient to solution of the problem of reporting from abroad.

In order to attain a more realistic representation of American thought abroad, therefore, and to enable the reporting officers abroad to anticipate the informational requirements arising in Washington, it is desirable that steps be taken to correct the above described situation.

Conclusions

(1) The effectiveness of United States diplomatic representation abroad is seriously endangered by inadequate coordination among executive agencies participating therein and by lack of centralized authority with regard thereto.

(2) Too little evaluation material is received from the State Department in Washington with regard to reports prepared in the field. This lack hampers the field personnel in the selection of proper material for reporting and often results in data being submitted without knowledge of its suitability, thereby detracting from time spent on material of more substantial import.

(3) The separation of the agricultural attachés from the Foreign Service seemingly will increase administrative problems and decisions. It is indicated that much burden will be placed on the chief of mission and on agricultural attachés for resolution of issues which properly should be resolved on an executive level in Washington.

(4) Any extension of the trend established by the Agricultural Act of 1954 will cause further division of the United States Foreign Service and would render its operation ineffectual and more costly. In the event of such further decentralization, the chiefs of mission would face an uphill battle to maintain the control and supervision deemed necessary for maintenance of a united front abroad.

(5) A general discrepancy is apparent between the authorized staff complements of foreign missions and the actual complement of workers on the job. This creates an unrealistic situation wherein Washington imposes certain reporting requirements on the basis of the authorized complement, and the mission is unable to comply because of staff shortages due to illness, leave, or unfilled positions.

(6) There is need to reexamine the amount of administrative reporting required by the State Department in Washington. Time spent on reported material of an administrative nature necessarily

must be taken from reporting of substantive matter, thus adding to the burden rather than aiding in its solution.

(7) There exists an acute shortage of American clerical personnel abroad, thus creating a bottleneck in the handling of classified data. Herein lies partial responsibility for time lags in the submission of information to Washington due to the amount of executive time which must of necessity be spent on clerical detail.

(8) There is insufficient mobility of personnel between Washington and the field. A situation is thereby created wherein the United States is represented abroad by personnel who have had no direct contact with United States domestic problems for many years and who must rely for direction upon people in Washington, who, through the same immobility, lack realization of the practical problems faced by our representatives abroad.

Recommendations

(1) In order that the United States Foreign Service present a unified front abroad, it is recommended that the Bureau of the Budget be directed to decide all questions of an administrative nature arising among the various executive agencies utilizing the reporting facilities of the United States Foreign Service.

In order to help effectuate this plan, it is recommended that an advisory board be established within the Cabinet, on an Under Secretary level on which board would be a representative of each agency involved. This board should examine each problem with broad vision and sympathetic understanding, and should then present its conclusions to the Bureau of the Budget for decision and action. After the initial period of clarification and adjustment, the board should institute and maintain a continuing "end-use check" which would serve to limit the amount and type of reporting to a practicable minimum.

(2) The Division of Foreign Reporting of the State Department should make available to the field more material specifically setting forth the type of information required by the end-users in the United States. Furthermore, the Division should concentrate on notifying the offices in the field in cases where reports submitted to Washington are considered of little or no value to the end-user. A system such as this would eliminate much duplication, and would allow more complete and beneficial utilization of available man-hours.

(3) In order that the above recommendation be fulfilled, it is important that the Bureau of the Budget make every effort to expedite the end-use survey now being conducted at the request of this Division, in order that the results of the survey be available to the committee for its deliberation on the 1956 appropriations bills. Furthermore,

the Bureau should continue its research to determine whether or not all the alternative domestic sources of information have been exhausted before resorting to the overseas mission for such information.

(4) The functioning of the United States Foreign Service in relation to the new status of the agricultural attachés should be examined, with particular emphasis on cost, efficiency, and possible duplication of effort resulting from the new system. Such an examination should be made jointly by the Department of State and the Department of Agriculture in order that the committee be kept current on developments.

(5) It is recommended that no further division of the United States Foreign Service be authorized by the Congress pending completion of such an examination as described above, and a thorough exploration of the pros and cons of a divided Foreign Service as opposed to unification thereof.

(6) The State Department should direct new efforts toward tailoring the workload assigned each post, in order that a realistic balance be attained between the assigned workload and the actual staff complement of the post. This would greatly aid in elimination of backlogs in the field of required reporting, and would provide the necessary time and personnel for the preparation of voluntary reports, which reports are becoming increasingly important tools of international diplomacy.

(7) The State Department should reexamine the volume of administrative reporting required from the field, and should attempt to reduce such reporting to a minimum, in order to expand the area of substantive reporting beyond the present practice.

(8) An examination should be made by the State Department to determine whether or not the reporting backlogs could be substantially reduced by the addition of more American clerical personnel in the field. Results of such an examination should be made available to the Appropriations Committee of both Houses of Congress for their consideration in connection with fiscal year 1956 appropriation requests.

The State Department should also reexamine its system of classification of security data for the reason that a reduction in the volume of classified material would aid substantially in reducing the need for additional personnel, and in avoiding backlogs of reports abroad.

(9) The Department of State should examine its system of overseas assignment, in order that sufficient mobility of personnel be effected to result in better awareness by such personnel with regard to American attitudes and problems at home, and better awareness by the personnel in Washington with regard to problems of the personnel in the field.

IX. Foreign Affairs Career Training

Summary

Proposals for new facilities to train foreign affairs personnel have taken the form of a Foreign Service scholarship training program patterned after the Naval Reserve Officer Training Corps contract system; a Foreign Service Academy patterned after West Point and Annapolis; and a Foreign Service Institute as contemplated by Congress in the House Foreign Affairs report on the Foreign Service Act of 1946.

The Commission on Education and International Relations, established under the American Council on Education, has indicated objections to an undergraduate scholarship training program. The same objections would presumably be applicable to a diplomatic academy at the undergraduate level. The other alternative, a Foreign Service Institute, was authorized by the Foreign Service Act of 1946 and is the subject of a Wriston Committee proposal in its report of June 1954.

Preliminary Statement

The general problem of staffing American embassies and consular establishments with specialists from the foreign affairs departments and agencies of Government involves: (1) the substitution of a simplified overseas personnel system for the numerous varying personnel systems currently employed, and (2) a clarification of the position of the ambassador, in his role as representative of the President, in order that the United States Government might speak with "one voice" abroad, the voice of the ambassador in each country.

There is an urgent need for career training facilities for the personnel of the above-mentioned simplified overseas personnel system. This would include the foreign affairs personnel of the Departments of State, Commerce, Agriculture, Labor, Treasury, Interior, FOA, USIA, and possibly others of the fifteen-odd agencies which employ Americans in foreign areas.

The President's budget message to Congress on January 17, 1955, included the following statements:

A prerequisite to the achievement of all our international affairs and finance programs is dynamic, positive, and dedicated leadership by the Department of State.

This budget recognizes the essentiality of a stronger and better trained career corps of Foreign Service officers. More comprehensive commercial, labor, and other economic data are necessary to assist American businessmen to increase their foreign trade and investment.

As a result of the recommendation of the Committee on Government Operations of the House of Representatives and a committee of distinguished citizens, we are starting a series of improvements in the foreign service. The foreign service will be expanded to cover departmental positions; officers will be rotated more regularly between the United States and foreign posts; and training will be improved.

A report on European missions during September–October 1954 by a consultant to the subcommittee on Armed Services, United States Senate Committee on Appropriations, made the following observations on the need for diplomatic career training:

Effective foreign policy can only come about when our Secretary of State is backed by a chain of alert and competent Foreign Service officers in the field, capable of maintaining effective coordination between policies developed in the National Capital and performance in the areas of American interests overseas. Weakness or incompetence at any one point in the chain of command can undermine the entire structure.

Our apparent failure to provide our State Department and our Foreign Service with adequately trained personnel stems from three factors. We have not maintained training facilities capable of providing personnel in either numbers or quality necessary for our Foreign Service needs. We have given too little stress to the Foreign Service as an honorable career. We have maintained salary levels that discourage able young people from considering the Foreign Service as a career to be pursued on a long-range basis.

Scholarship Training Program Proposal

The proposal of the Secretary of State's Public Committee on Personnel (the Wriston Committee), in its report of June 1954, for a scholarship training program is primarily a recruitment measure with only incidental importance attached to the training features. It was put forth by one of the Committee study groups looking for some dramatic measure that would inspire public and congressional confidence in the Foreign Service. According to the Wriston Committee staff papers, proposal No. 4 was selected from the following numbered alternatives:

(1) Continue the present system, but solicit greater congressional interest in selection of candidates.

(2) Allow Congress to appoint directly to the Foreign Service Officer Corps.

(3) Establish a Foreign Service Academy, appointments to be similar to Academy standards of the Army, Navy, and Air Force.

(4) Develop a scholarship and training program in preparation for FSO examinations patterned after the Naval Reserve Officer Training Corps contract system, with appointments to such scholarships and training to be made by the President, Secretary of State, Members of Congress, and others.

(5) Develop a scholarship and training program without congressional appointments, but open to any and all qualifying candidates.

According to the Wriston Committee report, its proposal for a scholarship training program is "patterned after the Navy's highly successful contract system for its Reserve Officer Training Corps. * * * The idea, as under the Naval Reserve Officer Training Corps system, is to enlist promising candidates into a 2-year training program at the end of the sophomore year."

The scholarship training program was presented by the State Department to the Commission on Education and International Relations (CEIR) for review and comment. This group was established under the American Council on Education to consider, in behalf of institutions of higher education, the growing variety of problems and programs in the international field, which involve or are of substantial interest to colleges and universities.

CEIR felt a scholarship program at the graduate level would be preferable to an undergraduate program and that it would be easier to defend for the following reasons:

(1) A student at the end of his sophomore year is not likely to know definitely that he really wants or is suited for a Foreign Service career. A high percentage of dropouts could be expected before the Foreign Service examination.

(2) Too early specialization is undesirable.

(3) A contract with a sophomore to enter the Foreign Service would have little value. It was also suggested that contracts with minors were difficult to handle.

(4) Graduate work would tend to assure a better quality student for the Foreign Service.

(5) Graduate work would make possible a training directed toward Foreign Service requirements that is not possible in undergraduate work.

(6) A program limited to the undergraduate level might lower the educational qualifications of Foreign Service officers who would be likely to enter on duty with only a bachelor's degree

rather than added graduate studies which the majority brings to the Service.

(7) Although a program of graduate scholarships would involve annual stipends of $1,200 at a minimum, the actual cost might be less than a program of $900 undergraduate scholarships, since the dropout would probably be insignificant and since a high percentage of graduate students could be expected to pass the Foreign Service entrance examination. Furthermore, a graduate program could be reduced to a 1-year program, if necessary.

CEIR also expressed vigorous opposition to any from of governmental supervision or guidance of a scholarship grantee's education as proposed by the Wriston group. The supervision of the student must be left to the educational institution, even though he is receiving a Government-financed scholarship.

Despite the foregoing views of the Commission on Education and International Relations, the Wriston group favored the scholarship plan at the undergraduate level. The Wriston scholarship proposal is addressed solely to the requirements of the State Department and Foreign Service with no provision for the overseas specialists from the other foreign affairs departments and agencies. This is at variance with another finding of the Wriston report that the Foreign Service Officer Corps "is also critically deficient in various technical specialties—notably economic, labor, agriculture, commercial promotion, area-language, and administrative—that have become indispensable to the successful practice of diplomacy in its vastly broadened mid-20th century meaning."

One of the complaints of the other departments, particularly Commerce and Agriculture, has been that the Foreign Service has not had adequate facilities for training specialists who are to handle their functions in the overseas missions.

Foreign Service Academy Proposals

Several bills for the establishment of a "Foreign Service Academy" have been introduced in the House of Representatives at each session during the past few years. One of these bills, sponsored by a member of the House Foreign Affairs Committee in the current session of Congress, proposes the establishment of a "United States Academy of the Foreign Service" in order to promote peace, greater understanding, and good will throughout the world and to provide for a trained force for the Foreign Service of the United States. Its Board of Trustees would consist of the Secretary of State and two Members from each House of Congress. Its committee on faculty would consist of educators selected from a list nominated by the governors of the States.

Appointments to the Academy would be by the President and Members of Congress for a 4-year period of undergraduate study. Graduates from the Academy would be available for overseas assignments in the Foreign Service or for foreign affairs positions in the Departments of State, Commerce, Agriculture, and Treasury.

Another bill introduced in the House in January 1955 provides for orientation and training of personnel for the Foreign Operations Administration as well as for the Foreign Service of the United States. Under this proposal, graduates of the Academy who have been trained for service with FOA or for special technical service will be assigned for a period of specialized study at a training center in the particular foreign country in which they will be assigned. Upon satisfactory completion of such period of study they will be appointed as foreign technical service officers under FOA without examinations if trained for FOA, or be assigned to duty by the department or agency concerned if trained for special technical service.

Foreign Service Institute Proposal

The Wriston Committee Report contains a proposal for strengthening or reforming the Foreign Service Institute. This Institute was initially conceived as an educational institution for advanced training. The services of the Institute, as authorized by Congress in the Foreign Service Act of 1946, were to be rendered not only to officers and employees of State and the Foreign Service, but also "to other officers and employees of the Government for whom training and instruction in the field of foreign relations is necessary." The House Foreign Affairs Committee Report on the Foreign Service Act, asserting that State Department training services were no longer adequate, stated that the instruction of the Foreign Service Institute would compare "to that provided for Army and Navy officers in command schools, and the Army and Navy War Colleges."

The Wriston committee Report found that congressional provision for a Foreign Service Institute has not been carried out; that the State Department has never developed a clear concept of the training requirements for the officers of the Foreign Service, just as it has never had a program of career planning and development. It has not provided the Institute with the kind of director the Congress stipulated. It has not staffed the Institute with the sort of faculty that was expected. It has not assigned to the Institute students of the grade capable of taking full advantage of the kind of facilities that the Congress intended to supply.

The Wriston committee strongly recommended that the purposes of Congress as expressed in the Foreign Service Act of 1946 be fulfilled; that the Institute be given a status equal to that of the war colleges;

that the faculty be re-created at once, and the curriculum be revised; and the direction be committeed to a man of first-class ability.

In re-forming the Institute, it could be established with schools at two levels. A lower school at the graduate level could be substituted for the proposed scholarship training proposal to provide training and instruction for candidates preliminary to their examination for entrance into the Foreign Service. An upper school could provide advanced training to promising career officers to prepare them for the heavy responsibilities of the positions of counsellor, minister, and ambassador. There would be distinct advantages to having the two schools on a single campus. The experienced career officers in the upper school would be available for instructing, tutoring, lecturing, and counseling the lower school students. The problems of obtaining competent direction and faculty would also be simplified. Comradeship could be encouraged in all phases of activity, in the dining, library, recreational, and other facilities.

The services of the Foreign Service Institute could be rendered to train not only State Department and Foreign Service personnel, but also other officers of the Government for whom training and instruction in the field of foreign relations is necessary. This would meet the broader need for providing career training to the overseas personnel of the departments and agencies staffing the American embassies and consular establishments and engaged in foreign affairs functions. It would include the foreign affairs personnel of the Departments of State, Commerce, Agriculture, Labor, Treasury, Interior, FOA, USIA, and possibly others of the fifteen-odd agencies with personnel in foreign areas.

X. Summary and Findings

The United States has become engaged postwar in a host of intricate foreign-aid activities and related overseas economic operations, during which period the problems of personnel administration in foreign affairs have grown in urgency and complexity. Despite the numerous major studies made in this field, none of these have resulted in the creation of a comprehensive system which would provide a program of personnel administration for all overseas civilian specialists.

The complexity of the situation to be covered by such a system is indicated as follows. Foreign aid and related activities cover many fields of endeavor including politics, economics, commerce, industry, agriculture, finance, labor, public health, education, and information. United States agencies engaged in these activities include FOA, the Departments of State, Commerce, Agriculture, Labor, Treasury, Interior, Defense, and HEW, and USIA and GSA. Foreign-aid activities and related overseas economic operations constitute integral aspects of diplomatic relations which the United States conducts with some 77 nations through 68 embassies, 9 legations, and 167 consulates maintained in 105 countries. Foreign-aid activities have been conducted in most, but not all, of these nations.

The first Hoover Commission, the Brookings Institution, the Rowe and Wriston Committees strongly support the concept of a "Unified Foreign Service" through an integration of the personnel of the State Department and Foreign Service, above certain levels, into a single foreign affairs personnel system administered separately from the general Civil Service, and an inclusion of the overseas specialists of the other foreign affairs agencies in this system.

At present several agencies have separate personnel systems which tend to disunify the conduct of overseas operations and add to the burden of administration imposed on the ambassador. This group includes the FOA, USIA, Agriculture, and Treasury. In the interest of strengthening the ambassador's position and of unifying the conduct of overseas economic operations, these separate personnel systems should be abolished and provisions made for enrolling the required number of specialists into a reformed Foreign Service Reserve Corps. This Corps should be reformed to constitute a career service for the overseas economic specialists of the foreign affairs agencies, as well as a service in which short-term technicians could be placed, by removing the existing statutory four year limitation on tenure and by continuing the authority of the Secretary of State to make appointments to the Reserve Corps administratively. This measure would be in conformity

with the principles advocated by the first Hoover Commission and the President's Personnel Advisor and is deserving of support. Many of the specialists of these separate personnel systems have been assigned to special missions overseas, which operate independently of the embassy. In the interest of further strengthening the position of the ambassador, these separate missions should be eliminated and the specialists serving in them integrated into the regular organizational units of the embassies and consulates to be administered by the ambassador through his deputies and under the established line of command. As representative of the President, the ambassador should be vested with the same line authority over personnel in his country that the President enjoys in the United States. Furthermore, there should be only one ambassador assigned to each country as the President's representative. Where additional representation in his country is required for a regional organization, he should be given the responsibility, assisted by a senior deputy as necessary, preferably not above the rank of minister.

The likelihood of bureaucratic conflicts being aired publicly abroad, to the embarrassment of this Nation and its envoys, could be reduced by simplified personnel arrangements designed to resolve the administrative problems confronting the foreign affairs agencies in Washington. As the staff arm of the President in foreign affairs, the State Department should negotiate standardized agreements with the other agencies concerned to replace existing arrangements governing overseas personnel procedures, which differ for each agency and unnecessarily complicate problems of personnel administration. As stated before, the provisions of these agreements should support the concept of a "Unified Foreign Service," administered by the State Department, but assign roles to the other agencies commensurate with their participation in overseas economic operations. Specifically, these provisions should stipulate that each agency would: seek appropriations from Congress for its specialists as part of the regular Foreign Service budget; indicate the disposition of such appropriations by posts and countries; participate in making personnel decisions concerning the enrollment, assignment, transfer, selection-out, and promotion of its overseas economic specialists in a career service provided by a reformed Foreign Service Reserve Corps; and assist in establishing a reporting service capable of meeting the needs for the determination of foreign policy and for the guidance of business, agriculture, labor, and other segments of the American community.

Finally, effective planning and conduct of complex aid programs and related activities require an adequate number of trained and qualified personnel. Career development and training should be oriented toward providing competent program operators and administrators, as well as observers, negotiators and reporters. Programs must be

administered by personnel with skill, ability, and a clear understanding of our national interests. A constructive program of career development and training is necessary to develop this personnel.

Summing up, there are a number of measures that could be adopted for the purpose of enabling the United States to speak effectively with one voice abroad, the voice of the ambassador in each country, which in turn would strengthen our hand in dealing with foreign governments on foreign aid and related economic matters. Foremost among such measures would be: the development of an efficient "Unified Foreign Service" under the administration of a single agency, the State Department; the institution of simplified and standardized personnel agreements between that Department and other foreign affairs agencies in Washington to govern the administration of the overseas specialists; the assignment of specialists under a single foreign affairs personnel system to the staffs of the regular embassy and consular organizations; the elimination of all special economic missions outside the embassy organization; a termination of the separate overseas personnel system administered by other agencies; a creation of new facilities for the recruitment and training of career foreign affairs officers, to begin at graduate level, in the form of either a scholarship plan, a foreign service academy, or a reformed Foreign Service Institute.

Part II

Selected Country Studies

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Introduction to Selected Country Studies

By Homer S. Fox

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Selected Country Aid Programs

Foreign aid is, in its objectives, its actual operations, and its results an overseas program, and can be properly evaluated only in terms of its effectiveness as an instrument of United States foreign policy. An examination of the actual operations overseas in some or all of the recipient countries must therefore form the principal basis of any comprehensive study of the program.

Within the time and with the facilities available it has been impracticable to attempt to examine the entire overseas aid programs and operations carried out by the United States Government in each recipient country. It has been necessary, therefore, to proceed on a selective or sampling basis, and for this purpose ten countries were selected as representing different geographical areas, various types of objectives and programs, and diverse stages of economic and political development. They also illustrate various economic staffing patterns and administrative arrangements. In view of the shift in emphasis in foreign aid programs to the Far East, special attention has been given to that area.

The countries chosen for special examination are listed in the following short tabulation which also indicates the relative financial position of these countries in the foreign assistance programs. It will be noted that during the entire postward period—July 1, 1945, through June 30, 1954—total net grants and credits (nonmilitary) of the United States overseas amounted to $34,666 million of which amount the 10 selected countries received $15,552 million, or nearly 45 percent of the total. These countries also received 46.1 percent of the total net grants and credits in fiscal year 1954.

***Net Grants and Credits*[1] *to Selected Countries in Postwar Period*[2]**

[In millions of dollars]

	Total	Fiscal year 1954
United Kingdom	$6,870	$154
France	4,982	151
Spain	61	13
Israel	323	60
Iran	110	68
India	264	29
Korea	941	123
Formosa	1,094	71
Philippines	805	8
Pakistan	102	83
Total 10 selected countries	15,552	760
Total all countries	34,666	1,650
10 selected countries, percent of total	44.9	46.1

[1] Actual net deliveries or payments, other than military.
[2] July 1, 1945 through June 30, 1954.

SOURCE: United States Department of Commerce, Office of Business Economics, *Survey of Current Business*, June 1954.

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The above countries, as already indicated, were selected as representative of various aspects of the foreign assistance programs as well as representative of the various organizational arrangements for the carrying on of the Government's overseas economic operations. The United Kingdom, for example, not only has been the largest recipient of foreign aid but the United States Government's economic establishment in the United Kingdom is one of the largest permanent establishments maintained overseas. In general, the economic and financial relationships between the United Kingdom and the United States are probably more diverse, of greater scope, and of overall importance at least as great as with any other country.

France is also not only one of the largest recipients of foreign assistance, economic and military, but, as in the case of the United Kingdom, represents very large and diverse economic relationships with the United States, and has some features which are rather different from those obtaining with the United Kingdom. It is, for example, the center of various and numerous regional arrangements, both emergency and permanent, in which the United States participates.

Spain represents a new program of both military and economic assistance, while India and Iran both represent very large and rather complicated technical assistance and economic aid programs in countries considerably less developed economically than those selected in Europe. Iran is also an example of special budgetary support considerations. Korea of course represents a war reconstruction and rehabilitation area and one having a very complex administrative structure, and is also an economically underdeveloped country.

Israel and Pakistan are both newly established countries which for various reasons have had exceptional difficulty in getting established financially. They have had innumerable economic needs to be satisfied but essentially the aid program in each country has probably been of greatest assistance in direct or indirect budget support. Both also represent economically underdeveloped countries and in both the element of relief as well as reconstruction has been present in the aid programs. One essential difference is that the program in Pakistan has included military aid, which has been absent in the program for Israel. Programs in Formosa and the Philippines are interesting illustrations of combined economic and military assistance and technical cooperation.

Some of the principal problems which have arisen in the operation of the aid programs in these selected countries are discussed briefly in the following section.

Some Problems Encountered in Country Aid Operations—United Kingdom and France

The country aid programs for the United Kingdom and France marked the high point of the massive "Marshall Plan" type of foreign assistance. These two countries had suffered not only very large physical damage as a result of the war, but also widespread and almost catastrophic disruption of their economies. Since they had not only been our principal allies in the war, but were also economic leaders in Europe and indeed in the world, it was natural and appropriate that they should receive a large share of whatever emergency economic aid the United States was able to give. Actually the two countries received from the United States from the end of the war to the end of fiscal year 1954, $11,852 million (United Kingdom $6,870 million and France $4,982 million net) of direct economic assistance, or more than a third of the total nonmilitary aid extended by the United States to all countries during that period. In addition, both countries have received very large amounts of indirect, but effective economic help through military disbursements, private aid channels and other means.

Background

Even before the war was over, strong pressures arose in the United States for a quick return to normal conditions of international trade and commercial exchange, and we took a number of steps in the hopes of achieving this return to normalcy. An official trade mission was sent to Algiers to negotiate with the Provisional French Government for a return to conditions of private trade, almost immediately after that government was established and even before its return to the home country. Similar approaches were made to the British, and once the war was over vigorous efforts were made to reduce or eliminate the maze of trade and economic restrictions which had necessarily been established during the war period. Particularly strong efforts were made in consultation with the British for an early return to general currency convertibility. When it became apparent that the United Kingdom would be unable within its own resources to re-establish sterling convertibility, various steps were taken to assist, including the large loan of $3,750 million in 1946. Even with this assistance, however, the British were unable to maintain convertibility for more than a very short period. Other efforts in this general field included

numerous specialized attacks on international trade restrictions, including a comprehensive international conference held at Geneva in 1947 for the negotiation of multilateral tariff reductions. This conference concluded a general agreement on tariffs and trade (GATT) and was almost immediately followed by a second conference at Havana for the specific purpose of negotiating a charter for a world trade organization. While GATT was in some degree successful and remains in operation, the International Trade Organization Charter failed of adoption. A significant indication of the substantial lack of success of these various efforts and others in restoring economic health to war-shattered economies and indeed to world economy in general was the fact that even in normally prosperous Canada a serious balance-of-payments crisis developed in 1947. An ironical result was the simultaneous announcement by Canada effective January 1, 1948, of the tariff concessions negotiated at Geneva and a series of drastic import restrictions which were necessary to stop the severe drain on the country's gold and dollar resources and which far more than offset the beneficial effect of the tariff concessions, at least for the moment.

Not only were these efforts to return to "normal" conditions unsuccessful, but the general prospects for improvement in the economic situation in many European countries were actually worsening as the cumulative effects of war and prewar economic difficulties mounted. At a psychological time in the continuing series of frustrated attempts to restore world economy, Secretary of State Marshall in June 1947 made his famous speech at Harvard suggesting what developed into the large Foreign Aid program known as the "Marshall Plan" administered by the ECA (Economic Cooperation Administration), and which came into operation following the passage of enabling legislation in April 1948.

United Kingdom

Obviously, the United Kingdom was a key country in the re-establishment of normal economic conditions not only in Europe but throughout the free world. The reasons are too well know to need any detailed reiteration here. It is probably sufficient to note that it was considered important that the program for the United Kingdom include not only very large sums in the form of materials and equipment to re-establish productive capacity, help correct the international balance of payments, and restore normal living standards, but also to provide miscellaneous assistance in the areas of productivity and fiscal affairs which it was hoped would more quickly enable the United Kingdom, the commonwealth and associated countries to carry on without the necessity for long-continued extraordinary aid.

It is relevant to point out, however, that in addition to war-caused troubles, the British economy was subject to deep-seated and long-standing difficulties which the two world wars accentuated in numerous ways but did not cause.

Deficient in natural resources except coal to support a major industrial economy, the United Kingdom had built up over many years a large scale processing economy based on enormous imports of industrial raw materials and of foodstuffs and on world-wide exports of manufactured goods. Even before the first world war, there were indications of future disruptions in this very successful (up to that time) arrangement. Some evidence appeared to indicate that the long time trend in the terms of trade might be going against the United Kingdom. Competitive large scale manufacturing was developing in the United States, Germany and elsewhere. Boom and bust cycles were exerting pressure on primary producing countries to develop better balanced economies and hence less dependence on United Kingdom exports. All of these and numerous adverse tendencies were accentuated by the first world war, and the interwar period saw continued decline in major British industries—textiles, iron and steel, shipbuilding and others. Currency difficulties mounted. London as the world's financial and trading center was seriously challenged. Obviously the British type of economy is particularly vulnerable to the disruptions of war, and the second world war put the finishing touches on much of the damage caused or accentuated by the first.

Internal Adjustment and External Aid

Consequently, when the country turned its weakened energies to the task of reconstruction, it was faced with both the need for restoration of a war-damaged economy and the long term problems of a more evolutionary nature. Major long term readjustments as well as emergency aid were required.

The problem of making the internal adjustments necessary to establish or re-establish a self-sustaining economy is common in varying degrees of urgency to practically all countries receiving United States aid. It is of particular magnitude in the United Kingdom, not only because of the nature and tenacity of the economic difficulties within the country itself, but also because it involves a host of complex relationships—political and social as well as financial and economic—with the Empire, the Commonwealth, the sterling bloc countries, and others.

Very large amounts of emergency assistance have been extended as already indicated above. In addition to economic aid as such, the indirect but effectively beneficial economic results of military aid (the latter including American troop expenditures and funds for infra-

structure construction for example) need to be considered in any evaluation of the British aid program. Up to the present the overall results may well be described as encouraging, as indeed is the case throughout most of Europe. Certainly, the emergency economic aid programs may be, and generally are, considered to have been completed and to have accomplished their purpose. What impact, if any, these programs may have had on the more deep-seated problems of the United Kingdom, is more difficult to evaluate. The issue is blurred by the fact that substantial direct and indirect economic aid from outside—mostly from United States and Canadian sources—is still being received.

Certainly the enormous sums which have been poured into the United Kingdom since the war for various primary objectives and through numerous channels have eased and facilitated the country's postwar readjustment. Whether these funds have at the same time served in any degree to facilitate the necessary long term economic and financial adjustments will be more clearly discernible when the dollar funds now being received from military and other adventitious sources are no longer available.

Other Features of Aid to United Kingdom

Development of industry competitive with American export industries; providing budget support under various guises and devices (e. g. so-called Lisbon type aid) with consequent confusion of objectives and of administration; the widely criticized use of counterpart funds for national debt retirement, and the continuation of programs and of organization and staff beyond the period of apparent usefulness are among the developments encountered in the study of the United Kingdom program.

One of the possibly minor but interesting and instructive features of the aid operation in the U. K. was the use of that country as a testing ground for new ECA techniques. A case in point was the establishment of a "Dollar Export Board" with the very desirable objective of reducing the need for dollar aid by increasing dollar receipts on trading account (the "trade not aid" idea). The board was composed of prominent businessmen and other public spirited citizens, and inaugurated a vigorous export campaign. The idea seemed to be taking root, and gave promise of accomplishment (although there is considerable doubt as to its ultimate effectiveness).

The consequential step on the part of the ECA was a campaign to establish similar "Dollar Export Boards" throughout Europe apparently without consideration of the fact that country psychologies are by no means uniform. This type of organization is pretty much an Anglo-Saxon concept, and is not an effective technique for other

than Anglo-Saxon countries. The campaign to establish a series of such boards did not succeed.

This is one of numerous illustrations of what has been frequently criticized as a major weakness in American aid planning and administration—namely, inflexibility to take adequately into account the widely differing psychologies and conditions in recipient countries.

France

France enjoys a basic economy much more nearly self-sufficient than that of the United Kingdom. French agriculture is well diversified (except possibly for some undue emphasis on viticulture), sound, and vigorous, even though much of it is not well modernized. The country has an abundance of iron ore and substantial coal deposits, as well as other important and varied natural resources to form a sound base for an advanced industrial economy. France has an appeal for traveling Americans which is unsurpassed in the world, and which translates into very large annual dollar earnings—far exceeding, in fact, the total of normal dollar earnings from all other sources combined.

Despite these and numerous other favorable circumstances, French economy suffers the unhappy heritage of a long series of wars and occupations, up to and including the late war in Indochina. The large and recurring drains on the country's financial, economic and human resources had placed France, after the last World War, in a position where extraordinary aid of substantial proportions was needed to supplement her own recovery efforts. The Indochina war accentuated and prolonged this period of necessity.

Furthermore, France, like the United Kingdom, has structural weaknesses in its overall economy which are the result of gradual long term developments and which in the main must look to internal adjustments rather than external aid for their solution.

Both France and the United Kingdom have for a good many years (especially since the first World War) resorted to closed-economy measures as major instruments in the attempt to control and remedy their economic difficulties. Accordingly, a basic question confronting the administrators of the aid program in these countries was the extent to which an external aid program might be effective, if at all, in moving toward the solution of these long term problems and toward the adoption of new and expanding economic remedies in place of the old restrictive measures. That question still remains.

France, as the United Kingdom, benefited materially from the massive aid programs extended to it by the United States, and as indicated in the country paper, reached at least temporary status of comparative economic stability in 1950, prior to the outbreak of hos-

tilities in Korea. This in turn had led to some relaxation in French trade and financial restrictions within the OEEC group. One of the major objectives of the general United States aid program was to liberalize trade progressively between the OEEC countries, which were those countries receiving United States aid in Europe. While this created some difficulties as between the OEEC countries and others, and did in fact in some respects represent an international trade policy contrary to the established policy of the United States for the liberalizing of trade generally, some progress was made in the direction of liberalized trade within the regional group. However, when the various economic and financial strains developed following the outbreak of war in Korea, plus the worsening situation in Indochina, a resumption of large scale aid from the United States was requested and extended and concurrently, special exceptions were made by the OEEC for the reimposition or extension of various trade restrictions in France.

The question naturally arises as to the extent to which any new economic or financial strains from whatever source may result in renewed requests for aid, and the further tightening of the closed economy. This also poses the consequential question as to how far the United States should take into consideration the nature and extent of any remedial steps taken by recipients and prospective recipients of aid, before aid is extended.

Infrastructure Questions

France is one of the countries participating in the European infrastructure program. Certain questions have arisen about the operation of this program, one of which is that the infrastructure construction, even though intended primarily for military objectives does constitute in fact a kind of economic aid. As far as the United States contributions are concerned, which amount to approximately 38 percent net of the total costs, payments up to the present have been made in dollars, these dollars contributing to the international balance payments of the country of expenditure, and serving the other purposes of any dollar receipts. Furthermore, the facilities themselves may constitute capital assets and may produce commercial operating revenues in peacetime for the country in which located. Furthermore, the question has been raised as to whether United States contributions ought to be continued to be made in dollars should further slices be approved, since the expenditures are largely in the local currencies of the respective countries.

As to the first point, it would appear that many economic benefits derived from the dollar contributions to the infrastructure programs are incidental and cannot be adversely criticized although they do, of

course, need to be taken into account in gaging the respective countries' general economic situation.

With regard to the second point, the gain of capital assets and operating revenues, it appears that reasonable efforts have been made to see that no country benefits unduly in any commercial way from the use of these facilities. This is probably the kind of problem however which needs continued attention. On the third-point—the payment of the United States contributions in dollars—further consideration would appear to be in order.

Other Questions in France

An important criticism of aid administration in France has been due to the loss of United States control over the disposition of counterpart. Counterpart funds accrued in very large amounts and apparently were for the most part simply turned into the French Treasury and so lost their identity. This is probably the principal illustration of large scale direct budget support. Other criticisms of the French operation (in part common to the European program generally) have included multiplicity of objectives with consequent confusion and loss of effectiveness; over-staffing, especially with administrative personnel, frequently coupled with a shortage of competent technical personnel.

Aid Problems in Other Countries

The United States aid program in India has been, from its inception, one of the more highly controversial operations in the nonmilitary aid field. Except for very minor items of prior assistance, the present program dates from 1951, and has consisted mainly, apart from a large wheat loan in 1951, of a combination of technical assistance and special economic grant aid, sometimes referred to as development assistance. Primarily, the program has been tied in to India's own 5-year plan for economic development. Other stated objectives of the United States program are to counteract communist influence in a key neutral country and to carry out humanitarian purposes.

Controversy regarding the program has arisen and continues as to its basic philosophy, its administration, and its effectiveness. One of the major questions widely discussed is whether the program as it has been carried out was primarily in response to Indian requests and desires, or whether it was initiated and continued mainly as the result of United States stimulation. A related consideration is whether the program financing has been in excess of the country's ability to absorb it. A final question is whether the aid has been really necessary.

"Illustrative Programs"

India is a good example of the FOA practice of presenting to Congress so called "illustrative programs" in support of requests for appropriations, rather than specific, well thought-out programs backed in detail by engineering and other appropriate technical data and which have been requested by, or at least agreed with, the recipient country. This practice is frequently criticized on the ground that it results in the giving of excessive administrative latitude in the expenditure of public funds. It also may result, and this has been true in the India program, not only in the utilization of aid funds for purposes other than those presented in the "illustrative programs," but also in slow utilization of available funds which in turn may render the operation less effective.

Inadequacies of the "illustrative program" technique have been recognized by FOA, and some efforts appear to have been made to develop a more precise method of programing and presentation. That this is feasible has been demonstrated by the United Nations in the preparation of its annual programs. The U. N. technique requires approval of detailed project plans before undertaking the program.

The Tubewell project in India is an illustration of difficulties which continually arise from hasty or inadequate planning. The project was developed to increase ground water for agricultural and household uses ultimately throughout India. In planning the project, however, the lack of electric power and pumping equipment to operate the completed wells was overlooked, with the result that it was impossible to put the wells into operation as completed. Other failures, due to faulty planning, also occurred in connection with this project. While the errors in this particular project have now been pretty well corrected, the general problem of ensuring careful and thorough planning remains.

Another aspect of poor planning is reflected in the purchase and shipment of excessive quantities of merchandise, with the result that funds and goods are wasted or at best inefficiently utilized. Illustrations include the procurement authorization issued in December 1954 for 6 million pounds of DDT (about a 2 years supply) for India and the shipment to Pakistan in 1953 of over 600,000 tons of wheat, more than half of which is reported to have been placed in storage as surplus to the need.

Difficulties for American Private Firms

A long standing problem for American firms desiring to participate in industrial or other projects in India has been the difficulty of obtaining adequate bid specifications and in sufficient time to submit bids.

This difficulty is reported to have continued in connection with projects carried out with American financing under the technical assistance program. Apparently the FOA authorities do not retain sufficient control of the projects, in some cases at least, to assure satisfactory opportunity for participation by American firms in the supply of required materials and equipment and in construction operations.

Retention of United States Administrative Control of Projects

As pointed out in the preceding paragraph, difficulties result from failure to retain sufficient administrative control of a project to assure the safeguarding of American interests and objectives. On the other hand, difficulties of a different nature frequently occur whenever arrangements are such as to prolong unnecessarily the period of United States control, as appears to be the case where revolving loan funds are established with United States funds or their equivalent in local currency. Also, controversy is apt to arise when the exercise of United States control is such as to constitute undue interference in the internal affairs of the recipient government. Such a situation could easily occur when, as in India, United States aid is incorporated into or closely related to the host country's own long range development program.

United States Aid Not Identified

Another complaint is that in many cases assistance received from the United States is not identified as such at the operating level and the effectiveness of our contribution is accordingly to a degree nullified.

Since the technical assistance program in India has, from the beginning, been tied into the country's own "5-Year Plan for Economic Development," there is increased risk that it will not be identified in the public mind with its American source.

Lack of Cooperation by Recipient Country

One of the problems common to many of the foreign aid country programs is the apparent failure of the recipient country to cooperate satisfactorily in promoting what would seem to be mutually advantageous objectives. Promotion of private investment is a case in point. It is one of the major policy objectives of the United States frequently stated and restated by authoritative sources, to encourage and promote private investment in countries receiving aid, thereby developing a self-sustaining economy on sound financial and industrial bases, and

eliminating the necessity for continuing extraordinary assistance. Many countries receiving grant aid, however, maintain restrictions, of varying severity, on the entry of foreign capital and yet have taken no steps, or wholly inadequate steps, to remove or ameliorate these restrictions.

India is understood to be in this category, and the question is frequently raised whether aid should continue to be extended on the current substantial scale to a country which is apparently unwilling to make a reciprocal contribution which is within its power to do.

Effectiveness of Aid in Neutralizing Communist Influence

Great stress is placed by FOA authorities and by others supporting the foreign aid programs on the importance of such programs in offsetting Communist influence in the recipient countries. In fact, this has come to be one of the major substantiating arguments for practically all aid programs irrespective of their nature or location. Admittedly, this is an area in which conclusions and decisions must be based on judgment rather than on factual demonstration, but question is frequently raised as to whether, in all countries and in all circumstances, the validity of this argument can be supported. Aid to combat the Communist menace has become virtually a slogan and slogans can become dangerous and misleading yardsticks. They offer an escape from thoughtful planning.

The question is, of course, a vital one in so important a neutral country as India and is worthy of the fullest possible consideration. Many thoughtful observers contend that India's attitude rests on other bases and is probably influenced little, if at all, by the United States aid program. One argument advanced for this point of view is that the Indian Government is largely indifferent to the program, any gratitude for the financial or other benefit received being offset, so it is held by those taking this view, by reluctance to be under official obligation to the United States.

Extension of Technical Assistance to Large Scale Grant Aid

One tendency in a number of countries, including India, is to enlarge and extend the technical assistance program, not only into practically all fields of human endeavor, but also beyond the training area into that of the supply of capital equipment. This extension of program into the area of "development assistance" sometimes tends to overshadow the original technical assistance operation, and this is overwhelmingly the case in India. It does not necessarily follow that the enlarged program cannot be justified, but again it is a develop-

ment which should be carefully examined whenever further funds are requested.

Scarcity of Competent Specialists

One important feature of technical assistance is the number and variety of high-grade technical personnel required for effective operation. In much FOA planning this requirement has apparently been ignored or given insufficient weight, with the result that programed projects have been held up for lack of suitable technicians or the projects have been carried out by inferior, if not incompetent, personnel.

Too Wide Coverage

One of the most controversial aspects of the overall technical assistance program, and one which is well illustrated by the country program in India, is its all-inclusiveness. It attempts to deal with almost every phase of economic, health, social, industrial, agricultural, and educational endeavor, with the obvious question as to whether it is not spread so thin as to be of little practical or lasting effect in any field.

The problem of coordinating all these various projects into a coherent program, of obtaining the necessary staff to man them, and even to administer them effectively, is great. It is frequently and vigorously contended that a more restricted, better planned, and better staffed series of projects would produce far more effective and lasting results.

It is doubtless safe to suggest that most objective students of the overall program are agreed that less complicated, shorter term, and more specific projects are likely in general to be more effective, both in the training of underdeveloped peoples and in actual direct improvement in the local economy.

If rather definite and specific limitations are not continuously imposed, projects tend to become self-perpetuating as well as self-expansive.

Budget Support Programs

Israel and Pakistan are illustrations of young countries, each having a very difficult time financially in getting established. While the aid program in each country has varied in detail the principal effective objective in each has been financial support of the government, directly or indirectly, or "budget support." The principal difference in the

programs in the two countries is that in Pakistan military assistance is included, but not in Israel.

Arising from the above-mentioned considerations is, in the first instance, the question as to whether official financial support of a newly established country is a legitimate objective of an economic aid program, and second, whether the competition for equalized United States aid between neighboring and somewhat antagonistic countries, or groups of countries, is likely to result in benefit to the United States' position and standing in those countries, or otherwise.

In the sense that Israel and Pakistan are both undeveloped countries, technical assistance looms large in the aid programs in each case, and much the same problems arise as discussed earlier in the case of India. Among other problems which might be specifically mentioned in these countries is the interest of each in rapid industrialization and the possibility that projects with this objective may well be pushed faster than warranted by the country's capabilities to absorb.

Korea

Possibly the most complex combination of aid programs in any country exists in Korea. At the moment essentially a country in an immediate postwar reconstruction period, the country is at the same time in the undeveloped category, and hence a complex of economic and military objectives has developed, perhaps unequalled anywhere else.

Administratively, there is not only confusion as between American authorities, civil and military, but also as between national and international authorities. Perhaps the first and greatest need is for some simplification and more careful delineation of both aid objectives and administrative procedures.

Philippines

This again is an example of postwar reconstruction, which, however, had been largely carried out before the current series of aid programs began. The Philippines stands, of course, in a rather special relationship to the United States and so may well have some special claim to assistance through the aid mechanism. Perhaps, because of this special relationship there has been greater tendency than elsewhere to carry the administration of the aid programs into actual internal operation in the country to a degree which should be given special further consideration. Perhaps also, because of this special relationship, there has been some tendency to program aid in larger amounts than, in the judgment of many observers, could be effectively utilized.

Iran

Although not a young country, the aid program in Iran has had much the same primary objective, namely, budget support, in whatever form it may have been extended. From the standpoint of Government finances, an emergency situation existed, with the Government practically bankrupt. In the actual administration of the various programs it seems probable that too many and possibly too visionary projects may have been undertaken with too little preparation and too little understanding on the part of the local administration and officials, and with too little absorptive capacity in the country.

With the conclusion of the petroleum agreement the situation of Iranian Government finances seems to be well on the way to solution. The situation surrounding the development of aid projects has also been largely corrected.

What remains in doubt is whether the basic programing techniques have been corrected in order to prevent a continuance of the same type of mistakes in other countries.

Spain

The aid program in Spain is, of course, of a very special character, being limited in scope and serving a primary military objective, and the program must be evaluated in terms of that objective.

Formosa

The aid program in Formosa makes it possible for a largely artificial economy to support primary political and military objectives. These objectives differ from those in Spain in that they are much more comprehensive and form a major support for the entire economy.

The above are some of the problems which have developed in the selected country programs and which are discussed in more detail in separate country papers, as well as in the individual program studies.

United Kingdom

By Bernard S. Van Rensselaer, Homer S. Fox and Stokeley W. Morgan

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United Kingdom

The United Kingdom is second only to France in the total amount of postwar aid, military and economic, received from the United States, and is first in receipts of nonmilitary aid, which totaled $6,870 million up to the end of June 1954. The United Kingdom, moreover, is a key country in the achievement of many of the United States postwar economic objectives, such as restoration of normal international trade and the reestablishment of currency convertibilities. A review of the aid programs for the United Kingdom, accordingly reflects most of the administrative and policy problems, successes and failures, of the overall aid operations, and can well serve as a guide to any further aid activities in any geographic area.

Background

The United Kingdom has been for many years the hub of a worldwide economic and financial empire, based on a highly industrialized economy at home. Since Great Britain is deficient in industrial raw materials, except coal, and is unable to feed its crowded population, its industry is essentially a processing one, based on very large imports of raw materials and foodstuffs and correspondingly large exports of manufactured goods and of services.

Weakening Economy

Even before the first World War, this industrial structure was beginning to show weaknesses here and there. Competitive export industries were developing in other countries, notably Germany and the United States. Long time trends in the terms of trade appeared to give some evidence of going against the United Kingdom. Self-sufficiency objectives stimulated the industrialization of many British export markets. Old established and intrenched industries lacked the flexibility to make the necessary adjustments to changing conditions.

The first and second World Wars aggravated all these problems. The interwar period was one of largely unsuccessful attempts to accommodate to growing economic and financial difficulties. Consequently, the country emerged from the second World War suffering not only from severe war damage, tangible and intangible, but also from structural stresses and strains which had been accumulating over

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a much longer period and which in some respects were perhaps even more severe than the direct efforts of the two wars. Naturally, it is not possible to isolate the one group from the other. The important result is that the combination of the two effectively prevented the United Kingdom (as indeed was in varying degree the case throughout Europe) from recovering as rapidly or as successfully as had at first been hoped, once the war was over.

It became increasingly evident if American economic objectives were to be achieved within a reasonable period, or even were to be achieved at all, some economic assistance, in addition to relief operations, must be given, probably on a considerable scale. The first major effort was the loan of $3,750 million to the United Kingdom in 1946, with a similar loan of $1,250 million already extended by Canada. When these and other economic measures failed to produce the desired results, the "Marshall Plan" was inaugurated in April 1948 and, as noted above, the United Kingdom was one of the principal beneficiaries.

ECA-MSA-FOA allotments to the United Kingdom, 1948–54 fiscal years, by type of aid were:

United Kingdom Allotment Summary, 1948–54

[By type of aid and fiscal year]

	MSA/ECA				Programmed use of local currency
	Total	Grant	Loan	Conditional	
Apr. 3, 1948–June 30, 1949	[1] 1,619.7	1,002.4	322.7	294.6	
July 1, 1949–June 30, 1950	[1] 907.9	807.8	14.2	85.8	
July 1, 1950–June 30, 1951	[1] 298.4	148.4		150.0	
July 1, 1951–June 30, 1952	[1] 350.0	302.1	47.9		
July 1, 1952–June 30, 1953	[1] 409.6	409.6			
July 1, 1953–June 30, 1954	200.0	140.0			[2] 60.0
Cumulative totals (1948–1954) [3]	[4] 3,785.6	2,810.3	384.8	530.4	60.0

[1] Includes allotment for overseas territory development.
[2] Programmed uses of local currency proceeds arising from sale of surplus agricultural commodities under sec. 550.
[3] Does not include the loans of $6,740,000 from United States portion of counterpart or $10.0 million loan of FOA dollars for basic materials development projects in dependent overseas territories, in fiscal year 1953.
[4] Does not include military offshore procurement.

SOURCES.—*FOA Monthly Operations Report*, Washington, D. C., June 30, 1954, p. 31. *FOA Allotments Authorizations and Paid Shipments*, Data as of June 30, 1954, Washington, D. C., p. 2. *FOA Procurement Authorizations and Allotments* (European and Far East Programs) Data as of June 30, 1953, Washington, D. C., p. 5.

These dollars were spent on a great variety of commodities, about 40 percent being for raw materials, 33 percent for food, 12 percent for petroleum products, 7 percent for machinery and vehicles, and 8 percent for other goods. In addition, there was a series of industrial projects, of which the dollar component was financed by the ECA and the much larger sterling component by the British in part from counterpart resulting from United States aid. Six projects with total equivalent dollar cost of $415,783,000, with United States

dollar aid totaling $50,435,000, are described in an exhibit of this report. By 1950, the U. K. was well on the way to completion of the war-damage restoration program and an end to dollar aid seemed to be in prospect. On January 1, 1951, the U. K. became the first nation to propose a suspension of ECA dollar aid.

But consequences of the outbreak of hostilities in Korea and subsequent military developments there caused a serious setback to British recovery. The terms of trade took an unfavorable turn with increases in the price of the food and raw materials that Britain must import and no corresponding rise in price of her exports or compensating increase in demand. Accordingly, Britain found it increasingly difficult to shoulder her share of the accelerated defense program for Western Europe.

In 1951, $112 million was allotted to the U. K. to finance the purchase of machine tools for the manufacture of airplanes, tanks, guns and naval vessels, and an additional $8 million was allotted to overseas territories to increase the flow of strategic raw materials to the United States and U. K. by March, 1952, gold and dollar reserves had fallen so far as to severely endanger, in the British view, the economic stability of the country. As a result, a full dollar-aid program was resumed in 1952 with the Mutual Security Agency (MSA) granting $302 million in 1952 and $410 million in 1953. These new funds were used only for the purchase of essential industrial commodities such as metals, petroleum, machinery, etc. With this additional aid the U. K. was able again to increase its dollar reserves and makes its agreed contribution to mutual defense.

Britain also benefited from large OSP orders placed in the U. K. by the United States Department of Defense, totaling $630.2 million by the end of 1954.

Cumulative figures for the Foreign Aid Program for the U. K. from April 3, 1948, to June 30, 1954 (latest figures available) by principal components are:

Total Cumulative Program—Authorizations

[April 3, 1948–June 30, 1954]

	In millions of dollars
Food and agriculture commodities	1,493.4
Industrial commodities	1,968.4
Unclassified commodity reductions	—2.4
Commodity total	3,459.4
Technical services	8.0
Technical exchange	6.3
Ship disbursements	2.0
Assistance via European payments union	91.9
Direct forces support	85.0

	In millions of dollars
Ocean freight	87.9
Noncommodity total	281.1
Grand total	3,740.5
Commodity groups included above:	
Food, feed, and fertilizer	929.4
Fuel	416.0
Raw materials and semifinished products	1,530.3
Machinery and vehicles	332.1
Miscellaneous	251.6

SOURCE: FOA Monthly Operations Report July 31, 1954, p. 47.

The total United States grant aid given to the United Kingdom in the period July 1, 1945–June 30, 1954, amounted to $2,494 million. In addition, during the same period net credits totaled $4,269 million. Thus, there was a total of aid to the U. K. in net grants and credits amounting to $6,870 million.[1]

The MDAP (military) program has provided equipment for certain ground forces, and was planned to overcome deficiencies in communications, motor transport, engineering and electronics equipment. Training equipment and ammunition are also included. The British Navy has been provided with equipment and components for the modernization of ships, and naval air squadrons have been equipped with modern jet aircraft. Calendar years 1955, 1956 and 1957, the British Air Force (RAF) and the air arm of the NATO countries are to be provided with additional combat aircraft and spare parts.

The combined military and economic program for fiscal year 1954, involving transfer of dollars to the U. K., was as follows:[2]

Offshore contract of military aircraft and related material to be manufactured in Great Britain	$109,200,000
Offshore contracts for Army and Navy materiel	73,200,000
Financing of military planes under a special aircraft program to be managed by FOA	85,000,000
Commodity assistance	55,000,000
Surplus agricultural commodities to be sold for pound sterling	66,000,000
(The sterling proceeds were assigned as grant aid, the equivalent of $60 million being released to the British defense budget and the equivalent of $5 million for development projects in British overseas territories.)	
Total exchange	314,000
	388,714,000

[1] "Foreign grants and credits by the United States Government" June 1954 Quarter. (Department of Commerce, Office of Business Economics.)

[2] This does not include military end items shipped from the United States.

The current program for the fiscal year 1955 maintains the same pattern. No economic aid is programed for this year, and budgetary support is confined to $35 million appropriated for the special aircraft program in the form of surplus agricultural commodities to be sold for pounds sterling. However, some deliveries remain to be made against fiscal year 1954 commodity aid. In addition, there should be substantial payments on offshore procurement contracts previously made by the Department of Defense with the British Government. Besides aircraft, the most important OSP contract is for Centurion tanks to be turned over to continental NATO countries.

Infrastructure is a term used to identify a NATO program for construction of military facilities (and the facilities themselves) including airfields, oil tanks and pipelines, radar installations, navigatonal aids, etc. Approval has been given by the NATO Council for an infrastructure construction program in the United Kingdom through the calendar year 1955 in the amount of $27,722,000. The United States net share of these costs is approximately 38 percent.

In the Mutual Security Act of 1954 (Sec. 402, Law 665) it was provided that not less than $350 million of the funds authorized to be made available pursuant to that act should be used to finance the export and sale during the fiscal year 1955 for foreign currencies of surplus agricultural commodities or products thereof produced in the United States. The amount programed for the U. K. for 1955 is approximately $100 million which is being negotiated for the sale of fats and oils, fruit, coarse grains and cotton. Ocean transportation on these commodities is also to be paid. The pound sterling equivalent of this amount was programed to be used for the procurement of military equipment about $55.3 million; for payment for aircraft for the RAF, $35 million.

Under Law 480, the sum of $700 million of surplus agricultural commodities are to be sold abroad prior to June 30, 1957, by the FOA, State and Agriculture Departments in cooperation. About $47 million is under negotiation for sale in the United Kingdom in 1955, chiefly tobacco, with some minor amounts of wheat, rice and beans. The United States Government seeks to have the sterling proceeds used by the United States Department of Defense to build housing for American soldiers in the U. K. ($15 million) and for the purchase of strategic materials for the United States stockpile ($22 million) in the U. K. or in the British Empire. Among the commodities which might be purchased are (*a*) chromite (*b*) industrial diamonds (*c*) bauxite (*d*) cobalt (*e*) manganese ores (*f*) tin (*g*) platinum (*h*) mica. Up to $6 million is to be devoted to promotion of the sale of United States agricultural products through publicity,

advertising, and exchange visits of United States and U. K. officials concerned with the problem.

Technical Exchange [3]

As of June 30, 1954 (last figures available), the following expenditures had been made in this field.

Technical Exchange Expenditures—United Kingdom

[Thousands of dollars]

1948–49	107.1
1949–50	494.7
1950–51	1,018.2
1951–52	969.4
1952–53	1,317.2
1953–54	1,193.3
1954–55 (July 31)	87.1
	[1] 5,187.1

[1] Total of sum of rounded figures.

The expenditures by types of projects were divided as follows:

[Thousands of dollars]

Industry and labor (Chiefly):	
Productivity teams	4,266.2
Agriculture	227.0
Development of overseas territories	312.5
Distribution	34.0
Transportation & communications	44.7
Public service	1.1
Operating costs & miscellaneous (in unrounded figures)	300.2
	[1] 5,187.1

[1] Total of sum of rounded figures.

SOURCE: FOA Monthly Operations Report—July 31, 1954, p. 56–57.

A very large part of the Technical Exchange expenditures went for groups (called "teams") of industrial specialists and technicians sent from the U. K. to the United States to acquire the "know-how" of United States industry in order to show British management and labor how to increase productivity (production per man-hour), and so improve Britain's trade position in the world market for manufactured goods.

To carry out a program of technical assistance aimed at increasing productivity of British industry, the Anglo-American Council on Productivity was organized, representing management and labor in both the United Kingdom and the United States. The council worked out a program of dispatching British groups (called type A teams) to the United States for intensive studies of American production

[3] Technical Assistance and Technical Cooperation.

methods. From 1949 through August 1954, 67 teams with a total membership of 924 Britons representing a cross section of British industry drawn from the supervisory, technical and workshop levels visited this country for an average period of 6 weeks. Their visits to United States manufacturing plants and exchanges of information concerning United States production techniques were carried out under guidance of the Anglo-American Council on Productivity at the invitation of the council. Most of the principal British industries sent at least one team. There were 47 industrial teams; 20 specialist teams were also sent to the United States to study questions which were of interest to a number of different industries. The following, among other subjects, were studied by specialist teams: freight handling, materials handling in industry, packaging, retailing, training of operatives and supervisors. In all, nearly 2,000 United States industrial plants were visited.

After completing the United States visit, each team prepared a report on its observations and findings, together with recommendations for improvements in British production and operating methods and suggestions, for adopting such American techniques as might be helpful in increasing British productivity. More than 650,000 copies of these team reports were printed and distributed throughout British industry constituting in effect a storehouse of information on which thousands of firms in the U. K. are now drawing. Summarizing its program in 1952, the Anglo-American Council said: "this experience in international, industrial and human relations will result in tangible and intangible benefits for years to come," and called it, "an entirely new form of international public relations and adult education."

The costs of this program [5] in 1949–52 were approximately $2,364,000 of which the U. K. section of the council on productivity and the British industries concerned contributed in sterling the equivalent of $897,012 and the United States section, $1,467,480, provided by ECA, later MSA. By August 1954, the American contribution, from MSA, later FOA, had increased to $5,187,100.

Another type of project provided for the purchase with foreign aid dollars of scientific and laboratory equipment and instruments to be used in scientific testing and research work—in some cases under Government auspices, in others in laboratories created and maintained by industrial associations. In all cases the equipment was only approved for purchase with dollars if not obtainable from a nondollar source. Counterpart funds were deposited by the recipients of the material.

It should be noted that there is a marked difference in emphasis between the technical exchange programs in the developed countries of Europe (the U. K. in particular, where the emphasis is on industry and labor), and the technical cooperation programs in underdeveloped

[5] The final report of the Anglo-American Council on Productivity—September 1952.

countries where more of the activity is in the fields of agriculture, health, and education.

Counterpart

The sale in Great Britain of goods and commodities purchased with ECA dollars and resold for pounds sterling produced a large amount of local currency—so-called counterpart funds—which were used, with the approval of the ECA and MSA for British debt retirement in the period from 1948–1952. After the outbreak of the Korean war, the need for increased military production became so urgent that the remaining and new counterpart funds were devoted primarily to that purpose.

Counterpart Program

[As of June 30, 1954]

Total deposits (dollar equivalent)	$2,597,700,000
Total withdrawn	2,333,700,000
Use:	
Debt retirement	1,706,700,000
Military production	611,800,000
Promotion of production and productivity projects	18,300,000
Transportation of relief packages	1,900,000

The following relating to the use of counterpart funds is taken in large part from a "Report on Review of Certain Activities of European Missions Foreign Operations Administration" made by the United States General Accounting Office, division of audits, dated October 1954.

In approving the British application for the withdrawal of counterpart funds for the retirement of public debt, the National Advisory Council was influenced principally by the fact that this program would combat the inflationary impact of the recovery program in England. Document number 88, dated December 15, 1950, issued by the National Advisory Council, stated that the decision was consistent with the purposes of the bilateral agreement because it permitted:

(1) An equivalent reduction in the Treasury securities held by commercial banks.

(2) Commercial banks to replace the Treasury securities with industrial and commercial investments without increasing the total of deposit money outstanding. The moneys so released were used to support the recovery program.

The intent of Congress did not preclude the use of counterpart funds for public debt retirement, as indicated by the Senate Committee on Foreign Relations in reporting on the bill (S. 2202 and H. R. 4840, 80th Cong., 2d sess.) which subsequently became the Economic Cooperation Act of 1948.

After the release of counterpart funds for debt retirement, the ECA Mission controller's office verified by serial number, the cancellation of each U. K. Treasury note.

For the fiscal years 1953 and 1954, about $84 million of counterpart funds were programed for use as defense budget support, which is about 7 percent of the total English defense budget for these 2 fiscal years.

The Mission controller's office does not have access to the accounts of the military services; therefore, no direct verification can be made as to the actual use of these funds. An attempt is made, however, to reconcile the amount of expenditures with the quarterly NATO report and with the annual statement of expenditures certified to by the U. K. Auditor General.

By agreement, FOA released counterpart funds in the amount of $12.6 million for use in connection with programs for the development of dependent overseas territories of the United Kingdom. As a condition of this aid, it was agreed that the counterpart funds will, in the case of each individual project, represent not more than 50 percent of the total cost of the project. Quarterly reports, as submitted by the British Government, are reviewed by the Mission. Occasional spot checks are made at the project sites by mission officials and periodic reports are received also from the local United States consulates.

Industrial Projects

A description of some of the industrial projects in the United Kingdom financed in part with ECA/MSA dollars is contained in Appendix A of this report. The total value of all projects was in dollar equivalent $415.7 million; MSA approved dollar financing was $50.4 or approximately 12 percent.

United Kingdom Aircraft Program

In the early part of April 1953, a contract was made between the United States Government and the British Ministry of Supply for the purchase of 465 Hawker Hunter fighters to be manufactured in the U. K. and delivered under allocation to the air forces of various NATO countries. This was charged to fiscal year 1953 funds. Later in the same 2-year period (fiscal year 1954 and 1955) an informal Executive agreement was reached between the United States Government and the British Government, under which the former agreed to finance under various formulae a large number of three different types of British fighters and several types of bombers some of which were already under procurement by the Ministry of Supply. The financing

was to be provided partly through offshore purchase contracts made between the Department of Defense and the Ministry of Supply, partly through the counterpart of commodities furnished under the economic assistance program, and partly with funds provided by the special aircraft program administered by FOA. Later, due to the reduction of requested appropriations by the Congress for fiscal year 1954, surplus agricultural commodities to the value of approximately $60 million were allocated to the U. K. to be sold for pound sterling and the proceeds released as grant aid to the British defense budget. The total of the surplus agricultural commodities thus allocated equalled approximately the amount of the reduction effected by Congress in the appropriation request.

In fiscal year 1955, Congress again reduced the appropriation request intended to support this program, and limited assistance to the special aircraft project to $35 million in the form of surplus agricultural commodities, to be sold for pounds sterling. However, the Executive agreement of April 1953 contemplated $75 million for the special aircraft project in fiscal year 1955 and again the difference seems to have been made up through the allocation by FOA of additional surplus agricultural commodities.

This program, as can be seen, is exceedingly complex and has many ramifications. It does not lend itself to any short description or outline. Some of its complexities can be perceived by the following summary of the major program components:

1. The OSP contract of April 1953, financed by fiscal year 1953 funds for 465 Hawker Hunter fighters amounting to approximately	$141,000,000
2. An OSP contract of June 1954 for additional Hawker Hunter fighters amounting to approximately	22,000,000
3. A conditional OSP contract of June 1954 for a large number of Javelin fighters amounting to about $65 million. (This contract was subject to an evaluation and acceptance of the Javelin as a combat-worthy military aircraft by the United States Air Force. This evaluation has not yet been made, due to delays on the part of the manufacturers in providing a satisfactory production model for the tests.) The funds obligated under this contract remain dormant and unavailable for other purposes	65,000,000
4. Appropriated fiscal year 1955 funds earmarked for the purchase of a large number of additional Javelins and subsidiary material under the informal Executive agreement of April 1953, assuming that evaluation is satisfactory, approximately	100,000,000
5. The special aircraft program in its 2 annual slices as described above amounting to approximately $120 million ($85 million appropriated in fiscal year 1954 and $35 million of surplus agricultural commodities to be sold for pound sterling appropriated in fiscal year 1955)	120,000,000

6. Surplus agricultural products to be sold for sterling in fiscal year 1954 and amounting to approximately $60 million or the general equivalent of the reduction made by Congress in the U. K. appropriation request for fiscal year 1954	$60,000,000
7. Commodity assistance provided in fiscal year 1954 out of appropriated funds under the informal Executive agreement reached between the United States and United Kingdom governments in April 1953, for the support of the British military aircraft program, the counterpart being released to the British defense budget. The amount of this aid totaled	55,000,000
The grand total of these items being the amount of our support of the British military aircraft program during fiscal years 1953, 1954, and 1955 is approximately	463,000,000

The aircraft program has not been free from serious difficulties. The three fighter planes, the Hawker Hunter, Javelin, and Swift, have been so long in development and found to have so many limitations and deficiencies that, by the time they are fully acceptable, deliveries cannot be made in full before the planes have become obsolescent and unsuited for first line duty in competition with truly supersonic fighters of the latest United States and reported Russian designs. This fact is widely accepted by aviation experts in the United States and the United Kingdom.

(NOTE.—For further discussion of this program see Report of the Investigation Division of the Senate Appropriations Committee, July 1954, entitled "United States Aid to British Aircraft Program." For later comment on the status of the program, seen Appendix B of the present report.)

General Objectives of Aid to United Kingdom

Aid to the United Kingdom under ECA was directed primarily to stimulate the economic recovery of Great Britain and more specifically to provide the dollars necessary to meet a large and persistent, even chronic, dollar deficit and so to permit needed imports of food and raw materials which were essential for British recovery, if not for survival. The closing of the "dollar gap" was a prime objective of the early programs, which included the importation of large quantities of foodstuffs, raw materials, and capital goods financed with ECA dollar grants. After the outbreak of the war in Korea and during the progress thereof, the early objectives were in large measure accomplished, and the emphasis was shifted to the building up of rearmament and military strength.

The size of the normal current and prospective "dollar gap" is no longer of immediate importance in planning programs for the United Kingdom, so long as substantial extraordinary contributions toward covering the gap continue to be made by such items (fiscal year 1954) as: military expenditures of (United States troops in Great Britain)

$164 million; payments for offshore procurement $182 million; and defense support expenditures $167 million; a total of $513 million; thus permitting a substantial increase in Britain's gold and dollar reserves by the end of the fiscal year. But, closing the dollar gap is no longer of great immediate urgency as long as MDAP or other payments in dollars more than cover the dollar trade deficit or approach such coverage.

The serious question is the longer term one. Structural weaknesses in the British economy, as well as in the sterling area and other British international relationships, are of such magnitude and persistence that relatively small adverse developments may quickly bring on another "crisis" and requests for further economic assistance.

Even without another crisis, it is an open question whether, once the current adventitious sources of economic aid are terminated, the United Kingdom can maintain its financial and economic responsibilities without additional and major internal adjustments.

For the time being, aid to the United Kingdom will apparently comprise:

(1) Military Defense Assistance Program (MDAP). The supply of end-use items and military "hardware" by our Department of Defense.

(2) Offshore Procurement of military items, including aircraft, tanks, ammunition under contracts entered into by the United States Department of Defense with manufacturers in Great Britain.

(3) Some direct economic aid in 1956 to complete the SAC program, unless that program is cancelled.

(4) An amount for technical assistance, possibly in the neighborhood of $300,000 per annum.

Great Britain is our most important ally, and it is of vital importance to the defense of the United States that her economy be maintained in a viable condition.

Department of State

The Department of State operates in the United Kingdom through the American Embassy in London and consular offices in eight of the most important cities in the British Isles. A large part of the embassy work is concerned with trade promotion, economic reporting, and related activities. The reports fall into three categories:

1. Single-time requests which answer inquires for commercial and trade information sent to the embassy through the Department of State in Washington on behalf not only of that department but for the departments of Commerce, Agriculture, Treasury, Interior, Tariff

Commission, etc., as well. A large proportion of the single-time inquiries are for trade lists and world trade directory report prepared for the information of the American business community by the Department of Commerce.

2. Besides the single-time requests, the embassy, assisted by the consulates, prepares periodic comprehensive economic reporting programs (CERP) covering economic activities and developments in the United Kingdom. The CERP's are prepared at varying intervals, depending upon the nature and urgency of the subject matter. For the year July 1, 1953–June 30, 1954, of a total of 453 single-time requests for economic reports which were received from various United States Government agencies, 302 originated with the Department of Agriculture.

3. Voluntary reports include reports by economic officers of the embassy and consulates on subjects which are known or assumed to be of interest to the State and other departments in Washington. During the year July 1, 1953–June 30, 1954, a total of 3,437 economic reports was received by the Department of State from the embassy and consulates in the United Kingdom, of which 795 were on Agriculture, 730 on transport and communications, 356 on export control, 283 on commerce and industry, 221 on finance, and the balance on various other subjects.

The embassy has a staff of 40 persons engaged on economic activities, of whom 26 are United States nationals and 14 are foreign nationals, mostly British. Key officials in the economic field are: The Minister for Economic Affairs (who is also the Director of the Foreign Operations Mission), the Counselor of Embassy for Economic Affairs (who is also the Deputy Director of Foreign Operations Mission), the Commercial Attaché, the Agricultural Attaché, the Civil Air Attaché, the Labor Attaché, a Science Attaché, and a Treasury representative.

The cost of the economic section for fiscal year 1955 is estimated at $215,000 plus $45,000 in allowances and $60,000 for operating and other expenses, a total of $320,000 per annum for economic activities. This compares with a total annual cost of embassy operation for the fiscal year 1955 of $1,200,000 and total embassy personnel of 207, of whom 85 are Americans and 122 are locals.

The consulates are staffed by 104 persons, of whom 26 are American and 78 are locals. They engage in trade promotion, handle business complaints, cooperate with the American business community, and obtain economic information required to answer trade inquiries and prepare the more elaborate CERP's.

Social Security officials cooperate with the Department of State in a number of international activities which have special significance for the exchange of information internationally in the social welfare and maternal and child health fields.

Department of Labor

The Department of Labor operates primarily through the Labor attachés of the United States embassies abroad. The programs and objectives being generally similar for various countries, there is no separate program for the United Kingdom. In general, these programs include:

(1) A reporting service on labor developments and activities generally in the international labor field.

(2) Providing information on American ideas about labor and management practices, and cooperating with other countries in the achievement of improved working and living conditions.

(3) Contact with International Labor Organizations, carried out primarily through Labor attachés and also through a group of Labor specialists assigned abroad through FOA on a reimbursable basis.

(4) Program visits of foreign labor representatives and technicians brought to the United States by FOA.

Department of Agriculture

The Department of Agriculture, besides carrying out an elaborate reporting service on agricultural competition, supply and demand, through the Agricultural Attaché and his assistants, participates very actively in economic operations through the sale of American surplus agricultural products. In effecting these sales, specialists of that department work in close cooperation with the staff of the embassy and the FOA Mission. As mentioned above, prospective sales of agricultural commodities on a worldwide basis may reach over a billion dollars over a 3-year period. An undetermined amount will be sold in the United Kingdom. In making such sales, precautions must be taken to safeguard usual marketings of the United States and to assure that such sales will not unduly disrupt the world price of agricultural commodities. To this end, it is necessary to use private trade channels as much as practicable and to develop and expand the demand abroad for United States agricultural commodities.

To make effective use of the pounds sterling received from the sale of agricultural commodities in the United Kingdom, it is desired to use them not only to procure military equipment, materials, facilities, and services for the common defense, but also to develop new markets for United States agricultural commodities; to purchase strategic critical materials; to finance the purchase of goods or services for other friendly countries; to pay United States obligations abroad; and to finance international educational exchange activities.

A total of 10 marketing specialists visited the U. K. in the period July 1–November 1, 1954, to investigate: (1) The possibilities for expanding the United States exports of livestock products; (2) increasing the export of cotton to the U. K.; (3) to estimate the demand and market requirements for United States fruit and fruit products; (4) to evaluate the effectiveness of United States marketing programs and policies for disposal of grain, feed, and seed; and (5) to increase exports of United States tobacco to the U. K. in "normal trade," and to study tax rates and their influence on tobacco consumption in the U. K.

Department of Health, Education, and Welfare

Another department of the United States Government which conducts economic operations in the U. K. is Health, Education, and Welfare, where the office of education arranges technical training programs for educators and provides orientation and training for teachers brought to the United States under the International teacher education program, described elsewhere in the report of this task force. The Office of Education arranges for the exchange of English and American teachers, and it is expected that during the current fiscal year 109 educators will be brought to this country from the United Kingdom. This office also examines the applications of educational institutions in the United Kingdom.

Summary of Embassy Organization

1. Department of State

State Department economic operations carried out in the Economic Section, Embassy, London, and in the Economic Sections of the Consulates in the United Kingdom.

2. Foreign Operations Administration

Independent mission partially integrated with economic section of Embassy with the Chief of FOA Mission serving concurrently as Minister for Economic Affairs and the Deputy Chief of Mission serving concurrently as Counselor for Economic Affairs. (Carries out assistance programs.)

3. Department of Commerce

Maritime Administration. (Maritime attaché having status of Foreign Service reserve officer and charged with investigating costs of ship construction and ship operation).

4. Treasury Department

(*a*) Treasury Representative (Finance). This officer serves concurrently as finance advisor to the Ambassador and as finance advisor to the Chief, FOA Mission. He is a direct representative of the Treasury Department.

(*b*) Treasury Representative (Customs). This officer is also direct representative of Treasury Department.

5. Department of Agriculture

(*a*) Foreign Agricultural Service (Agricultural Attaché and staff). Direct representative of Agriculture Department. Functions described, pages 21 and 22.

6. Department of Defense

(*a*) Department of the Army. (Military Attaché and staff).

(*b*) Department of the Navy. (Naval Attaché and staff).

(*c*) Department of the Air Force (Air Attaché—military—and staff).

(*d*) Military Assistance Advisory Group (MAAG). All three Departments of the Department of Defense are also represented in the MAAG, and the chief of the MAAG is one of the officers comprising the so-called country team along with the Ambassador and the Chief of the FOA mission.

7. General Services Administration

(*a*) Direct representative heading a regional office concerned with the purchase of strategic materials (with personal rank of Minister).

8. United States Information Agency (USIA)

(*a*) Public Affairs Officer, Cultural Affairs Officer, and staffs. This is an independent mission directly responsible to the USIA.

9. Department of Health, Education, and Welfare

As described on page 22; no direct representation.

10. Department of Labor

Labor Attaché who is a Foreign Service Officer. Program is described on page 21.

Summary and Conclusions

An evaluation of so comprehensive a program as that carried out in the United Kingdom is necessarily of limited value unless a careful, current on-the-ground survey can be made, and in the present study, this was not feasible. However, some conclusions can be drawn from actual previous field experience with this and other Europeon programs, from available current documentation and from other sources of information. Subject to these qualifications, the following observations are submitted.

Temporary Recovery

As already described, the economic shocks to the United Kingdom resulting from two closely successive wars added to those resulting from long term adverse business and financial trends have been immense. Remedial measures to be successful would need to be heroic. Those taken may perhaps be considered as in this category, and they would appear to have had some measure of success (*a*) in helping the country to achieve at least temporarily a reasonable stability in its international balance of payments and, (*b*) a comparatively high level of activity in its industrial operations. Immediate war damage to physical facilities as well as to channels of trade and other intangible segments of the economy has been substantially repaired. Whether the more deep seated problems, financial and economic, which have confronted the community for several generations, are merely quiescent, or have, in fact, been met in any material degree remains to be determined. The enormous capacity of the British people for adaptability to changing circumstances is a most hopeful portent. On the other hand, the outlook is less clear than it will probably be when some further economic strain appears, or when present adventitious aid from various sources is terminated, or when both of these developments occur.

Present Aid Programs

"Economic aid" in current FOA terminology, appears to mean grant aid extended for direct and acknowledged economic objectives. "Economic aid" in this sense is no longer being programed for the United Kingdom or indeed for most countries of Western Europe. Similarly, no aid in the form of "technical cooperation" under that name is currently programed for the United Kingdom. However, a program of technical assistance, under the title of "technical exchange" is being extended, and economic benefits to a substantial amount are being received by the United Kingdom from military assistance operations, from various special programs, etc. The economic benefits may be incidental to some other objective (e. g., military) or the economic objective may be the primary one, but under some other name, as to a degree has occurred in the so-called "Lisbon-type" aid. Originally applied in the case of France, this type of aid is intended primarily to extend budget support to the recipient country, with the ultimate objective of enabling that country to maintain a certain level of military activity. Whether the appropriate justification in such cases is military or economic may be subject to differing opinion but in any event the immediate objective would appear to be economic, and certainly economic benefit does accrue and needs to be taken into account in any evaluation of the recipient country's economic situation.

In the case of the United Kingdom, the funds appropriated or allocated for the purchase of aircraft to be delivered to the British Air Force illustrate this type of aid, as explained in the above report. Offshore procurement programs provide dollar exchange, as do any other aid programs, whatever their title or nominal objectives, which bring dollars into the country, or which provide goods or services for which dollar exchange would otherwise be required.

What emerges from the above described situation is that a careful review of existing programs and practices, in the United Kingdom as elsewhere, would seem to be urgently needed to bring some order out of the present confusion of objectives, procedures, and terminology.

Building Competitive Industry

As in France and some other industrial countries, the reconstruction of industry and of the general economy in the United Kingdom has led to criticism by American industry that taxpayers' money is being used to develop competitive industry abroad. The contention is, of course, correct to the extent that the aid program is successful. The more successful the program in establishing a self-sustaining economy, especially in a great exporting country such as the United Kingdom, the greater the competition produced. This is one of the important problems illustrated by the United Kingdom program, and which

would appear to point to the necessity for a comprehensive reappraisal of the whole foreign aid operation—both policy and administration.

Other Problems

One of the most widely advertised portions of the aid operation in the United Kingdom was the productivity program. An Anglo-American productivity council was set up and numerous exchanges of technical personnel took place. The program was well, even enthusiastically, received in British industry, and it is generally agreed that results were encouraging.

To evaluate this program, however, it is necessary to place it in perspective. The Anglo-American exchange of technical skills ("know-how" etc.) and the exchange of persons in this field, is as old as the United States, and it has from the beginning been on a substantial scale. Originally the principal direction of flow was westward, but as the United States developed industrially, the exchange of "know-how" became more genuinely an exchange and has so remained for many years. In some respects, as in applied research (industrial research) the United States has undoubtedly forged ahead of the United Kingdom and in such fields this advanced knowledge and related skills can be shared with the United Kingdom and other industrial countries with benefit to the latter. Undoubtedly, to this extent the productivity program conducted in the United Kingdom by the ECA and its successor agencies, was helpful in assisting post-war recovery. In gauging its importance, one needs to consider the extent to which the program merely supplanted the technical exchange which would have occurred in any case; the extent to which skills transplanted to a different environment often become less efficient, and many other factors which help to determine the effectiveness of the program.

Perhaps the most disturbing fact is that even granting the most favorable results claimed by its proponents, British production and productivity increases, so far as they can be measured or estimated on a comparable basis, have been at a slower rate than in the United States during the same period.

Technical assistance programs are being vigorously promoted throughout the free world, in industrial as well as other fields almost as cure-alls for all economic, social, and political ills. This could constitute a dangerous illusion. There is room for doubt as to whether the ECA–FOA technical assistance program in the United Kingdom has had quite the practical results sometimes claimed for it. If this is indeed the case in probably the most receptive climate in the world for industrial "know-how," a comprehensive reappraisal elsewhere would seem to be urgently in order.

APPENDIX A

Present Status of United States Aid to British Military Aircraft Program[1]

There are presently available approximately $200 million of appropriated but not yet finally committed fiscal year 1954 and fiscal year 1955 funds which have been conditionally committed or earmarked for the purchase or financing of the Javelin and Swift fighters, the Canberra light bomber and one or more of the medium bombers (Valiant, Vulcan, and Victor).

These funds are divided into approximately $170 million of MDAP appropriations with procurement to be effected by defense, and $35 million of surplus agricultural commodities to be financed by FOA, the sterling proceeds to go into the British budget under the existing agreements between FOA and the Ministry of Supply for the support of the military aircraft program. It may be that some supplementary agreement will be necessary. The earmarking or contemplated use of these funds, in accordance with the executive agreement reached in April 1953 and supplementary understandings arrived at with the British, are under the general coordination of FOA.

The Javelin has not yet been evaluated and approved by the United States Air Force. This evaluation and approval is a condition precedent to any final commitment for this plane out of either fiscal year 1954 or fiscal year 1955 funds. We are informed that the production model which was earmarked for evaluation in November crashed and that another model will not be ready for several months. In this connection, reference is made to an article that appeared in the London Daily Express of December 6, 1954.

The Swift is reported to be in very serious difficulties due to lack of stability and there is even a strong possibility that the ship may be cancelled out by the Ministry of Supply.

The Canberra is a good light bomber which is reportedly nearing obsolescence and is not regarded highly as a weapon according to United States standards. Her American counterpart, the B–57, which is being produced by Glenn Martin Co. under license from the English Electric Co., is stated to be a marked improvement in design, speed, armament and general capability. We are informed that the B–57 is a superior plane to the Canberra and has a longer life expectancy

[1] As of January 11, 1955, based upon information obtained by the staff from departments of the Government and other sources regarded as reliable.

in terms of frontline service. It has also been stated that if orders had been placed for the B-57 instead of the Canberra, which we are helping to finance for NATO use, it would have meant jobs for between 12,000 and 15,000 workers at the Glenn Martin plant for 1 or 2 years.

In addition to the planes mentioned above, the present program includes offshore purchase of Hawker Hunter fighters. Production of the Hawker Hunter has been greatly retarded by deficiencies in the plane which have not yet been eliminated. The few Hawker Hunters that have been accepted for squadron service are flying under very strict limitations and there are reasonable grounds to fear that one or more major fixes may still be required, thus further delaying deliveries of an acceptable plane. Articles appearing in the London Standard of August 28, 1954, and the Daily Express of December 6, 1954, bear upon this point.

The Hawker Hunter and Swift are reported to have appeared as prototypes in the early part of 1951. The Javelin No. 1 prototype is stated to have appeared very late in 1951 or in the early part of 1952. Due to the lapse of time in converting the prototypes into an acceptable production model, and the rapid development of the art, it is generally conceded that when and if these planes can be finally delivered under our existing and proposed contracts, they will be obsolescent planes with a very brief period of first line usefulness.

Three questions suggest themselves in the light of the known or generally accepted facts:

1. What does the Director of Foreign Operations intend to do with respect to the utilization of some $200 million of appropriated funds, earmarked or conditionally committed for this program, but not yet finally obligated?

2. What, if any, steps are being taken to review the contract placed in April 1953 under an earlier program for 465 Hawker Hunters upon the ground that past delays in development and production will result in the delivery of obsolescent and therefore competitively inferior planes? The total of this contract amounts to $141 million financed with fiscal year 1953 MDAP funds under reported MSA coordination. First deliveries were scheduled for March 1955 but can not be met with acceptable planes.

3. Assuming that existing contracts for the Hawker Hunter should be canceled, in whole or in part, and that no new commitments for the Javelin and Swift should be made, how does the Director of Foreign Operations propose to use the released funds?

NOTE.—As of June 15, 1955, the status of the offshore procurement portion of the British military aircraft program appears to be as follows:

A recent evaluation of the Hawker Hunter fighter by the United States Air Force has satisfied our Air Force that the limitations of this plane can be cured by certain fixes or modifications which the British have agreed to install. Therefore the Department of Defense has agreed to accept deliveries under the 1953 offshore contract with the understanding that the fixes will be made at a later date. The fact remains that while the Hawker Hunter, when corrected, may turn out in certain respects to be an improvement on the F-86, it is in the same class, subsonic in level flight, and has been so long in development that when fully delivered to the front line it will be approaching obsolescence. It will certainly be inferior to the F-100 and other types of supersonic United States and Russian fighters that may be expected to be in front line service and in quantity

production by 1958. Unless the British can afford to replace the Hawker Hunter with quantities of a new design, which seems unlikely, they will not have a modern-day fighter at the end of 4 years. Accordingly United States aid to the British Air Force Plan K may turn out to be an unwise venture.

The evaluation of the Javelin has been postponed. A combat-equipped production model will probably not be available for test flying before late autumn. This will be a year later than originally planned. The fiscal year 1955 funds earmarked for Javelin procurement have been reprogramed, and it is understood that new appropriations will be sought for fiscal year 1956 to carry out the executive agreement of April 1953 in support of the British military aircraft program.

Daily Express—London, December 6, 1954

WHERE ARE THE R. A. F. FIGHTERS?

By W. A. Waterton

The new fighters—Hunters, Swifts, and Javelins—are worrying the R. A. F. Only one squadron of Hawker Hunters (No. 43) and one squadron of Supermarine Swifts (No. 56) are in service with Fighter Command.

Both units have lost planes in crashes. Other planes crashed at experimental units.

Swifts were grounded for controls to be modified. The early Hunters were held up to have air brakes fitted—something the R. A. F. insisted on. I understand also that the Hunter's undercarriage has given trouble.

Meteors Still

The Hunter and the Swift have been produced in hundreds, yet not 20 are in squadron service. Meanwhile, Fighter Command carries on with outdated and outpaced Meteors, Vampires, and Venoms.

Even the Venom, an old-fashioned design, is not trouble free. This de Havilland fighter has had to be strengthened and is at present restricted in operation.

The night-fighter Venom's replacement is the all-weather delta-winged Gloster Javelin.

Three of these aircraft have been lost in crashes, killing two test pilots. The last was on October 21, when Flight Lt. R. J. Ross was lost in the Bristol Channel. His Javelin spun out of control. This crash had many features in common with that which killed test pilot Peter Lawrence in June 1953.

Outclassed Already

The grave view taken by the authorities was revealed in the size of the naval operation employed in an effort to locate and salvage the wreckage.

Ten ships, frogmen, and divers were used with latest underwater detection devices. The operation did not succeed, due to extremely difficult conditions.

The causes of the crash are unlikely, therefore, to have been established.

Troubles are to be expected with new planes. Britain's new fighters are having more than their share. Particularly as the latest R. A. F. fighters are already outclassed by American types in service.

Evening Standard—London, August 28, 1954

BULLETS AND BRAINS

In 1954–55 Britain will spend £1,632 milion on defense. More than £628 million will go to the Army, £403 million to the Navy and £600 million to the Air

Force. These fabulous figures stand for a great part of the nation's resources. And no question calls for more constant review than: Is Britain obtaining value for money?

* * * * * * *

Britain has quite lost the preeminence she held in the days of the Hurricane and the Spitfire, and which her pioneering of the jet ought to have ensured to her for a long future. It is four years since the Hunter and the Swift first were shown at Farnborough. Only now are they being supplied to squadrons, and they are obsolescent compared with the supersonic fighters going to the American forces. The only British airplane to compare with these latest American fighters is the new prototype P. 1. Will another 4 years go by before the P. 1 flies in squadrons?

London Financial Times

Off-Shore Buying in U. K. Ended—But Firms Have $500 Million of Orders in Hand

By Our Foreign Editor

With the recent placing of an order for some $40 million (about £14¼ million) of ammunition with factories in this country, the United States offshore military procurement program in Britain has almost come to an end.

There may still be one or two smaller contracts to come—another for ammunition is in fact at present under consideration—but there are no plans for any further large-scale purchases of U. K. arms or military equipment on behalf of other NATO countries, after this summer.

On the other hand, British companies have some $500 million (about £178½ million) of off-shore orders still in hand, as a result of business placed here in the past 3 years. It will take at least until the end of 1957 before the last of these is worked off.

Last year Britain's dollar earnings from these offshore orders doubled, to over $100 million. They should continue to increase fast during the current year, as deliveries begin on several big contracts placed some time ago, and might approach $200 million if the aircraft production program this year goes according to plan.

HAWKER HUNTERS

So far none of the Hawker Hunter aircraft ordered by the Americans under offshore arrangements have been delivered. Exceptionally, the American authorities had agreed to make progress payments in this one case, in advance of deliveries; but so far as is known, Britain has not, to date, received any dollars for the Hunters in this form either.

It is confidently expected, however, that a considerable sum, perhaps $50 million or more, will be paid over as aircraft are delivered during the second half of this year.

This represents a little under a quarter of the total value of outstanding contracts for British aircraft, which are due to be delivered between now and the end of 1957.

A portion of the aid which the United States Government arranged to provide for the reequipment of the R. A. F. is included in this total. This means that some aircraft and other air equipment ordered from British factories under the offshore program will be handed back to the British Air Force, after delivery has been formally made to the Americans. It is, in fact, just a rather clumsy method of making a grant of cash.

There is a little over $100 million involved in this deal, the bulk of it earmarked for Hunters and Javelins. In addition the United States Government has allocated $120 million of direct aid to the R. A. F.—$85 million out of the 1953–54 budget and $35 million out of the 1954–55 budget—of which less than half has so far been received by Britain.

TWO-YEAR PROGRAM

It is believed that the 2-year program of special assistance for the reequipment of the R. A. F., started in 1953, envisaged a larger sum of dollar grants to Britain than the $220 million which has so far been allocated. There may, it is thought, be another $100 million or so to come, in one form or another, if the original plan is fulfilled.

That would bring total United States expenditure on the R. A. F. program to something around $300 million. But the form in which the remainder of the money will come to Britain will not, it is now clear, be another offshore order for aircraft.

The method of aid most favoured by the United States at the moment is the surplus commodity deal. Under this arrangement Britain would buy American surplus commodities and pay for them in sterling, and then the Americans would wipe out their sterling balance by handling the money over to the British Government to help meet a part of the Air Ministry's budgetary expenditure. It is, in other words, a roundabout way of making a straight gift.

Editorial, London Financial Times

DOLLAR AID

The United States program of aid for the reequipment of the Royal Air Force is one of the outstanding examples of the current American technique of doing good by stealth. About 3 years ago it looked as though Britain would be compelled, through financial stringency, to cut down expenditure on the production of new military aircraft, for which plans were all ready. This would have been a loss to the Western Alliance, and moreover, one of most wasteful kind, since the physical resources and skill required to make the new aeroplanes had already been mobilized in Britain. The American 2-year program of special aid to the R. A. F. started in 1953 was designed to prevent that waste.

But it has operated in such devious ways that few people are even aware of its existence. The offshore purchase technique was so adapted that Britain not only received dollar payment for the aircraft produced for a NATO ally, but was also chosen as the NATO ally to receive the aircraft themselves. More recently, the dollar aid has been wrapped up in a surplus commodity deal.

All told, some $220 million have been allocated to Britain in this way. It is believed that the sum envisaged by the original program was rather more than this, and there may be as much as another $100 million to add to this figure. So far only some $50 million out of the estimated total of $300-million-odd have actually accrued to this country. The remainder is equilavent to a little less than twice the sum actually received in dollar grants from the United States in 1954. Together with some funds left over from previous years' appropriations, and not yet used, there is enough here to keep this source of dollars going at the present rate for at least another 2 years. It adds a very useful reinforcement to the British balance of payments.

APPENDIX B

United Kingdom Industrial Projects[1]

1. *Steel Company of Wales, Ltd.*

For the modernization of facilities for the manufacture of tin plate and sheet steel in South Wales, to which products the industry in that area is by tradition chiefly devoted, Port Talbot was chosen for the location of the main works. The objective, to increase production to meet U. K. requirements for sheets and tin plate and leave a surplus for export. The estimated total cost of the project was in dollar equivalent $240 million. The United States funds allotted by ECA were $27 million. The dollars actually expended were $25,373,000, and the overall cost of the plant to date in dollar equivalent is about $206 million.

The completed plant is excellent from the standpoint of construction and operation. The intended production has been exceeded, and the plant is operating at full capacity. A profit of 12 million pounds sterling was estimated (June 1954) for the year 1954. The plant is making a substantial contribution to the economy of the U. K.

2. *National Oil Refineries Ltd., Plant*

At Llandracy, South Wales. This plant is operated by the National Oil Refineries Ltd., a subsidiary of the Anglo-Iranian Oil Co. Ltd., which is owned 56 percent by the British Government. The refinery manufactures over 30 different kinds of products. It employs about 2,800 people and occupies a total of some 900 acres.

This project was designed to increase the crude charging capacity of the refinery from 7,500 to 48,300 barrels per day. This goal has been exceeded and the plant is now handling crude oil at the rate of about 80,000 barrels per day.

The required dollar financing as originally established was $7,700,000. This was divided $2,600,000 for United States materials and equipment and $5,100,000 for design, engineering know-how, etc. The MSA approved dollar financing of $7,250,000, which represented 15 percent of the estimated total dollar equivalent cost of $48 million. Actual dollar expenditures were $5,050,000, but the dollar financing by MSA was only $2,828,000.

[1] Description, evaluation and recommendations, when included, are taken from the project reports of Maurice R. Scharff and Franklin V. Leerburger, of 366 Madison Ave., New York 17, N. Y. Made June–November 1954 for the Foreign Operations Administration.

The purposes for which the project was designed have been and are being achieved, and its objectvies exceeded by a considerable margin.

By making available the dollar exchange when and as needed for United States material and services, this project was completed most opportunely in time not only to make a substantial contribution to the U. K. balance of payments and to U. K. industrial recovery, but also to make a useful contribution to the supply of petroleum products which were needed for defense purposes by the Free World after the loss of Iranian supplies and during the Korean War.

3. Petrochemical Plant of British Petroleum Chemical Ltd., at Grangemouth, Scotland

This company is a "50–50" partnership of the Anglo-Iranian Oil Co. and the Distillers Co. Ltd. This project was an important part of a plan to develop a petroleum chemicals industry in the U. K. It comprised a naphtha crack, a gas separation plant, an ethanol and an isopropanol plant. The objective, to save imports and to provide increased supplies at lower prices. The final estimate of dollar cost was $6.5 million. The actual total equivalent cost of the project was $15,960,000 and the dollar element of $5,929,000 represented 37 percent of the whole cost. Construction was started in August 1949 and was completed in March 1951. Production was started in May 1951. The project has achieved its objectives and has provided the nucleus for well-planned developments into higher capacities and increased numbers of products. The output of the plant has had the effect of stabilizing U. K. prices of the chemicals manufactured.

A greater percentage of equipment might have been obtained in the U. K., thus reducing the dollar element, if delivery times had not been excessive in comparison with those obtainable in the United States. But, the dollar savings of the project justified the higher dollar expenditure for United States purchases.

4. Shell Haven Refinery Expansion, London

This is the largest of four Shell refineries in the U. K. The extension, subject of this project, is situated upstream from London and is separated from the old Shell Haven refinery. The extension incorporates facilities for the manufacture of distillates and fuel oil only. The total cost of the expansion was estimated at $34 million equivalent, of which $1,751,000 was in dollars for United States equipment and materials and $808,000 in dollars for engineering and fees.

The principal objectives of the project were: (1) to improve the British balance of payments through the sale of additional petroleum

products; (2) to release part capacity of Shell's large West Indies refinery at Curacao, West Indies, for sale in dollar markets; (3) to provide increased raw materials for the manufacture of chemicals and thereby reduce imports; (4) a strong addition to British industry which would contribute to U. K. industrial recovery.

The actual total cost of the project was $30,261,000 equivalent. Of this total cost ECA dollar expenditures were $548,543 for engineering and fees, and $1,180,529 for equipment and materials, a total dollar expenditure of $1,729,072. Thus, the rate of ECA dollar expenditures to total actual cost was 5.7 percent.

The contribution of this project to the U. K. balance of payments and to U. K. industrial recovery should be considerable, due to the savings resulting from the importation of crude rather than products and to the proceeds from export sales. However, the dollar saving is difficult if not impossible to quantify because of many variable factors. This is a substantial difference between the cost of importing the quantity of products manufactured in this project when operating at capacity and the cost of importing crude for the manufacture of these products. As an index of this difference the delivered value of the products manufactured when operating at capacity is currently the equivalent of some $75 million per year, whereas the current delivered value of the crude required to manufacture the products is the equivalent of some $42 million. From the difference of some $33 million per annum should be deducted the refining cost, which is in sterling.

5. *Ford Motor Co. Ltd. Plant at Dagenham*

This project consisted of retooling the motor car plant at Dagenham, England, to permit production of two new types of motor cars and a new heavy tractor. It was also to accomplish an increase of 10 percent in production. The total estimated cost of the project was $13,583,000, of which $4.5 million, about 33 percent, was approved under MSA dollar financing.

The original estimate was exceeded and the actual amount spent was $15,795,000. Only $2,510,200 of MSA dollar financing was utilized, about 15.8 percent of the actual cash expended.

In spite of the small ratio of MSA financing to the project, the machines furnished were the essential key to the improved efficiency and production increase of the entire plant.

Comparative Production and Export Figures

All types of vehicles	1950	1953	1954 [1]
Total units	185, 124	233, 624	285, 324
Total export	146, 102	108, 135	160, 044
Exported to U. S. A	3, 894	4, 747	10, 800

[1] Projection on 7 months figures.

France

By Stokeley W. Morgan and Homer S. Fox

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France

France has been the largest postwar recipient of American aid, including both military and economic assistance taken together. France has also received the largest amount of economic grant aid extended to any country ($3,055 million), with the United Kingdom in second place with $2,494 million in net grants. *Total* nonmilitary grants and credits to France (July 1, 1945, to June 30, 1954) amount to $4,982 million, which puts her in second place in this respect to the United Kingdom whose total of $6,870 million includes the large 1946 loan of $3,750 million dollars.

France has also played a very prominent part in the organization and distribution of all European aid. She was one of the leaders in the organization of the OEEC (Organization for European Economic Cooperation) which was set up as a condition precedent to the extension of aid to Europe and which has its headquarters in Paris.

France has furthermore been a leader or key country or both in practically every organizational unit or related movement connected with the aid program. The European Payments Union, the European Coal and Steel Community, the ill-fated European Defense Community, and many others have all borne in one respect or other, an unmistakable French imprint.

In addition, the headquarters of the United States Aid Organization for Europe have been and still are located in Paris, as well as an operations mission for the community itself. Also, some of the most difficult problems associated with the extension of aid have arisen in France, or in connection with aid to France. Altogether, it is probable that France looms larger in the overall aid picture than any other country.

In a report dated March 1953 on the French program by an evaluation team appointed by the director, Mutual Security Administration and headed by Joseph P. Spang, Jr., the program was summed up with the statement "the ECA/MSA program as a whole has played a decisive part in the rehabilitation of the French economy * * * It has been a vast undertaking involving the expenditure of many billions of dollars and employing many thousands of people. Any new endeavor of this magnitude inevitably makes many mistakes. The MSA Program has had its share * * * The problems and the organizations set up to cope with them are extremely complex. No business could possibly operate effectively under similar handicaps."

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Nature of French Aid

Aid extended to France included practically all kinds of both military and economic assistance in the governmental programs, plus substantial amounts in the relief and rehabilitation sectors from the Red Cross, voluntary aid societies and other nongovernmental sources.

As was general in Western Europe, the first large scale aid was devoted to physical restoration of war damaged or destroyed production facilities. This rapidly enlarged to a program of rebuilding or renovating the entire industrial plant insofar as this was physically practicable, thus illustrating one of the continuing major problems in aid administration—namely, the apparent inability to complete and terminate a project or program as originally projected. A complication which developed in the later stages of industrial reconstruction was the allegation on behalf of France and of other former allies, that industrial reconstruction in Germany, with United States assistance, was developing a much more modern and efficient productive plant than in other Western European countries, leaving the allies in a worse competitive position than the former enemy.

As elsewhere, reconstruction was accompanied by large scale shipment, as grant aid, of industrial raw materials and equipment and consumer goods, to tide over the period until normal European production could be resumed. Technical assistance and other types of aid have also been well represented in France. While it is true that the "Marshall plan" type aid is officially considered to have been completed, except for some pipeline, both the regional Economic Agency in Paris (Economic section of USRO) and the United States Operations Mission to France continue to be maintained with no apparent termination in view. Although the economic section of USRO may have other than aid functions, presumably this would not be true of the FOA Mission to France.

Categories of Aid—By Authorizations

Authorizations, as distinct from actual net payments or deliveries, totaled $3,198.3 million, according to statistics supplied by FOA. Following is the distribution by principal categories.

Total Cumulative Program for France—Authorizations

[*April 3, 1948–June 30, 1954*]

	Millions of dollars
Food and agricultural commodities	845.7
Industrial commodities	1,794.0
Unclassified commodity reductions	−6.7
Commodity total	2,633.0
Technical services	13.7
Technical exchange	5.6
Ship disbursements	2.0
Assistance via European payments union	89.0
Direct forces support	85.0
Ocean freight	370.0
Noncommodity total	565.3
Grand total	3,198.3
Commodity groups included in above:	
Food, feed and fertilizer	303.5
Fuel	704.9
Raw materials and semifinished products	951.7
Machinery and vehicles	611.5
Miscellaneous	61.4

The sum of $1,313,400,000 was allotted to France during the first 15 months of ECA and expenditures authorized for close to this amount for such items as food and agricultural products, raw materials and semimanufactured products for French manufactures, machinery, vehicles, and fuel comprised in a great number of separate items.

In addition a series of industrial projects, of which the dollar component was financed by the ECA and the much larger local currency component by the French, (partly from counterpart funds) greatly increased the electric power output, the production of steel and tin plate, and the operations of the oil refineries. Railroads were also rebuilt and modernized.

By 1950 the economic situation in France had considerably improved. The gold and dollar reserves temporarily showed promise of stability at a reasonable level, while international trade accounts were brought closer to a balance. The goal of the ECA planners, a "viable economy," seemed a not remote possibility. Then came the outbreak of hostilities in Korea, together with intensification of the war in Indochina, and the situation changed rapidly for the worse. Terms of trade moved unfavorably for France: and additional military expenditures were required at the same time that French commitments to the NATO build-up of defensive strength in Europe imposed new

strains on the national economy. Because of the antiquated industrial system in France this change in terms of trade was particularly disastrous, not only to trade with the dollar area but within the European area as well. Foreign trade restrictions which had been somewhat eased were again increased and extended. Since the emphasis on American aid shifted from economic recovery to defense, aid to France has been devoted in largest measure to helping her fulfill her NATO obligations and in maintaining military forces in Indochina, (until the Armistice there).

Allotments of ECA/MSA and FOA for economic aid to France under the foreign aid program have been as follows:

France—Allotment Summary

[Apr. 3, 1948–Feb. 10, 1955 in millions of dollars]

	Total	ECA/MSA/FOA aid			MDAP aid grant
		Grant	Loan	Conditional	
1948–49 (15 months)	1,313.4	1,131.7	172.0	9.7	
1949–50	698.3	636.2	10.4	51.7	
1950–51	433.1	389.4			43.8
1951–52	261.5	207.3	43.2		11.0
1952–53	397.5	397.5			
1953–54	85.0	85.0			
1954–55 (Feb. 10)					
Cumulative total (1948–55)	3,188.9	2,847.1	255.6	61.4	54.8

The above figures do not include allotments under the following programs:

(*a*) Fiscal year 1954 Direct Forces Support—$785 million in support of French and Associated States Military forces in Indochina.

(*b*) Fiscal year 1954, section 550, Public Law 118 Program—$15.85 million. $10.85 million of the local currency proceeds are to be used by the Department of Defense to pay for OSP in France and the balance is to be used for development of French dependent overseas territories.

(*c*) Technical Exchange Program.

SOURCE.—FOA Special Compilation.

(*Note.*—The allotments totaling $785 million under (*a*) above were to include some $40 million in counterpart funds.)

Since the armistice in Indochina was signed before the $785 million allocated to France for that country was expended, it might have been expected that the remaining funds would have been released for use elsewhere (by negotiation with the French if necessary) and would serve to reduce subsequent appropriation requests or alternatively would have been simply returned to the treasury. Neither of these courses appears to have been followed, although available information is incomplete.

In 1954, the allotment for economic aid was only $85 million, plus military items and training. Technical assistance amounted to about $1,380,700.

The current program for the fiscal year 1955 continues a similar pattern. No economic aid, as such, is programed for this year, but some payments are still being made through the pipeline. A substantial amount of military aid will be forthcoming, and about

$300,000 for the technical exchange program. In addition, there will be payments on offshore procurement contracts previously entered into by the Department of Defense amounting to $1,027.8 million through December 1954. Since OSP brings dollars into the country where the contracts are placed, they have economic benefit as in the case of any other dollar earnings. Where the production is also included in the national budget, they also provide budget support. In addition, $700 million was appropriated for use in support of France and the Associated States Forces in Indochina. This amount was also unexpended at the cessation of hostilities, as in the case of unexpended balance of the preceding year's allotment, the disposition of this amount remains uncertain. Part of it (some $200 million or more) is stated by FOA to have been reprogramed in Asia, but apparently without resulting in any reduction in appropriation requests for fiscal year 1956.

Infrastructure

Infrastructure is a term used to indentify a NATO program for the construction of military facilities (and the facilities themselves) including airfields, oil tanks and pipelines, radar installations, telecommunications, harbor installations, navigational aids. The United States contribution toward the construction of the infrastructure is expressly authorized by Congress in the foreign aid acts, and a very substantial amount will presumably be spent in France in the fiscal year 1955. Approval has been given by the NATO Council for an infrastructure construction program in France (not including North Africa) through the calendar year 1955 in the amount of $748,130,000. The United States share of these costs is approximately 38 percent.[1]

Surplus Agricultural Commodity Sales

In the Mutual Security Act of 1954, it was provided that not less than $350 million of the funds authorized to be made available pursuant to that act should be used to finance the export and sale during the fiscal year 1955 for foreign currencies of surplus agricultural commodities or products thereof purchased in the United States. During fiscal 1955 substantial cotton sales under section 402 of the Mutual Security Act will be made to France, the franc proceeds being used in support of the United States program in Vietnam. As of February 1955, $25 million of such sales had been negotiated.

[1] For a detailed discussion of the infrastructure program, in France and elsewhere, see separate report entitled "NATO Infrastructure program."

Counterpart

The sale in France of goods and commodities purchased with ECA dollars and resold for francs produced a large amount of local currency—so-called counterpart funds—which were used, with the approval of the ECA and MSA, for financing a number of economic development programs. Out of the dollar equivalent of $2,827,000,000 counterpart funds withdrawn, $654,600,000 or 23 percent was used for the purchase of military items, mostly in the last few years. The balance was used for a variety of projects including land reclamation $100 million; extractive industries $308 million; manufacturing $231 million; railroads $125 million; electric, gas, and power facilities $564 million; housing and public buildings $359 million; and debt retirement $171 million.

As a general rule, counterpart funds withdrawn are commingled with other funds available to the French treasury and consequently cannot be wholly identified with specific projects.

Approximately 60 percent of the total counterpart funds are stated to have been utilized in making loans to the various sectors of the French economy as well as to certain French overseas territories. These loans were made by government agencies either directly to the borrowers, as in the case of certain nationalized industries, or through normal banking channels, as in the case of private industry. The major portion of the loans were made to nationalized industries, such as the railroads, public utilities, and coal mining, whereas the steel industry was the largest recipient in the private industry group.

The commingling of counterpart funds with those of the French Treasury in the financing of loan projects does not lend itself to satisfactory audit of counterpart utilization.

> Our review of the report of end-use investigations on loans disclosed that, because of their generality and inconclusiveness, they are practically valueless. One of the difficulties encountered by the Controller's office in trying to determine the end use of loans was that counterpart fund loan applications could not be distinguished from applications for loans from other sources. We also noted that the FOA mission does not attempt to verify the expenditures made from loan proceeds or the control thereof.[2]

Funds for military end items were released on the basis of review of the annual French military budget, selecting therefrom various military end items to be supported as agreed to between the French Government and the Country Team (composed of representatives of the ECA/MSA mission, the Department of State, and the United States military.) Primarily the items selected were for the use of the French troops in Indochina.

[2] Report on review of certain activities of European missions, Foreign Operations Administration. By U. S. General Accounting Office, Division of Audits, dated October 6, 1954.

No real control is exercised by the FOA mission over the counterpart funds attributed to military end items. Furthermore, no end-use checks have been made nor are any proposed to be made. A procedural study conducted by the mission controller, of fund control within the French Ministry of Defense, revealed that counterpart funds and budgetary funds are commingled and that the controls in effect are applicable to the entire military budget.

Since almost all counterpart funds released to the French Government are commingled with its budgetary funds, end-use inspection and related examination of the purposes for which such funds are reportedly used are ineffective.[3]

End-Use Inspection

From April 1948 through June 1952, 1,087 end-use investigations involving $100 million of commodities had been made by the Controller's office. Of the value of commodities subjected to investigation, approximately 6 percent resulted in reports that required followups by the mission or reimbursement by the French Government out of its free dollar account.

The purpose of the end-use investigations is to determine that the commodities are eligible for ECA/MSA financing, and that the commodities are promptly utilized and not stockpiled, but are consumed or put into production within a reasonable time after arrival at a French port. Inspection reports are designated as satisfactory or unsatisfactory depending on the results of the end-use investigation.

During our review we noted that adequate followup action was not taken on a number of unsatisfactory reports.[3] These were brought to the attention of the mission controller who assured us that the necessary corrective action would be taken. We felt that the reports designated as satisfactory were inconclusive. There was no indication as to what records were examined at the office of the end user; and quite commonly the reports did not indicate whether the commodity had been physically inspected in the course of the investigation. It appears that investigations were confined more to contacts with principal officials of the company than to physical inspections or examination of appropriate records.

Industrial Projects

From the earliest days of the ECA, much attention was devoted to the programing and preparation (including planning and engineering studies) of industrial projects calculated to increase production as well as productivity in France or provide additional material particularly suitable for export, thus contributing to the improvement of the general economy. In the case of most projects a substantial dollar

[3] Report on review of certain activities of European missions, Foreign Operations Administration. By U. S. General Accounting Office, Division of Audits, dated October 6, 1954.

element of the planning and engineering fees, machinery and equipment purchased in the United States was financed by the ECA or MSA. The balance of the cost—usually the far larger part, such as construction and labor costs and equipment purchased in local currency—was financed by the recipient country in varying degree out of counterpart funds.

In France there were 41 active industrial projects for a total cost estimated in dollar equivalent of $996,431,000, of which $158,551,000, or 15 percent was approved for financing by ECA or MSA, and $138,433,000 of procurement was authorized. Up to June 30, 1954, $131,953,000 paid shipments had been made. The ECA-financed dollar element of these projects covered: mining, $104 million; iron and steel mills, $79 million; petroleum refining, $17 million; automotive products, $104 million; electric power facilities, $22 million; air transport facilities, $9.3 million (mostly United States-manufactured commercial aircraft).

One of the principals of these projects is the SOLLAC [4] steel rolling mill in Lorraine. SOLLAC (*Societe Lorraine de Laminage Continu*) is a new organization of nine existing corporations which produced before the war about 39 percent of the France-Saar output of steel, and up to 95 percent of the tinplate.

SOLLAC was created by these companies as their subsidiary to convert the metal supplied by them into sheets and tinplate by improved, modern production methods. The necessary equipment had to be procured in the United States and advantage taken of American know-how. A basic problem was therefore that of exchange, which could only be solved by the use of ECA dollars. The original project application for ECA funds was approved in June 1949. The estimated total cost of the project was originally $147,072,000, but the final cost rose to $246,885,000. ECA funds allocated to the project amounted to $57,834,000, or about 23 percent.

Although it appears that the plant should be well adapted to accomplish the purposes for which it was intended, numerous problems of sales promotion, marketing, and reduction in prices remain to be solved before the plant can make its full potential contribution to the economy of the country. The project is also an example of inadequate planning and supervision. Apparently, the MSA mission in France was inadequately staffed to exercise normal controls over the expenditures of the funds and the progress of the operation. This lack of adequate followup and supervision was characteristic of much of the aid operation in France.

Another important project was the *Union Siderurgique du Nord de la France* (USINOR) at Denain and Montataire. This involved a continuous hot-rolling mill to be installed at Denain and a cold-rolling

[4] The largest single MSA-financed industrial project in the world.

mill to be erected at Montataire, to produce thin and medium sheets. It was estimated that at Denain 180 people were producing 18,000 tons of sheet per year on hand mills, while with the new continuous mill about 400 people could produce more than 700,000 tons.

The project was approved by ECA April 1, 1949, the object being to produce between 1,250,000 and 1,400,000 tons of thin and medium sheet and improve greatly the quality of sheet produced.

The total estimated cost in dollar equivalent was $60,574,000, and the actual cost was approximately $68 million. ECA funds approved were $13,074,000, and ECA funds actually used amounted to $11,919,000. Additional financing had also been arranged with the World Bank and Export-Import Bank so that total United States funds utilized was $30,550,000, or about 43 percent.

Both installations have been completed and are making a contribution to the benefit of the country. The Denain section is capable of making the steel tonnage as originally projected, but is not operating at full capacity due to lack of orders as well as cold-rolling capacity, July 1954. The Montataire section for cold rolling is reported to be operating at full capacity to meet the heavy demand for cold sheets. An additional cold-rolling mill may be constructed to permit full tonnage operation of the hot-rolling mill at Denain.

The above examples of industrial projects in France are cited at random merely as illustrations of some of the kinds of projects financed in part by ECA–MSA. They do not illustrate all of the problems and difficulties associated with the rather extensive industrial construction as well as reconstruction programs undertaken by ECA in France and elsewhere and which are more fully discussed in a separate study.

Technical Assistance (Technical Cooperation or Technical Exchange)

The largest part of the expenditures in France for technical exchange was used to finance "teams" of industrial specialists and technicians, and groups of labor representatives sent from France to the United States to acquire the know-how of American industry, and the techniques of labor-management relations as practiced in the United States. Industrial know-how was needed to increase productivity and to raise living standards in France by lowering domestic prices and also to improve France's trading position in world markets. From the beginning of the technical-exchange program in France in April 1948 through December 1954, 205 type A [5] industry projects

[5] The term "type A" refers to teams of foreign nationality brought to the United States for training.

have been financed. These projects involved 2,261 individual participants.

Some of the French teams were composed of agricultural specialists who visited the United States to study agricultural methods with a view to increasing the productive power of French agriculture by teaching and encouraging the use of more modern and more efficient methods.

Teams composed of labor representatives were sent to the United States to study relations between management and labor in this country, with the primary objective of showing the non-Communist unions how to maintain their independence of Communist control and the Communist-controlled unions how to achieve independence of the Communists.

At the present time the technical assistance program is greatly reduced and is limited in scope. Funds allotted to this activity for fiscal year 1955 are only $300,000. Within this ceiling funds allotted to the industrial sector have been greatly reduced, but to the extent that they are earmarked they are largely in connection with increased military production. There is continued emphasis on the support of free French labor unions and management training.

Technical Exchange Expenditures in France, Apr. 3, 1948–Dec. 31, 1954

[Thousands of dollars]

1948–49	------
1949–50	350.6
1950–51	1,108.1
1951–52	1,096.5
1952–53	997.4
1953–54	847.0
1954–55 (Dec. 31)	219.3
Total	4,618.0

The expenditures by types of projects were divided as follows:

Industry and labor	$2,898.3
Agriculture	440.9
Development of overseas territories	116.6
Public service	121.1
Distribution	135.4
Transportation and communications	55.9
Operating costs and miscellaneous	[1] 851.7
Total	4,618.9

[1] Excludes mission operating cost after fiscal year 1954.

SOURCE: FOA special compilation.

Dollar Gap

The so-called dollar gap in normal balance-of-payments items amounted in 1954 to $680 million, but was covered by the following extraordinary dollar receipts: (1) United States military expenditures, $360 million. (2) OSP payments, $276 million. (3) Mutual security expenditures, $210 million, a total of $846 million. (4) Indochina forces support $275 million. A total of $1,121 million resulting in an increase in French gold and dollar reserves of $433 million.

The dollar gap for 1955 (before extraordinary receipts) has been estimated at $600 million. However, closing the dollar gap is no longer an immediate problem since mutual assistance payments more than cover the deficit. The basic problem as in the case of the United Kingdom is whether the internal adjustments necessary to correct the structural imbalances are being made so that when the end of extraordinary aid arrives, the country will be able to maintain its economy with its own resources.

Present Objectives of Aid to France

The decline in economic aid has had the effect of reducing the need for a large FOA mission. What functions remain are almost entirely military and are handled in largest part by the Department of Defense.

When the Marshall Plan began in 1948, many people had grave doubts that the nation could survive as a democracy. American aid probably saved France from falling into totalitarianism by assisting the recovery of French industry, thereby providing more employment and a higher standard of living for the French people.

However, there is much that the French must still do for themselves. The idea of productivity did not take hold until lately, but recently there has been evidence of greater determination on the part of the French to increase their output per man-hour. It is notable that the funds devoted to this objective by the French have increased whereas the United States contribution has decreased. Agricultural production in certain lines has not increased as much as it should. There has been little improvement in the wages and living conditions of the working class. The voting strength of the Communist Party is still strong.

There has been some criticism of the foreign aid program in France on the ground that its benefits did not reach, and so were not understood and appreciated by, the middle-class businessman, the worker, the masses in general. It is difficult to evaluate the soundness of such criticism. It may be that the policies and administrative methods of ECA and MSA were at fault, although no clearly better alternative appears to have been suggested. Or, perhaps, the aid program was

hindered in its effectiveness by certain inherent flaws in the French social and industrial economy which were impossible of correction in the short space of 6 years. In any case, such flaws if they existed could only be corrected by action of the French people themselves and did not lie within the scope of any program administered from abroad.

The intensive study of the United States operations in France undertaken by the MSA survey team in 1953 recommended the abolition of the separate operating agency and absorption by the embassy under the ambassador of all the functions of MSA and responsibility for all United States operations in France. This recommendation has been only partially carried out through some integration of the FOA mission and the embassy under the United States Ambassador. The Director of the FOA mission is also the Minister of Economic Affairs of the embassy. However, a separate FOA mission is still maintained.

It appears that economic stability has been achieved under existing conditions. Prices are stabilized; there is no serious inflationary pressure; there is a temporarily well balanced economy which permits France to fulfill her commitments under the mutual defense program.

However, we must face the fact that this apparent economic balance exists primarily because of United States dollar payments for military aid, and for other purposes. Any substantial decrease in such aid would be promptly reflected in a decrease in the ability of France to contribute her agreed share to European rearmament, and a recurrence of foreign payments problems and of domestic economic problems temporarily in abeyance.

Other United States Economic Operations

The Department of Health, Education, and Welfare

Conducts economic operations in France in the same manner as described in the paper on the United Kingdom.

The Office of Education expects to arrange this fiscal year for 116 educators to be brought to the United States for training, and programs of observation and training have been planned by the Office of Vocational Rehabilitation for 30 specialists.

French labor teams and productivity teams have taken a great interest in the United States social security program, and have had instruction and discussion of United States provisions in this field. Through the International Educational Exchange Service program, leaders whose programs are being planned by other organizations have come to the United States Social Security Administration to learn about social welfare programs which offer services along the same lines as those sponsored by the French Government.

The Department of Agriculture

(1) Promotes the sale of United States agricultural commodities in France; (2) reports on foreign agricultural competition, supply and demand; and (3) disseminates United States agricultural information regarding foreign agricultural production, trade, and consumption.

The Department maintains a permanent mission in France consisting of an agricultural attaché, an assistant agricultural attaché, and several clerks. A total of 11 marketing specialists have visited France since July 1954 and carried on investigations and discussions similar to those described in the paper on the United Kingdom.

The Department of Labor

Through a labor attaché in the Embassy, carries out its programs and objectives, some of which, being similar for various countries, are described elsewhere.

From 1950–53, the Department of Labor provided nine 3-month programs for French groups in the fields of labor statistics, settlement of labor disputes, productivity, women's role in trade unions, employment services, and apprenticeship. In addition, numerous French productivity teams have received one-half- to 1-day programs covering various aspects of the Department's work. No long-term programs have been arranged by the Department since 1953, but programs of short duration continue to be provided.

Since mid-1953, the Department has assigned on reimbursable detail four productivity specialists from the Bureau of Labor Statistics to the European Productivity Agency of the OEEC in Paris. These specialists are paid out of FOA funds and provide technical advice on productivity programs to member countries of the OEEC.

The Department of State

Operates through the American Embassy in Paris and consular offices in seven important cities. A large part of the Embassy work is concerned with economic reporting, as described in the paper on Economic Operations in the United Kingdom. For the year July 1, 1953–June 30, 1954, of a total of 524 single-time requests for economic reports which were received from various United States Government agencies, 428 originated with the Department of Commerce, 66 with the Department of State, and 18 with the Department of Agriculture.

Including voluntary submissions, 1,852 reports were received by

the Department of State from the Embassy and consulates in France, of which 153 were on matters relating to agriculture; 223 on transport and communications; 439 on export control; 91 on commerce and industry; 185 on finance.

The Embassy has a staff of 44 persons engaged in economic activities, of whom 25 are American, and 19 are foreign nationals, mostly French. Key officials in the economic field are: the economic minister (who is also the director of the Foreign Operations Mission), the Deputy Chief of the Economic Section (who is also the deputy director of the Foreign Operations Mission; the commercial attaché, the agricultural attaché, the labor attaché, and several economic officers, together with representatives of the Treasury and Maritime Commission.

The cost of the economic section for fiscal year 1955 is $222,000 for salaries, plus $113,000 for allowances and administrative expenses, a total of $335,000 per annum for economic activities. This compares with a total annual cost for Embassy operation for the fiscal year 1955 of $1,350,000, and Embassy personnel totaling 190, of whom 93 are American and 97 are locals. The consulates are staffed by 72 persons, of whom 23 are American and 49 are locals.

The economic work of the Embassy in Paris is handled within the Office of the Minister for Economic Affairs, who is also director of the Foreign Operations Mission (USOM). He has an integrated staff in which Embassy and FOA personnel work together, in sections handling trade, agriculture, labor, commerce, production, and productivity. This organization was adopted pursuant to a reorganization of the economic work carried out by the Minister for Economic Affairs as of September 1, 1954. Major problems dealt with by the Embassy personnel within this integrated staff are the following:

(1) The administration and direction of United States assistance programs concerning France.

(2) The administration of the Battle Act in France.

(3) Analysis of the current economic policies and programs of the French Government.

(4) Fulfillment of the comprehensive economic reporting program and reporting of commercial intelligence as well as special reports.

The Foreign Operations Administration

This agency has a staff of 67 people in France, 34 of whom are United States nationals and 33 are foreign nationals; 54 of these employees perform administrative duties and 13 are on program operations.

The cost of operating the FOA mission in Paris has declined considerably from $1,181,861 in 1953 to $743,696 in 1954, and an estimated $534,530 for 1955.

Summary Observations

As one of the major recipients of economic assistance, France has experienced in one form or another many of the problems arising in the planning and execution of aid programs.

Budget Support

As has been indicated elsewhere, the French economy is basically much sounder than that of many other countries receiving financial and economic assistance from the United States. There are some structural weaknesses in the French economy, but much of the French need for assistance arises from budgetary needs rather than from needs of the national economy. Budget support for the French Government has become a major feature of the French aid program.

This has been effectively the case in the use of counterpart. As has been described above, much of the enormous French counterpart funds has simply gone into the national budget and intermingled with funds from other sources and used for various governmental expenditures. It has consequently been difficult, if not in many cases impossible, to exercise the degree of control over the expenditure of counterpart funds in France that had been contemplated by the Congress and the administration.

Another type of budget assistance is what has come to be known as Lisbon-type aid, since it was first worked out at a NATO conference in Lisbon. This type of budget support consists of purchasing from the recipient government a specified quantity of military supplies and then returning these supplies so purchased to the recipient country for its own use. The rationalization for Lisbon-type aid is that the recipient country is unable without such aid to provide the level of military cooperation jointly agreed to as its proper proportionate share. It is, in other words, a device to provide the recipient country with financial assistance (budget support) on the group of military necessity. It is not the purpose of this paper to discuss the merits or otherwise of the military necessity alleged in this or other cases. It does seem desirable to point out that in the administration of the aid programs in France and elsewhere, a great many devices have been adopted to provide various kinds of aid to such an extent that the entire program becomes extremely confused.

Technical Assistance

Another illustration of the use of various devices in the administration of the foreign aid program, with resulting confusions of various kinds, is in the administration of technical assistance in France as elsewhere in Europe at the present time. Strictly speaking, there is no technical assistance or technical cooperation program in France or elsewhere in Europe. No funds are requested from Congress for this purpose. However, a program is in fact being carried out under the name of "technical exchange," and in quite a separate and unrelated account, funds are requested for this purpose. These exercises in semantics can undoubtedly be plausibly justified, but they do make it extremely difficult to determine what kinds of aid programs are going on in various countries.

Offshore Procurement

France is one of the principal beneficiaries of aid via the so-called offshore procurement program. The phrase "offshore procurement" is in itself an exercise in semantics. Originally, in the very early days of ECA, it was used to designate the purchase of goods outside of the United States (principally in Latin America) for the implementation of aid programs. Subsequently it was used to describe the purchase in Belgium of goods for distribution in other European countries. Currently the phrase is used to designate the purchase of military goods in Europe for distribution to NATO countries as a part of the joint defense program. It has, however, also been used currently to include the purchase of any military goods in Europe by the United States, including purchases for its own forces. This is probably incorrect use of the phrase; it adds to the confusion and some rather serious disagreements have arisen because of it.

The current offshore procurement program applied in its restricted meaning of purchase of military supplies or equipment in Europe by the United States for delivery to other NATO countries was intended originally, in France and elsewhere, to provide a broadened base for NATO military production in Europe. Obviously, it would have certain incidental economic benefits such as providing dollars which would be of assistance in the balance of international payments of the recipient countries. However, the device was quickly seized upon as a possible means of achieving many more objectives, economic and political. Inability to achieve several objectives at once, has, in the opinion of many observers, jeopardized the success of the primary objective, not only of offshore functions but in the operation of most of the foreign aid program as a whole.

Infrastructure

The infrastructure program, also discussed elsewhere in this paper, as developed particularly in France has been the subject of considerable discussion and a good deal of criticism. Obviously infrastructure disbursements, as in the case of offshore procurement purchases, have certain incidental economic and financial benefits to the recipient country. If delivered in the form of dollars, they help to redress any deficiency in the balance of dollar payments; if paid to the government of the recipient country, they tend to provide budget support. A further complaint has been made from time to time that infrastructure installations also provide economic benefit by increasing the capital assets of the country in which installed and in some cases of providing current commercial operating revenue. This charge was directed among others at certain telecommunications installations in France. The problem has been reviewed, so it is understood, and provision made for certain appropriate refunds by the French Government to NATO in respect to peacetime operating revenues derived from the use of these facilities. Apparently the settlement was considered satisfactory by the parties concerned. It is mentioned here, not to belabor a dead mule, but as an illustration of some of the types of problems which have arisen and which presumably will continue to arise in similar forms in current execution of aid programs.

A further question in relation to infrastructure is whether United States contributions need to be made entirely in dollars since disbursements are understood to be, for the most part at any rate, in local currencies of the countries in which the facilities are constructed. Should the program be continued, this point will presumably be given appropriate consideration.

Disposition of Indochina Funds

One of the considerations which might well be given careful review is the disposition of funds appropriated but unexpended for which the original need no longer exists. The appropriation of funds for assistance to France in the prosecution of the war in Indochina is an illustration of this point. As a result of the cessation of hostilities in Indochina, a considerable sum, in fact the major part of the $745 million contained in the last appropriation, was no longer needed for this purpose. Inquiries have elicited the statement that these funds have been reprogramed for use elsewhere in southeast Asia. It might have been thought that they would either have been returned to the Treasury as no longer needed for the purpose for which appropriated or that if reprogramed for use elsewhere they might serve

to reduce by a corresponding amount any request for subsequent appropriations. Neither of these courses appears to have been followed.

Continuance of Aid Organization

One of the difficulties in conducting any extensive program such as the foreign aid program is the unwillingness or the inability to set a termination point when the mission has been accomplished. In the case of France as in the case of most other European countries, it is generally conceded, by FOA as well as others, that in substance the aid program has been completed insofar as it is possible to do so. The postwar reconstruction and rehabilitation has been done, on the whole successfully, but nevertheless in various forms it continues, on a reduced scale of course, and, perhaps more significant, the organization for administration of the program has been maintained more or less intact, although again in reduced numbers of personnel. If the charge of self-perpetuation is not to be substantiated it would seem that the organization should be disbanded and certainly individual missions in the various countries which have been the recipients of aid should be closed.

Spain

By Paul A. Neuland

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I. Background

The Country Itself

Metropolitan Spain is composed of the mainland, the Balearic Islands in the Mediterranean, the Canary Islands in the Atlantic, and five ports in Spanish Morocco. The rest of Spanish Morocco and Spanish West Africa are considered overseas territories.

Spain's most striking topographical features are its height and its internal division by mountain and river barriers. Spain rises sharply from the sea with only a narrow coastal plain except in the Andalusian lowlands. The greater part of the peninsula is a vast high plateau divided by mountains and broad shallow depressions. There are few bays, virtually no islands, and a scarcity of natural harbors. Nearly three-quarters of Spain has been classified as arid with less than 20 inches of rainfall annually. Northern and northwestern Spain, however, resemble England in climate, with slight variations in temperature and plentiful rainfall, and the coastal regions in the east and south enjoy a typically Mediterranean climate. The area of Spain is 196,607 square miles, approximately equal to that of Colorado and Oregon combined.

Spain's once imposing colonial empire has been reduced to a handful of strategically located but economically undeveloped areas in Africa. These overseas territories comprise the Spanish zone of the protectorate of Morocco; the territory of Ifni, an enclave in French Morocco along the northwestern Atlantic coast of North Africa; the Spanish Sahara; and Spanish Guinea.

By law and in practice, the processes and institutions of the Spanish Government are controlled by General Francisco Franco, who has been Chief of State since 1939. Franco is also Commander in Chief of the Spanish Armed Forces; Head of the Falange Party, the only legal political organization in Spain; and President of the Cabinet, whose members he appoints. The Cabinet, or Council of Ministers, meets periodically to consult with General Franco on matters of general policy; all important decisions are normally cleared with the Chief of State. The membership of the 475-deputy Cortes, or parliament, depends directly or indirectly on General Franco, who can exercise a veto over any legislation it considers.

Spain's population, which is predominantly Catholic, totals approximately 29 million. The population density is roughly equivalent to that in New England and is lower than in most European countries.

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There is a serious imbalance of the sexes, with only 92.8 males per hundred females.

Spain is predominantly an agricultural country, and the per capita income is only about $250 per year. It has the lowest standard of living and the lowest per capita income of any country in Europe. Its major exports are foodstuffs, textiles, and minerals. Its imports consist primarily of fuels, raw cotton, fertilizers, and machinery. The United States and the United Kingdom are Spain's principal customers, each country purchasing about one-fifth of Spain's total exports. The United States is Spain's leading supplier. Its gross national product in recent years has been about $7.5 billion to $8 billion per year. Approximately 4 percent of this amount, about $325 million, is allocated for military expenditures annually.

United States Policy Toward Spain, 1946–50

In keeping with a 1946 resolution of the U. N. General Assembly, many nations imposed diplomatic sanctions and recalled their ambassadors from Madrid, leaving their missions under chargés d' affaires. The United States left vacant the position of Ambassador to Spain, which had been unfilled since the resignation of Mr. Norman Armour on December 31, 1945.

The growing threat of communism and Spain's basic opposition to it resulted in a movement in the United States and the United Nations to end these diplomatic sanctions against Spain, and the U. N. General Assembly repealed its resolution on November 4, 1950. On December 27, 1950, Mr. Stanton Griffis was appointed United States Ambassador to Spain.

Beginnings of United States Aid to Spain

Even before the restoration of full diplomatic relations, the Congress took note of Spain's opposition to Communism and of its strategic position in Europe and authorized a $62.5 million loan to Spain (Public Law 759 of the 81st Congress, approved on Sept. 6, 1950). This loan was administered by the Economic Cooperation Administration through the facilities of the Export-Import Bank. Of the total made available, $35.7 million has been approved for capital development and $27.8 for commodity assistance. About $8 million still remains unexpended.

In addition, the Export-Import Bank made two short-term loans of $12 million each to Spain in 1952 and 1953 to finance the purchase of United States cotton. Both of these loans have been completely expended.

The more common type of United States grant aid was initiated for Spain by the 82d Congress in fiscal 1952. Apparently without prior authorizing legislation, the Mutual Security Appropriation Act for fiscal 1952 (Public Law 249 of the 82d Congress) provided $100 million for economic, technical, and military assistance to Spain, to be administered under the discretion of the President for the general objectives set forth in the Economic Co-operation Act of 1948 and the Mutual Security Act of 1951.

This appropriation was extended on what might be termed a quid-pro-quo basis. The United States wanted to construct strategic bases on Spanish soil behind the Pyrenees, which form the best natural defense line on the continent, and to secure Spanish participation in the defense of Europe. On the other hand, Spain wanted the best price it could get in return for these concessions. The result was a protracted series of negotiations between the United States and Spain, taking almost a year and a half, during which time the appropriated $100 million could not be programed. The Congress authorized its carryover into fiscal 1953 and added $25 million in new money.

The Bilateral Agreements

The lengthy negotiations finally resulted in three agreements, all of them dated September 26, 1953, which provide respectively for: (1) Economic and technical assistance; (2) military end-item assistance; and (3) the construction and use of military facilities in Spain by the United States.

Spain thus became eligible on its part for economic, technical, and military assistance under the mutual security program. The United States was in turn authorized to develop, build, and use certain military airfields and naval facilities in Spain, jointly with Spanish forces. (All three agreements are printed in full on pages 698–710 of the transcript of the hearings before the House Foreign Affairs Committee on the Mutual Security Act of 1954.)

United States foreign aid is thus given to Spain through two programs, namely, the economic aid program and the military aid program. The base construction program is not an aid program in itself but is rather a part of the United States defense buildup abroad for the world-wide deployment of United States Armed Forces. All three of these programs will now be described separately.

II. Economic Aid Program

Nature and Scope

Under the Economic Aid Agreement, the United States is to furnish such economic and technical assistance as may be requested by the Government of Spain and approved by the Government of the United States under the terms of applicable United States law. It remains in force until June 30, 1956. It does not contain any monetary provisions indicating the extent of the United States commitment. However, testimony before the House Foreign Affairs Committee last spring indicates that the United States promised to Spain economic aid totaling not less than $115 million. Chapter 3 of Title I of the Mutual Security Act of 1954 describes such economic aid as "defense support," because it is directed at aiding the Spanish economy in such a way as to strengthen its defense effort.

Relation to Base Construction Program

The economic aid program has an important impact on the base construction program. It improves the value of the bases because it allots substantial funds to rehabilitate Spanish railroads and highways and to compensate the Spanish economy for the drain caused by construction of the bases on its steel, coal, and cement resources. Of major importance, too, is the fact that 60 percent of the counterpart generated by the import of commodities under the economic aid program is used to defray local costs of constructing these bases. Finally, the economic aid program is designed in part to offset the inflationary aspects of the base construction program and to insure that it will not be hindered by any general deterioration of the Spanish economy.

Program for Fiscal 1954

In the mutual-security legislation for fiscal 1954 the Congress reappropriated $75 million for economic aid to Spain out of the $125 million previously made available. An additional $10 million was alloted by FOA for the same purpose out of the general defense-support appropriation for Europe. This $85 million was programed as follows:

Raw Cotton	$14, 800, 000
Agriculture and Hydroelectric Works	10, 500, 000
Transportation	14, 700, 000

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Electric Power	$12,500,000
Coal Mining	2,000,000
Steel Industry	8,000,000
Cement Industry	2,000,000
Munitions Industry	2,390,000
Other Industry	1,010,000
Technical Exchange	600,000
Industrial Raw Materials	16,500,000
Total	85,000,000

As indicated in the above table, most of these funds have gone into projects for industrial development, mainly for the procurement of capital equipment and raw materials. The Spaniards chose to use their own foreign-currency resources to import the unusually large volume of agricultural commodities which were needed during fiscal 1954 because of the drought and freeze.

Procurement authorizations had been issued by May 31, 1954 against all of these funds, but $39.3 million was still awaiting subobligation as of January 31, 1955, including $7.5 million for 2 hydroelectric power plants, $4 million for a steel rolling mill, and $4 million for locomotives. Paid shipments against these authorizations as of November 30, 1954 amounted to $21.5 million. FOA officials estimated at the hearings last spring that goods in the value of $65 million would have been delivered by the end of fiscal 1955, leaving only $20 million in the pipeline for delivery in fiscal 1956. This estimate now appears to have been overly optimistic.

The relatively weak showing in final obligations and paid shipments should be viewed against the long lead-time required for the preparation of specifications prior to letting the contracts and for the manufacture of such heavy industrial equipment.

Raw Cotton

Raw cotton in the amount of $14.8 million was included in the programing of the $85 million under the provisions of section 550 of the Mutual Security Act of 1953, which directed the use of surplus United States agricultural products for aid to Spain. Cotton is not produced in Spain and is normally imported. Unlike other commodities imported under this aid program, not only 60 percent but the entire amount of the pesetas generated by the sale of this raw cotton is earmarked for the use of the base construction program.

Because raw cotton is easily procured, this item accounted for the bulk of United States aid shipments to Spain during fiscal 1954 and the early part of fiscal 1955. $13.6 million of the programed $14.8 million was actually delivered by October 20, 1954 and the remainder was canceled.

This operation, which was financed by FOA, has been rather severely criticized by the International Operations Subcommittee of the House Committee on Government Operations in its recently published "Report on Procurement of American Cotton by Spain." This report states that, by virtue of a decree of the Spanish Government, all cotton imported from the United States and from other countries is purchased through an agency at Barcelona composed of 31 Spanish cotton importers and known as the National Cotton Center. Procurement is handled on a bulk basis and contracts are invariably awarded to the lowest bidder. The program is criticized because the grade and quality of the cotton shipped by American suppliers have practically always been below that specified in the procurement contracts.

The report notes that, although the undergrade cotton is not returned to the United States, the prices are renegotiated so that the United States suffers no direct financial loss. However, this procedure reportedly works to the detriment of the textile mill operators, who require better cotton to produce the variety of textiles in demand.

It is stated in the report that the Spanish Government instituted this procedure to prevent the speculative buying and selling by mill owners which had in the past so adversely affected Spain's peseta exchange rate and sharply reduced its textile production. It is further noted that FOA's general policy has been to permit procurement according to the practices of recipient countries and that it has therefore not sought to alter these procedures.

The report recommends that American cotton growers and shippers devise a code of ethics to eliminate the present practice of sham bidding, that FOA encourage the Spanish authorities to return to normal direct buying practices under adequate safeguards against uncontrolled speculation, and the FOA endeavor in the meanwhile to work out improved procurement procedures with the national cotton center to insure proper bidding and compliance with requirements and specifications. The report also recommends that all cotton be inspected and certified by the Marketing Service of the United States Department of Agriculture or by some agency of the Spanish Government before shipments are made from the United States.

Special Wheat Sale

A severe drought in the summer of 1953 followed by a damaging freeze in January 1954 caused a serious shortfall in the 1954 wheat crop. This required Spain to import much larger amounts of wheat than normally. In view of this heavy drain on Spain's foreign-exchange resources, $20 million worth of this wheat was supplied by the Commodity Credit Corp. in the spring of 1954, quite outside the agreements and the economic aid program. This wheat was paid for in

pesetas, all of which were to be used to defray the costs of the base construction program as described below.

Program for Fiscal 1955

The Congress provided $30 million for economic aid to Spain in fiscal 1955, thus bringing the total funds appropriated for this purpose to $115 million, which apparently fulfills the total United States executive commitment. These new funds have been programed to include $10 million for industrial raw materials and $20 million for capital investment. Ample United States funds are available from other sources to finance Spain's needs for agricultural imports this fiscal year.

Procurement authorizations have been issued for all $10 million of the industrial raw materials but for none of the development projects. No deliveries against these funds are anticipated before fiscal 1956.

The Congress also went beyond the request of the FOA and of the administration by providing in Section 109 of the Mutual Security Appropriation Act for fiscal 1955 that $55 million of the unobligated balances continued available under that act would be used only for the procurement and sale of surplus agricultural commodities to Spain. This had the effect of increasing the appropriation for economic aid to Spain in fiscal 1955 to $85 million, the same as in fiscal 1954, without making available any addditional mutual-security funds.

Negotiations with the Spanish Government have produced agreement to date for use of $20 million of this $55 million for additional cotton and $6 million for cottonseed oil. The remaining $29 million has yet to be programed. Under the terms of this legislation, 80 percent of the counterpart pesetas resulting from these sales is to be used to strengthen the Spanish economy and 20 percent for United States use, which in effect means for purposes of the base construction program.

The Congress has rarely increased aid funds for any country above the amounts requested by the administration, so that this action with respect to Spain is relatively unusual. The economic aid program for Spain has in fact many aspects which set it apart from other aid activities of the United States Government. These cannot be discussed without mention of the late Senator McCarran of Nevada, who offered the provision to make an additional $55 million in surplus agricultural commodities available for Spain in fiscal 1955. He supported this proposal by the following argument, as found on page 128 of the transcript of the hearings before the Senate Appropriations Committee on the Mutual Security Appropriation Act for fiscal 1955:

> We entered into an agreement as regards the militarizing of Spain. That took a long time to work through, and it was opposed by a great segment of

the people of Spain. But when they were given $85 million for economic development, that was a great inducement for them entering into the agreement.

Now, when the Government of Spain says to its people, "We are only going to get $30 million," I have been advised that it has been a shock to the people of Spain, and that it is liable to create a condition over there not healthy to carrying out our agreement. It seems to me that we should do either 1 of 2 things. If you say limit it to 30 million in dollars, then we should come up to the $85 million with additional amounts of surplus commodities. In other words, you will appease that situation to my way of thinking.

Related Agricultural Support Sales

Again, quite outside the Agreements and the economic aid program, the United States a few months ago offered to sell Spain some $21 million of additional agricultural surpluses, such as cottonseed oil, cotton, tobacco, and dairy products, under the Agricultural Trade Development and Assistance Act of 1954. The Spanish Government for some time showed little interest in this offer, apparently preferring to purchase such products under the program just described, wherein the pesetas are largely available for their own economic needs, rather than under programs generating pesetas to be used largely for defraying construction costs of the United States bases. However, FOA now reports that prospects for completing these negotiations satisfactorily are currently quite favorable.

Negotiations are almost completed by the Commodity Credit Corporation in behalf of the Department of Defense for the sale of $5 million worth of feed grains to private importers in the Federal Republic of Germany. The Department of Defense will pay dollars to the Commodity Credit Corporation for these deutschemarks and use them for the purchase of German equipment for the base construction program in Spain.

Technical Exchange and Productivity

United States economic aid programs customarily include some aspects of technical assistance, whereby United States technical experts are sent abroad and foreigners are brought to the United States for specialized training and instruction. The economic aid program for Spain also includes this type of exchange activity, which is quite distinct from the educational exchange program conducted by the Department of State.

Actual operations under the technical exchange program amounted to $616,000 during fiscal 1954 and are estimated at $865,000 for fiscal year 1955, according to the following breakdown furnished by FOA:

	1954	1955
By field of activity:		
Industry and business	$470,300	$660,000
Agriculture	145,700	200,000
Labor		5,000
Total	616,000	865,000
By type of activity:		
Participants to United States	402,700	500,000
United States technicians	213,300	365,000
Total	616,000	865,000

The program for fiscal 1954 involved sending 23 American technicians to Spain and bringing 160 Spaniards to the United States for technical assistance in the fields of electric power; coal mining; the producing of steel, cement, and munitions; railroading; highway construction; civil aviation; and many phases of agriculture. Spanish participants included workers, specialists, engineers, foremen, and executives. United States agencies having proficiency in the various technical fields assist in the training of Spanish participants under interagency agreements with FOA.

Estimated Program for Fiscal 1956

It was originally anticipated that the appropriation of $30 million for fiscal 1955 would be the last appropriation requested for economic assistance to Spain, since this fulfilled the commitment made to Spain in connection with the signing of the three agreements. However, during the hearings on the program for fiscal 1955, FOA officials stated that there might be further need for economic-aid funds in fiscal 1956, largely because of the adverse economic developments in Spain growing out of unpredictable weather.

Since then, FOA has indicated that the President would request about $22.5 million for economic and technical aid to Spain in fiscal 1956, of which $20.5 million is to be for economic assistance and $2 million for technical exchange.

This request should be considered in the light of an FOA estimate that $50 million in aid goods will be in the pipeline as of June 30, 1955, for delivery in fiscal 1956. About $20 million of these goods will be from fiscal 1954 and $30 million from fiscal 1955.

There might well be additional goods in the pipeline representing orders under the availability of the $55 million in agricultural surpluses for Spain during this fiscal year, as well as such goods as might ultimately be ordered under the support program of the Commodity Credit Corporation.

III. Military Assistance Program

Nature and Scope

The essential provisions of the Mutual Defense Assistance Agreement provide that the United States is to deliver end items of military equipment to Spain and provide military training for Spanish armed forces for the mutual defense of the two countries. This brought Spain within the worldwide United States Mutual Defense Assistance Program (MDAP). The MDAP operation in Spain is to be consistent with the charter of the United Nations and utilized exclusively for the promotion of international peace and security. It is based on the force goals and military programs of the Spanish armed forces, as approved by the United States Joint Chiefs of Staff and the Secretary of Defense. The United States is to be charged no taxes in its administration.

Out of the total which the United States has agreed to make available in aid to Spain in military assistance over a period of 4 years, $141 million was appropriated for this purpose in fiscal 1954 and $74 million in fiscal 1955. The balance remains to be programed for fiscal 1956 and 1957.

Program for Fiscal 1954

The $141 million in military aid funds for fiscal 1954 was made available when the agreement was signed in September 1953. The 3 United States military services immediately began to develop a program in the amount of $5 million, so that some deliveries of military equipment could be made almost before the ink was dry, in the hope that this would impress the Spaniards. Because of delays in developing the full program, only this $5 million was actually obligated by the end of fiscal 1954. The first shipment of United States military equipment under this small impact program took place on January 9, 1954, consisting of such items as artillery, tanks, and motor transport vehicles. A minesweeper was later turned over to Spain on February 16, 1954.

Program for Fiscal 1955

The illustrative program of the Department of Defense for military assistance to Spain during fiscal 1955 called for approximately $74 million, which was approved in its entirety by the Congress. The

unobligated balance from fiscal 1954 was also continued available. The rate of obligation of these funds increased steadily during the early months of fiscal 1955 and deliveries also began to arrive in increasing quantities. Completed shipments of military hardware in Spain totaled $32 million through October 1954.

A slow rate of progress is usually inherent in any military build-up and the United States military aid program in Spain appears to offer no exception to this rule. The program is also slowed by the necessity for overall modernization and training. For instance, jet planes cannot be furnished until airfields are in operational readiness and until Spanish pilots are trained to fly them.

Participation of the Three Services

The military aid program for Spain is broken down fairly evenly among the three United States military services. Of the $141 million available in fiscal 1954, $42 million was allocated for procurement by the Army, $41.8 million by the Navy, $54.9 million by the Air Force, and $2.3 million left undistributed. Of the $74 million available in fiscal 1955, $20.7 million is to be procured by the Army, $17.8 million by the Navy, $31.6 million by the Air Force, and $3.9 million left undistributed.

The Army program is mainly directed toward providing organizational and training equipment for approved Spanish ground units. The Navy program is designed to develop Spain's naval potential in support of United States defense plans; it is understood that top-priority projects include the modernization of a number of Spanish destroyers, submarines, and minesweepers and the construction of some new minesweepers and net tenders. The Air Force program calls for equipping a number of Spanish jet-fighter squadrons, providing limited air-sea rescue equipment, and furnishing additional training facilities which the Spanish Air Force needs during its transition from propellor-driven to jet aircraft.

United States Military Assistance Advisory Group

The military aid program in Spain is administered as in other countries by a United States Military Assistance Advisory Group (MAAG), the head of which is also the Chief of the Joint United States Military Group for the base construction program which remains to be discussed below. The operations of this MAAG are much like those of the MAAG's in other countries with which the United States has concluded mutual-defense treaties.

Certain doubts have been expressed as to whether MDAP deliveries to Spain are based on specific deficiencies in Spanish military tables

of organization and equipment, or whether such deliveries are simply giveaways in return for the right to construct and maintain the new bases. However, no evidence has been encountered in this study to indicate lack of control in the handling of the military assistance program. The military aid program in Spain may possibly differ from that in other countries because Spain is not a member of NATO. In any event, there has been no opportunity to follow up this question with a field survey. Besides, an inquiry into purely military considerations is outside the scope of this study.

Offshore Procurement in Spain

Contracts for the production of military end-items under the military aid program have been awarded to Spanish firms under the offshore procurement program. As of September 30, 1954, a total of $9.7 million in OSP contracts had been let in Spain, of which $7.2 million was for ammunition and equipment for artillery and fire control procured by the United States Army, and $2.5 million for ammunition procured by the United States Navy. Nothing has been procured in Spain under OSP by the United States Air Force.

IV. Base Construction Program

Nature and Scope

Under the Defense Agreement, the United States contracted to expand and develop certain existing Spanish military airfields for the joint use of their air forces, and to modernize Spanish naval facilities for the joint use of their navies. Even though Spain is not a member of NATO, these bases are to provide peripheral support for the NATO military establishment. The United States is charged no rental for land used for these bases. Additional military facilities may be developed as future conditions require. The military areas to be thus jointly used will remain under Spanish sovereignty. The agreement runs for 10 years, with the provision that it may be extended for 2 additional 5-year periods.

In a technical sense, as has been noted above, the base construction program is not a foreign-aid activity but a purely military function of the Department of Defense. It is therefore financed not out of mutual-security funds but out of regular appropriations of the Department of Defense. Similar United States base construction programs have been undertaken in other parts of the world, notably in French North Africa.

Administration

The Secretary of Defense has designated the Secretary of the Air Force as the Department of Defense's executive agent for Spain. In this capacity he is responsible for the administration of all United States military programs in Spain, including the base construction program. The Secretary of Defense has created a Joint United States Military Group for Spain (whose chief also heads the MAAG), to coordinate the complex functions involved in planning and carrying out this program. The United States Navy is strongly represented in this group and is responsible for constructing the bases for the United States Air Force as well as its own naval and air bases. The United States Air Force is responsible for the construction of its own facilities for communications and supply, such as the jet-fuel pipeline.

A directive issued on January 14, 1954, by the Chief of Staff of the United States Air Force sets forth the responsibilities of the chief of this group, which are essentially to coordinate the program; to undertake negotiations under the general direction of the United

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States Ambassador for the conclusion of additional technical schedules under the basic agreements; to supervise all United States military activities in Spain, including those of the service attachés in the United States Embassy; and to keep the United States Ambassador informed of military matters which may affect United States foreign-policy objectives or Spanish-American relations.

Contractors

The agreements provide that the United States may select American prime contractors but that subcontracts will be awarded to qualified Spanish firms. Two prime contracts have been awarded, one for the architectural-engineering phase and the other for the construction phase. Both were awarded on a cost-plus-fixed-fee basis to joint ventures composed of several outstanding American firms.

Since the architectural-engineering subcontracts are for professional services, they are negotiated, whereas the construction subcontracts are usually awarded on a competitive basis. Spanish firms appear to be generally capable of performing most of the projects presently authorized or contemplated under this program, but are nevertheless required to post performance bonds, which is reportedly quite an innovation for Spain's business practices.

Funding

The Departments of the Air Force and Navy present their own portions of the base construction program to the Congress each year and request their own dollar appropriations for annual increments of the program. These appropriations are then transferred to a joint working account under the United States Navy's Bureau of Yards and Docks, for obligation and expenditure by the Bureau under the overall directions and control of the Chief of the Joint United States Military Group for Spain.

This joint working account uses some rather unusual techniques to secure the pesetas it needs to pay construction costs in Spain. It does not purchase them on the open market or through normal foreign-exchange channels. Instead, it buys them from four peseta accounts, which result from various United States economic aid activities in Spain:

1. Counterpart Pesetas

Sixty percent of the total counterpart pesetas generated by the sale of commodities furnished to Spain under the $115 million economic

aid program is earmarked, under the terms of the economic aid agreement (except the raw cotton, which is discussed separately in the next paragraph), to pay for the costs of the base construction program. These funds are released by the Bank of Spain to pay current bills on demand. However, in order to keep its accounts straight, the United States Navy's Bureau of Yards and Docks must transfer the dollar equivalent of these pesetas from the joint working account into a separate frozen account. These dolars then become unavailable for any purpose unless reappropriated by the Congress. The use of these counterpart pesetas results in an equivalent reduction of net dollar disbursements from the United States Treasury. The remaining 40 percent of the total counterpart pesetas are available for general purposes of the economic aid program under normal procedures governing the use of counterpart funds.

2. *Cotton Pesetas*

All of the peseta proceeds resulting from the sale of $13.6 million worth of raw cotton to Spain under section 550 of the Mutual Security Act of 1953 belong to the United States and are deposited in an account of the United States Treasury. All of these cotton pesetas may be used to defray local base-construction costs, the equivalent amount of dollars being transferred at the same time into the frozen account, as with the counterpart pesetas.

3. *Wheat Pesetas*

All of the peseta proceeds resulting from the sale of $20 million of wheat to Spain by the Commodity Credit Corporation in the spring of 1954 are likewise deposited in an account of the United States Treasury. Dollars from the joint working account are used to purchase these wheat pesetas, and the dollars then return to the capital fund of the Commodity Credit Corporation, which originally paid for the wheat. All of these wheat pesetas are available to pay for costs of the base construction program. As noted above, this transaction was quite outside the agreements and the economic aid program.

4. *Other Pesetas*

Twenty percent of the peseta proceeds resulting from the sale of agricultural surpluses to Spain under the $55 million authorization in section 109 of the Mutual Security Appropriation Act for fiscal 1955 are likewise deposited in an account of the United States Treasury

and are available to pay for costs of the base construction program and for other United States purposes.

Because counterpart pesetas are held in the Bank of Spain in the name of the Spanish Government, whereas the cotton, wheat, and other pesetas are held in accounts of the United States Treasury, the former are used preferentially for base construction disbursements and the latter only when the counterpart pesetas are exhausted.

V. Other Economic Activities

There are a number of economic activities conducted by the United States in Spain which are outside the economic aid program but have a close relationship to it. Three of these activities are discussed below.

Development of Trade

Spain has been short of foreign exchange since the end of the Spanish Civil War. Consequently, the Spanish Government has been compelled to require that all imports and all purchases of foreign exchange be licensed. Since Spain suffers from an acute shortage of dollars, licenses are granted very sparingly for imports from the United States. According to FOA, the main hope for long-run improvement in this situation lies in increased Spanish dollars earnings and a return to conditions under which Spain can convert into dollars some of the currencies with which it is better supplied. United States aid expenditures contribute to easing Spain's dollar shortage, but these funds will probably be insufficient to eliminate the need for a limitation of dollar imports.

Spain is not a party to the general agreement on tariffs and trade and there is is no reciprocal trade agreement between the United States and Spain. However, all trade-agreement concessions negotiated by the United States are generalized to all other countries, with a few exceptions, so that Spanish products entering the United States receive most-favored nation treatment.

According to the economic aid agreement, Spain is to "use its best endeavors * * * to facilitate and stimulate the growth of international trade by reducing barriers which may hamper such trade when the attainment of the agreed program may be effected." There is no evidence of any concrete Spanish effort to achieve this objective. This may be due in part to the bad weather conditions which seriously damaged Spain's 1954 export citrus crop and forced her to import increased amounts of wheat. This caused a deterioration of her foreign-exchange reserves and undoubtedly delayed progress toward improving the trade situation.

Private Foreign Investment

In the field of investment, Spanish authorities have considered that they cannot afford to make dollars available for the conversion of

even normal profits of private foreign capital or for the repatriation of such capital. This restriction is imposed despite Spain's need of foreign investment, both for capital expansion and for the technical assistance which usually accompanies capital. FOA officials reported as follows on this subject to the House Foreign Affairs Committee during its hearings on the Mutual Security Act of 1954 (p. 714 of the transcript):

> Efforts by Spain to improve the environment and incentives for private investment would probably be advantageous for the country over the long run. The ability of foreign investors to repatriate capital and profits would be an essential feature of any such efforts.

According to the economic aid agreement, Spain is to endeavor to reach further agreement with the United States to permit the progressive conversion of accumulated peseta balances of United States nationals and companies. FOA noted during the hearings last spring that negotiations looking toward such an agreement will be held as soon as circumstances appear favorable but that, for the moment, the intensification of Spain's foreign exchange problem resulting from its abnormal wheat requirements and loss of citrus exports makes favorable action unlikely. The Department of State recently reported that the Spanish Minister of Commerce has indicated that he takes this objective seriously and hopes to be able to move forward toward improving the investment climate in the near future.

Discouragement of Cartels

According to the economic aid agreement, the Spanish Government is to "use its best endeavors to discourage cartel and monopolistic business practices and business arrangements which result in restricting production and increasing prices or which curtail international trade." Certain general criticisms have been made that this specific agreement has not been carried out as effectively or as energetically as possible.

VI. Organization and Staffing

FOA and Department of State

The United States operations mission in Spain is closely integrated with the economic section of the United States Embassy. The United States Minister for Economic Affairs heads both of these organizations, and the two staffs function as a single unit. FOA has indicated that such integration has been brought about to a more complete degree in Spain than in any other country.

As of November 30, 1954, the United States operations mission in Spain had 32 personnel on its staff, half being United States citizens and half Spanish nationals. The United States Embassy at that time had 11 Americans and 5 Spaniards in its economic section, engaged for the most part in economic and commercial reporting.

Other United States Agencies

The activities of the Department of Defense in Spain have already been described.

The Department of Labor and the Department of Health, Education and Welfare are responsible for limited activities in connection with technical and educational exchange programs for Spain.

The Foreign Agricultural Service of the Department of Agriculture maintains a permanent mission in Spain, consisting of an agricultural attaché and an assistant. Eight marketing specialists visited Spain during the first half of fiscal 1955 to assist in promoting the sale of American agricultural products.

Operations Coordinating Board

In conclusion, mention might be made of the responsibilities and functions of the Operations Coordinating Board (OCB) under the National Security Council (NSC). Spain is the first country on which OCB has developed a full scale operational plan to coordinate the work of all agencies in the Executive branch which bear responsibilities under NSC directives regarding Spain.

This operational plan was approved by OCB on February 2, 1955. It not only sets forth the specific responsibilities of each agency for carrying out NSC directives but also establishes a target date for completion of the action indicated.

VII. Summary

Findings and Conclusions

1. The Spanish foreign aid program is justified on the strategic location and anti-Communist policy of the Spanish nation. It was undertaken as a means of securing base rights on the Iberian Peninsula. Determination as to whether or not the United States was justified in this matter involves a military judgment, is outside the scope of this paper, and is probably impossible at this time because we may not have received the full bill.

2. By means of the economic aid program and, to a certain extent, of the military aid program, the United States is fulfilling its part of the deal with Spain. Deliveries under the economic aid program have been notably slow, except for raw cotton, and that program has been plagued with the deficiencies noted by the International Operations Subcommittee of the House Committee on Government Operations.

3. The original United States commitment for economic aid, amounting to $115 million over a 4-year period, has now been overfulfilled by $55 million, but there is already considerable evidence to indicate that the Spanish would not be pleased with its termination, despite the fact that they have received all they were promised. The Spanish are apparently good traders and, because use of the United States bases in Spain is contingent on continued Spanish goodwill, they hold powerful trading stock.

4. The inclusion of Spain in the economic and military aid programs may well indicate one of the greatest weaknesses of the programs, namely, trying to do too much and to reach too many objectives with a device which ought to have clear limitations. Our basic objective in Spain was to secure air and naval base rights at the cheapest possible price, while the Spanish wanted the greatest amount of aid benefits in return. One can seriously question the widsom and economy of using a continuing foreign aid program to meet this kind of situation, when some other means, such as a cash arrangement, might have been considerably more effective from the standpoint of United States-Spanish relations as well as from that of the foreign aid program.

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Israel

By Edward P. Herman

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I. Background and United States Policy Objectives

In the fall of 1951, before Congress appropriated funds to aid Israel in the resettlement of refugees, the technical cooperation administration was requested to send a team to Israel to determine how the expected appropriation of $65 million could be best used. Israel had originally requested a much larger sum and had whittled this down at the request of the Department of State to $73 million, of which more than half was for capital expenditures. The original administration recommendation was for $15 million. Congress itself, at the urging of the Israel Government, increased the amount to $65 million.

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II. Situation in Israel in 1951

When the TCA team of three reached Israel in October 1951, they found the following situation. The country, in the 3½ years since the formation of the State in 1948, had taken in more than 675,000 Jewish immigrants on a base Jewish population of only 650,000.[1] These 675,000 immigrants, the majority of whom were penniless Europeans, had to be transported, housed, fed, and furnished capital equipment with which to earn their keep. The Israelis estimated that it cost $1,540 in foreign exchange to integrate one immigrant into the economy, or a total of $1 billion over a period of years to cover immigrants already admitted as of the end of 1951. As a result, Israel was faced with recurring unfavorable trade balances in excess of $300 million; it had completely exhausted its foreign exchange reserves; and for all intents and purposes, the country was bankrupt.

It had to meet before the end of the year outstanding short term obligations and commitments of at least $17 million in excess of current and foreseeable foreign exchange receipts. Moreover, these obligations were of such a nature that they could not be reduced or canceled. There was a current short term indebtedness of $100 million which could only be met by either extending the loans or by getting new short term credits. It was becoming increasingly difficult to negotiate either; a constantly increasing number of maturities had to be liquidated as they fell due.

There was a drastic food shortage, with no food in the pipelines, the ordinary method of distribution being from ship to market. All food was rationed and the rations were not being met. Most of the people were living on a bare subsistence diet of 2,100 calories or less a day, of which 80 percent was carbohydrates. As a result, vicious black markets were rampant. The value of the currency was plunging downward; the Israel pound (I£) had already declined on the black market from $2.80 to $0.60, and internal prices were rising accordingly.

There was an extreme housing shortage. Sixty-eight thousand people were living under canvas and twice that number in temporary huts. It was estimated that housing had to be built for 41,000 families immediately.

Morale was at an extremely low ebb. The Government's austerity program which had been adopted to increase capital accumulation and to cut to a minimum the importation of consumer goods was being de-

[1] The total population of Israel at the time of the last census (November 8, 1953) was 1,671,000. Of these 1,483,000 were Jews, 127,000 Moslems, 42,000 Christians, and 19,000 Druze.

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feated. Savings were going into the black market, and the desire of the people to work was diminished.

There was such a severe power shortage that industrial plants could not be operated efficiently for even one shift. In addition, plants were being temporarily closed down for lack of raw materials and spare parts with which to operate.

III. Recommendations Made at That Time

As the result of their on-the-spot appraisal of the foregoing situation, the TCA field team made the following recommendations, which were somewhat at variance with its instructions with respect to the emphasis to be placed on aid for capital expenditures.

(1) Past due obligations were to be paid up immediately in order to restore the deteriorated credit of the State, to be accomplished by financing maturing obligations covering the purchase of industrial raw materials, food and fuel.

(2) Immigration should be limited to those who urgently needed refuge in Israel.

(3) An increased amount of food must be made immediately available for health reasons to improve morale and to destroy the black market.

(4) The current policy of capital expenditures for increased food production and preservation should be continued.

(5) The rate of capital expenditure for industrial production and housing should be slowed down until the State had a chance to regain its strength.

(6) To alleviate the adverse effects of (5) above, emphasis should be placed on (*a*) Power; (*b*) spare parts and industrial raw materials to better utilize the capital plant already available; (*c*) encouragement of further private foreign investment; (*d*) practical technical assistance in on-the-job training and use of facilities.

These recommendations were not well received by the Technical Cooperation Administration, which still believed that the major United States emphasis should be on the provision of capital equipment. Had the Israelis been allowed to see these recommendations it is very probable that they too would have had serious objections because of their firm policy of sacrificing the current welfare of the people for the future development of the State. The Israel point of view is illustrated by the fact that despite the 1951 food and financial crisis, 40 percent of all 1951 expenditures of foreign exchange were for capital goods. All proceeds from the Israel bond drive, which had just been inaugurated in the United States, were to be used for capital projects as well as the proceeds from $135 million of Export-Import Bank loans executed in 1949 and 1950.

Under these circumstances, it was felt by the field team which had had a chance to appraise the situation first hand that desirable as capital expenditures might be in theory for the eventual self-sufficiency of the state, it was necessary, for the time being at least, to modify the usual foreign aid approach and to allow Israel time to catch its breath.

IV. Immigration Policy

No government in Israel could survive which publicly adopted as a policy the restriction of Jewish immigration. That Israel should be a refuge for any Jew anywhere was the reason for the formation of the state. However, the fact is there has been a sharp decline in immigrants beginning July 1, 1951. By January 1, 1952, immigration had fallen to an insignificant number. For the entire year 1952 there were only 23,000 immigrants, and 10,000 in 1953. Preliminary figures for 1954 indicate that there was a still further decline. This does not take into account emigration from Israel, the figures for which are incomplete. It is believed, however, that the net increase from immigration in the last 3 years has been minimal. When the last 3 years are compared with 1949, 1950, and 1951, when respectively 239,000, 169,000, and 174,000 people came into the country the change has been all the more remarkable. This improved immigration situation, whether a considered policy or not, has been the main factor in saving Israel from bankruptcy and from inviting attack by its Arab neighbors.

Had the latter event taken place it would have resulted in another danger spot in a most strategic area of the world. The principal reason for granting aid to Israel has been to prevent it. There is little doubt that aid was necessary to save the country even with the stoppage of immigration. On the other hand, it would have been useless if immigration had continued. There could not have been enough of it. There is still a real danger that if serious pressure to emigrate to Israel is put on Jewish communities anywhere in the world the doors will again be thrown open, and all the gains made by the country through the aid of the United States Government and the United States Jewish community will have been wasted. Israel is still in no position to absorb mass immigration even with the advances it has made since 1951.

However, an undertaking by the Israel government to limit immigration cannot be made a quid pro quo to United States aid. No government could stay in power 24 hours that signed such an agreement.

V. Progress Made Since 1951

Since 1951 the country has made considerable progress. Foreign exchange reserves have been built up to more than $20 million. The short term debt, while still troublesome, is no longer a serious threat, and has been reduced to about $40 million. However, either reserves are expected to decline somewhat or debt to rise moderately from this level before the end of 1955. While intermediate and long term foreign debt has increased, neither has gotten out of hand. Total external obligations amount now to slightly under $400 million, as compared with about $365 million in 1951. The effective rate for the Israel pound (I£) has been stabilized at 55 cents. United States counterpart deposits are based on that rate. The official rate is $1. While prices increased 60 percent in 1952 and 20 percent in 1953, they were held to about a 5 percent increase in 1954. Food, except for meat, fats and oils, coffee, sugar, poultry, and certain dairy products, is relatively in fair supply but many items are rationed, the black market is no longer an important factor. There is a food reserve of staple items of about 3 to 4 weeks' normal consumption.

Land under cultivation has increased from about 837,000 acres to more than a million acres, and irrigated land from 110,000 to about 200,000 acres. Production per acre has also increased. As a result, while Israel had to import about $75 million of its food supply in 1951, the 1955 budget calls for imports of $48 million. The food production index has risen by more than 50 percent. Production of wheat and barley have trebeled and potatoes doubled. Peanuts, a new crop, are being exported. Some cotton and tobacco is being grown. In addition, production of citrus fruit, an export crop, increased from 8,098 cases in 1951 to 11,500 in 1953 when there was an unusually good crop year, and an estimated 9,600 cases in the crop year 1954. This decline is the result of a natural fall off after an unusually good crop.

Industrial production figures show an increase from $153 million in 1951 to $357 million in 1953. Preliminary 1954 figures indicate a further increase. These figures must be accepted with considerable reservation, however. In the opinion of the writer they are greatly overstated. Suffice it to say, there has been a considerable increase. Use of power for industrial purposes is up by about 75 percent.

Value added figures, which are probably the most important index for appraising Israel's chance of reaching economic self-sufficiency, are equally as encouraging provided they can be relied upon. They have increased from $68 million in 1951 to $155 million in 1953. No data are available yet for 1954. These latter figures have been ad-

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justed to current price levels. If accurate, they indicate that in 2 years Israel has reduced its net foreign exchange requirement by some $85 million from increased value added through the manufacturing process. Israel has its own merchant marine of approximately 120,000 tons and its own international airline.

While impressive as these advances may seem statistically, it should be remembered that Israel was not chosen as a national homeland for Jews because of its economic resources; it is an uneconomic state with no proven mineral resources or other raw materials, except chemical salts. It has insufficient water and land to grow its own food without heavy capital expenditures for water development and irrigation. It has no coal or petroleum for fuel and no developed hydroelectric power. It still has an unfavorable trade balance of about $210 million a year. This unfavorable trade balance is being presently made up by grants from the United States Jewish community, German reparations, proceeds from the Israel Government bond issue floated in the United States, certain invisible items, and from United States grant aid.

To become self-sufficient, one of the first things it must do is to eliminate the need for importing food by bringing more land under cultivation, by settling more people on the land,[1] and by carrying through on its irrigation program. All of these things cost a lot of money. For example, it is esimated that it costs about $500 in foreign exchange to irrigate 1 acre of land, of which $120 to $150 is for the original capital investment in power. An additional 28,000 acres were irrigated in the crop year 1953–54, and this is expected to be stepped up to between 30,000 and 35,000 acres a year. There is a planned power program calling for additional capacity of about 50,000 KW's a year. This is exclusive of any possible future hydroelectric development. The planned irrigation program alone requires from 25,000 KW's to 30,000 KW's of additional power a year. The present installed thermal capacity is about 230,000 KW's.

Since Israel not only must import food but the raw materials for almost everything else it requires, foreign exchange has to be earned to pay for these imports. This can only be accomplished by the importation of raw materials and turning them into finished manufactured products which can be exported. That is why the value added figures are so important. Not only does this process earn foreign exchange but foreign exchange is saved by importing raw materials rather than finished goods. While it is known that considerable progress has been made in this respect, the data are unfortunately both sketchy and unreliable.

The figures for actual exports of manufactured goods, however, are supposedly reliable. Exclusive of industrial diamonds such exports

[1] About 350,000 or 23 percent of Israel's Jewish population is settled on the land.

have increased from $8,900,000 in 1951 to $11,420,000 in 1952, $21,850-000 in 1953, and an estimated $40,000,000 (first 8 months projected) in 1954. There is still a long way to go.

The balance of trade figures in millions of dollars by calendar years follows:

	1951	1952	1953	1954 [1]
Imports	$388.12	$309.68	$287.28	$290.00
Exports	46.76	45.36	59.64	80.00
Deficit	341.36	264.32	227.64	210.00

[1] Estimated.

Also on the debit side, a lot of money is being spent in drilling for oil on a wildcat basis and prospecting for metals. The oil drillers include three small United States firms; so far results have been negative. While some copper, iron, manganese, and other metals have been found, present indications are that the mines cannot be worked commercially. The chemical industry, on which great hopes were pinned, has been slow in developing, even with proven sources of raw materials. Despite the slow start, production of chemical fertilizers has reached 4,000 tons a month. There has been laboratory scale production of uranium from phosphate, but results have not yet justified a commercial operation.

If any of these projects should succeed, Israel's eventual economic self-sufficiency will be just that much nearer accomplishment.

VI. General Considerations Respecting Administration of the United States Aid Program

It is pointed out that United States Government aid to Israel has in the past represented from one-quarter to about one-fifth of Israel's normal annual foreign exchange requirements. So long as Israel was using its total foreign exchange resources in a way satisfactory to the United States, it did not matter too much what particular thing United States funds were used to finance. The United States objective was to see that Israel was headed in the right direction and that all its resources were being utilized to accomplish this. It might be well to quote in full the conclusion in the report of the original team which went to Israel in the late fall of 1951:

> It should be emphasized that this is primarily not a program to make up the Israeli balance-of-payments deficit. The deficit on current account is ordinarily met by capital transfers from various sources. The funds provided by this program comprise only between one-quarter and one-fifth of such total capital transfers. The planned current account deficit can ordinarily be expanded or contracted as budgeted capital availabilities increase or decrease, by limiting or increasing capital expenditures requiring foreign exchange. (Even if foreign-exchange resources were substantially increased, it is doubted that the austerity program would be greatly modified.) *Under ordinary circumstances* the funds provided by the TCA program could not be considered either the balancing or the controlling factor in the situation.
>
> It happens, however, that at this particular time no further contraction of import commitments is feasible. Israel has already committed and even over-committed its various other foreign-exchange availabilities for fiscal 1952. Certain funds, moreover, such as receipts from the independence bond issue, have been lower than expected. The United States aid program through force of these circumstances does in fact represent right now the balancing factor in the situation. For this reason, the United States may never again have as fine an opportunity, as is currently presented, for exerting its influence in Israel through such a program. It should make the most of that opportunity.

There seems little about that the United States has exerted a considerable influence in Israel, but whether it has been as strong as it should have been, or always in the right direction, is difficult to say sitting here in Washington. Generally speaking, however, United States policy objectives have been met.

The broad policy has been to grant aid only to the extent that the standard of living in Israel would not materially be increased above that of its eastern Mediterranean neighbors, or above its own 1950–51 standard. Another consideration has been the relationship of aid to

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Israel and that to its Arab neighbors. While it was recognized that additional dollar aid for development would bring about self-sufficiency at an earlier date, there was simply not enough money available to help both Israel and the Arab States to that extent. For that reason the major portion of the aid to date, so far as dollars are concerned, has been to maintain the bare existence of the State rather than to directly assist in its future development. On the other hand, the local currency generated from this aid has been used almost entirely for development purposes; the major part for the development of agriculture, transportation, and communications. These segments of the economy have received 88 percent of all counterpart funds allocated in Israel (I£151,915,625) from the beginning of the program through November 1954.

Total dollar aid through fiscal 1954, exclusive of technical assistance, has amounted to $186 million; $63.5 million in 1952, $70 million in 1953, and $52.5 million in 1954, almost all of which has actually been expended. In 1955 it is planned to allot $40 million of aid, of which $30 million has already been promised but not utilized. Technical assistance funds obligated through fiscal 1954 have totaled $5.1 million.

While part of these dollars has gone into large projects in the form of equipment, the projects themselves were financed to a considerable degree by other dollar and local currency resources, so that few completed projects can be considered monuments to United States aid. As an example, part of the large power program was financed with United States dollars in the form of turbines and generators. On the other hand, similar equipment was purchased in the United Kingdom and Germany with other foreign-exchange availabilities. Similarly, the raw materials to make some of the pipe and other equipment for the huge Yarkon-Negev irrigation project was paid for with United States dollar aid funds, but the installation itself cannot be said to be a United States project. This project is a good example of what Israel has been doing to bring additional land under cultivation. The project diverts the Yarkon River north of Tel Aviv, and with the help of 3 pumping stations and 3 control reservoirs takes the water 75 miles through a 66-inch pipeline to irrigate thousands of acres of the Negev Desert. It is expected to be completed by August of this year. The United States mission is consulted with respect to such projects, and its technicians are available for advice. In this case the engineering was done by the Israelis.

VII. Part Played by United States Aid in Israel's Financial Recovery

As stated previously, Israel might have encountered the gravest difficulty without United States aid. Its creditors were pressing hard, and large suppliers were making inquiries with respect to the size and type of United States aid before accepting orders. Ships with cargoes of food were being diverted when payments could not be met. A total of $65 million of United States grant aid has been in the form of cash disbursements to Israel to meet short-term maturing obligations which could neither be refunded nor extended. Approximately $17 million was expended in this way in fiscal 1952, $31 million in fiscal 1953, and $17 million in fiscal 1954. These payments in general were made to cover purchases of food, fuel, and industrial raw materials; a minor amount for liquidation of obligations for industrial equipment and spare parts. In each case the expenditures were documented, and were for eligible items which would have been financed in any event. It is believed that this type of aid, unorthodox as it might be, was required at the time is was granted.

It is pointed out, however, that this in effect meant that aid dollars were expended for purchases made by Israel in excess of its financial capabilities at the time of purchase, and which had not received prior United States approval.

The financing directly affected Israel's short-term debt. This debt otherwise would have been considerably higher at the time of Israel's refunding operation in late 1953 and might have jeopardized its success. At that time it amounted to about $75 million. More important, the debt by force of circumstances had to be reduced; loans were in effect being called and the banks were not accepting additional Israel paper.

FOA reports that this short-term debt, and the handling of it by meeting maturing obligations with grant-aid funds, was perhaps the most important point of friction between the United States mission in Israel and that Government from the beginning of aid until the fall of 1953. While under the circumstances the United States mission recognized that Israel *had* to be bailed out, it exerted the strongest pressure not only to make certain that Israel imported nothing that was not actually required, but that adequate foreign-exchange controls were set up to assume that the country knew on a daily basis exactly where it stood with respect to its foreign-exchange requirements and availabilities. It also wanted to make certain that there

would be no unpleasant surprises such as had occurred in the fall of 1951 when the first crisis arose. The government at that time was faced with meeting letters of credit and other commitments which it did not even know existed. The commitments had been made by the Ministry of Defense and other Israel officials on their own responsibility and without immediately reporting them.

It was not until late in the calendar year 1953, however, that FOA made it clear to Israel that the $17 million in cash which was promised at that time would end such emergency help. Israel had requested of the United States a long-term loan to refund the short-term debt. FOA refused and said that the refunding should be carried out with the aid of the United States Jewish community. That is the way it was accomplished. The FOA advance was to tide Israel over until funds from the refunding operation began to flow in.

In addition to its normal annual contribution of around $40 million, the Jewish Community of the United States was asked to pledge at least another year's contribution. The communities in each city negotiated bank loans with United States financial institutions, based on the credit of and endorsed by the leaders of the community, repayable over a 5-year period from the proceeds of the pledges. The United States banks advanced the full amount of the loan upon execution of the loan agreements. It was understood that United Jewish Appeal contribution for the next 5 years would be reduced each year by the annual amounts pledged by the members of the respective Jewish Communities to the United States banks. In this way, in addition to the usual $40 million contribution, Israel received in the first quarter of calendar year 1954 almost $60 million, which is used to pay off a portion of the short-term debt and to build up a foreign exchange reserve. This was a tremendously successful operation but it obviously will have to be paid for. Future contributions from private United States Jewish sources will be reduced by about 20 percent annually for the next 5 years. The advantages, however, greatly outweigh this disadvantage, and it is believed that the flow of German reparations over this period, and Israel's own better foreign trade situation, will partially offset this future reduction in foreign exchange receipts.

It might well be asked why this successful refinancing operation was not undertaken sooner.

It was not until early in 1953 that the new system began to work properly, and it was shortly thereafter that TCA was transferred to FOA. The latter, supported by the Department of State, took the strong position which resulted in the refinancing operation. Whether the setting up of these controls should have taken so long, and why TCA did not take a stronger position earlier, are questions that can't be answered from a desk in Washington. Action was taken, however,

almost immediately after transfer of the TCA operations to the Foreign Operations Administration in the fall of 1953.

Until the refunding operation was accomplished the first priority of business of the United States aid program in Israel was to meet an acute financial situation. Had this not been done, the ultimate consequences would have been unforeseeable; but it is certain that nothing could have been purchased on credit, and the whole economy of the country would have been seriously disrupted. The cost of repairing the damage would have far exceeded anything contemplated or possible through United States aid. The chances of internal disturbances and external aggression (and it is the policy of the United States to prevent the latter) would have been great.

VIII. The United States Dollar Aid Program Summarized

There is attached as exhibit 1 a summary of the United States Economic Aid Program to Israel from its inception through fiscal 1954. The program for the first two years emphasized the importance of food and agricultural development. There was a change in direction in fiscal 1954. In 1952 and 1953, however, of total economic assistance of $133 million, $58 million or 43.6 percent was for food for human consumption; $12.1 million or 9 percent was for fodder, fertilizer, etc.; and $14.6 million or 11 percent for direct agricultural development. Thus, a total of $84.7 million or 63.6 percent of the total went for food and the means to produce it. This does not take into account part of the raw materials imports that were processed in Israel and thus indirectly went into the agricultural program.

1952

The United States Mission to Israel did not really begin to operate until early in 1952, and then only with a very limited staff. The 1952 program generally followed the recommendations of the 1951 field team.

It was estimated in the field team report that it would immediately require a minimum of $15 million to pay off Israel's overdue obligations in order to restore the credit of the State. This $15 million was to be used to pay off commitments for raw materials and fuel which could not be met. This was given first priority. Next in importance was food for human consumption, for which $25 million was recommended. Increased agricultural production was allotted $15 million, power $5.3 million, spare parts for transport and industry $3.2 million, and technical assistance $1.5 million.

Actually about $17 million had to be used to pay off past due obligations. The total amount required for food for human consumption was $35 million, or about 55 percent of the total 1952 program. Commodities to increase agricultural production, such as fodder, fertilizers, seeds, and pesticides comprised about $7.5 million, or slightly less than 12 percent of the program. Raw materials and semifinished manufactured goods (spare parts), for which together $18 million was recommended, actually were financed to the extent of about $17 million, or 26½ percent of the program. Approximately $3.5 million or 5½ percent went for power, and only $0.5 million or less

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than 1 percent for all other capital equipment. About $0.95 million was devoted to technical assistance.

In view of the drastic food shortage existing in Israel at that time, the money going into the black market to purchase it, the rapid depreciation of the currency, the inflationary pressures that were building up, and the urgent financial crisis, little quarrel can be found with this distribution of the 1952 aid dollars.

1953

TCA sent another team to Israel in the summer of 1952 to make a new appraisal of the situation and to make recommendations with respect to the fiscal 1953 program. (Why the permanent mission (USOM) could not have done this is not known.) The fiscal 1952 dollars had not yet had a chance to make themselves felt in the economy of the country, and the situation had deteriorated from November of 1951. It was recommended, therefore, that aid be increased by approximately $7,000,000 to $70,228,000. (The Israelis asked for in excess of $100 million.)

Since the just ended crop year had been a favorable one, it was determined to cut down on the financing of food stuffs, to increase substantially the amounts for fuel and industrial raw materials, and to make a gesture at least for providing some funds for industrial capital equipment in addition to that provided for power.

As a result, the composition of the program was somewhat, though not drastically, changed from that of the previous year. Food for human consumption amounted to 32½ percent of the commodities financed; increased agriculture production to 11 percent; fuel and industrial raw materials 40 percent; machinery and equipment 14 percent; and scientific equipment about 1½ percent. The amount obligated for technical assistance was increased to $2,600,000, which included a $550,000 carry over of funds unobligated in the previous year for that purpose. About $31 million of aid funds had to be used for the purposes outlined above in paying for past due obligations covering purchases previously made.

During these 2 years the principal emphasis of the United States mission was on getting the Israelis to put their financial house in order, as described in the previous section. There were no serious disagreements on other points of the total import program. The Israel Government was still following the policy of austerity and the need for food, raw materials, and fuel was clear. There was still considerable criticism at the time that Israel was attempting to do too much too fast, and there was some feeling that the mission should have used its influence to slow down this process. As it turned out, however, the receipt of commodities and equipment from German reparations the

next fiscal year, which arrived sooner than expected, relieved the long term situation so that the mission's appraisal may have been right. The Israelis themselves took the continued austerity without serious incident, but there is some evidence that the individual worker productivity did decline. There were no riots, but some strikes. Workers had no way to spend their pay except in the black market.

1954

In fiscal year 1954, the mission for the first time had some disagreement with the Israel Government on the nature of the latter's total program. This was partly due to a change of ministers. The Conservative (General Zionist) free enterprise party had been given a greater voice in the government. Despite the expected immediate receipt of German reparations, an improved food situation and increased industrial production, the Israel Government not only wanted considerably more funds than the mission thought it should have, but for the first time planned for more food and other consumer goods imports than the mission thought was justified. For its part the Government felt that the point of diminishing return had finally been reached with respect to austerity, and that the rigid existing controls were costing more than they were worth. The Government also wanted additional aid to help it meet its latest financial crisis.

It took a lot of persuasion and some pressure to get the Israel Government to agree not only to modify its ideas with respect to its total foreign exchange budget, but in particular to reduce imports of food and raw materials for the production of consumer goods. The United States mission felt that not only was the Israeli standard of living improving beyond that of its eastern Mediterranean neighbors, but that it was close to the level maintained before the 1951 crisis with the accompanying food shortage. There is considerable doubt, however, that at the time this appraisal by the mission was justified.

The United States aid program was reduced from $70,228,000 to $52,500,000. Food imports were drastically cut to $8 million, or about 17 percent of the total grant. The amount allotted for increased agricultural production was also severely reduced to 9 percent of the total. Scientific instruments and miscellaneous items made up the small balance. In addition $1.5 million was allotted for technical assistance.

The purpose of the mission in the allocation of its aid was apparently to reemphasize the old austerity program and the importance of the value added concept; and to depend on German reparations, counterpart projects, and the proceeds of the Israel bond issue to take care of additional industrial expansion, irrigation, and land reclamation. This was the orthodox view.

It would appear, however, from an examination of Israel's total import program (see next section) that the mission was trying at that time to get blood out of a turnip in its pressure on the government with respect to consumer goods. An analysis of the program indicates that Israel was devoting a very minor portion of its foreign exchange resources to such items. Food comprised 20.2 percent of the total budget compared with 22.6 percent the previous year, and other direct consumer goods to 4.7 percent compared with about 4.1 percent.

However, the mission's efforts to cut down total imports was certainly in order in view of Israel's financial difficulties, and especially in view of later events. There was a considerable body of opinion at the time, however, which felt that Israel was heading for serious trouble. Food was still short and the total import program called for a reduced amount. Once again, however, the predicted dire results from continuation of the austerity program did not follow. Israel survived the year in better shape than it began, partly due to a better than expected food crop. The mission's on the scene appraisal was apparently sounder than that of its critics.

1955

For fiscal year 1955, $30 million has been allotted to Israel on a firm basis, with the understanding that if feasible another $10 million will be made available. Due to the fact that $15 million for food will be on a loan basis under the surplus agricultural disposal program, and since the loan has not yet been negotiated, the program at the present time is not firm. In addition, it is contemplated that at least $5 million of the provisional $10 million will be on a loan basis.

It is planned that the balance of $15 million of the firm grant for other than food stuffs will be comprised of $9 million for fuel and industrial raw materials, $1.8 million for repairs and maintenance (spare parts), $4.5 million for agricultural development, $0.5 million for power, and $0.5 million for transportation and communications. If the additional $10 million should become available it will be divided about equally between fuel and raw materials.

Israel requested $60 million, but the USOM and the Government, after together reexamining the budget, item by item, came up with a reduced request for $48 million.

It is pointed out that for the first time about half of the total Israel program will be on a loan basis. Also for the first time, Israel will be getting considerably less than the total allotted to its Arab neighbors.

IX. Israel's Total Import Program

There is attached as exhibit II a table breaking down by categories and percentages Israel's total import program for fiscal year 1954, as originally submitted in the budget, and the actual expenditures under that budget for the nine months of fiscal 1954 ending March 31 compared with the approved budget for the same period, and the budget for the entire fiscal year 1955. Prior to fiscal year 1954 the accounting was on a June 30 fiscal year basis. It was adjusted in 1954 to conform to the Israel fiscal year and the imports for the first three months of that year were included in the prior year figures. The year 1954 is taken as the example to be studied because it was the year that the mission felt that the Israelis were letting up on their austerity program. The Israelis say that the point of diminishing returns had been reached, that inflationary pressures were severe, that too much money was going into the black market, and that the supply of consumer goods had to be increased. This had been the appraisal of the field team 15 months earlier.

An examination of the program, however, discloses that the Israelis came up with a very tight budget indeed. Of the $225 million spent for imports in this nine month period, 19 percent went directly into long term development, and 16.5 percent for imports specifically earmarked for processing purposes, to be exported in the form of finished goods. Food and the materials for producing it required 18.3 percent and direct consumer goods only 4.4 percent. (As originally submitted, food required 20.8 percent and other direct consumer goods 4.7 percent.) The Israelis report as "imports for consumption," raw materials for reprocessing within the country, to be used only in part for consumer goods. In the same category are included maintenance and repair items, and equipment used for agricultural production. All these items, together with the fuel to run the industrial plant, total 23.5 percent.

Of the proceeds to meet this budget, 20 percent came from exports; 7 percent from invisible items such as remittances, services, and tourism; 24.6 percent from Jewish institutions; 11 percent from the bond drive; 18 percent from German reparations; and the balance, 19.4 percent from United States grant aid.

It was stated in the previous section that there was some evidence that the mission had exerted its influence on the Israel Government in the preparation of, and expenditures under, the 1953–54 budget, and in seeing that expenditures were kept at as low a level as possible. This has been confirmed by the Israelis. This influence took the form

of weekly conversations with the various ministries, particularly the Ministry of Finance, even before the original budget presentation. While there is no evidence that total expenditures that year were less than originally budgeted (in fact the reverse is true), there is some indication of a change in direction.

The original budget called for imports of $265 million, and actually $225 million was imported the first nine months. This relative increase was due in large part, however, to the receipt of German reparations in fiscal 1954 covering fiscal 1953 requirements as well as those of 1954. Direct investment, however, was increased from 18.4 percent of the total to 19 percent; imports for the purpose of exports from 11.6 percent to 16.5 percent; while imports of food were reduced from 20.8 percent to 18.3 percent; and direct consumer goods from 4.7 percent to 4.4 percent. The portion of indirect consumer goods imports, that is, industrial raw materials, spare parts and fuel for the plant, were reduced from 26 percent to 23.5 percent.

The proposed 1955 import budget is even more austere than that for 1954. During the preceding year inflationary pressures had lessened, the food situation had eased, and the black market was no longer a serious threat. The Israelis themselves felt it was time to resume fully the drive for eventual self-sufficiency. Direct investments are increased to 28.8 percent from 19 percent; food and material for processing it declined to 15.7 percent from 18.3 percent; direct consumer goods to 4.1 percent; and defense and other services to 15.9 percent. Indirect consumer goods in the form of raw materials, maintenance and repair, fuel, etc., to maintain the plant for processing them remain relatively stable at 22.1 percent of the total. Imports of raw materials and semi-manufactured goods for purpose of export declined to 13.4 percent.

A major point of controversy within Israel itself is the actual amount of foreign exchange earned from the imports of semifabricated items for assembly in Israel for the purpose of reexport. As far back as 1951 the Israelis were thinking about a technical assistance project to go into this whole question on as scientific a basis as possible. A technical assistance team from Stanford Research Institute has been in Israel since late in 1953 to make such a study. It is assumed that the decline in the 1955 budget for the items "imports for exports" was to await the findings of this team. Certain industries in Israel are adapted to earn foreign exchange in this way, but the difficulty with the limited foreign exchange available is to find just which ones will produce the best results. There were great hopes, for example, that exports by Kaiser-Frazer, which has an assembly plant in Israel, would result in big foreign exchange earnings. It is not at all certain now that this operation has not resulted in a foreign exchange loss. The whole capital investment program will eventually be geared to

the findings of the Stanford study, which is going over the situation industry by industry.

So long as Israel attacks its foreign exchange problems in this way, and so long as it maintains its austerity program, no very serious errors should result from the method of operation of the United States Mission in Israel. Unlike the situation in many countries the Israelis are completely realistic, and the chances of their purchasing gold plated bathtubs are almost nil. They have a well-staffed purchasing group in New York composed of very tough traders indeed. Under the circumstances the mission could only have made major errors of omission rather than commission.

X. Local Currency Portion of United States Aid

As stated previously, about one-third of the Israel internal budget is used for development purposes. For fiscal years 1952, 1953, and 1954, 335.5 million I£ had actually been spent for development, and for fiscal 1955 the budget calls for 196 million. Of the 335.5 million I£, something less than 118 million I£ were from United States grant aid counterpart funds. An additional 32 million I£ had been allocated for development but unspent. The Israeli figures are as of March 31, 1954; the United States figures are through November 1954.

Counterpart funds are generated not only from United States aid but also from German reparations. In addition to the large amounts mentioned, the United States Jewish philanthropic agencies in effect sell their aid to Israel for Israel pounds, and these funds are also used for development. The latter are administered by the Jewish agency for Palestine and are devoted in very large part to water development, irrigation, and agriculture. The programs are closely coordinated and for all intents and purposes are one program.

For counterpart purposes the Israelis pay 1.8 Israeli pounds for a dollar of United States aid. German reparations counterpart funds are sold either at the equivalent rate of 1.8 pounds to the dollar or 1 pound to the dollar, depending on the use to which the articles received as reparations are sold in Israel.

An examination of the 1955 development budget discloses that despite the very large amounts expended by the Jewish agency for Palestine on agricultural development, about 30 percent of the Government's budget is also for agricultural purposes. About 12 percent is allotted to transportation; 10 percent to building construction; and 11 percent to industry including electric power. The balance is scattered.

Only 1.89 million I£ are earmarked for loans for commercial enterprises. This is surprisingly low in view of the urgent need for both short and long term credit in Israel. Apparently the reason is that the Israelis, with the apparent agreement of the mission, feel that the problem of defeating inflation is more important than that of easing credit to industry.

Another surprising feature is that only 9.45 million I£ is devoted to the exploration and development of mineral resources, including petroleum. One reason for this is that all exploratory oil wells are financed by private capital on a wildcat basis. Israel has a liberal natural resource development law which was drawn up with the assistance of Americans employed for that purpose by the Israel Government.

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FOA counterpart funds, since they are in effect a part of the development budget, have generally been used for about the same purposes as that of the program as a whole. Special emphasis, however, has been put on agriculture, which has accounted for about 46½ percent of the counterpart expended since the inception of the program, and on transportation, which accounts for 41 percent. Most of the balance has gone into industry.

The emphasis on transportation is due to the fact that most of the Israel railroad system of 330 miles is worn out and inadequate for its purpose. In addition, most of the potash, phosphates, and other mineral salts come from the extreme southeastern portion of the country and have to be transported across the desert to Haifa in the northwest. One of the reasons for the slow development of the chemical industry has been the expense of transporting these products by truck. It is not contemplated to extend the railroad across the desert for the present. Whether or not it has been a wise decision to spend so much money on railroads in a country where the hauls are extremely short only time can answer.

In addition to the railroads, comparatively large sums have been spent on developing the only good port in Israel at Haifa. It is understood that this port, where formerly ships were laid up in the outer harbor for days until they could be berthed, with the consequent loss in demurrage, is now operating efficiently and with no unusual delays. Considerable amounts of money have also been spent on improving and building roads for the use of heavy trucks, which would seem to be the logical answer to Israel's transportation problem.

A large amount of money has also been used to replace seven inefficient and outmoded steam locomotives with diesels. While this undoubtedly saves foreign exchange used for fuel and repair shops, it is questionable whether such a large expenditure should be made at this time in view of Israel's serious foreign exchange situation. This is another matter of judgment which would be unfair to criticize without an on-the-spot appraisal.

It is understood that the lag between the time counterpart funds are allocated to projects, under project agreements, and the time they are actually spent, has been reduced since the beginning of the 1955 fiscal year. Expenditures are now at the rate of about 6 million I£ a month, or at a faster rate than current allotment of such funds.

It will be noted that the emphasis of this paper has been on Israel's foreign exchange budget and its foreign currency difficulties rather than the domestic budget. This has been because the latter has been well controlled and has caused no serious difficulties. In recent years the budget deficits have been negligible.

XI. Technical Assistance

Of the $5.1 million of funds obligated for technical assistance for some 75 projects since the beginning of the program through 30 June 1954, only $1.88 million has been expended. Of the latter amount $0.659 million was used for "program direction", that is, the administrative cost of running the mission. Such costs were charged to technical assistance funds under the TCA regime but have not been so charged since FOA absorbed TCA. This leaves $1.221 million actually expended on technical assistance projects through 30 June 1954, out of total obligations of $5.1 million for that purpose. Most of the money was obligated by entering into project agreements with the Israel Government, but either these projects have not been implemented or have been slow in getting under way.

While a worthwhile appraisal of a foreign aid program without a visit to the country in question is extremely hazardous at best, an appraisal of technical assistance without such a visit is well nigh impossible.

It would appear, however, that there have been unnecessary delays in implementing Israel technical assistance. On the surface at least, the job that the United States can do in Israel with the least relative cost, and with great advantage, has been allotted a secondary role. The reasons for this are not clear. It is known, however, that it has been difficult to recruit United States technicians to go to Israel, that the field mission (at least under its original head) did not attack the problem vigorously, and that requests from the field for the means to carry out projects have taken too long to fulfill. For example, a request which arrived early last summer for a firm of geologists to make a survey of mineral resources has just now resulted in a contract with the Longyear Co. It will no doubt be another 4 to 6 weeks before the team is cleared and actually arrives in Israel.

In another instance the specifications for the request for the team to go to Israel to make the "industrial audit" were deficient to such an extent that it was necessary to send an advance man to Israel to determine the exact nature of the job, so that a contract defining the scope could be written and the proper men chosen by the contractor to carry it out. The project itself, described in section IX, is of vital importance.

In still another case in the earlier days of the program, a sanitary engineer arrived so long after the Israel request for him that the job had been completed by a technician employed by the Israelis themselves.

Israel is so hungry for United States technical aid that it spends its own meager resources to get it. It also utilizes United Nations assistance which has totaled about $1.5 million. There is actually a waiting list of such projects. The Israelis realize they are deficient in the mechanical and intermediate managerial skills. When a new plant is built, the contract ordinarily calls for a United States superintendent and foremen to put it in operation, run it the first year and train the personnel. It is not believed that FOA is financing many, if any, projects of this nature.

Israel trucks and busses are out of commission about a third of the time for lack of good mechanics. Although it was proposed as early as 1951, it is understood that a project has only recently been started to set up central repair and maintenance shops with personnel trained by United States mechanics.

Most technical assistance contracts in Israel are between the United States and the contractor, not between Israel and the contractor. This ordinarily makes for divided authority and fuzzy working relationships. Such contracts also tend to accomplish what the mission wants, rather than what the Government wants. It lessens the Israeli interest in the job, since it is not their project. These disadvantages would not be present if such contracts were direct ones between Israel and the contractor, but approved and financed by the United States. Sufficient United States control could be maintained through the approval and letter of commitment procedures described in the staff paper on "FOA Procurement."

The FOA has recently entered into a $1,815,700 contract with the Research Foundation of the State University of New York covering a 3-year period. Of this amount $753,000 was obligated late in fiscal 1954, and little has been accomplished as yet. The contract provides for a minimum permanent staff of 23 persons to be resident in Israel, and such other personnel as are required as consultants. The broad technical assistance fields to be covered are agriculture, health and sanitation, education and industry.

This is rather a large order and carries with it the question of whether or not the purpose of the contract is not simply to supplement the mission's staff as a result of recruiting difficulties.

The fuzzy relationships between the contractor, the mission, and Israel are present in this contract. The work of the foundation is to be "performed under the general supervision of * * * USOM pursuant to work plans to be agreed upon jointly by FOA and the Foundation." "* * * the foundation shall consult with * * * USOM on matters relating to (its) operations, coordination of activities with other technical cooperation activities in Israel, (and) *relations with the Government of Israel* * * *"* Nowhere in the contract is it spelled out just what the relations of the contractor are to be with the Israel

Government although that Government is supposed to be the recipient of the assistance. It is believed that this is a fairly typical case. In the opinion of a good many Israelis, this is not the way to handle technical aid. These people want direct contracts.

This is not to say that the technical assistance program has not produced any results, or that there have not been good projects. There just have not been enough of them. The present Mission Chief to Israel, Mr. Lincoln Hale, in a speech delivered November 11, 1954, in Israel, said frankly that economic aid could not continue indefinitely and that it would gradually be decreased. He stressed, therefore, the importance of technical assistance. He particularly pointed to a project in the Negev Desert where winter rainwater from the mountains, flowing through dry river beds is spread, so that crops can be grown in the desert in May and June. He said that 2,000 years ago through this method 10,000 people were supported in this locality where practically none can live now. He believes that 25,000 acres of land could be reclaimed in this manner. He pointed out that rocky hillsides, where agriculture has been impossible, have been converted through the aid of American technicians into suitable grazing land for the production of cattle. Good breeding stock is being imported to improve the beef quality of native cattle; nearby fields are being irrigated so that they can produce alfalfa to feed the stock through the three dry months of the summer; and a training school has been set up to train young Israelis to take care of the herds. Such projects fire the imagination.

Public health teams are working with local officials to set up community health centers in various parts of the country. A United States physician, nurse, and sanitary engineer make up the group in one of these centers, and they in turn train Israelis to staff the remainder.

The project for a geological examination to determine whether or not the known deposits of phosphate, copper, and manganese in the Negev Desert have commercial possibilities, and to try to uncover as yet unknown deposits, is a good project, even if it took too long to get under way. The same can be said of the industrial audit which, if successful, will earn and save Israel millions of dollars in foreign exchange a year. There are undoubtedly many other such worthwhile undertakings in the overall program.

To give an idea of the nature of the program, the actual fiscal year 1954 obligations may be profitably examined. Of the total, $787 thousand, or 53 percent, was obligated for agriculture and water resources; $181 thousand, or 12 percent was devoted to health and sanitation; 9 percent to education (vocational training schools in part); $118 million, or 8 percent, to industry and mining; 4 percent to transportation; and the balance to a variety of undertakings. Whether or not

all of this money was, or will be, spent advantageously depends to a great extent on the character of the people doing the work. There is little question, however, that the need for the great majority of them is present. It is pointed out, however, that of the total funds obligated, about half was for the contract with the State University of New York discussed in this section.

XII. German Reparations as a Factor in the United States Aid Program

An important factor in the industrial recovery of Israel and in the reduction of United States aid has been reparations received from Germany. Deliveries began in the late fall of 1952 and will continue until 1964. Israel received considerably more from reparations in fiscal 1954 ($80 million) than it did from the United States, and this will continue to be an increasingly more important factor vis-a-vis United States aid over the next few years. Receipts from reparations in fiscal 1954 were greater than normal, however, because of delays in receiving 1953 materials.

Under the terms of the agreement reached between Israel and Germany, signed at Luxembourg on September 10, 1952, the West German Republic agreed to pay to the Government of Israel a total of approximately $822 million: $50 million a year until fiscal 1955 and $75 million annually thereafter until the Israel fiscal year 1964, when $65 million will be paid. Of the larger installments about $12 million a year must be released by Israel to Jewish claimants throughout the world. The Israel purchasing mission in Germany placed orders immediately for the $100 million of goods and equipment to be delivered by March 31, 1954.

Apart from $19 million of fuel oil purchased from Great Britain under a three-party arrangement, which began arriving in the late fall of 1952, actual shipments did not begin reaching Israel until August of 1953. During the period July 1, 1953, to June 30, 1954, however, $80 million of goods and equipment had actually been received there. Among items procured the first year were $24 million of heavy industrial and mechanical equipment, $11 million of ferrous and nonferrous metals, $9.2 million of other industrial goods, and $2.5 million of agricultural items. In addition, reparations are being utilized for purchases in third countries for about $6 million of such raw material as rubber from Malaya, hides from Argentina and Brazil, and lumber from Austria. The Israelis handled this matter on their own, and from the standpoint of good planning and execution it was a fine achievement. It could not have been accomplished at all without the cooperation of the Germans.

Apparently Israel is ordering its equipment items on the basis of priorities. Water resources and irrigation equipment head the list, followed by electric power, transportation, development of mineral and oil resources, and support of manufacturing industries already in existence.

It is interesting to see that the emphasis of the United States coun-

terpart fund program generally follows this pattern, a further indication that the United States and Israel are in close agreement on the direction the program should take.

All the large equipment items are being ordered on the basis of 50 percent payment on date of delivery and the balance spread over the next 3 years. Future reparations receipts are thereby committed in advance in order to insure against a change in reparations policy should a new German Government come to power with different ideas with respect to reparations to Israel.

The German Government has indicated that $60 million of commodities will be delivered in Israel's fiscal year 1955, ending March 31, and as of the end of the first 5 months Israel had actually received some $45.4 million of the total of $60 million. Deliveries for fiscal 1955 are broken down as follows: fuel, $17.8 million; ferrous and nonferrous metals, $10.2 million; equipment, $9.5 million; raw materials, $11.2 million; agricultural products, $7.1 million; and services, $3.6 million. The breakdown for fiscal 1956 is not yet available.

Foreign exchange to cover the purchase to date of some $160 million of these necessary items of material, equipment, and commodities, would simply not have been available except for the reparations agreement. Israel would have had to do without most of it and the day of Israel's eventual self-sufficiency would have been postponed by just that much.

The availability of this foreign exchange, together with an improvement in Israel's general position as a result of the capital previously invested, has made it possible for United States aid to be reduced from the high of $70 million in fiscal year 1953, to $52,500,000 in fiscal year 1954, and $40 million in fiscal year 1955. Unless reparations are cut in the future, further cuts in United States aid to Israel will be in order. The extent of such cuts will depend to some extent on how soon it fits United States foreign policy for Israel to reach self-sufficiency.

The character of the German reparations (set by the Israelis themselves) supports the point that if the Israel foreign exchange budget as a whole meets with the approval of the United States, it should not make too much difference just what part of it the United States finances. It is apparent that what the United States might refuse to finance could be financed with reparations or other foreign exchange availabilities. It should be the aim of the mission to influence Israel in such a way that its whole program is acceptable. If an agreement cannot be reached with Israel on the program as a whole the alternative of withdrawal of aid might be used as a lever to accomplish our purposes. Fortunately, such an impasse has not been reached (although the implicit threat of this lever may have been the reason), and the Israel Government has worked closely with the United States mission.

XIII. Other Factors Affecting Eventual Self-Sufficiency and Possible United States Aid

Proceeds of bond sales in the United States and contributions of the United States Jewish Community here have averaged about $80 million a year. Almost all the proceeds of the bond drive have been used for capital investment, as were the proceeds of the 1949–50 $135 million Export-Import Bank loans. These investments are beginning to pay off in increased agricultural and industrial production. This is a result in large part of the strong will, drive, energy, imagination, and capacity for hard work of the people themselves. The Government has also contributed through its austerity program and its policy of looking primarily toward the future.

Nevertheless, the fact that Israel is in effect a labor state, where the largest capital accumulations are in the hands of labor unions, has had a retarding effect. Wages are comparatively high so that it has been difficult for Israel to compete in international trade without export subsidies. The unions also supply from their own ranks the managerial personnel for their enterprises. These people are untrained in management, and their performance is not always top flight. There is little likelihood that this situation will change materially. The labor unions hold control or have a large financial interest in a majority of existing industries in the country, so that any improvement in the economic situation will only make them financially stronger. They will probably be the largest source for future internal capital requirements.

This mixed capital, management and labor role, however, has given the unions a sense of responsibility which has influenced their demands and actions. This is true even though, in effect, the unions control the party in the government having the largest plurality. When a strike of transport workers threatened some time ago to tie up the principal port at Hafa, the Government broke the strike by having the Army move the trucks and operate the trains without any real opposition from the unions.

It would not appear to be feasible for the United States aid mission in Israel to attempt to do anything about this situation. Even a threat to stop all aid would have no effect. The leaders of the unions are for the most part the early, idealistic agricultural Zionist settlers who came to Israel, not because they had to, but because they wanted

to. They represent one of the most stable and strongest elements in the country.

Another factor which has slowed down recovery is the failure of the private investment program. It was hoped by the 1951 field team to Israel that private investment might supply a large part of the foreign exchange required for industrial development. This has not proved to be the case. From the formation of the State until the end of 1951 about $150 million of private foreign capital had gone into Israel. Since then, however, the amount has been reduced to a trickle: $20 to $25 million in 1952, $15 to $20 million in 1953, and a lesser amount in 1954.[1] Most of this money was invested by Jews from sentimental rather than business reasons, and to aid members of their families who were refugees to Israel. On the other hand, some large American companies, such as General Tire, General Shoe, Philco, and Kaiser-Frazer, among others, have invested either dollars or know-how, but in the aggregate such investments have not been large.

While the Israel Government set up an investment center to encourage foreign investments, and while the law covering foreign investments was designated to encourage them, the program has been far from successful. The men running the investment center have not been too good. Among others, Ford, International Harvester, and Westinghouse, seriously considered investing in Israel, but as the result of restrictive decisions made by the investment center, negotiations broke down.

A new investment law is now before Parliament which will give to foreign investors additional privileges in the field of taxation and repatriation of capital. In addition to local tax exemptions, it is proposed to exempt approved corporations engaged in manufacturing for exports from payment of income taxes on undistributed profits, and to allow repatriation beyond the current ceiling of 10 percent. Whether these added incentives will have the desired effect is questionable, in view of the strained Arab-Jewish relations which so far have shown little signs of improvement. In view of this, and the fact that Israel is technically still at war with the Arabs, it is doubtful if the United States mission to Israel can influence to any great extent the movement of private United States capital to Israel. It is not known what part, if any, the mission played in influencing the Government to liberalize the new law.

Another possible factor in the small amount of foreign private capital being invested in Israel, and one that has seriously affected the development of Israel's domestic industry in general, is the shortage of short term bank credits and an even greater shortage of long term credit for capital improvements. Interest rates as a result are

[1] These figures are from an official Israeli source. The figures used in the "Israel Fact Book" are very much less.

very high. It is reported that the rate for long term credit, even for good risks, is about 24 percent a year. The Government has recognized this situation and will make some funds available from the development budget for both short and long term industrial loans. The amount has been negligible to date, but the United States Operating Mission also is planning to approve the release of increased amounts of counterpart funds for this purpose. It would appear that the mission might have acted more promptly and more aggressively on this, but it undoubtedly had in mind the importance of tight credit as a weapon against inflation.

There has also been criticism of the Government that it is favoring companies controlled by the unions in supplying their import requirements for spare parts and raw materials. This is particularly true with respect to the disposition of receipts from German reparations payments. On the other hand, there has been criticism from the labor unions that the administrators of the German reparations accounts are bending over too far backward to avoid this criticism, and for that the reason the union controlled companies are not getting what they are entitled to. You can take your choice. So far as is known, the United States mission there has not taken a position on the matter.

While the Labor Party is the dominant party in Israel its principal partner in the present coalition government is the conservative free enterprise party. The strength of this party also stems from the early agricultural Zionist settlers. The two work very well together. The reason for their political coalition is that they both share a common general background and are united in their opposition to extremists on the right and left. Both parties strongly espouse democratic principles, and in that respect Israel is a bulwark of strength in the Middle East. The press, radio, and cafe orators can publicly damn the Government, and do, without fear of reprisal. The Communist influence in Israel is negligible. There are four Communist members of Parliament of a total membership of 120. Of these 4, 2 are Arabs and 2 are Jews. Israel is strongly pro-American. Its official position, however, is only guardedly so. It is afraid of what might happen to the millions of Jews still behind the Iron Curtain.

XIV. Personnel

One of the difficulties in carrying out the program in Israel is in the recruitment of good personnel and the time required to fill vacancies. The Israelis themselves using their own funds have employed a number of Jewish economists and engineers as advisers who, in a sense, are duplicating the work of the United States Mission there.

The present United States Mission Chief, Dr. Lincoln B. Hale, an Indiana educator, has apparently gotten off to a very good start. He succeeded Mr. Bruce McDaniel, a California agriculturist, who was the first USOM director. It is not believed appropriate to make an appraisal of the work of either of these men.

The aid mission is not housed in the embassy. Appropriate personnel attend embassy staff meetings, however. The embassy economic staff welcomed the arrival of the USOM. They had much more to do than they could handle. Aid matters have gradually been turned over completely to USOM, except that all formal aid agreements are negotiated by the embassy. Also all incoming and outgoing cables are received and transmitted through the embassy. The ambassador has veto power reflecting any important actions.

In the FOA mission to Israel there are 59 United States nationals, of whom 18 are administrative personnel and 41 program personnel. There are in addition 72 Israeli nationals, of whom 17 are administrative and 55 program personnel. On the State Department payroll, 9 United States nationals 15 Israelis are charged to the mutual security program. These State Department people, however, are for the most part FOA's allocation of "housekeeping" personnel, such as code clerks, marine guards, etc., who contribute time to both FOA and State. The United States has no military personnel charged to the mutual security program in Israel, since the United States gives no military aid to that country. The total cost of maintaining the staff in Israel for the fiscal year 1954 was $309,339, and for 1955 the estimated cost is $340,000. So far as is known there are no permanent representatives from other United Staes Government departments in Israel.

The problem in Israel is too few, not too many, personnel, and also the quality of the personnel.

Attached as exhibit III is a breakdown of the Staff.

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XV. Conclusion

Whether or not future aid to Israel other than technical assistance should be continued depends on United States foreign policy objectives with respect to the future of that country. Immediate objectives have been reached. Immigration has stopped, temporarily at least. The country is not in acute financial distress or in danger of becoming so in the immediate foreseeable future. There is no serious internal weakness in Israel that would invite Arab attack; and no important pressures within Israel to attack the Arab States. There is no immediate apparent danger that the armistice agreement obligation of the United States (along with that of Britain and France) to maintain the present boundaries between Israel and the Arab States will lead to the involvement of this country.

On the other hand, the United Staes may have some moral obligation to Israel since it exerted a strong influence in the decision to set up an independent nation and a national home for the Jewish people there. The country has made rapid progress, but it still has some years to go (possibly 7 or 8) before it becomes economically self-sufficient, even at the level of the present low standard of living. In the meanwhile it must depend on reparations, loans, and gifts from its friends abroad. Until it achieves viability it will be a potential danger spot. Present United States policy is to relieve reasons for tension between Israel and the Arab States as rapidly as possible. Economic assistance to both sides will increase United Staes influence and make its task of preventing war in that strategic area that much easier.

The extent and form of future United States assistance to Israel, if any, should be based on a United States foreign policy decision, developed in part from recommendations of the National Security Council.

From its inception to the present, United States economic aid to Israel has influenced events there and has played an important part in bringing about the present fairly satisfactory situation. It has been administered in as satisfactory a manner as could be expected.

Much more, however, could have been accomplished with better administration of the technical assistance program. Since technical assistance will probably continue for some time to come, and since it can accomplish results substantially greater than the amount of funds expended, this type of United States aid in Israel should be given greater emphasis. There is some indication that the present United States mission chief recognizes this, and will devote greater attention to this phase of activity in the future.

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The cost of the Israel program, $186 million for economic aid, $1.2 million for technical assistance, and $1 million for administration, does not seem too great a price to have paid for preventing that country from going bankrupt with the concomitant risk of Arab attack and war in this strategic area of the Middle East. Undoubtedly some mistakes have been made, but in relation to the amount of money expended and the results achieved, they do not loom too large.

Finally, it is repeated that to appraise a foreign aid program, even with all the facts available and an on the spot examination, is a hazardous task at best. So far as this report is concerned, it was neither possible to get all the facts nor to make the on the scene inspections. It should be read with this in mind.

EXHIBIT I

FOA Financed Imports

[In thousands of dollars]

Commodity	Programed		
	Fiscal year 1952	Fiscal year 1953	Fiscal year 1954
Food, fertilizers, etc	42,047	28,625	12,790
Food	35,112	22,778	8,850
Fodders	5,486	4,023	2,960
Fertilizers	684	580	
Seeds	765	994	700
Other		250	280
Fuel	9,056	13,055	13,400
Raw materials and semifinished products	8,455	15,881	20,849
Iron and steel mill materials and products	2,403	7,180	8,342
Medicinal and pharmaceutical preparations		868	375
Pesticides	545	158	195
Natural Fibers	3,103	2,925	3,180
Other	2,404	4,750	8,757
Machinery and vehicles	3,942	11,434	4,716
Construction, mining and conveying equipment	168	565	551
Electrical apparatus, generators, motors	3,474	3,028	1,250
Industrial machinery		3,352	727
Tractors (nonagricultural)		200	
Motor vehicles, engines, and parts	200	1,884	1,038
Agricultural machinery		1,620	550
Other	100	785	600
Miscellaneous and unclassified		1,233	755
Scientific and professional instruments		359	110
Miscellaneous iron and steel manufactures		80	200
Miscellaneous commodities for education and scientific use		25	90
Other		769	355
Total	63,500	70,228	52,510

EXHIBIT II

Israel's Total Import Program

[Dollars in millions]

	Budget (12 mos. end. March 31, 1954)		Budget approved (9 mos. end. March 31, 1954)		Expenditures under approved budget (9 mos. end. March 31, 1954)		Budget (12 mos. end. March 31, 1955)	
		Percent		*Percent*		*Percent*		*Percent*
Total budget	$310.1		$233.		$259.6		$346.	
Less debt service, amortization and reserves	45.		37.		34.6		40.	
Net available	265.	100.	196.	100.	225.	100.	306.	100.
Direct investment	49.	18.4	36.8	18.8	42.9	19.	88.	28.8
Imports for purpose of processing to imports	31.	11.6	21.5	11.	37.1	16.5	41.	13.4
Materials to maintain investment in plant and keep it running for processing consumer and capital goods	68.6	26.	51.4	26.3	52.7	23.5	66.8	22.1
Food and materials for producing it	55.	20.8	41.6	21.2	41.2	18.3	48.	15.7
Other direct consumer goods	12.4	4.7	8.7	4.4	9.8	4.4	13.7	4.1
Services (including defense)	49.	18.5	36.0	18.3	41.3	18.3	48.5	15.9
Total	265.		196.		225.		306.	

EXHIBIT III

Selected Country Data—FOA

1. Cost of Operating FOA Mission (Administrative)

COMPARISON OF OBLIGATIONS

Fiscal Year 1953	(1)
Fiscal Year 1954	$309,339
Fiscal Year 1955 (est.)	340,362

[1] Figures for 1953 are not available on a basis comparable to the definition of administrative expenses utilized in 1954 and 1955.

2. Employment for MSP Activities as of June 30, 1954

	FOA	State	Defense
United States nationals	59	9	(1)
Civilian	59	9	
Administration personnel	18	9	
Program personnel	41		
Military			
Foreign nationals	72	15	
Administration personnel	17	15	
Program personnel	55		
Total military personnel			
Total administration civilians	35	24	
Total program civilians	96		
Total MSP civilians	131	24	

[1] No employment for Department of Defense for MSP activities.

Iran

By John H. Nelson

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INTRODUCTION

Iran is a constitutional monarchy. The king (Shah) is Monhammed Reza Pahlevi, the son of Reza Shah who founded the Pahlevi dynasty in 1925. Parliament consists of a Senate (convened for the first time in 1950) and an Assembly (Majlis); the normal term for the Senate is 6 years, the Majlis 2. Half of the senators are appointed by the Shah; the other half of the senators and all of the deputies (Majlis) are elected by male voters over 20. A new parliament has recently been elected and convened.

Executive power rests with the Crown and cabinet. Although the Shah appoints the Prime Minister who appoints the cabinet, the cabinet and Prime Minister (but not the Shah) are responsible to the Parliament. Iran is divided into 10 provinces (ostans); administration is highly centralized and is handled primarily by the Ministry of Interior.

The present Prime Minister is General Zahedi, who replaced Dr. Mosadeq last August. Zahedi has taken a firm stand in suppressing internal disorder and adopted a friendly attitude toward the West. The Government has restored diplomatic relations with the U. K. It also has made reasonable overtures toward a settlement of the oil controversy recently successfully consummated.

Before the nationalization of its oil industry in the spring of 1951, Iran received approximately two-thirds of its foreign exchange and one-third of its Government budgetary income from oil operations. Since then Iran has been incurring a gross budgetary deficit of about 50 percent of total Government expenditure requirements.

Iran has financed its basic needs since 1951 by a number of short-term methods including borrowing from its gold and foreign exchange reserves, borrowing from Central Bank or Government accounts, expanding the note issue, postponing payments and depleting commodity stocks, as well as by curtailing imports. The combination of deficit financing, decreased imports, and increased money supply resulted in inflation. At the same time the Government has been under constant pressure to make good its promise to raise living standards and to expand economic development, particularly in such fields as transportation, agriculture and industry.

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I. Technical Cooperation and Development Assistance

Progress to Date

The technical cooperation and development assistance programs in Iran have been a stabilizing factor in Iran's economy during the critical period since 1951 when oil revenues were almost entirely cut off. *Note:* The Technical Cooperation Administration was merged with the Foreign Operations Administration in August 1953. During this period, United States assistance in these programs has totaled $130.8 million, distributed as follows: fiscal year 1951, $1.5 million; fiscal year 1952, $23.2 million; fiscal year 1953, $22.6 million; and fiscal year 1954, $83.5 million. During fiscal year 1954, $11.4 million in development assistance funds were used to supplement $12.1 million in technical cooperation funds, to provide necessary supplies and equipment for joint project operations, and to continue the previous level of regular program activities. At this point the entire previously planned program of $23.1 million divided between technical cooperation and development assistance became a technical cooperation program. Subsequently, an additional $60.0 million of development assistance was utilized to provide emergency budgetary support and financial assistance to the present government.

Regular Program

Projects have been directed toward Iran's specific problems of low food production, uneconomic manpower utilization and lack of general economic and social development. Iran's limited rainfall is not used efficiently. Iran's own best seed varieties are not widely used, and farming methods and tools are primitive. Malaria, intestinal diseases and trachoma afflict large numbers of the population. Less than 10 percent of the people are able to read or write. Industrial development has been retarded by the lack of private investment capital, a very small industrial worker class, and inadequate power supplies: Iran's poor roads and its worn out railroad system are serious bottlenecks to progress toward better production and distribution. A feudalistic land ownership system restricts the farmer's incentive to increase crop production, and is a main cause of the extremely low living standards. Iran's Government organization has been highly

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centralized in Tehran and, in the absence of a systematic development program, inadequate to meet provincial and village needs. During the past 3 years, the technical cooperation and development assistance program has attacked these basic problems and appears to have made measurable progress, despite the economic deterioration and political upheaval which has characterized the period.

A new pattern of decentralized aid operations has been introduced into the Iranian Government structure through the 11 regional mission offices which conduct the country-wide FOA technical cooperation program. Through joint-fund channels, and the establishment, within the Iranian ministries, of Iran-United States cooperative departments, the institutions required for technical and economic development activities have been progressively introduced into the Government at both headquarters and provincial levels.

The Ministry of Agriculture has established a national extension service as a result of United States assistance in directing and financing the training of extension workers in 1952 and 1953. Nationwide demonstration projects in crop production, livestock management, and agricultural engineering have provided the physical and technical bases for the increase of Iranian agricultural production. Karaj Agricultural College has been assisted to become a relatively modern agricultural training and research center for the nation.

School construction and organization, and teacher training in agriculture, the trades, home-making, and health, have been carried on jointly by the FOA mission and the Ministry of Education. About 5,000 rural and urban teachers have been trained at centers set up and supervised by the FOA mission. A Public Health Cooperative has been created in the Ministry of Health to direct countrywide sanitation, rural health programs, and the malaria control program. One-third of all villages in Iran have already benefited from the malaria control work.

Land tenure reforms initiated by the Shah and the Government were furthered by the United States program for helping to develop local rural institutions and to improve rural living standards. Assistance has been given in establishing cooperative credit institutions for the new owners of the Shah's lands, together with technical guidance in the formation and initial activities of village councils. One-tenth of the landowner's share of each harvest is given to village councils for use in rural community improvements.

The Kuhrang irrigation tunnel was completed jointly in 1953. Plans for the multipurpose Karaj Dam near Tehran were developed. The groundwork has been laid for central planning of efficient land and water use.

Emergency Assistance

When Prime Minister Zahedi assumed power in August 1953 he faced an immediately serious financial crisis. The Government had borrowed the legal maximum from the Central Bank. In addition, it had borrowed from Government accounts such as trust funds. Payrolls were behind in payment and contractual obligations were considerably in arrears. The currency had been expanded without legal authority. The Government had been forced drastically to curtail imports. All these factors combined to exert serious inflationary pressures on the Iranian economy resulting in a generally unstable condition.

In this situation, and in response to a desperate and urgent plea from the Iranian Government, President Eisenhower authorized the immediate furnishing of $45 million of emergency assistance. Ten million dollars of this amount was used to finance imports of essential commodities such as foodstuffs, drugs, cement, iron and steel products, and repair parts. Twelve million dollars was used to buy and send to Iran 100,000 tons of sugar which was in great demand and could be sold quickly. The remainder of the $45 million was used to finance additional critical imports and as temporary budget support. Six and one-half million dollars of supplementary emergency assistance was granted for the same general purposes in February of this year. The total effect of these various forms of assistance has been to provide the Government of Iran with a source of local currency with which to help meet Government operating expenses, and to carry out minimum essential projects in housing, road improvement, water supply and health.

II. United States Aid—Fiscal Year 1954

During United States fiscal 1954 $23.5 million were spent for "regular" United States technical assistance and an additional $60 million for an "emergency" aid program to the new Iranian Government, making a total of $83.5 million. A first part of the emergency program, $45 million, was approved by the President in September 1953. Of this, $10 million was given to the Ministry of Finance to be made available to the Bank Melli for sales of exchange for the importation of essential commodities. The rial equivalent (960 million) was paid into a special account available for use by the Iranian Government. Another $10 million was paid to the Ministry of Finance to support the currency and for later purchases of rials. The remaining emergency fund of $25 million was used for essential imports, the counterpart of which, in rials, was deposited with the Ministry of Finance and used for the support of the Government's budget. Up to the middle of July 1954, $14 million of this fund had been used for the importation of sugar and much of the remainder for the importation of other essential commodities. Of the total of about 6 million rials made available through the emergency aid program, by far the largest part was used by the Iranian Government for the support of its general budget.

Besides the original emergency aid of $45 million, additional emergency assistance of $6 million was granted in April 1954 and another $9 million in May 1954—a total of $60 million for the fiscal year as emergency aid in addition to the $23.5 used for the regular program.

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III. United States Aid—Fiscal Year 1955

Current United States Government thinking is that, for political reasons, substantial assistance must be given to Iran during fiscal 1955 and until oil revenues are sufficient to make Iran's economy viable; that because of the oil settlement, such United States aid can and should be mainly in the form of loans rather than grants; and that, because of greater ease of handling and approval by the Majlis, loans made for whatever purpose should be concentrated in one "package" and handled by one United States agency—the Export-Import Bank.

As recently agreed upon, plans for United States Government assistance to Iran during United States fiscal 1955 call for the following:

	Million dollars
A. *Budgetary support*	
(1) Already provided	15.0
(2) To be provided up to Dec. 31, 1954	7.8
(3) To be provided from Jan. 1 to June 30, 1955	30.0
Total	52.8
B. *Basic economic programs*	
(1) Technical assistance	8.5
(2) Technical development assistance	13.0
Total	21.5
C. *Economic development*	
(1) Karadj Dam	18.0
(2) Other development projects	35.0
Total	53.0
Grand total	127.3

Of the budgetary support described under A above, items 1 and 2 have been or will be provided by FOA on a grant basis; item 3 is to be provided through an Export-Import Bank loan, the funds for which will be furnished to the bank by FOA.

The "basic economic program" described under B consists of "Point IV" type technical assistance and of development work immediately associated with it. The cost of both these items is to be financed through FOA grants, with the exception of $2 million of item B–2 which are to be financed on a loan basis. The total of A and B above is $74.3 million which corresponds to the total fiscal year 1955 FOA program given in detail on the following page.

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The cost of C above is to be financed entirely through an approved Export-Import Bank line of credit against which individual projects will be considered on merit. The best present estimate of both the United States Embassy and the FOA in Tehran is that a minimum of $5 million a month in budgetary assistance will be needed between now and the end of United States fiscal 1955, and possibly up to January 1, 1956, when oil revenues are expected to increase substantially with the advent of the second 12 months period following the oil settlement.

Commitments considered essential when made, the Embassy in Tehran reports, have generated the need for at least $25 million by the Plan Organization during the remainder of Iranian fiscal 1333 (ending March 20, 1955), a total corresponding almost exactly to preliminary estimates of oil income for that same period.

Plan organization is a long established Iranian Government agency with responsibility for directing the economic development of the country with the revenue accruing from the oil industry.

However, in the opinion of United States missions in Tehran, it will be impossible to maintain the austere budgets planned for this period unless development loans are also made which will permit some new economic development programs to get under way.

Fiscal Year 1955 Operating Programs According to FOA

[In thousands of dollars]

A. Technical cooperation projects	8,500
Agriculture and natural resources	1,299
Industry, mining and labor	935
Transport and communications	598
Health and sanitation	1,772
Education	627
Public administration	1,916
Community development	468
Total	8,500
B. Development assistance	65,800
Project assistance	13,000
Nonproject budgetary support grant assistance	22,800
Nonproject loan assistance for budgetary support	30,000
Total	65,800
Project assistance:	
Agriculture, natural resources	2,163
Industry, mining, labor	1,487
Transport, communications, power	3,283
Health and sanitation	2,898
Education	1,842

B. Development assistance—Continued

Project assistance—Continued

Public administration	348
Community development	484
General	494
Total	13,000

Nonproject assistance:

Loan for budget support	30,000
Sugar	5,000
Wheat	2,800
Railroad equipment	1,200
Industrial machinery	3,800
United States goods in customs	10,000
Total	52,800

The above fiscal year 1955 program is subject to minor modifications during the remainder of the fiscal year. A $30-million loan, programed above, is now being negotiated. Of this loan, $10 million is available from military assistance funds, under section 401 (Public Law 665) transfer provisions. A further loan of $2 million for development projects is being negotiated, and is included in the project scheduled above.

It should be noted that practically all items under project assistance in B above are complementary to technical cooperation projects in A above and that in fact both together constitute technical cooperation. This distinction was required by the Mutual Security Act of 1954 providing funds for fiscal year 1955.

Regular Program

The $8.5 million for technical cooperation is required to meet the costs of technicians' salaries, contracts with United States colleges and other nonprofit institutions, training grants and other costs of a similar nature.

In the field of Agriculture and Natural Resources a technical cooperation program is proposed, the major part of which will be devoted to livestock improvement, plant production and forestry, agricultural extension, and land and water-use projects. For Health and Sanitation there are proposed projects in the fields of public health administration, environmental sanitation, and municipal water supplies. For education efforts will center on teacher training, educational facilities, and student exchange.

In view of the acute deterioration of Iran's rail and highway facilities and the critical need for power, the fiscal year 1955 program

calls for greater emphasis on the maintenance and improvement of transportation and communications and in the development of municipal power facilities.

The lack of technical competence coupled with the almost complete absence of private investment capital for small enterprises has been a great problem in Iran's economic development. Accordingly, the fiscal year 1955 program provides for assistance in the industrial and mining fields, with emphasis on processing facilities for agricultural products, and handicraft industries.

To help meet the Iranian Government's desire to remedy some of its organizational and operational weaknesses, a public administration program has been planned for fiscal year 1955. The funds would be used to support a government statistics cooperative, a public administration school, and the improvement of basic Government services.

Vigorous reforms of land-tenure practices have been undertaken in Iran and, with the formation of village councils possessing funds for community projects, have affected most of the 43,000 villages in the country. Land-reform measures have given rise, however, to the need for trained Iranian personnel to carry out land-reform programs and to help villages with their new problems of land ownership and community development. In order to assist in attaching these problems, a community development program is proposed for fiscal year 1955.

Plans and Objectives of the Fiscal Year 1955 Program

In stating the plans and objectives of the fiscal year 1955 United States aid program for Iran based largely on statements and information provided by FOA, considerable care is necessary to distinguish between plans and objectives as such and their accomplishment in fact. A common characteristic of these statements is the suggestion by implication, inference, and broad, all-inclusive generalizations of the approval or acceptance of a plan or objective as synonymous with the successfully completed project or operation. Records of past performances in Iran and elsewhere demonstrate that once a plan or objective has been decided upon, it is subject to continuous change, adjustment, and reorientation, and that seldom, if ever, is a specific criteria of accomplishment predetermined for the termination of the operation set in motion by the approved plans or objectives.

It is also necessary to distinguish between very broad generalized objectives, such as "combating illiteracy" and the concrete specific plans or projects intended to implement so far as practicable the general objective. The following is intended as a summarization of specific objectives for fiscal year 1955.

Education

FOA assistance to education has contributed to the adoption of a revised and modernized curriculum for the elementary and secondary schools, and concurrently the training of teachers in agriculture, public health, the trades and vocations, homemaking and recreation. The objective is to train approximately 10,000 rural and urban teachers in centers that the USOM has helped to set up and supervise.

Health

Within the Ministry of Health, the USOM created and will continue to assist a nationwide public health service that has initiated the first sanitation, health education, and rural public health program, including malaria control, in the history of Iran.

Agriculture

In agriculture, the USOM has helped the Ministry of Agriculture establish a national Agriculture Extension Service, and has directed the training of extension workers. The Service's threefold activities in plant production, livestock, and agricultural engineering will provide pure seed, breeding stock, and introduce new methods. With FOA assistance, the only agricultural college in the country is expected to become a modern training and research center to train agriculturists and serve agriculture throughout the country.

Land Reform

Long overdue land reforms on which the Iranian Government has cautiously embarged, and the continuation of the Shah's lands distribution, greatly increase the need for health, agriculture, and education programs. FOA will provide land and water resources data that will be of considerable value in the quick development of the Government's recently announced plans for distribution to peasants and marginal owners of a large area of public domain lands in the Khusistan plains area in southern Iran.

The community development program's rural improvement and rural cooperative training projects are being incorporated into the new Iranian Development Board that will serve as the planning and operations arms for effective working of the law for increasing the farmers' share.

Public Administration

In the field of public administration, the Public Statistics Cooperative, established with the operations mission help and operating under its supervision, will service all ministries of the government and has laid the groundwork for a pilot project census in the Kashan area. Within the University of Tehran, a Public Administration Institute to give inservice training for graduate students and Government employees will continue to be conducted by the University of Southern California under an FOA contract.

Steps are now being taken through joint fund channels to incorporate all these activities directly into the ministries at headquarters and ostan (provincial) levels, and to assist the governors general in the planning and direction to make these reforms of lasting benefit to the people and to the Government of Iran. The 11 regional offices, 2 of them now under Iranian regional directors, will have as their primary responsibility to work with the governors general in the task of integration, servicing, and planning.

The Potential for Overall Economic Development

Events within Iran this year have led to some changes in planning for FOA assistance in the economic development of the country. The threatened near collapse of rail facilities between the principal port of Khorramshahr and Tehran, the curb on any considerable industrial expansion with the present shortage of power, transportation, and communications, and the continuing reluctance of private Iranian capital to invest in industrial enterprises, all indicate a need for strengthening the economic base.

Power development for the city of Tehran and rehabilitation of the Khorramshahr-Tehran railway line, although not to be financed by FOA, are essential to continuing operation of established industries, and will permit and encourage industrial expansion in the vicinity of Tehran.

The immediate and most important requirement in existing manufacturing and industry is improved management. To help meet this need, the USOM is attempting, without success to date, to secure a management task force by contract for service with Government and with what privately operated industry exists, to work in plants receiving FOA assistance, and others as well. It is also planned in fiscal year 1955 to create a similar task force in labor-management relations, and to assist the GOI in modernizing its labor laws, setting up labor and employment services, and improving apprenticeship training.

Promising fields for expansion, which require comparatively little additional electric power, and would greatly increase agricultural and rural incomes, are food and agricultural products processing and handicraft industries. When machinery now on order in the United States arrives for dried-fruit preserving and packing, date processing, fish canning, fruit canning, and handweaving, projects started in these activities should open the door to increased trade and investment.

The operations mission is providing demonstrations for cottage industry now equipped with primitive machinery and accompanied by purchasing and marketing practices that are ruinous to the craftsmen. It is planned this year to carry out a systematic study of handicrafts and small industry to explore the possibilities for increasing production and finding larger markets.

IV. United States Agency Participation—Technical Cooperation

The statements which follow are substantially as prepared by the United States Departments of Labor, Interior, and Health, Education, and Welfare, respectively, and deal with their relationships to the above objectives of the United States aid program in Iran. They are given in considerable detail because of the relative importance of technical cooperation in the Iranian economy.

Labor Program

Under the Technical Cooperation Administration, Department of State, beginning approximately May 1950, the Department of Labor had a major role in the labor program in Iran, including program development, recruitment and hiring of personnel, technical support and training of Iranian nationals in the United States. Beginning with the assignment of a specialist in industrial training, approximately May 1950, the basis of a acceptable labor program in terms of Iranian needs was initiated. Since the Foreign Operations Administration came into being, August 1953, the Department of Labor continued functions described above, during the transition, but working through the Foreign Operations Administration. The labor program in Iran now includes (1) labor training, and (2) labor services.

Labor training has the objective of extending technical assistance to the Government of Iran, Iranian industry, salaried employees and workers for the purpose of instituting and improving job and supervisory training techniques which will improve the skill and understanding of workers, apprentices, and supervisors. The training should increase the earning power, improve the employability, increase the productivity of the worker, benefiting both the country and workers economically. Subprojects are: (1) Supervisory training, (2) apprenticeship training, (3) trade skill improvement, (4) worker education and literacy instruction, and (5) workers' training center.

Labor services has the objective of extending technical assistance to the Government of Iran, Iranian industry and labor in the general fields of labor law enforcement and labor-management relations. The Ministry of Labor will receive assistance in organization for labor law enforcement; development of manpower analysis, services, and controls; the promotion of voluntary compliance with essential labor laws based upon the education of management in modern industrial

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relations concepts and the development of an appreciation of the value of an enlightened as well as skilled labor force in a free nation. Subprojects under labor services are: (1) Labor standards, (2) labor-management relations, and (3) employment security.

The staff, recruited and employed originally by the Department of Labor, presently in Iran consists of chief, Labor Development Division; specialist, employment services; specialist, labor standards; specialist, labor training (on medical leave in the United States); and industrial training specialists in the fields of textile master mechanic, carpenter-millman, industrial master mechanic, electrician, plumber, auto mechanic, and molder-foundryman. During November 1954, incumbents of the first three positions indicated above were transferred to the rolls of the Foreign Operations Administration.

During fiscal years 1952 through 1954, approximately 21 Iranian nationals were programed in various industrial training and technical labor subjects in the United States by the Department of Labor.

The role of the Department of Labor in the Iranian labor program is now limited to technical backstopping of technicians in the labor fields.

Criticisms—Labor Program

1. Department of Labor Role in the Labor Aspects of Programs

Except for one recent meeting, the Department of Labor has not been invited by FOA to participate in the development and review of overall labor programs for particular areas.

2. Recruiting of Consultants

The Department of Labor has not received primary responsibility for recruitment of labor specialists for foreign assignments. The Department is used as simply one source of recruitment, even in fields within its special competence, since the Department does not possess authority to make job offers or offer assurance to a qualified candidate that he can reasonably count upon being accepted. The effectiveness of the Department's recruiting activities are reported to be badly hamstrung particularly in the technical labor fields.

3. Communications Between the Department of Labor and Labor Technicians Overseas

Labor technicians on FOA rolls in overseas positions may not communicate directly with the Department of Labor on anv program

question. This situation constitutes a hindrance to the free and constant flow of information between the technician and the Department necessitated by effective backstopping.

4. Detailed Review of Training Programs by FOA

Although the responsibility of FOA for evaluation of training programs carried out by the Department of Labor is clearly recognized, it would seem that such function could be carried out satisfactorily with less consultation, reporting and documentation than is currently required. In general, a greater degree of reliance might well be placed upon the Department of Labor for efficient performance.

While the above comments on FOA relationships were suggested by the Department of Labor, they apply rather broadly to FOA's relations with all United States departments and agencies.

Interior Department

In the FOA-sponsored water resources development program in Iran, the Bureau of Reclamation presently furnishes well-qualified engineering specialists to lend technical assistance and advice in the broad field of river basin development planning, including both surface water development and the exploration, development, and utilization of ground water.

Of immediate importance is the assistance being provided to help Iran in getting started with design and construction of the Karaj River project. The dam, powerhouse, and irrigation facilities will provide storage of water and make possible its economical use for domestic water, irrigation, and power. The five technicians from the Bureau of Reclamation, now on assignment to Iran, have diverted much of their recent activity to helping the Karaj River project. The remainder of their time is devoted to water resources development problems throughout the country, wherever they can be of greatest assistance to the technicians of the Iranian Government.

In support of the foregoing, the Bureau of Reclamation provides the services, when required, of the Denver laboratories and engineering staff for analysis of materials or engineering problems requiring equipment or technical resources not available in Iran.

Geological Survey currently has three engineers in Iran, and Fish and Wildlife Service one, all under FOA-sponsored programs.

Health, Education, and Welfare Department

The Office of Education

This Office will arrange training programs for 30 educators during the current fiscal year. Twenty-nine educational specialists on duty in Iran were recruited by the Office of Education.

Social Security Administration

Assistance from the Social Security Administration has been requested through the Foreign Operations Administration in connection with Iran's community development program.

The Community Development Division of USOM/Iran is concerned with two major factors: The crown lands program and the village council program.

A request has been received for Chief, Community Organization Branch of Community Development Division, Iran. The focus is on community development coordinated with Iranian Government programs in land tenure and improvement of social and economic conditions in rural Iran.

The Community Organization Branch is divided into four sections: the Distributed Lands Section, presently concerned with administration of the crown lands program; the Women's Activities Section, devoted to fostering increased participation of women in rural community affairs; the Reports and Evaluation Section, responsible for internal reporting and all research and survey work connected with Division activities; and the Village Council Section, the primary staff unit for coordination of Division activities in, and supervision of, field operations in the village council program.

The chief of the Community Organization Branch has direct supervision over personnel and activities of each of these four sections and responsibility for these to the chief of the Division.

Cooperation with Iran has included providing technical services to training participants brought here by the Foreign Operations Administration. An Iranian here at this time has requested training in social welfare activities as carried on through a province and a municipality. Participants have also had programs in maternal and child health, emergency relief programs in disaster areas, and other social services. During 1954, the Foreign Operations Administration has sent three trainees in social welfare so far this year, and the International Educational Exchange Service has sent another Iranian social worker for training.

1. Projects.

Health activities of the United States operations mission in Iran are carried out by a joint Iranian-United States Public Health Cooperative established in the Ministry of Health. The program of this central cooperative is implemented through the public health cooperatives which have been set up in the Ministry of Health of each Ostan. Projects in operation include:

Malaria control.—Malaria-control control spraying operations are being conducted in five regions of Iran, and surveys to determine the extent of the malaria problem elsewhere are being made in a number of villages.

Environmental sanitation.—Engineering activities at various locations throughout the country include construction of water distribution systems and reservoirs, shallow and deep wells, sewerage systems, and community bathhouses. Bonds are being sold to finance the construction of many of these projects.

Nursing education and public health nursing.—The American nurses are participating in the planning and conduct of midwife training courses; the preparation of training materials; and in communicable disease and epidemic control programs by providing immunizations for such diseases as diphtheria and typhoid.

Public health education.—Health education activities in various regions in the country include health and sanitation training for village women; health training for army personnel and elementary school teachers; and health lectures, films, and other visual aids for children in the schools.

Health centers.—Health centers have been established in a number of locations supplemented by mobile health units to provide inoculations, laboratory tests, health education training to local villagers, and outpatient treatment.

Laboratory.—In May 1954 the central cooperative established a laboratory which, in addition to performing usual laboratory procedures, will serve as a training center for laboratory technicians for service in the health centers.

Vital statistics.—The vital statistician on the staff of the United States operations mission serves as an adviser to the Iranian Government in developing systems for the collection and compilation of vital statistics.

2. Staff (as of September 30, 1954).

Positions	Filled		Vacant
	PHS officers	FOA employees	
Physicians	7	1	2
Engineers	5	1	1
Nurses	8	2	5
Other	4	3	0
Sanitarians	2	2	0
Veterinarian	1	0	0
Scientist	1	0	0
Vital statistician	0	1	0

3. Health Personnel Trained in the United States.

During fiscal year 1954, 25 Iranian health workers received training in the United States. Of these, 21 were sponsored by the Foreign Operations Administration and 4 by the World Health Organization. In addition to these numbers, 1 Iranian received 12 months' training in vital and health statistics and has now returned to his country to work with the Iranian Statistical Cooperative.

V. Development Assistance—Past and Current

The statements in this section have been abstracted from a report prepared by a source believed to be authoritative.

The economic development program for Iran in 1952 was originally organized with four branches: Industry, Cooperatives, Labor and Manpower, and Public Administration. Later, 1953, the Labor and Manpower Branch was transferred to Education and Training as a division. Public Administration also became a separate division. Due to extraordinary delays by Washington in recruiting technical personnel, those technicians in the field were and are required to "carry on" as experts in fields not their own. In the sugar-beet-processing plants, $1.6 million in equipment was provided for 3 plants, but no technicians have been provided 2 years later (October 1954) to supervise utilization of this equipment. Over $8.5 million has been provided for the projects of the economic development program in the fiscal years 1952, 1953, and 1954, as indicated in the following list:

Project Agreements Under Program Agreement No. 6 of May 12, 1952 Including Amendment Increases

No. 1	Completion Fars cement plant	$1,100,000
No. 4	Construction Fassa sugar plant	635,000
No. 7	Shiraz power plant	450,000
No. 8	Expansion Tchitsazi mills (amdt.)	1,802,106
No. 16	Expansion Rey cement plant	600,000
No. 17	Tehran slaughterhouse	157,375
No. 31	Dried fruit plant	217,500
No. 37	Wool scouring plant	130,000
No. 53	Automatic loom for Tchitsazi mills	493,891
No. 56	Gulf fisheries	417,000
No. 61	Improvement hand looms industry	247,700
No. 65	Construction of 2 sugar refineries	931,355
No. 68	Community canning	115,000
No. 69	Date curing and packing plants	326,818
No. 79	Professional services	175,000
No. 81	Cotton classing and ginning improvement	45,000
No. 82	Lumbering operation	275,000
No. 83	Bonded warehouse	435,000
No. 85	Tea processing plant	20,000
No. 86	Automatic bottlemaking	125,000
	Total allocation	8,698,745
	Obligated as of Aug. 1, 1954	6,378,817

These projects have had three distinct objectives:

1. Increased production toward country's needs and utilizing indigenous raw materials to save foreign exchange (Nos. 1, 2, 8 and 16, 53, 65, 82, 85);

2. Modernized production and improved qualities through improved methods (Nos. 17, 37, 56, 61, 68, 69, 86);

3. Demonstration projects through modern methods of marketing and grading facilities (Nos. 31, 69, 81, 83).

The program as planned is intended to meet the present needs of the country, coordinated with the projected aims of the other divisions (mainly agriculture) and falls in line with the logical long-term economic development of the country's assets and resources: that is (1) to emphasize the development of industry in Iran that will process the indigenous raw materials into finished products presently being imported as finished materials (whereas excess raw materials are now being exported), thus saving foreign exchange for other economic production requirements; (2) to process and improve quality, packaging, grading, and marketing of Iran's export products, thereby to regain the reputation of Iranian commercial integrity and to obtain larger benefits for the sale of its exportable products; (3) in all projects to train Iranians by demonstration in all phases of modern industrial practice, labor, both technical and financial management, and others, for the improved employment of their manpower, tools, and opportunities for exploitation of all economic assets and resources.

However the economic program gives evidence of such broad, diversified and all-encompassing objectives as to be impossible of accomplishment.

The division has sent 11 men to the United States and other nations for training. Twenty-four other recommendations with Iranians selected and approved by the GOI are still awaiting notice from Washington (13 for fiscal year 1953 and 11 for fiscal year 1954).

The report cited goes on to express the opinion that much money has been unwisely spent by both the United States and Iranian Governments in the construction of plan facilities. Many of these physical assets have become liabilities to Iran, due to the fact that there are not enough men trained in the required skills, knowledge and ability to maintain and use the equipment and mechinery in an efficient and economic manner. The lack of these skills, knowledge, and ability still exists and a further expansion of its economic industrial development and the investment of capital in industrial equipment will greatly accentuate this need. Intelligent planning has been and still is needed to execute a program to meet these needs. So far it has not been done. Much remains to be done in preparing personnel for the operation of the projects before the development can be suc-

cessful. This should be the objective of the USOM/Iran contribution from now on.

Examples

Project No. 83 covers the construction and operation of a bonded warehouse at Khorramshahr for goods for export. An important phase of the bonded warehouse, nonexistent at present, is the financing of export goods while awaiting sale or shipment, thus giving financial facilities to exporters and processors. The negotiations for site are incomplete.

Project No. 79. The difficulty experienced in recruiting capable specialists and technicians, aggravated by necessary delays in investigating possible candidates, suggested the possibility of obtaining contract personnel through established consulting or engineering firms. With that in mind, this project provides for professional services and was prepared, presented, and signed on January 7, 1954. No progress reported to date. It took all of 2 fiscal years before January 7, 1954 to get approved a professional service contract (not yet consummated with outlook very doubtful for ultimate activation).

For instance, in September 1953 the finishing equipment (textile mill) was ordered through Washington. In October 1953 papers left Iran requesting Washington purchase. In April 1954 they were returned for further discussion and review in Iran. Protracted discussions took place in Iran. They were as of October 1954 in Washington for purchase on all excepting one item for which new bids were requested. This machinery should now be in Iran. Its delivery is at least 8 to 9 months away.

Staffing pattern decisions were impossible to get approved in the fall of 1952. Not until the spring of 1953 was one approved which carried the statement that it was subject to changes then being considered.

In the sugar industry, not sufficient study or time has been given to plant location and to economic plant capacity by the Iranian Government.

The Ministry of National Economy set up a Bank of Export Development to handle export financing, processing and warehousing with a potential capital of 600 million rials. The bank is not yet in operation and will need technical and financial advice.

There is still no adequate provision for power for either the Rey Cement Plant (Project No. 16, fiscal year 1952) or Tchitsazi (Project No. 8, fiscal year 1953) though both should be in partial operation in 4 months. In fiscal year 1952 assurance (later to become an assumption) was given that sufficient power would be provided in fiscal year 1953. It has not yet been provided nor under present programs

will it be available over 24-hour periods until the Karaj Dam power plant becomes active, an estimated 5 or more years in the future.

Serious lack of planning coordination and program execution is indicated in the following table contrasting date of project approval with estimated dates of completion.

Project No.	Project agreement signed	Date of operation
1	June 28, 1952	March 1955.
4	June 21, 1952	November 1954.
7	June 24, 1952	April 1955.
8	June 28, 1952	January-July 1955.
16	June 28, 1952	December 1954.
17	June 29, 1952	(1).
31	Apr. 15, 1953	1955.
53	Apr. 22, 1953	July 1955.
56	June 3, 1953	January 1955.
61	May 6, 1953	January 1955.
65	June 28, 1953	October 1955.
68	June 30, 1953	January 1955.
69	June 30, 1953	1955.
79	Jan. 27, 1954	(2).
81	Jan. 27, 1954	December 1954.
82	Jan. 27, 1954	June 1955.
83	Feb. 2, 1954	(3).
85	Apr. 10, 1954	January 1955.
86	Mar. 31, 1954	(3).

[1] Part Sept. 1954; balance 1955.
[2] No progress.
[3] No estimate.

VI. Outlook for United States Aid—Fiscal Year 1956

After March 21, 1955, the new Iranian fiscal year, Iran will, according to the United States Embassy and FOA mission in Tehran, be in a situation characterized by the following facts: (1) Income from the first full year of oil operations will be required to meet outstanding plan organization commitments and increased expenditures for army, gendarmerie, police, teachers, and other salaries which it will be impossible to postpone any longer; (2) the so-called normal budget deficit of about $5 million a month will continue and will have to be met from outside sources until increased oil revenues will make further budgetary assistance unnecessary.

On the whole, given a continuance of adequate United States aid, Iran's financial situation, though still difficult, is likely to improve gradually until income from oil will obviate further United States assistance. With the oil settlement approved and a responsible Government in power, the chances seem good that the country's present financial difficulties will be successfully overcome and Iran will be able to finance both the needs of its budget and those of its development effort from an expanding flow of oil revenues. An amelioration of Iran's financial position would, however, unquestionably be aided by a thorough overhauling of the country's antiquated budgetary and fiscal system and the establishment of it on a sound, businesslike basis—a project in the realization of which, if a loan to Iran is made, the Export-Import Bank may possibly have an opportunity to play a significant part.

VII. Proposed Iranian Economic Development

The Export-Import Bank has recently approved a $53.0 million line of credit for the Iranian government. Each of the individual projects to be financed under this line of credit will be approved on individual merit only, after proper field examination by representatives of the Export-Import Bank and under such conditions as are mutually acceptable to the Bank and the government of Iran.

The individual projects to be financed by this line of credit application recently submitted to the bank by the Iranian government may be summarized as follows:

[In millions of dollars]

1. Karadj Dam	$18.0
2. Cement Plant	4.0
3. Doroodzan Dam	6.0
4. Telecommunications	3.0
5. Agricultural Machinery	11.0
6. Diesel Locomotives	11.0
Total	53.0

1. Karadj Dam is to be a multipurpose development benefiting about 1.5 million people and providing essentially: for a water supply for the city of Tehran, for regulated water supplies for certain irrigated lands in the Karadj river valley, and for hydroelectric power for the city of Tehran.

Construction of the project is planned in two successive stages. The first provides for the construction, within a 5-year period, of a concrete, arch-type dam about 610 feet in height creating a reservoir with a storage capacity of 166,194 acre feet; relocation of the Karadj-Chalus road around the dam and reservoir; and construction of a 33,000 kw power plant and transmission line to Tehran. The second, and later, stage provides for additional power and irrigation facilities.

The estimated total cost of work on the first stage of the project, the only one now contemplated, is, at present prices and exchange rates, the equivalent of $31,770,000 of which $18 million is expected to represent actual disbursements in United States dollars. It is for the financing of the latter that the Iranian Government is applying to the bank. The terms suggested by the applicant include repayment of the loan in 18 approximately equal annual installments, beginning on March 21, 1960, with interest at an annual rate of 4½ percent.

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2. Cement Plant—$4 million. Cement is a product very badly needed in Iran. The government intends to set up a plant for production of 300 tons of cement per day; but of 3 probable sites, the final decision as to the location has not as yet been made.

3. Doroodzan Dam—$6 million. This, a 58½ meters high, multipurpose, earth-filled dam, containing 6 million cubic meters of fill, situated about 70 kilometers north of Shiraz.

4. Telecommunications—$3 million. This project is for the purpose of making possible the purchase of wireless telephonic and telegraphic communication equipment for the Ministry of Post, Telegraph, and Telephone of Iran. Existing facilities are not at all adequate to meet the present demands.

5. Agricultural Machinery—$11 million. Agricultural equipment is urgently needed in Iran. The Minister of Agriculture—together with the plan organization and the agricultural bank—are working on a project whereby agricultural equipment may be purchased and resold to the farmers on an installment credit plan.

6. Purchase of Diesel Locomotives—$11 million. The Iranian state railway is in need of rehabilitation, and the proposal is to buy about 30 diesel-powered locomotives to be used for passenger and freight cars on the Andimeskh-Dorood line, in the mountainous section of the Trans-Iranian railway.

During recent high-level discussions within the United States Government, of both the political and economic aspects of the Iranian problem, it was decided that United States budgetary assistance to Iran should be continued but that after January 1, 1955, because of the resumption of oil production in Iran and the expected growing income therefrom, such aid should take the form of loans rather than grants.

It was determined also that, because of the political advantage to be derived therefrom, all loan assistance to Iran should be extended in one "package" and administered by a single United States agency—the Export-Import Bank. Funds for a total of about $30 million are therefore expected to be made available to the bank by the FOA for the purpose of a loan for budgetary support to be extended by the bank to the Iranian Government and to become available effective as of January 1, 1955.

It was also decided that $2 million of $13 million included in the FOA's basic economic program for Iran—a program consisting of $8 million for technical assistance and $13 million for associated development assistance—should be on a loan rather than grant basis and that this loan should also be included in the aforementioned overall package.

It is understood that the total prospective loan commitment now before the Export-Import Bank for consideration may, therefore, be summarized as follows:

	Million dollars
From Export-Import Bank Funds	
Karadj dam	18
Other development projects	35
Total	53
From FOA Funds	
Budgetary support	30
Basic economic program	2
Total	32
Grand total	85

VIII. Iran's Present Economic Position and Prospects

The element of basic importance in the Iranian economy today is oil. The sizable revenue derived from it in the past was used by the Iranian Government as an aid in meeting current expenditures and in financing the beginnings of an ambitious development program. With the nationalization of the oil industry in the spring of 1951, however, oil production and the income therefrom have virtually ceased; as a result, the country has been confronted, since then, with growing economic and financial difficulties.

After the blunders of the Mossadegh regime, the present Iranian Government is clearly aware of the fact that the key to the economic and financial rehabilitation of Iran is the reestablishment of the country's oil production, exports, and income. Soon after the Zahedi Government came into power in August 1953, work was begun to bring about an oil settlement. Only recently, however, on August 5, 1954, after protracted negotiation, was a settlement in principle arrived at between a consortium of eight of the world's largest oil companies and the Iranian Government. On October 21, 1954, that settlement received the approval of the Majlis, the lower House of the Iranian Parlianment. With recent approval by the Senate and the Shah's signature, the long controversy has been brought to a close and no further obstacles stand in the way of an immediate resumption of production and exports of Iranian oil and of a growing flow of income therefrom to the Iranian Government.

It has been estimated by the oil companies and publicly announced when the oil agreement was initialled by the companies and the Government that total income to Iran from the increasing scale of operations contemplated for the first 3 years, following a starting-up period of 3 months, will be £150 million ($420 million) on the basis of present prices and costs. The estimated annual figures begin at £31 million ($86.8 million) for the first full year of operation, increasing to £52 million ($145.6 million) in the second, and to £67 million ($187.6 million) in the third year. In addition it is estimated that an amount equivalent to $34 million per year will be available to the Iranian exchange authorities from purchases of local currency (rials) made by the oil companies to meet their local expenditures.

Following the third full year of operations it is the publicly announced policy of the oil companies to continue taking from Iran quantities of crude oil which will reasonably reflect the supply and

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demand trend for Middle East oil, assuming favorable operating and economic conditions in Iran. The general expectation is that this will involve future production and sales on a scale at least equal to the amounts attained in the third year of full operation of the oil agreement.

A recent agreement between the British and Iranian Treasuries, furthermore, provides that sterling income from consortium oil operations, comprising tax and royalty payments as well as local currency payments by consortium companies, will be freely converted into United States dollars by the Bank of England up to 40 percent of the total. The United States Treasury has, moreover, recently obtained direct assurances from the Treasury of the United Kingdom that dollar exchange will be made available against sterling to pay interest and amortization on any advances made by United States Government agencies to the Government of Iran. This is in addition to the 40 percent just referred to in the preceding sentence, if additional convertibility is necessary.

After the cessation of United States aid and the beginning of an ample flow of oil income, the future of Iranian finances and of the Iranian economy generally, will depend mainly upon the wisdom and firmness with which the Iranian Government administers the country's financial affairs, its foreign trade and exchange activities, and its economic development programs and plans. An encouraging indication of the present Government's understanding of this crucial question and of its apparent willingness to bend every effort toward the maximization of the benefits which Iran is to derive from its prospective oil income, is represented by the formal assurances which the Iranian Government has very recently given to the Government of the United States, to the effect that provisions will be promptly made by it for a reform of its fiscal system, and for the establishment, at the highest governmental level, of machinery for effective control and coordination of economic development projects so as to avoid, in future, commitments of resources made without regard to the priority needs of the Iranian economy.

With urgently required administrative and fiscal reforms thus in prospect, with current financial difficulties to be relieved through United States aid and a gradually rising oil income, with oil production expected to be fully restored in about 3 years' time, and an estimated annual income therefrom equivalent to nearly $200 million flowing to the Iranian Treasury, there appears to be good prospects that equilibrium in the Iranian economy will be fully restored in a reasonably short time, and that, barring unforeseen economic and political difficulties, the country will be fully able to repay the budgetary and development loans requested at the present time.

IX. United States Personnel

As of June 30, 1954, the following are personnel we employed for the Mutual Security program in Iran:

	FOA	State	Defense
United States nationals	235	25	63
Civilian	235	24	5
Administration personnel	28	24	5
Program personnel	207		
Military		1	58
Foreign nationals	55	76	
Administration personnel	55	76	
Program personnel			
Total military personnel		1	58
Total administration civilian	83	100	5
Total program civilians	207		
Total MSP civilians	290	101	63

X. Activities—Economic Staff, United States Embassy

The major current economic problems and activities (exclusive of routine reporting) occupying the attention of the Embassy include:

1. The Oil Problem.—While an oil settlement has been agreed to between the consortium and Iran, settling the 3½-year dispute, the Embassy is much concerned with keeping it on the tracks. Such problems as conversion of sterling oil earnings to dollars, oil production and payment arrangements continue to plague the Embassy. The problem is mainly one of preventing any issue from growing into a serious problem. A Consulate has been proposed for southern Iran to maintain closer contact with the oil industry.

2. Iranian Expenditures.—Since an oil settlement was reached the Iranians have been tempted by various offers of foreign credits for things not appropriately fitting into a balanced development program. The Embassy has been engaged in advising Iranians, all the way up to and including the Prime Minister, of the advantages of holding off commitments until an overall development plan has been devised.

At the same time the Embassy is actively assisting American businessmen to get legitimate Iranian contracts.

3. FCN Treaty.—The Embassy is attempting to make the most of what appears to be an opportune moment to negotiate an FCN treaty. The Iranians are presently aware of the advantages of producing a climate hospitable to foreign investment and this has induced an incentive for Iran to conclude an FCN treaty.

4. Financial Policies.—Iran's monetary laws are outmoded and rigid. The United States Embassy in Tehran is actively working with the Iranians on the problem of liberalizing their financial laws.

Iran's exchange rate problem is a very active one. Iran appears to believe that devaluation is politically necessary and is inclined to ignore the economic complications. Dual exchange rates plague our Embassy and we are in the midst of attempting to get the Iranians to work toward a unified exchange rate.

5. Relations with International Agencies.—Iran is rather inexperienced in dealing with international agencies such as the IBRD and the IMF. The Embassy frequently finds it necessary to guide the Iranians in their dealings with these agencies, and the problems of concern to these agencies.

6. Budgetary Problem.—The fact that an oil settlement will ultimately mean that Iran will more than triple its foreign exchange earn-

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ings makes for many budgetary problems. Our Embassy is employed in assessing and advising the Iranians regarding their budget. The fact that we are taking a new look at Iran's military potential complicates this problem.

7. *East-West Trade.*—Iran's lack of statistics and poor communication system make it necessary for the Embassy to maintain close personal contacts with appropriate Iranian officials in order to accomplish our aims with respect to East-West trade.

Multilateral Economic Programs

The embassy, Overseas Missions Iran, and Middle East treasury representatives work as a team on the problem of economic aid. Problems involving economic aid are undoubtedly the most important and most urgent economic work engaging the embassy's time. Since a defense establishment must be built on a sound economic base, economic aid problems necessarily involve questions involving military support.

The embassy is actively and urgently engaged in questions concerning the amount of aid required, the type of aid required, implementation of aid, etc.

XI. Observations

1. From the statements under technical cooperation and development assistance (sec. II) and the tabular presentation of the fiscal year 1955 aid program in section IV, it is noted that technical cooperation and development assistance are regarded by the Foreign Operations Administration as interrelated and for all practical purposes each may be regarded as a supplementary component of the other. Also that budgetary support is included under development assistance.

While the exigencies of the Iranian situation have required prompt emergency treatment, the above illustrates the necessity to consider, in this case, technical cooperation and development assistance and in other country programs, these two categories plus defense support and frequently direct forces support as aggregate sources of funds for a common purpose more appropriately described as economic aid.

It is frequently asserted that this policy subverts the intent of Congress in delineating the four categories specified in the above paragraph, which delineation by the indicated usage is meaningless in practice and application.

2. Present policy of FOA seems to require that a specific industrial or economic development project must be approved before technical assistance for it can be recruited. In effect, this reportedly means that projects are often developed, approved, and funds committed before qualified technicians or professional advice is obtained. Capital is no substitute for skill or experience.

3. This tends to result in large expenditures for capital equipment which are unsound, uneconomic, and untimely.

4. A continuance of this policy will only lead to the physical properties so provided becoming liabilities and not assets with the skills, knowledge, and ability to operate them totally lacking. This has been best expressed by an informed observer, long resident in Iran, in the following words,

> Because of the widespread coverage and its possible effective improvement in the economic development of Iran, it has become my opinion that the most effective assistance USOM can now give this country in the covered fields, is technical and financial management advice for the sound development of the projects and programs already undertaken. In addition, a more effective training program in the fields covered by projects needs to be carried out. This must be done for progressive management is of greater need in the development than additional capital: not only to implement expansion but to repair and operate existing units. We need trained men now who have not even yet received Washington approval, though they were requested over a year ago. Several of the plants requiring these men will be in operation before the requests made will be filled.

5. In common with most FOA country programs, in Iran, there is little evidence of established priority or order in which objectives are planned for either initiation or completion. The constant expansion of established activities plus the addition of new projects or activities all proceeding simultaneously with varying degrees of success provides no precise criteria of accomplishment or no orderly means of control or adjustment. This is most clearly demonstrated in the area of technical cooperation.

6. The agricultural programs have been unusually successful. The University of Utah has participated in these programs and many of the FOA personnel in Iran are Mormons. These are dedicated and unselfish people of real ability who have produced results and have won the confidence of the Iranians with whom they have come in contact.

7. For political and other reasons, some technical assistance should be continued in Iran, but, in the opinion of a highly placed and well-informed United States official, this would not require a USOM or similar type of field mission in calendar year 1956. Our only function would be to recruit the personnel in the United States and pay their dollar costs. They would then be attached to the various departments of the Iranian Government at its specific request, and be generally supervised by the economic officer of the United States Embassy.

8. Economic development in the industrial area should no longer be financed by grant aid, but by loans approved on individual merit in relation to coordinated development, which process is now being initiated.

9. High United States policy regarding the use of grant aid (United States public funds) to finance industrial development in the absence of local clear-cut differentiation between governmentally controlled institutions and private enterprise, or without established provisions for the transition to private enterprise obviously requires greater clarification. To aid both types of institutions where they exist competitively as in Iran, and elsewhere, Formosa, Philippines, etc., promises increased difficulties for the future if aid is continued in the absence of any such understandable policy.

10. The Export-Import Bank as a continuing governmental organization acts as agent for loans approved by the Foreign Operations Administration. For example, the proposed "package" operation referred to in section IX of this paper involves both a conventional form of loan application to the Export-Import Bank by the Government of Iran and a loan developed and funded by the FOA for which the bank acts as agent and not as principal in servicing the loan. The two types of loans are commonly referred to as "hard" loans in the case of the usual or common type of bank loan and "soft" loans in the case of those developed and negotiated by FOA but for which the bank

acts solely as agent. The chief differences are in the much longer terms of the "soft" loans running up to 40 years compared to the usually much shorter terms of the bank loans, 3, 5, or 10 years, and an option of repayment in local currency or dollars in the case of the FOA loans. Since the so-called soft loans are apparently expected to become increasingly important as a tool of United States foreign policy in replacing grant aid wherever possible, the criteria and conditions under which such loans are approved need to be established in greater clarity if they are not to create opportunities for disagreement and misunderstanding in the future. More detailed discussion of the principles involved may be found in the complete report of the Task Force on Overseas Economic Operations.

11. Much criticism has been directed at the size of the FOA staff in Iran, approximately 300 persons. In the absence of a field investigation, it is impossible to make any intelligent comment on this criticism at this time. Undoubtedly too many types of technical assistance got started originally. For many reasons, largely political, any immediate wholesale reduction in personnel or activities during the balance of this calendar year would appear to be unwise. Meanwhile, a serious effort should be made to review the entire program.

12. Some criticism exists of the present plans for hydroelectric power development in Iran. It has been suggested that the availability over a number of years of reclamation engineers financed by TCA and FOA, in recent years directed by a mission chief who was formerly Assistant Secretary of Interior in charge of reclamation, has led to overemphasis on hydro to the neglect of thermal sources of power. No evidence is readily available to indicate full consideration of both sources. Such consideration should be given to ensure a balanced judgment.

Pakistan

By Jeremiah J. Kenney

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INTRODUCTION

A study of United States aid to Pakistan affords an interesting example of the purpose, extent, and character of the foreign aid programs of our Government under the unique conditions found in one of the world's largest and newest nations. And it is not a microscopic example. American taxpayers have spent more in Pakistan in the last 4 years ($250 million) than they have spent for the entire legislative branch of our Government during the same period.

By design and necessity, our aid to Pakistan has been based on the economic and political circumstances existing there. These factors have had a major impact on the shape and nature of United States activities, and are therefore discussed in this paper. They also form the background against which our aid has been applied, and, in the final analysis, the effectiveness and success of our aid can only be evaluated in terms of the changes, and improvements, it brings about in Pakistan.

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I. General Background

Pakistan, "land of the pure," was created in the August 1947 partition of British India out of the conviction of a majority of the Muslims that they possessed genuine national interests separate and distinct from those of the Hindu majority in India. Pakistan's problems, as a nation, started with partition and continue, little abated, to the present.

Its geography alone poses a problem of staggering dimensions. The two parts of the country are separated by a thousand miles of Indian territory. West Pakistan contains 85 percent of the land area, but only about 45 percent of the total population of 76 million. A large part of its area is arid and its agricultural economy is sustained by one of the world's most intricate network of irrigation canals. The native language is Urdu. Many of the people, notably the Punjabi, are a strong, aggressive, and even warlike race. East Pakistan is a subtropical area, housing 55 percent of Pakistan's population on only 15 percent of the land area. Bengali is the national language and East Pakistan's residents are a different type of people, by custom, habit, and temperament than those of West Pakistan.

The principal cohesive force in the nation is the Muslim religion, observed by 86 percent of the population.

In addition to a divided nation, the partition left Pakistan with a great shortage of trained personnel, both for industrial needs and for government itself. The Indian civil service developed by the British was dominated by Hindus, who did not remain in Pakistan. Furthermore, those Muslims who did have training in government service generally were not natives of the areas now comprising either East or West Pakistan. Many of these now hold top government positions despite their status as refugees. This has brought an unfortunate reaction, especially in East Pakistan where the slogan "Bengal for the Bengali" has gained considerable support.

The partition itself was a bloody affair, riots and bloodshed taking the lives of some 500,000 persons in India and Pakistan. Millions of refugees crossed the Pakistan-Indian borders in both directions, leaving behind them millions of dollars' worth of property accumulated over generations. The myriad personal wounds of the partition have scarcely had time to heal.

Partition also split jurisdiction over the valley of the Indus River, principal water source for West Pakistan, between India and Pakistan. The British had developed the Indus River system on an integrated basis and the partition has invoked a deep controversy over

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use of the river water. The World Bank is now trying to assist the two countries to resolve this problem.

Kashmir, like the disposition of property left behind and the Indus waters, is a source of dispute with India. It is a Muslim majority area, but as a princely state with the option of joining either India or Pakistan, its Hindu maharajah acceded to India. U. N. attempts at settlement by a plebiscite have failed to date.

Pakistan's relations with Afghanistan, its northwestern neighbor, have never been friendly because of a dispute over the status of tribal people along the border between the two nations.

Internally, Pakistan has had a parliamentary type of government modeled along British lines. In recent months, however, the governor general has dissolved the constituent assembly and the power is now held by the governor general and a strong cabinet.

The chief political party in Pakistan is the Moslem League. It is opposed by a number of loosely organized groups united only in opposition. The Moslem League, however, was defeated in provincial elections in East Pakistan last year and its political strength in West Pakistan is believed to have waned considerably. No national elections have been held in 7 years.

Pakistan's Role in the World

Pakistan occupies a special position as both a Middle Eastern and an Asian nation. It is the largest Muslim country in the world and has seen itself as a leader of the Muslim world, as well as an Asian power.

It is clearly and firmly aligned with the free world and has rejected the neutralist approach. In addition to its military agreement with the United States, Pakistan is one of the signers of the SEATO pact and has signed a military assistance agreement with Turkey.

Pakistan's northern border comes within 18 miles of Soviet Russia and it assumes added strategic importance from the fact. Furthermore, internal communism is not believed to have much strength in Pakistan.

United States relations with Pakistan have been increasingly close and harmonious. Vice President Nixon, Secretary of State Dulles, and FOA Director Stassen have all visited Pakistan within the last 2 years. The Prime Minister and other high officials of Pakistan have visited the United States. Pakistan, too, participates actively in the U. N. and many of its related agencies.

United States Objectives in Pakistan

The broad compelling objective of the United States with respect to Pakistan is expressed as a joint objective of both countries: "The strengthening of the economy and the defense capabilities of Pakistan." [1]

In other terms, our objectives apparently are to aid Pakistan to improve its economic stability and strength in order to maintain internal security and to realize its potential ability to become a stronger force in the ranks of the free world.

Improving political stability, listed as one of the United States objectives, cannot be disregarded in the case of Pakistan, an 8-year-old nation without any history of self-government and lacking even its own constitution.

Our objectives with respect to Pakistan are met by three broad categories of aid:

A. *Technical cooperation, development assistance, and defense support.*—Designed to supply Pakistan with some of the external supplies, equipment, and know-how for the construction and management of projects for the development and strengthening of the economy of the country.

B. *Commodity aid.*—Designed to give direct assistance to the problems of shortages of consumer goods and industrial raw materials. The aid is planned to meet the needs of the civilian economy—in short, to improve living conditions and help end the inflation and shortage of goods which has contributed to the unrest, dissatisfaction, and instability in the country.

C. *Military aid.*—Contributing directly to strengthening the defense capabilities of Pakistan.

[1] Joint United States-Pakistan communique issued in Washington, October 21, 1954.

II. General Economic Situation

Pakistan's economic strength is the key factor in achievement of both the United States and Pakistan's own objectives. Economic strength is also believed essential for maintenance of a stable, free government. Therefore, a brief review of Pakistan's economic strength and weaknesses may be helpful in an analysis of United States foreign aid to Pakistan.

The 1947 partition of British India cast Pakistan in the role of an almost completely agricultural country—a role from which Pakistan is now struggling to escape. Prior to partition, Pakistan and India formed an economic unit, one area supplementing the needs of the other. In the case of jute, for instance, most of the raw jute was grown in East Bengal (now East Pakistan) and processed in mills in Calcutta. The harsh facts of partition and the difficult relations between Pakistan and India left Pakistan with no facilities for processing jute and Indian mills with greatly reduced sources of raw material. Pakistan, at the time of partition, was almost devoid of industrial facilities. Eighty percent of the population depends on agriculture for its sustenance, despite the fact that agricultural yields in Pakistan are among the lowest in the world. Rice yields are estimated at about 1,255 pounds per acre as compared to 2,640 in the United States and 3,663 in Japan.

Pakistan, because of the dearth of industrial facilities, has been forced to import vast quantities of manufactured goods, both for capital development and for consumer use. Even coarse cotton cloth is not produced domestically in sufficient quantities to meet demand. To meet the need for foreign exchange, generated by these imports, Pakistan has two major export crops, cotton and jute, which account for 85 percent of its foreign exchange earnings. The Korean war produced an increased demand and higher price for these commodities. This provided Pakistan with foreign exchange which was adequate for the purchase of the needed consumer goods, the external costs of its development program, and even a higher level of prosperity.

In 1952 the war boom started collapsing. Prices of both cotton and jute fell more than 60 percent. Pakistan's foreign exchange reserves began to drop rapidly. In August 1952 the Government began to curtail imports in order to conserve its reserves. In November 1952 it imposed strict import controls and the level of imports dropped 60 percent.

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The Pakistan Government, in restricting imports, was forced to decide between the need for ordinary consumer goods and the needs of its expanding economic development program. The Government firmly chose to favor development needs over consumer goods, apparently feeling that this alternative offered the only long-run solution.

After meeting the foreign-exchange requirements of the development program and necessary defense imports, the balance remaining has not been sufficient to finance fully necessary consumer goods and industrial raw materials. Diversion from development needs to the consumer segment, in the view of the Pakistan Goverment, would be difficult because of commitments already made and futile because it would put the nation in an even more critical position after several years.

This is the basic economic situation which has confronted Pakistan in the last 2 years and which still exists at this time. It sets the stage for our aid efforts.

Several other factors also contributed to make the situation even worse. These will be treated in somewhat more detail later. Briefly stated, they were shortages of rainfall and canal water in 1952 and again in 1953, producing serious wheat shortages, and in 1954, the other extreme, floods in East Bengal and the Punjab, causing considerable loss in crops and hardship to a great many people.

Post-Korean Effects

The effect of the Government's decision on imports, together with the drought and flood, was severe and widespread. Prices rose sharply and almost immediately. There was a tendency on the part of importers to hoard, and farmers may have held grain and food off the market.

The 1954 Colombo plan report notes that "while industrial production showed a substantial increase, the higher output of consumer goods did not compensate for the decline in imports and there was additional downward pressure on the standard of living. As the standard of living in Pakistan is already low, this involved considerable hardship among large groups of the population."

The Pakistan Government itself acknowledges that "the consumer has had to undergo a period of hardship."

The import restrictions were so severe that imports of industrial raw materials fell from Rs. 335.9 million in 1952–53 to Rs. 289.6 million in 1953–54. "It appears that this volume of imports of industrial raw materials fell below requirements, with the result that new industrial capacity could not be fully utilized and some unemployment occurred."[1] Most of Pakistan's rolling mills and foundries, for

[1] Colombo plan report, October 1954.

instance, could not operate at capacity in 1954 because of the shortage of raw material.

The restrictions on imports, necessary if Pakistan was ever to adjust to the realities of the world, produced considerable shortages of commodities, inflation, blackmarketing, and unemployment. The food shortages caused by poor crops in 2 successive years also add to the difficulties.

Foreign Reserves

Still another facet of the situation was Pakistan's fast-dwindling reserves of gold, dollars, and sterling, as can be seen below:

Pakistan Gold, Dollar, and Sterling Reserves Held and Controlled by the State Bank of Pakistan [1]

[Millions of dollars]

Dec. 31, 1949	526.0
Dec. 31, 1950	520.0
Dec. 31, 1951	652.0
Dec. 31, 1952	181.8
Dec. 31, 1953	206.7
June 30, 1954	([2])

[1] Source: GOP: Central Statistical Office, "Statistical Bulletin," Feb. 1, 1954, for 1952 and 1953. International Monetary Fund, International Financial Statistics, December 1952, for 1949, 1950, 1951. Figure for June 30, 1954, represents estimate by GOP Minister of Finance. However, GOP Press Release E. No. 4707, Oct. 8, 1954, provides an estimate of $189.2 million for that date.

[2] Not available.

Balance of Payments

Figures on Pakistan's international balance of payments may be helpful in illustrating the effect of this situation on Pakistan's trade and the extent of drain on foreign exchange reserves over the past few years. The figures, while not completely satisfactory because of the general lack and unreliability of the economic data, seem to show a relatively large drop in the volume of trade, particularly on private account, and apparently are a reflection of the restrictive import policy of the government. They may also show the rather sizable deficit which might draw still lower Pakistan's foreign exchange reserves.

Economic Summary

The economic situation in Pakistan was examined in 1953 by a special study mission of the House of Representatives headed by Rep-

resentative Chester E. Merrow, of New Hampshire. Expressing the belief that Pakistan had already tightened its belt to the last notch, the group indicated that the alternative choices facing Pakistan, as outlined to the mission, were:

1. To cut even more drastically foreign exchange expenditures on economic development programs essential to hopes of future progress.
2. To permit widespread starvation.
3. To reduce drastically defense expenditures.
4. To obtain additional foreign aid to supplement their own belt tightening during this emergency economic situation.

Better crops and more than 600,000 tons of United States wheat have apparently eliminated the second alternative above. Otherwise, the listing covers the situation which seems to have confronted Pakistan in 1954 and again this year. United States aid programs to Pakistan, fashioned originally out of the basic humanitarian aims of point 4, have been greatly altered by the changing economic, political, and military situation in Pakistan. As a result of urgent requests by the Pakistan Government, revised programing on the part of United States officials, and enlarged congressional authorizations, the United States has tried to aid Pakistan in meeting these choices on the best possible terms.

III. Foreign Aid

Since 1952, Pakistan has received substantial amounts of foreign aid, both from the United States and from commonwealth countries under the Colombo plan, for economic development. Other agencies, including the World Bank and the Ford Foundation, have also aided Pakistan's development.

The following table sets forth the amount and nature of the aid extended to Pakistan 1950–55.

Total Economic Aid to Pakistan (1950–55)

[Millions of dollars]

United States Government bilateral aid	1950	1951	1952	1953	1954	1955	Total
Technical assistance and special economic aid		0.48	10.6	12.0	22.0	105.0	150.08
United States wheat loan (EXIM)			15.0				15.0
United States wheat grant				70.0			70.0
Ocean shipping charges				[1] 15.0			15.0
Fulbright and Smith-Mundt program	0.02	.30	.31	.34	.35	.35	1.67
Total United States Government bilateral aid							251.75
United Nations technical assistance		.27	1.1	1.7	.85	.30	4.22
IBRD			30.45		[2] 14.0		44.45
Colombo plan:							
Canada, Australia, New Zealand			15.2	18.3	19.8	[4] 15.0	68.3
United Kingdom [3]			11.2	11.2	11.2	11.2	44.8
Total Colombo plan							113.1
Other aid:							
Ford Foundation			2.85	.52			3.37
U. K. credit					28.0		28.0
Japanese 5-year credit				16.8			16.8
Other					[5] .2		.2
							48.37
Total aid							461.89

[1] Ocean transport of wheat (approximate figure).
[2] U. K. has agreed to release $5 million as part of loan.
[3] Sterling releases (by agreement) made available annually.
[4] Estimate.
[5] Shipping charges, voluntary agencies.

Offers of additional aid in the form of technical assistance have been received by Pakistan from Sweden and West Germany, but the outcome is not known.

The Pakistan Government describes the aid as "highly valuable, not only because it helps to provide the finance (and of course foreign exchange), but because it enables quicker import of capital and other developmental goods and brings with it the technical "know-how." [8]

[8] Pakistan, 1953–54.

IV. United States Aid

United States aid to Pakistan, indicated in the table on page 701, was first extended in 1951 as a small amount of technical assistance.

As in the case of India, the United States aid was initially administered by the Technical Cooperation Administration under the terms of the act for international development. This put TCA in the position of administering a program with large aspects of economic assistance under legislation designed only for technical assistance, permitting furnishing equipment and supplies only for demonstration purposes, and with an organization geared only for technical assistance programs.

In 1954, the dual character of the program was recognized in the authorization and appropriation and distinction was made between technical assistance and economic assistance. However, relatively large proportions of the funds appropriated for technical assistance have since been used to finance substantial quantities of supplies and equipment. This may illustrate the difficulty in distinguishing between economic and technical aid.

The level of what is termed the technical assistance program in Pakistan, actual or estimated, in round figures is set forth below:

FISCAL YEAR

	1951	1952	1953	1954	1955	1956
Technical assistance allotment (in millions of dollars)	$0.48	$10.6	$12.0	$8.16	$5.3	$10.0

These figures would indicate that the technical assistance program reached a peak in the 1953 fiscal year and thereafter declined. This, however, does not appear to be the case. The general program for Pakistan, as can be seen in the table on page 701, has steadily increased each year. It has, however, always in fact been an integrated program in which technical, economic, and development assistance all have been merged at the country level into a single program, or series of programs. The distinction between these types of aid which appears in the budget presentations after 1953 seems to have been superimposed at an administrative and policy level in order to facilitate the presentation to Congress. The United States program in Pakistan since 1952 has each year included support generally considered to be economic assistance, whether actually identified as such or not.

The program for fiscal year 1955 was illustrated to Congress in the amount of $20 million for development assistance, and the $6.7 million for technical assistance of which $5.3 million was authorized and

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appropriated. This would have provided a total new program of $25.3 million for Pakistan in fiscal year 1955.

As the worsening economic (and political) situation became more apparent, the Pakistan Government in June, July, and August 1954, urgently requested additional emergency aid from the United States. The request was not unexpected or unforeseen. FOA witnesses had advised Congress of the possibility of additional aid for Pakistan as early as May 6, 1954.

In response to the repeated requests of the Government of Pakistan for additional aid, a special FOA mission, headed by Mr. H. J. Heinz II, was dispatched to Pakistan to review the situation first hand. After its study, the mission recommended additional United States aid, above and beyond that already programed or appropriated, to the tune of about $75 million for fiscal year 1955 and also recommended that substantial aid be continued for the 2 succeeding years. The basic economic situation which led to the recommendations of the mission has already been discussed.

In determining the nature of the aid recommended, the Heinz mission carefully reviewed the position of the Pakistan Government with respect to its foreign exchange requirements and resources, placing special emphasis on the availability of United States agricultural surpluses to meet the needs of the overall economy and the development program.

The mission recommended that the $75 million in additional United States aid be in the form of commodities, mostly consumer goods. They prepared a rather detailed estimate of the amount and nature of the commodities recommended as aid, based on the request of the Pakistan Government and their own estimates.

The mission further recommended that the aid be accompanied by certain other actions, both on the part of the Pakistan Government and the United States Government.

With respect to United States action, the Heinz mission recommended among other things that:

(1) Aid be made available as soon as possible;

(2) Counterpart from the aid be used for economic development programs.

With respect to Pakistan, the mission recommended that:

(1) Aid be carefully administered, with full publicity, and in full cooperation with the United States;

(2) The United States be permitted to check the end-use of the aid;

(3) Pakistan make optimum use of its own resources, both domestic and foreign exchange;

(4) More effective means be established by the Government of Pakistan for scheduling and programing economic development;

(5) That a United States-Pakistan treaty of commerce, friendship, and navigation be negotiated and other steps taken to encourage private investment.

The principal recommendations of the Heinz mission were apparently bought on the policy level and the expanded aid program was publicly announced October 21, 1954, while the Prime Minister of Pakistan was in Washington.

Following adoption of the Heinz mission report, the United States aid for Pakistan in fiscal year 1955 was as follows:

Fiscal Year 1955 Aid Programs for Pakistan

	Million
Emergency flood relief	[1] $10.5
Technical assistance	5.3
Economic development assistance (Authorized and appropriated as defense support)	[2] 20.0
Emergency commodity aid (about)	[3] 76.0
Total	111.8

[1] $5 million supplied under Public Law 480 title II and $5.5 million under Public Law 665.

[2] Loan.

[3] $36 million plus supplied under Public Law 480 ($26 million plus under title I and $10 million under title II), and about $40 million under Public Law 665.

For the sake of convenience the program was generally described as $105 million. It should also be noted that this was only the economic and development assistance program. Military aid was not included. It appears that the nomenclature again shifted at the end of fiscal year 54 and the economic and development assistance program vanished and a defense support program sprang up to take its place.

V. General Considerations Affecting United States Aid

Several general restrictions and conditions have generally been applied to United States aid programs and projects. These considerations have been designed to increase the impact and success of the program.

The basic consideration is that every effort should be made to insure optimum use of Pakistan's own resources.

In addition, the general requirements which Pakistan must fulfill in connection with United States aid are applied as set forth in the Mutual Security Act of 1954 (Public Law 665).

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VI. Extent and Nature of United States Aid

Approval of the recommendations of the Heinz mission for a greatly expanded aid program for fiscal year 1955 occasioned a legal and financial exercise of considerable dimensions in order to finance the $105 million program on a basis consistent with the terms of the Mutual Security Act of 1954 and the Agricultural Trade Act of 1954.

Funds were obtained from military assistance authorizations in chapter 1 of title I and were transferred under the provisions of section 401 ($20 million) and section 501 ($35.6 million) to the Pakistan program to supplement the $20 million for development assistance and the $5.3 million for technical cooperation provided by the act. The balance of the program was apparently provided by sale of surplus agricultural commodities under Public Law 480.

This complicated method of financing also led to a complex series of bilateral agreements with Pakistan, the negotiation of which was not completed until January 18, 1955. With the exception of a relatively small emergency flood relief program, none of the 1955 program for Pakistan was covered by the required program agreements until after January 1, 1955, halfway through the fiscal year.

In the face of a delay of these proportions, it would seem difficult to carry out a fivefold expansion of the program in the remaining 6 months of the fiscal year.

Considering what might be called the basic aid program, consisting of outright grants for technical assistance and economic development, projects in the field of agriculture and natural resources, understandably, have received the lion's share of the aid, amounting, for instance, to 83 percent of the total in 1955. In the future, however, it is expected that this percentage will drop in view of the progress being made in this field. Industry and mining has been the next largest category and it appears to be rising in importance, and the same is true with transportation and communication. Projects in the field of health and sanitation, and community development appear to be receiving about 5 percent of the funds each.

On the basis of budget information prepared by FOA, it appears that 85 percent of the technical assistance funds for fiscal year 1953 were obligated for supplies and equipment, although it appears that the figures on which this percentage is figured include United States contracts as well as obligations for supplies and equipment. In fiscal year 1954, 37.7 percent of the technical assistance appropriation was obligated for supplies and equipment and 33.5 percent for United States contracts of all types.

United States personnel costs, other than contract personnel, appear to be taking a slightly rising percentage of the total obligations for technical assistance. They were 14.7 percent in fiscal year 1953, 15.5 percent in 1954, and are estimated at slightly over 25 percent for fiscal year 1955. Pakistan trainees, coming to the United States or other countries for technical training, account for a very small percentage of the program, there being no funds obligated for this purpose in fiscal year 1953 and only $2,000 in fiscal year 1954. It appears that for fiscal year 1955 and later years that about 4 percent of the total technical assistance funds will go for this purpose.

It may also be of interest to note that there is evidence of considerable slippage in the Pakistan program with respect to the number of United States personnel and Pakistan trainees.

Estimates submitted to Congress in May 1954 indicated an anticipated obligation of $1,716,000 for United States personnel for fiscal year 1954. Later figures, dated October 1954, well after the close of the 1954 fiscal year, listed obligations of $1,261,000 for this purpose, a reduction of more than 25 percent from earlier estimates.

With respect to financing of trainees, the figures submitted to Congress in May 1954 estimate obligations of $500,000 for this purpose in fiscal year 1954. The figures of October 1954, show obligations for this purpose of only $2,000 in fiscal year 1954.

Unexpended Balance

The fiscal rate of progress of the program is probably best illustrated by the unexpended balances, bearing in mind that the Pakistan program has been increasing each year and in 1955 was increased fivefold. The unexpended balances, estimated, are shown in the following table.

Unexpended Balances, Pakistan [1]

[In thousands of dollars]

Date	Technical cooperation	Development assistance defense support	Total
July 1, 1953	$19,640		$19,640
July 1, 1954	19,893	$11,501	31,394
July 1, 1955	14,468	22,000	36,468
July 1, 1956	11,818	37,000	48,818

[1] Estimates as of the fall of 1954.

In view of the past history of the Foreign Aid program, the expenditure estimates may easily be overstated and the balances could be considerably larger than those shown above. It appears from these figures that the Pakistan program was relatively slow in getting under way initially. From the 1951 inception of the aid program until

June 30, 1953, a total of $23 million had been allocated to Pakistan. Less than $3.5 million had been actually expended. It may be worth noting also that as of June 30, 1953 $11 million was not subobligated.

As a matter of fact, the aid program in Pakistan did not actually get under way until sometime early in the 1953 calendar year. The project agreements which committed and obligated United States funds for the 1952 fiscal year were all signed in the closing months of the fiscal year, many of them on June 30, 1952, the last day of the fiscal year. The bulk of the mission staff apparently did not arrive in Pakistan until the late fall of 1952.

On the basis of this date, it appears that the 1952 program for Pakistan was larger than could be administered and this may also have been true of the 1953 program. Much of the difficulty with the inauguration of the program apparently arose from the situation in Pakistan, where the lack of trained personnel in the Government made program planning difficult and slow. In addition, the Pakistan Government apparently desired a big, monumental aid program in the industrial field, in contrast to the view of the United States mission which felt that the needs for increased agricultural productivity were overwhelming.

General Nature of Program

Through the end of the 1954 fiscal year, FOA and the Government of Pakistan had entered into project agreements for 32 projects, some of which included one or more subprojects.

The following chart lists the project agreements and the United States funds committed as well as the Pakistan contribution for the project. The Pakistan contributions in the aggregate do at least equal the value of United States contributions, although this was true only in 14 of the 32 individual project agreements.

Project Agreements, Pakistan Program, 1952–54

[Figures in thousands]

Name	Dollar amount				Rupee amount [1]			
	1952	1953	1954	Total	1952	1953	1954	Total
Village agricultural-industrial devlopment	2,300				3,500			
Same—1953 amendment		437						
Same—1954 amendment			−150	2,587				3,500
Acquisition and distribution of fertilizer	900				750			
Same—1953 amendment		3,700				12,240		
Same—1954 amendment			4,000	8,600			3,362	16,352
East Pakistan Forest Research Laboratory	200			200	600			600
Training activities	700			700	1,000			1,000
Health and sanitation project, 1952	500				800			
Same—1953		287		787		(2)		800
East Pakistan road development training program	1,100				425			
Same—1954 amendment			−500	600				425
Construction of fertilizer factory	4,000				41,000			
Same—1953 amendment		3,000						
Same—1954 amendment			3,500	10,500				
Chittagong Hills timber extraction	300				400			
Same—1954 amendment			100	400			113	513
Intercollege exchange project		800				650		
Same—1954 amendment			1,737	2,537				650
Karachi fish harbor		750				1,263		
Same—1954 amendment			−610	140				1,263
Soil Mechanics and Hydraulics Laboratory		100		100		362		362
East Bengal Tuberculosis Hospital		150		150		495		495
Locust control project		105		105		296		296
Bolan Dam project		450				1,600		
Same—1954 amendment			−375	75				1,600
Makhi Bhand reclamation project		500		500		1,900		1,900
Ground water exploration, tubewells		150				60		
Same—1954 amendment			[3] 50	200				60
Agricultural research and demonstration		75				100		
Same—1954 amendment			[3] 290	365			602	702
Baluchistan States Union Developmet		300		300		800		800
1954 PROGRAM								
Plant protection project		[3] 150	[4] 150	300			1,058	1,058
Karnafuli multipurpose project		750		750			100	100
Karachi water supply		250	1,500	1,750			5,688	5,688
Agricultural organization project		300	135	435			1,950	1,950
Ganges-Kobadak irrigation project			1,950				10,000	
Same—1954 amendment			−280	1,670				10,000
Soil and water conservation (Punjab)		85		85			220	220
Taunsa barrage project		700	2,800	3,500			30,000	30,000
Agricultural workshops project		250	250	500			1,940	1,940
Sailaba Cultivation, Baluchistan		130		130			140	140
Range and pasture improvement, Baluchistan		55		55			200	200
Diesel Locomotive Training School		20		20			36	36
Industrial Research and Development Center		447	280	727			1,136	1,136
Modern storage of foodgrains		1,485		1,485			2,420	2,420
Punjab ground water survey		743	115	858			2,000	2,000

[1] Pakistan rupees converted into dollars at the rate of 3.3 rupees to the dollar.
[2] Not available.
[3] Technical cooperation.
[4] Economic development.

Examples of Program

A brief discussion of some of the specific projects which go to make up the United States program in Pakistan might define more clearly the type of operations conducted there.

As has been noted, agriculture and natural resources (principally water) has received the major emphasis, and FOA has undertaken a variety of programs in this field.

Fertilizer

Prior to 1951, fertilizer had been used in Pakistan only to a very limited degree, but the shortage of food and the "grow more food" program resulted in a campaign by the Government to increase the use of fertilizer. The Government decided to subsidize the cost of fertilizer to the farmer and FOA agreed to provide the fertilizer. Under the first agreement, signed June 30, 1952, FOA provided 10,000 tons which was distributed to farmers at 40 percent of its actual cost. FOA on April 1, 1953, agreed to supply 75,000 tons which was sold at one-third the actual cost. Under fiscal year 1954 agreements signed September 10, 1953, and January 15, 1954, FOA apparently obligated $4 million for an additional 65,000 tons of ammonium sulphate, which will be distributed at half the actual price. In each case the cost of the fertilizer was collected from the farmer at the time he paid his land taxes.

The 85,000 tons of fertilizer supplied by FOA in fiscal year 1953 were purchased out of funds appropriated for technical assistance "on a demonstration basis" (according to Mr. Norman Paul, of FOA, testifying before the House Foreign Affairs Committee on the fiscal year 1954 program).

At the same time, the Pakistan Government and FOA sought to solve the long-range problem by building a fertilizer plant in Pakistan. Construction of such plant was undertaken by the Pakistan Industrial Development Corporation and FOA "so far" has committed $10.5 million for its construction. The plant will have a capacity of 50,000 tons of ammonium sulphate a year and is expected to go into production in 1956. The National Research Council and the United States Bureau of Mines reviewed the project for FOA before funds were committed. The total cost of the plant is $19 million, of which the external cost is $11.7 million. As of September 1954, $4.47 million had been expended on the project. Thus it appears that FOA is providing about 90 percent of the external costs of the plant and slightly more than 50 percent of the total cost. (Source: Progress of Economic Development in Pakistan, published by the Ministry of Economic Affairs, GOP, December 10. 1954.)

Another facet of the program to increase the food production in Pakistan has been the emphasis on development of new lands and new irrigation systems. FOA has assisted a number of projects of this type which include land reclamation, irrigation and multipurpose dams. Examples of this type of project include:

Ganges-Kobadek Project, Phase I

This is an irrigation project on the Ganges River in East Bengal. When completed it will improve 250,000 acres and is expected to increase food production by 66,000 tons by double and triple cropping. The project was approved by the Pakistan Government a year ago and work started recently. The total cost of the project is estimated at $5.88 million, of which $1.95 million is the external cost. FOA has committed $1.67 million for the procurement of supplies and equipment and other project costs, in addition to paying salaries, allowances, and expenses of the technical advisors furnished for the project. It is scheduled for completion in 1955–56.

The Pakistan Government has requested United States aid for at least two other extensive irrigation and multipurpose dams.

Erosion

Erosion is a problem of considerable proportions in parts of West Pakistan and the United States is assisting with several projects to develop sound programs of soil conservation and range development. One such project in Baluchistan calls for control and ground storage of excess surface water through use of water spreading, construction of low bunds, contour cultivation, and moisture conserving tillage practices. This project involves an expenditure of $130,000 by the United States and $42,000 by Pakistan.

Another similar but broader project in Baluchistan States Union arose out of a U. N./FOA preliminary economic survey which recommended an overall development program involving soil and water conservation, range restoration, afforestation, livestock improvement, development of communications and expansion of fisheries. According to the project agreement, the United States is to make available $300,000 for external expenditures and the Government of the Buluchistan States Union the equivalent of $240,000. Of the $300,000, FOA authorities have set aside $245,000 for engineering work.

Contracts

A large share of the technical and economic assistance projects in Pakistan have been carried out by means of contracts between FOA and American firms or institutions. There were at least 13 such contracts outstanding as of July 1954, ranging from contracts with individual technicians to the State of Massachusetts and several American universities.

The contracts in force as of mid-1954 are set forth in the table below:

Contracts Outstanding, July 1954

[In thousands of dollars]

Contractor	Initial date of contract	Actual fiscal year 1954	Estimated fiscal year 1955
Commonwealth of Massachusetts	Nov. 13, 1952	57,500	160,000
Armour Research Foundation	Apr. 20, 1954	37,500	
Armour Research Foundation	Aug. 27, 1954		63,760
Jose H. Varner	November 1954		9,750
Rufus L. Finch	do		8,900
Edward V. Hodanek	do		8,900
William A. Norman	do		8,900
Int. Eng. Co	Mar. 24, 1954	405,000	
Ralph Parsons Co	Dec. 2, 1953	575,250	196,000
University of Pennsylvania	Sept. 24, 1954	300,000	250,000
Colorado A & M	Aug. 16, 1954	500,000	320,000
Texas A & M	June 24, 1954	350,000	400,000
Washington State College	do	500,000	400,000

Because of the increasing use of contracts in technical cooperation and economic development programs, it seemed desirable to examine some of them in greater detail.

The contract between FOA and the Ralph M. Parsons Co., of Los Angeles, Calif., was signed December 2, 1953, for a basic amount of $540,000, of which $75,000 may be paid in rupees. Under the contract, the Parsons Co. was to supply engineering services of a professional, advisory, and consulting nature, to review preproject engineering as to feasibility, costs and time schedules, and to carry out specific engineering services. The contractor was to provide the services of 7 persons in Pakistan for 2 years, 6 of them to be senior engineers or other technicians. The Parsons Co. initially was directly to review and make recommendations relative to the preproject engineering on five projects covered by bilateral project agreements: Karachi fish harbor, Bolan Dam, Makhi Dhand reclamation project, test tubewells, and the Baluchistan States Union development project. In general, it appears that Parsons was to provide technical services to the United States operations mission in Pakistan.

A later amendment to the contract called for the Parsons Co. to provide the services of a senior engineer, a construction superintendent, and a tunnel foreman in connection with the Karachi water supply project (project agreement 24) for an additional amount of $114,387. In this case, the contractor's personnel were to directly assist in the design and supervision of the construction of the project.

This project agreement contains specific provisions for the training of Pakistani "in respect to the techniques and practices encompassed by the project." The Parsons contract and amendment contains only one brief reference to this type of close cooperation between United States and Pakistan personnel in requiring the Parsons Co. to "coordinate activities with agencies of the Government of Pakistan des-

ignated by USOM, with a view to maximizing the training and assistance benefits of this contract to Pakistan."

The several university contracts are designed to enable American university personnel to work directly with corresponding faculty members of specific Pakistan universities in the general fields of education, agriculture, engineering, business administration, and home economics.

Despite this stated policy of close working arrangements, the actual contracts are drawn between FOA and the American university, neither the host university nor the Pakistan Government being a party. The contracts call for the American universities to render services "under the general direction of the Director of the United States Operations Mission, pursuant to work plans agreed to by FOA, the (host) university, and the contractor."

The lack of contract provision for a direct and close relationship between the American institution and the Pakistan institution may put the USOM in the position of a constant intermediary and cloud the desired close and direct cooperation. In similar cases elsewhere, it has been found that the lack of a direct relationship between the United States and local institutions made the effective operation of the project more difficult.

In a broader context, the use of contracts with both private and public groups by FOA, in carrying out the technical cooperation and economic development program, seems to be an admirable way of securing high-caliber personnel and furthering a direct person-to-person relationship and generally advancing United States objectives.

In a major sense, the use of contractors in Pakistan may be likened to what in this country is called on-the-job training for the personnel in Pakistan. In view of the great need in Pakistan for both economic development and trained personnel, it has been the view of FOA that rather than putting large numbers of Pakistan personnel through training programs and then turning them loose on development projects which might be financed, as far as foreign exchange is concerned, by FOA, the better course is to bring in a qualified, competent firm to guide the construction of the development project and at the same time train the Pakistan personnel.

Internal disagreement within the Pakistan Government has apparently had its impact on some phases of the United States program, as is seen from an examination of the program expansion and modernization of a commercial fishing harbor at Karachi. Plans for development of the harbor were worked out in 1952–53 by TCA and the Government of Pakistan, with an estimated total cost of $2.2 million, of which $0.78 million was the estimated external cost. FOA committed $0.75 million for the project out of fiscal year 1953 funds, but it appears that an actual start on the project was long delayed

because of a dispute between the Karachi Port Trust and the Pakistan Ministry of Agriculture over the location of the harbor. This disagreement is apparently moving toward a solution, but several years have elapsed since the project was first approved on a Federal level in Pakistan.

The fact that Pakistan is a Federal Republic has also had an important bearing on some phases of the program. The bilateral agreements are between the United States Government (FOA) and the Government of Pakistan, but in a number of cases they cover projects and undertakings which in Pakistan fall under the jurisdiction of the states or provinces. The East Pakistan road development training project is an example of this type of case, since the responsibilities for highways are split between the Federal and the State Governments in Pakistan, as it is in the United States, and a number of bureaucratic and administrative delays arose, not all of which were confined to the Pakistan Government. This kind of difficulty, which has affected a number of the projects, may, in part at least, be attributed to the lack of trained personnel in the Pakistan Government.

Wheat Programs

A lack of rainfall in the 1951–52 growing season caused poor harvests and a shortage of wheat in Pakistan. In order to meet the needs of its people, the Pakistan Government drew on its foreign-exchange reserves to purchase wheat for import into the country and, as a part of this, secured a $15 million loan from the Export-Import Bank of the United States.

Again, in 1953, a more serious drought occurred and, because of a lack of foreign exchange, the Pakistan Government could not afford to import wheat. Under these circumstances, it appealed to the United States for emergency aid. After a survey mission verified the need for the grain, Congress approved (Public Law 77, 83d Cong.) a $70 million grant of wheat from the stocks of the Commodity Credit Corporation for Pakistan, plus loan of an additional $25 million, if needed, for 700,000 long tons of wheat for shipment to Pakistan. The first shipment was actually at sea within 24 hours of the time the law was signed, and a total of 610,000 tons of wheat, with a value of about $68 million, was actually shipped to Pakistan. In Pakistan, the wheat was sold to those who could afford to pay and given away to those who could not afford to buy it.

There may be room for some criticism of the program, inasmuch as only 61,000 tons were given away and 209,000 tons sold. The remainder, 338,000 tons, was placed in storage in Pakistan and appears to have been surplus to the immediate urgent needs of the

nation. The General Accounting Office has made an audit of this program, but the results of its review were not available as of February 28, 1955.

Whatever the shortcomings of the wheat program, it apparently generated a great deal of good feeling for the United States in Pakistan and is credited with playing a major role in preventing widespread starvation. The United States officials who worked in harness to get the program rolling and ship the first boatload, within hours after enactment of legislation, deserve praise. Government seldom moves this rapidly.

The emergency flood relief programs of 1954, amounting to about $10 million, fall in somewhat the same category. United States aid to flood victims in East Bengal and in Punjab was apparently timely and very well received by the people in Pakistan.

Commodity Aid Program

Aimed at easing the current economic situation of the country rather than at improving its long-range development, the commodity aid program in Pakistan is designed to supply those consumer goods and industrial raw materials which can make the greatest impact on the economic situation in Pakistan. At the same time, the availability of surplus commodities in the inventory of the Commodity Credit Corporation in this country is an important factor.

This type of aid apparently is computed by FOA as $45,500,000 for fiscal year 1955 ($5.5 million of the flood relief program and $40 million of the emergency commodity aid program).

Counterpart funds generated by this aid will be used for United States administrative costs, and for the economic development program of Pakistan.

Investment and Trade

Pakistan has now embarked on a full-scale, serious program to attract and encourage private investment and private industry, both internal and external, to aid the economic development of the nation.

Internally, in order to break the deadlock caused by the low rate of capital formation and the urgent need for development in diverse fields, the Government organized the Pakistan Industrial Development Corporation. This is a Government-financed corporation set up to initiate and encourage industrial development. Its main task is to see that important industries (such as chemicals, fertilizers, cement, sugar, iron and steel, and paper) are financed and started. It tries to encourage as much private capital as possible to participate, but, where

necessary, the corporation provides the entire investment. Then its objective is to dispose of the going concern to public subscription as soon as possible. Pakistan has also granted tax concessions to stimulate private industrial development.

Pakistan, in the words of the Prime Minister, also "appreciates that the realities of sound business practice require that we offer special inducements to foreign capital." These inducements include (1) no restrictions on repatriation of profits; (2) guarantee of repatriation of capital, capital gains, and reinvested profits in foreign investments made after September 1, 1954; (3) permission for foreign investors to hold up to 60 percent of the capital of a new industry, except public utilities.

The Department of State is now in the process of negotiating a treaty of friendship, commerce, and navigation with Pakistan, with high hopes for early success. Steps for elimination of double taxation have also reached an advanced stage of negotiation.

On the other side of the coin, Pakistan pursues a protective tariff policy with regard to infant industry (and almost every industry in Pakistan is infant).

VII. Counterpart Funds

In addition to the Pakistan funds applied to specific projects by the project agreements, several United States programs have generated counterpart, and will do so in the future. These include the emergency wheat program and the commodity aid program.

The status of the counterpart deposits as of September 30, 1954, is set forth in the following table:

Status of Counterpart: Pakistan, Sept. 30, 1954

Adjusted deposits	$21,700,000
Transferred for United States use	1,600,000
Available for Pakistan use	20,100,000
Withdrawals approved	8,400,000
Unreleased balance	11,700,000

Under terms of the various agreements, the counterpart deposits are available to advance agreed projects of economic development and, to a certain extent, to finance the increased local costs resulting from the military aid program. Under consideration at the present time is a proposal to use part of the counterpart funds for establishment of a new industrial credit institution in Pakistan in cooperation with the World Bank.

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VIII. Personnel

Difficulties in recruiting personnel for Pakistan have consistently arisen and have undoubtedly had an effect on the total aid program there. As of January 31, 1955, there were 21 administrative personnel on the FOA staff in Pakistan, an increase of 1 since June 30, 1954. The country mission, as of January 31, 1955, also included 55 FOA employees paid from program funds and 18 employees of other agencies on a reimbursable basis, an increase of 11 paid from program funds since June 30, 1954. Some of this increase has come from transferring personnel from other posts in the Middle East. At the present time, FOA is in the process of recruiting and/or processing candidates for 12 administrative and 79 program positions in Pakistan.

The FOA mission in Pakistan has relied on the United States Embassy for administrative support, including pay, communications, travel, etc. This arrangement has not worked out to the satisfaction, apparently, of either the Embassy or the mission. At the present time, several proposals are being considered for improvement of the situation. These include letting the mission provide its own administrative support, or complete integration, but it appears that no concerted effort will be made to settle the matter finally until the termination of FOA on June 30, 1955. Recruitment of administrative personnel for Pakistan continues, however, because of the general feeling that in no case will it be possible actually to secure more people than will be needed regardless of the ultimate decision.

In contrast to relationships in the field, there is close and harmonious contact between FOA/Washington and the corresponding officials of the Department of State in Washington. Officials of both FOA and the Department of State have expressed satisfaction with this close relationship, indicating that it has resulted in a better program than might otherwise have been achieved. The opinion was expressed that in no other area of the world was the FOA-State relationship so close or mutually beneficial.

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IX. Future Prospects for Pakistan

The Pakistan Government has declared that a program for economic development and expansion offers the only true solution to the economic problems confronting the nation and the best way to provide its citizens with the prosperity they expect to flow from partition.

In planning a program for economic development, the Government of Pakistan has been handicapped by a shortage of trained people in the Government and a shortage of administrative and managerial talent generally.

As a result, the so-called 6-year development program, drawn up by Pakistan at the request of the Colombo conference in 1950–51, is an outline plan making only sketchy provision for various aspects of national development. At the present time, a planning board is at work reviewing development to date and preparing more detailed estimates of future needs and capabilities. This work, too, has been handicapped by a shortage of people with the necessary skills.

Below is a table showing the breakdown of the original 6-year plan and actual public expenditures (by the Central and Provincial governments) for the 4-year period 1951–55.

[In millions of rupees]

Field	6-year program	4-year actual [1]
Agriculture and irrigation	820	597.6
Transportation and communication	530	842.7
Fuel and power	470	199.9
Industry and mining	490	457.2
Social capital	290	550.1
Multipurpose projects		253.5
Forestry		27.2
Fishing		4.5
Research		16.3
Miscellaneous		261.1
Total	2,600	3,210.1

[1] Actual expenditures 1951–53, estimates for 1953–55.

It thus appears that the original "program" has been greatly expanded and perhaps somewhat changed in emphasis. It also appears that the actual development program in Pakistan has gone ahead without benefit of much in the way of overall planning.

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Its development programs have bitten off a larger and larger share of the physical and financial resources of the Government, as appears in the table below.

Public Expenditure on Development

[In millions of rupees]

	1951–52	1952–53	1953–54 (estimates)	1954–55 (estimates)
Total	411.5	751.7	902.4	1,141.7
Ratio of development expenditures to total public expenditures (percent)	14.5	22.7	28.3	39.2

The problem of financing these increased outlays for development has been greatly intensified because of the falling export and import revenues and the lack of foreign exchange. Borrowing has been an important source and internal bond issues have received general support, but the rate of capital formation is slow and this source of revenue appears to be inadequate. Increased taxes, in the view of the Pakistani, do not appear feasible in view of the already low standard of living and the risk of impairing incentive. The Pakistan Government has thus sought external aid to assist in financing its development program.

Development Progress

Carrying out its "courageous" decision to push economic development at the expense of consumer needs, Pakistan has pushed ahead vigorously with its program—and with considerable progress. The emergency food problems of 1952 and 1953 have been mastered and adequate domestic food stocks appear to be available now. Complete statistical reports are sketchy or not available at all, but evidence of progress is available in almost every sector.

The increase in some industries has been very rapid. Production of cotton yarn increased from 129 million pounds in 1952–53 to 171 million pounds in 1953–54, and cotton cloth from 169 million yards to 244 million yards. Industrial production started at the time of partition, however, almost at zero, and has not yet risen to a self-sufficient level. Impressive as this development might appear, it can only be meaningful when measured against the growth of Pakistan's population, since economic development which lags behind the population produces a decreasing standard of living.

Lacking reliable statistics in this field, officials of the Pakistan and United States Government have been reduced to guesses in this field, supported by the meager facts available. On this basis, however, there is real concern that the present rate of development in Pakistan is not in reality sufficient to meet the needs of an expanding population.

In an effort to shed more light on these critical problems, the revitalized Pakistan Planning Commission, with help from Harvard University, has been surveying the national development and its report is expected in the near future.

An increased rate of economic development is apparently possible only through increased foreign aid, better utilization of internal resources, and increased private investment. The Pakistan Government has been seeking each of these objectives.

Thus, the development of a stronger economy in Pakistan can only be a slow, difficult process.

Not all of Pakistan's problems were unavoidable. The economic policies of the Pakistan Government have come in for some criticism from those who believe it failed to move effectively and swiftly enough when the world markets broke in 1952, and that many of its policies have been stifling to enterprise rather than encouraging.

X. Findings and Conclusions

1. United States aid to Pakistan started out as a program of technical assistance, the size and justification of which was influenced more by other factors than by the needs or ability of Pakistan to absorb the aid. This, in 1952 and 1953, resulted in a program which appears to have been larger than the administrative ability of the Pakistan Government or the United States agency.

2. The economic crisis in Pakistan, resulting from the drop in world commodity prices after the Korean war, gave rise to an urgent need in Pakistan for technical and economic aid, in order to provide economic progress and political stability.

3. The worsening economic situation in Pakistan has prevented United States aid, to date, from achieving its objectives. The nation is not yet assured of an adequate rate of economic development, measured by the minimum needs of its citizens.

4. Reasonable results in terms of economic development and political stability cannot be achieved overnight, but the data available on the Pakistan economy is not sufficient at this time to permit very well informed estimates on the future needs or the efforts required to meet those needs.

5. The military and defense efforts of Pakistan, as they relate to the total defense of the free world, of course, form an important facet of the total United States program for Pakistan. It seems fair to conclude that the Pakistan Government cannot materially expand its defense efforts without risking serious economic consequences. This implies aid in various forms, including "defense support," which embraces almost anything in the form of economic aid which directly or indirectly contributes to the strength of the nation.

6. The program in Pakistan demonstrates the difficulty, and perhaps inadvisability under some circumstances, of distinguishing between technical assistance (or technical cooperation) and economic, developmental, or defense support assistance.

7. The $105 million program for fiscal year 1955, while apparently important for psychological reasons, may be difficult to implement fully in the remaining 6 months of the fiscal year because it constitutes such an expansion of the United States program.

8. Difficulties in recruiting United States personnel for Pakistan have slowed the program, and apparently have not been fully taken into account in preparing budget estimates. There is some indication that United States technical personnel in some respects have been too technical for some segments of the program.

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9. Administration of the Pakistan aid program during the initial period, under the terms of the act for international development as a technical assistance program, apparently led to some difficulties, and resulted, for instance, in justification of 85,000 tons of fertilizer on a purely demonstration purpose, when its real purpose appears to have been to create an impact program with swift results in terms of increased food production (which seems to have been critically needed in Pakistan at the time).

10. The use of contracts with United States firms or institutions appears to provide a means of improving the program in Pakistan, especially by making it possible to proceed with the actual implementation of development projects and the training of Pakistani at the same time. However, additional study and work needs to be done to assure a close, direct relationship between the United States contractor and the Pakistan individuals or institutions, without at the same time eliminating United States control entirely.

11. Internal problems in the Pakistan Government, chiefly traceable to the chronic shortage of trained personnel, have handicapped the administration of the United States program in Pakistan and slowed its progress. The relationship between the Federal Government and the state or provincial governments in Pakistan has not yet been clearly worked out in the 7 years of the nation's existence, and United States aid programs have been caught in the middle of these intergovernmental relationships.

12. The emergency wheat and the flood relief programs in Pakistan have resulted in a considerable reservoir of good feeling for the United States on the part of the Government and the people of Pakistan, although some phases of the program may need further review.

13. The relationship between the United States mission and the Embassy in Pakistan has not been entirely satisfactory, and no integration has taken place. Proposals for improvement of the situation will not be fully implemented until the termination of FOA becomes effective.

14. The close, harmonious working relationship between FOA and the Department of State in Washington has apparently benefited the Pakistan program and might be worth noting in connection with the future of the program after June 30, 1955.

15. The lack of adequate planning and scheduling for economic development on the part of the Pakistan Government has handicapped the United States program, especially in the development of relative priorities. At the present time, increasing efforts are being made in planning and programing by the Pakistan Government. Particularly in its initial stages, the lack of planning, and the lack of data on which to plan, results in considerable delays in the United States

aid program because of a wide difference of opinion between United States and Pakistan officials as to the need of the country.

16. While the various project agreements contain specific and well-drawn statements of objectives for each project, no evidence has been found to indicate any intermediate range of objective, either for United States aid or Pakistan's own efforts, between the specific goals of a project and the ultimate objective of a strong, stable economy. It has been suggested that development of such intermediate objectives might facilitate both the United States program and Pakistan's efforts.

17. Relatively little effort appears to have been made to estimate the future impact of the development program, or the United States portion of it, in terms of the ultimate ability of Pakistan to sustain the projects and generate the foreign exchange to continue them. It has been contended, however, that the economy of Pakistan is in such a state of development that the issue is not pressing because of the elemental nature of the present efforts.

18. There is danger that unless careful restraint and perceptive judgment is exercised by Pakistan planning agencies, in cooperation with the United States agencies, the pressing need for productive facilities in Pakistan may result in a number of industrial projects, financed in part with United States grant aid, which might prove uneconomic and burdensome to the Pakistan economy.

19. The Pakistan program is of such importance and presents such difficulties that every effort should be made to send there only the best possible United States personnel. People of competence, character, human understanding, and with an ability to negotiate are important in every country, but in Pakistan the need cannot be overemphasized.

20. Pakistan's shortage of trained, experienced administrative and technical personnel might have a tendency to give rise to assumption of certain planning and programing functions on the part of United States officials. While the United States officials and technicians should be free to consult with and advise their Pakistani counterparts, any hint of usurping or taking over the planning and programing from the proper local officials could only result in ill will and damage to the program and must be guarded against.

This study has been made without the benefit of an on-the-spot review in Pakistan, and is necessarily limited because of that fact.

India

By William N. Egan

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India Study

I. Philosophy of the Program

The United States aid program in India is based upon the several factors as set forth in numerous addresses by top-ranking State Department and Foreign Operations Administration personnel, correspondence between the Department of State and FOA and committees of Congress, and testimony presented in connection with the continuance of and appropriations for foreign aid before various committees of Congress.

These all can be summed up in the words of Public Law 535, 81st Congress, which states that the purpose of the program is "to aid the efforts of the people of economically underdeveloped areas to develop their resources and improve their working and living conditions by encouraging the exchange of technical knowledge and skills and the flow of investment capital" * * * and * * * "to help underdeveloped areas to realize the full potential of democratic life."

The objectives in implementing this policy in India can be set forth as:

1. To increase the rate of economic development as a convincing demonstration to the people of India and of the world that underdeveloped countries can develop without dictatorship and at a rapid enough rate of economic progress to sustain and fulfil the hopes of the people.
2. To participate in an organized effort (first 5-year plan) to stop deterioration of the Indian economy.
3. The related objective of humanitarian concern, historically traditional with the United States.

II. The Origin and Evolution of the Program

The original aid program started in 1949 under the Economic Cooperation Act of 1948, with minute amounts, but the major program now existing was based on the Act for International Development (Title IV of Public Law 535, June 5, 1950), under which the Technical Cooperation Administration was established. This act provided only for technical assistance, as distinguished from economic aid and for the encouragement of the flow of investment capital (sec. 403 and sec. 418a). Section 418a of the act is couched in terms permitting an all inclusive application of aid beyond technical assistance.

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Operations in India followed the guide lines section 407 of the act spells out, under which a country could qualify for aid, and they include:

1. Use of private agencies and persons to the greatest extent possible.
2. A determination as to the possibility of achievement of results and the requesting country's action to make use of the assistance made available.
3. A country must pay a fair share of the cost.
4. The country must publicize the program.
5. There should be full coordination and integration with other aid programs in the country.
6. The country should encourage the establishment and expansion of fair labor practices.

It should be noted that 3, 4, and 5, above were positive requirements for qualification.

Aid was begun in 1951, concurrently with the establishment of the Government of India's 5-year plan for Economic Development.

The initial stages of United States aid were aimed at the agricultural sectors and primarily toward increased irrigation and water control projects. These were supplemented by other work in connection with soil conservation, improved planting, and modern methods of agriculture. There was also instituted a malaria control project. All of these were directed toward the increase of food production, which was and still is considered by many of those conversant with India to be its most vital problem.

To illustrate the evolution and emphasis of the program over the years, and to indicate the participation of India, the United States and all other aid agencies, it is necessary to look at the costs and scope of the India 5-year plan, the Government of India financing program for this plan, and the total of economic aid furnished to India through the fiscal year 1955:

First 5-Year Plan—India

[In millions of dollars]

	First 3 years 1951–54 actuals and revised	Fourth year 1954–55 budget	Fifth year 1955–56 balance	Total plan
Agricultural and Commercial Development	$226.07	$188.73	$370.06	$784.86
Irrigation and Power	630.19	351.77	313.36	1,295.32
Transport and Commercial	470.64	308.68	346.12	1,125.44
Industry	71.50	69.32	233.18	374.00
Social Services	286.71	196.34	272.30	755.35
Rehabilitation	130.41	48.89		27.26
Works and Buildings	5.78	9.46	13.16	28.40
Development under M. finance	6.34	7.95	5.01	19.30
NEF agency	2.08	2.04	4.71	8.83
Andaman Islands	.42	.75	6.87	8.04
Loans to corporations	4.20	8.40	12.60	25.20
Miscellaneous	11.55	8.19	5.71	25.45
Adjustment			93.07	245.11
Total	1,845.89	1,200.52	1,676.15	4,722.56

It is pointed out that, although agriculture was considered the greatest requirement in the first 3 years of the plan, that actually it ranked fourth in the amount of aid programed in the period 1951 through 1954, and continues in that position for the 1954–55 fiscal year, but shows a great increase projected for 1955–56 fiscal year.

Considering the community development aspects of the agricultural aid, doubts are raised as to the stated emphasis on agriculture (FOA, State conversations). The great emphasis on power, transportation and commodities indicates, perhaps, a predetermined emphasis on industrial economic development. The total plan figures tend to bear this out.

It should be noted that of the total financing, approximately 12.8 percent is from external sources, two-thirds of which is directly from the United States, with perhaps some indirectly through International Bank for Redevelopment (IBRD) and the "other" category. This plainly indicates the part that the United States plays in supporting this program. Close scrutiny of a proposed second 5-year plan should be undertaken prior to any indication, formal or informal, that the United States might accept the responsibility for filling a similar financing gap. Total economic aid made available to India in the fiscal year 1949 through the fiscal year 1955 is shown below:

Total Economic Aid Made Available to India Fiscal Year 1949 Through Fiscal Year 1955

[In millions of dollars]

	Total fiscal year 1949-54	1955	Total
I. *Free World Aid;*			
A. United States Government aid:			
1. Technical assistance and special economic aid	185	83.4	268.4
2. Wheat loan	189.7		189.7
Public Law 48 (Wheat loan interest for universal rehabilitation $1,000,000/yr. for 5 yrs.)	2	1	3
3. Fulbright and Smith-Mundt program	2.8	.58	3.38
4. Special assistance to purchase coarse grain-milo	10.5		10.5
5. Freight on voluntary relief shipments	.6	(5)	+.6
Subtotal, United States Government			+501.67
B. U. N. aid, all types	12.39	.65	13.04
C. IBRD loans, less cancellations [1]	116.7		116.7
D. Colombo plan:			
1. Canada, Australia, New Zealand	66.2	[2] 17	83.2
2. U. K. releases of blocked sterling	294	98	392
Subtotal, Colombo plan			475.2
E. Other aid:			
1. Ford foundation	5.4	(5)	+5.4
2. United States voluntary relief agencies [2]	4.4	(5)	+4.4
3. Norway technical assistance	(5)	(5)	4.34
Subtotal, other			+14.14
Total—Free world aid			+1,120.75
II. *Soviet Bloc;*			
A. USSR technical assistance, including survey technicians for steel plant		[3] 33	.33
B. Soviet trade union commodities and cash gift	[4] 1.56		1.56
C. Steel plant offer (not yet accepted by India)		150	150
Total—Aid and offer, Soviet Bloc			151.89

[1] Calendar years.
[2] Estimate.
[3] Obtained by multiplying $10,000 by 33, which is the number of Soviet technicians currently in the country.
[4] 10,000 tons of wheat, 5,000 tons of rice, 500,000 cans condensed milk and Rs 255,000 cash. Milk at United States prices, delivered in India. Grain at typical contemporary Indian prices.
[5] Not available.

This tabulation again indicates the great preponderance of United States aid, direct and indirect, over other external aid. Included in these figures are Soviet aid, actual and proposed, which may be indicative of greater pressure being applied by the Soviet bloc.

The Senate Appropriations Committee report, dated in April 1954, stated that "the Indian technical assistance program has deviated widely from the point four concept * * * with a tendency to lose for technical assistance all its psychological advantages and its universal acceptability." Commenting on the above statement, as a part of his testimony before the Senate Foreign Relations Committee, May 12, 1954, Mr. George Allen, United States Ambassador to India, said "That is right. I think that has been done. It was true during the first 2 years of our program in India the appropriation was all lumped under technical assistance. Economic aid and technical assistance were all lumped together and there is no doubt about the fact that there were large amounts that should have been classified as straight

economic aid." Pursuant to the above, the illustrative FOA program for fiscal year 1955 shows the following:

	Fiscal year 1953	Fiscal year 1954	Fiscal year 1955
Development assistance		$60, 500, 000	$85, 000, 000
Technical cooperation	$43, 577, 000	28, 147, 000	19, 500, 000

These figures show an attempt to segregate the two types of aid and also show a downward trend for technical cooperation and an upward trend for development assistance, which pattern is consonant with the current emphasis placed on capital economic assistance. Over the period of approximately 6 years of aid to India, the program had included projects in all phases of agriculture; public health; community development; irrigation; power; water control; water usage; education from grade school through professional and scientific graduate work; training trainees and teachers; engineering, both basic and applied; transportation of all types; industry surveys; public administration; commodity aid; supplies and equipment, other than agricultural; and agricultural commodity aid.

III. Present Status of the United States Aid Program

Considering the period from 1950 to November 1954, through the contents of the Government of India progress report on the first 5-year plan, and information obtained from the United States Department of State and the Foreign Operations Administration, it appears that the economic situation of the country has improved distinctly, and that part of the immediate objective to correct the economic troubles caused by the war and partition have been largely realized. The GOI report shows agriculture up 18 percent since 1950–51. The industrial index, using 1946=100, was up to 140 in May 1954, which was a 33-percent increasce over 1950, the base plan year. Jute manufacturing shows little sign of improvement, and iron and steel production lags, due primarily to labor troubles. Other diversified industry shows satisfactory progress.

The economy has definitely moved forward. There is an overall stability of prices, the money supply has decreased, while the balance of payments has improved, and there is a marked monetary stability.

While there is an increase in public sector expenditures, it is also necessary to increase them in the private sector. The private sector appears to be gaining confidence with increased production of capital goods, new plan construction, and the lack of dryness of the market for investment funds.

In addition, the per capita income (GOI Progress Report, September 1954) has reached the 1953 plan target of a 5-percent increase, and this should be exceeded in 1954. This report of progress and improvement coincides with statements by State Department and FOA of very substantial improvement in general economic conditions.

Currently, the United States aid program in India is primarily based on a series of 31 operational agreements covering a wide variety of activities across the India economic structure. Below is a tabulation of these agreements, designed to show a comparison of United States commitments versus India commitments:

Indo-American Comparative Commitments

	Operational agreement number	United States dollars	India rupees	Dollar equivalent	Approximate ratio, Rs. 4.76 to the dollar	
					United States	India
1	Fertilizer	15, 730, 927	7, 106, 000	1, 500, 000	12	1
2	Iron and steel for farm tools and implements	20, 155, 337	5, 891, 470	1, 238, 000	17	1
3	Locust control and plant protection	723, 000	1, 328, 000	240, 100	3	1
4	Soil fertility and fertilizer use [1]	335, 000	2, 462, 540	515, 200	1	1½
5	Fisheries	3, 017, 000	9, 729, 500	2, 044, 000	1½	1
6	Tubewells [1]	19, 530, 000	91, 500, 000	19, 430, 000	1	1
7	Village worker training [1]	735, 200	10, 610, 500	2, 229, 000	1	3
8	Community projects [1]	12, 160, 000	630, 834, 000	132, 737, 000	1	11
9	Malaria control	10, 508, 000	40, 365, 350	8, 480, 100	1¼	1
10	Forest research	399, 000	678, 000	142, 400	2¾	1
11	River valley development [1]	9, 888, 536	153, 300, 000	32, 205, 900	1	3¼
12	Ground-water development	3, 500, 000	12, 000, 000	2, 521, 000	1¼	1
13	Building materials development	200, 000	200, 000	42, 000	4¾	1
14	Improved methods of low-cost housing	75, 000	150, 000	31, 500	2¼	1
15	Central Labor Institute	75, 000	150, 000	31, 500	2¼	1
16	Exploratory lignite excavation [1]	250, 000	2, 500, 000	525, 200	1	2
17	Railways rehabilitation	20, 000, 000	32, 000, 000	6, 722, 600	3	1
18	Steel supply (industry)	25, 500, 000	15, 000, 000	3, 151, 200	8	1
19	Heavy equipment training	460, 000	1, 402, 000	294, 510	2	1
20	Rihand Valley development [1]	11, 000, 000	166, 900, 000	35, 063, 000	1	3¼
21	Madras City powerplant expansion	2, 900, 000	29, 200, 000	6, 134, 000	4½	1
22	Agricultural machinery training	100, 000	240, 000	50, 420	2	1
23	Improvement of Rajasthan power facilities [1]	3, 600, 000	17, 800, 000	3, 739, 400	1	1
24	Expansion of aviation ground facilities	1, 950, 000	603, 000	126, 600	16	1
25	National water supply and sanitation	3, 100, 000	105, 000, 000	22, 058, 800	1½	1
26	Industrial research and technical services organization	2, 000, 000	1, 900, 000	399, 100	5	1
27	Technical education institutions	700, 000	875, 000	162, 800	4½	1
28	Agricultural research, education and extension organizations	500, 000	120, 000	25, 200	20	1
29	Medical colleges and allied institutions	200, 000	200, 000	42, 000	4¾	1
30	Health instruction training centers	37, 000	75, 000	15, 800	2½	1
31	Modern storage of food grains	1, 539, 000	1, 500, 000	315, 100	5	1
	Total	170, 868, 000	1, 341, 620, 360	282, 213, 430	1	1½

[1] Projects showing a greater India commitment.

This is based on a FOA document "Indo-America Program, Basic Information," corrected to June 1954. It would appear that the costs shown do not include United States administrative costs. In addition, there is no indication of the extent to which counterpart rupees are included in the India commitments or in the United States dollar commitments.

Of the 31 projects described in the document, only 8 show a greater India commitment than United States commitment, or an equal commitment.

The total United States dollar commitment was $119,868,000. The India rupee commitment was the equivalent of $282,201,000 United States dollars at Rs. 4.76 to the dollar. By comparison of these totals, the ratio of dollars to rupees, or United States to India commitments, is approximately: United States: 1 :: India: 1½. This ratio, which favors India, does not reflect the constantly reiterated statements of FOA personnel that country contributions to aid programs are greater than United States contributions, in ratios of 6 to 1 and up to 10 to 1. It should also be noted that India commitments included service costs of all types, in addition to money costs.

IV. Indian Community Development

Operational Agreement No. 8, Community Projects, showing India commitments 11 times those of United States, or $120 million greater, is a single item which makes for the favorable overall India ratio. Excluding this item shows an excess of United States commitments and, in terms of dollars, the United States commitments would be approximately $28 million greater than the Indian commitments. It would appear, from a review of this tabulation, that the projects desired by the Government of India were those showing a greater India commitment, and that the rest were either not considered desirable or necessary or at least were of a very low priority.

In addition to these agreements, there is a small number of strictly technical assistance projects, some of which supplement the agreements.

V. The Agricultural Phase of Indo-American Aid

The emphasis of the agricultural phase of the aid program has been shifted from an emergency nature to a long-range viewpoint involving conservation, marketing, credit, research and development, and extension service. This is due to the beneficial results of the commodity development, fertilizer, and irrigation projects. In connection with this shift, former United States Ambassador Allen, in a discussion in late October 1954, indicated that there should be a reduction, but not an elimination, of agricultural aid.

VI. India Concentration on Malaria-Control Program

The health program has primarily centered around malaria control as the major need from which the greatest benefits might be derived. It has been felt that this disease was basically responsible for retarding India's development. United States aid furnished has been

in the form of medical, professional, and technical personnel; supplies and equipment; and mobile and fixed clinical and laboratory centers.

This program has progressed to the point of nearly complete coverage and should be tapered off. In this connection, it appears that FOA, as recently as December 1954, issued a procurement authorization for 6 million pounds of DDT at current market prices. This would amount to approximately $1,320,000, exclusive of freight and handling charges. This quantity would be approximately a 2 years' supply for an intensive program. While not technically perishable, DDT does deteriorate in storage, particularly under hot, humid conditions.

Since FOA personnel have stated that DDT is used only for health programs and not agricultural programs, and that the health program for malaria control should be phasing out, it would appear that best judgment was not used in issuing this particular procurement authorization.

Even if the malaria-control program was not on a downward trend, it would seem unwise to have done this because this total shipment would dull the benefits of a continuing program, as well as unnecessarily exposing the DDT to deterioration and loss.

VII. Tubewells in India

It is felt necessary to comment, because of its continued controversial nature, on the tubewell project, Operational Agreement No. 6. The United States costs for the original 2,000 wells was $13,700,000, or $6,850 per well, exclusive of power or pumping equipment. An additional 650 wells will cost the United States $5,260,000, or $8,090 per well. It is normal in projects of this sort to see a downward trend in unit cost when quantities are increased, rather than an upward trend, as shown by the above figures.

The latest available figures, November 1954, show that of the 2,000 wells programed in fiscal year 1953, 1,360 have been drilled, of which 872 have been completed, but the number in operation was unavailable. Of the 650 programed in fiscal year 1953, available figures show 65 to 80 complete, and 55 in operation. It appears that, while this was a sound project, it was poorly programed and administered. The necessary power and pumping equipment for operation was not coordinated with the well project in a manner which would provide for them being available as near concurrently as possible with the completion of the wells. It is understood that the power and equipment picture is now improving.

VIII. United States Labor Program in India

The current program in the field of labor is not large. During 1951 and 1952, the United States Department of Labor recruited and sent out three technicians to the technical cooperation mission to assist in the Ministry of Labor on a program of industrial hygiene. There is presently one man, an industrial relations adviser, on the mission's staff. Under the illustrative fiscal year 1955 program, a labor group of eight was proposed and, in addition, a total of 70 labor trainees was to be brought to this country.

A program to cost $100,000 of encouraging Indian universities, among others, to establish institutes of labor and industrial relations, was included in the fiscal year 1955 program.

IX. Community Development a Major Effort

The community development program, Operational Agreement No. 8, is covered in some detail, since it appears to be the single program of greatest interest to the Government of India, on the basis of money commitments ($132,737,000).

This project originated from the approach of a Chinese to Mr. Nehru with a plan to work at the Indian village level and so develop the Indian economy from the bottom up. There are involved the elements of basic education, vocational improvement, municipal government, and general enlightenment of the individual Indian.

The Indian areas were divided into blocks for development purposes, each block containing 100 villages, with an approximate total population of 70,000 individuals per block. There are currently some 220 blocks in various stages of development.

As of April 1954, the United States aid contributed $2.3 million in equipment, including jeeps, trucks, tractors, mobile workshops, concrete mixers, agricultural implements, and other items. In addition, $1.3 million of the same type was in India ready for distribution. The rural people were trained in the use and maintenance of the equipment. The Ford Foundation assisted by equipping the schools and guaranteeing to keep them going for a 3-year period. It is the feeling of the State Department and FOA personnel contacted, that this program has done the most to demonstrate the economic possibilities under a democratic form of government.

X. *Personnel and Administration*

The current program is being carried on by the United States technical cooperation mission in India, which is closely associated with and under the overall supervision of the United States Embassy. The mission is staffed as follows:

United States Personnel	136
Administrative	20
Professional	13
Clerical	7
Program—Technicians	79
Agriculture	26
Natural resources	12
Industry and mining	8
Labor	1
Health and sanitation	9
Education and training	6
Community development and housing	2
Social welfare	1
Information and audiovisual	3
Procurement and supply	5
Clerical	6
Contract-Technical	37
Agriculture	5
Natural resources	2
Industry and mining	8
Education	13
Community development	8
Audiovisual	1
Local personnel	105
Administrative	26
Program	79
Total mission personnel	241

The Embassy's economic staff consists of 14 United States personnel and 8 local personnel, and their work areas roughly parallel those of the FOA and mission personnel, although almost entirely in the field of reporting. There has been no integration of the TCM and the Embassy section. Both staffs maintain liaison with the same Indian officials and other country officers and organizations concerned with aid work.

Much has been said about FOA intentions to integrate its missions with the embassies, but in the case of India, there has been no physical

integration and a coordination of the two has been accomplished because of the strength of the last two United States Ambassadors.

The cost of operating the technical cooperation mission for 1954 was $528,250, and for 1955 (estimated), $488,757. The cost of operating the economic section of the Embassy for 1955 will be $120,678. Although there has been reduction in the cost of operating the TCM, it appears logical that substantial savings could be made by a physical integration of the two units.

For the purpose of showing, from a fiscal viewpoint, the progress of United States aid in India, the following comparison is made:

Fiscal year	Program	Obligations	Expenditures
1953	$43, 577, 000	$44, 000, 000	$29, 400, 000
1954	88, 647, 000	87, 200, 000	27, 500, 000
1955 (as of Dec. 2, 1954)	104, 500, 000		

Looking at these figures, it is seen that as of the end of fiscal year 1954, there was programed a total of $132,224,000. Of this total, $131,200,000, or all but $1 million, had been obligated, but only $56,900,000, or about 45 percent, had been expended.

A slightly different view is shown by the following figures on procurement:

	Obligated	Procurement authorizations issued	Procurement authorizations in process
Fiscal year 1952 and 1953 agreements	$88, 350, 000	$85, 778, 829	$85, 700
Fiscal year 1954 agreements	83, 100, 000	66, 250, 327	132, 015

For these 3 years, the totals were:

Obligations	$171, 450, 000
Procurement authorizations issued	152, 629, 156
Procurement authorizations in process	217,715

These figures show about $20 million of unauthorized procurement obligations, but a better-balanced operational picture.

XI. Loans and Grants

A great deal of discussion has taken place, and is still going on, as to the possibility of substituting loan aid for grant aid in India, and what the probable results of such action would be.

In his testimony in 1954 before the Senate Foreign Relations Committee, Mr. George Allen, then Ambassador to India, stated that he personally saw advantages in the loan program from a psychological and political angle. It would bolster the Indians' self-respect and lessen mutual recrimination.

Discussions with other State Department personnel and FOA personnel indicate the same trend of thought and the additional thought that the Government of India would not be adverse to a loan program. The type of loan, hard or soft, seems to be the point difficult of solution.

India has borrowed a total $116.7 million from the IBRD, according to Mr. John Ferris of the FOA India Desk.

XII. New India Investment Corporation

Further development in the loan picture is the Industrial Credit and Investment Corporation of India, Ltd. The World Bank has approved the loan of $10 million to this corporation which is being formed by private investors for the purpose of assisting the growth of private industry in India. It is expected that the corporation will be established in January 1955, at which time the bank will enter into a formal loan agreement.

Private investors from India, the United Kingdom, and the United States will subscribe the initial share capital of the corporation which will be $10.5 million. A group of prominent Indian industrialists and financiers will arrange for the sale of $7,350,000 of share capital in India, partly through private placement and partly through public offering. The British investors will subscribe $2.1 million of capital. American investors will subscribe $1,050,000 of share capital. In addition, the Government of India will make an interest free advance of $15,750,000 to the corporation.

The new corporation will make long- and medium-term loans to industrial enterprises, purchase shares of industrial enterprises, underwrite new issues of securities, guarantee loans from other investment sources, and help industry to obtain managerial, technical, and administrative advice and assistance. It is planned that the corporation will sell its loans and share holdings to other investors to expand the capital market and recover its own capital for further investment.

Lack of risk capital has always been a drawback to industrial development in India. Since 1948, it has been difficult for even the largest and best established concerns to raise new capital in the Indian markets, and almost impossible to raise equity capital.

The first Indian five-year plan relied upon private enterprise to bring about industrial expansion. However, the results have been below the level hoped for.

It is hoped that the new corporation will be able to tap funds in India not presently being made available to industry, and later to increase the flow of foreign investment into India. The Corporation, in addition to aiding India by direct financing, will also assist Indian industry in meeting its needs for technical knowledge and managerial experience.

The establishment of this corporation has been a matter of discussion and planning since 1953, and in early 1954, the World Bank sent a mission to India to analyze the situation, while at the same time, exploring the possibility of obtaining prior British and American participation in such a corporation's equity capital.

The authorized capital of the corporation will be $52.5 million, represented by 500,000 ordinary shares and 2,000,000 unclassified shares, all with a par value of 100 rupees each. Initially the corporation will issue only the ordinary shares $10.5 million). Investors in the United Kingdom will subscribe to 100,000 shares, and investors in the United States, 250,000 shares. The balance of 350,000 shares will be sold in India, and it is expected that 150,000 will be sold by private placement, and 200,000 through public subscription.

The Government of India will make a 30-year advance of $15,750,000 to the corporation, free of interest, with repayment in 15 equal annual installments beginning in the 16th year. This advance will be provided out of funds derived from the proceeds of the sale of steel supplied by the Foreign Operations Administration, and will be made to the corporation when the share capital has been subscribed.

The proceeds of the $10 million World Bank loan will be used for the purchase of imported material, equipment, and services needed to carry out private industrial projects financed by the corporation. This loan will be for a term of 15 years at an interest rate of 4⅝ percent per annum with amortization beginning January 1, 1960. The Government of India will guarantee this loan.

This will be the seventh loan by the World Bank for development projects in India and will bring the loan total to $126.7 million. Previous loans were for the development of electric power, agriculture, railways, and iron and steel production.

XIII. United States Food Grain Loan to India, 1951

This loan was authorized under Public Law 48 entitled "India Emergency Food Aid Act of 1951" for the purpose of providing emergency food relief assistance at a time when the people of India were in desperate need of such assistance because of a series of natural disasters. These included earthquakes, floods, droughts, and insect plagues, all of which combined to cause a very acute food shortage.

The law provided for shipment of grain, the amount of which totaled 2.18 million long tons at a dollar value of $190 million. The cost of the grain was set up as loan through the Export-Import Bank in terms of a line of credit to allow the Government of India to purchase the grain. Interest was set at 2½ percent per year on the unpaid balance payable semiannually beginning December 31, 1952.

The principal is to be paid in semiannual installments starting on June 30, 1957, over a 30-year period. The funds were furnished by the Economic Cooperation Administration.

Interest up to a total of $5 million was deposited in a special account with the United States Treasury for the following uses:

(1) Studies, instruction, technical training, and other education activities of Indians in the United States;

(2) Students, professors, other academic and technical persons (United States citizens) to participate in similar activities in India;

(3) Selection, purchase, and shipment of American scientific, professional, and educational literature;

(4) Selection, purchase, and shipment of American laboratory and technical equipment for higher education and research in India;

(5) For similar materials and equipment (3 and 4) from India for use in the United States.

Repayment by GOI was to be by transferring to the United States materials originating in India and required by the United States because of deficiencies in its own material sources.

India has utilized all but $325,732.86 of the $190 million line of credit. The unexpended balance has been canceled. To date India has met each interest payment on time, and in fact two payments were made ahead of schedule.

It is anticipated that the GOI will make all payments of principal on time.

This experience indicates the ability of India to fulfill its credit obligations and perhaps to absorb any future United States aid under loan agreements.

XIV. Commodity Aid

Commodity aid to India is programed under the Mutual Security Act of 1954 (Public Law 665) (Title II) and the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480).

For the fiscal year 1955, Public Law 665 authorizes the sale of surplus agricultural commodities in the amount of $30 million. A breakdown of these commodities shows:

	Public Law 665
Bread grains	$10.0
Fats and oils	-----
Dairy products	-----
Cotton	20.0
Tobacco	-----
Ocean transportation	-----
Totals (millions of dollars)	30.0

Other MSP dollar programs (nonagricultural) provide for the following:

Steel	$12.0–$17.0
Sindri fertilizer plant expansion	4.0
Railroad freight cars	10.0
Malaria control	3.5– 4.5
Total (millions of dollars)	29.5– 35.5

The local currency generated from the sale of both agricultural and nonagricultural products under Public Law 665, in the amount of $46 million, will be used for loans and grants for economic development.

XV. Multilateral Aid

This type of aid is provided to India from two sources: The United Nations and Colombo plan.

The United Nations aid touches the same areas as United States aid to India but in smaller amounts. Available information indicates that there is little if any duplication but some minor overlapping. The overlapping seems to occur when the two aid sources contribute to the same projects, one supplementing the other. There does not appear to be any major difficulty in this respect. U. N. aid to India from fiscal year 1949 to fiscal year 1954 totaled $12,390,000 and in fiscal year 1955 is scheduled in the amount of $650,000.

The Colombo plan involves Burma, Ceylon, India, Indonesia, Japan, Pakistan, the Philippines, Canada, Australia, New Zealand, United Kingdom and the United States.

This group of countries furnishes aid in terms of technical assistance, equipment and commodities upon request of an Asia member country. There is no formal organization or overhead administration to handle the requests. The Executive Secretary in Ceylon merely forwards the request to a member country which in turn furnishes the required aid and maintains no control over its application. It mostly takes the form of furnishing technical services with the providing country paying the costs and the recipient country exercising complete control from the time of arrival of persons or equipment in the country.

The Colombo plan report, October 1954, released after the plan conference in Ottawa, Canada, reiterates the facts of forward progress previously noted in the paper during the discussion of India's first 5-year plan.

Aid to India through the Colombo plan is recapped as follows:

Canada, Australia, and New Zealand provided, during the period fiscal year 1949 to fiscal year 1954, $66.2 million and in fiscal year 1955

estimates show $17 million. The United Kingdom has furnished no aid as such but has released blocked sterling during the period fiscal year 1949 to fiscal year 1954 in the amount of $294 million and in fiscal year 1955, $98 million. The United States contribution is considered to be its total aid given under its bilateral agreements with India and none is channeled through the Colombo plan. This has totaled fiscal year 1949 to fiscal year 1955, $501,670,000 not including United States contributions through the U. N. or United States Voluntary Relief Agencies. IBRD loans are also excluded.

Some of the member countries, notably Ceylon, are currently not eligible for aid due to noncompliance with the Battle Act.

XVI. Discussion

The need for aid to India and its future continuance must be based on United States policy requirements, dictated by current situations, the progress of India's economic improvement and by United States humanitarian desires.

From material available and discussions with personnel of the Department of State, FOA, and other interested United States Government agencies, the consensus of present thinking is that aid is currently needed and will be needed for at least the next five years on an increasing scale of 10–20 percent. This is based on the factors that India has not reached a satisfactory point of economic stability; and that pure humanitarian interests continue.

However, it has been stated on several occasions by Mr. George Allen, former Ambassador to India, John Ferris, India Desk, FOA, and others that if United States aid were withdrawn, India would continue its own development program and would undoumtedly resist Communist pressure and remain free and democratic.

The emphasis on future aid tends to be in the field of industrial development and includes power and transportation phases in concert with industrial development.

The types of aid to be given are economic aid of all types including technical assistance in the areas of industry, public utilities and services, health, education, and agriculture.

The form of aid contemplated has been a matter of much thought. The question of whether it should be in terms of dollar or local currency grants, loans or commodity grants or loans has drawn a variety of answers from discussion and in congressional hearings. There appears to be agreement that a total loan aid program would not be resisted by the Government of India.

The phasing out of aid to India poses a difficult problem. It appears impossible to fix a date for the cessation of aid. However, there

are strongly divergent views regarding the type and amount of continuing aid.

XVII. Findings

1. United States aid to India has accomplished specific results and marked increased economic stability.
2. The need for agriculural aid has decreased.
3. The need for public health aid has decreased.
4. India would continue to develop without United States aid but more slowly.
5. If aid continues, it could be on a bankable or near bankable loan basis.
6. There have been in the past failures to properly coordinate projects within the same programs but this situation has improved.
7. There is no physical integration of the USOM and the United States Embassy.
8. The USOM could be integrated with the Embassy, with savings in cost and efficiency.
9. Care should be exercised to avoid United States participation commitments on a second India 5-year plan prior to determining the target for aid cessation.
10. Generally speaking, the only method of phasing out aid to India is by control through decreased appropriations.

It must be borne in mind that this study and evaluation was made without the benefit of all the facts or a field examination, neither of which was possible, and is necessarily limited by these factors.

Formosa

By John H. Nelson

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INTRODUCTION

Importance of Formosa to the United States

Formosa is important to American security interests in the Far East because it forms an important link in the offshore defense line stretching from Japan down through the Philippines and serves as a rallying point for Free China.

Current Situation

The dominant fact in Formosa is that its productive facilities are inadequate to support the economy without outside assistance.

An island area of the size of the combined states of Vermont and Connecticut with only one-fourth of its area cultivable is required to support a population of 7 million Formosans, a refugee population from the mainland of about 2 million additional persons plus an armed force of approximately 600,000 men together with the procurement of equipment and the erection of installations that are essential to the success of the present military program. Population growth is at the annual rate of 2.4 percent. It also supports two levels of government, national and provincial, of whose combined budget, 60 percent is required for military costs.

This cannot be done except with sizable amounts of United States aid in the form of military equipment and training as well as economic aid ultimately affecting every segment of agriculture, industry, transportation, communications, education and public administration and welfare related to the total economy.

The island could readily support with a good standard of living, its civil population. It cannot, in addition, pay, feed, clothe and house this large number of troops and build the installations needed in the present effort to create an effective military force out of the troops now living there. Accordingly, there results a deficit both in the internal budget and in balance of international payments. *Since the deficit is the result of necessary expenditures for military purposes, the economic aid program almost in its entirety is a program in support of military effort.*

A balanced budget is essential to economic stability in Formosa. Public borrowing to make up deficits is impossible to any considerable extent since funds on which the Government can draw for such purposes are extremely limited. Resort to the printing press has led to

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inflation. Austerity policies, maximum reductions in deficits where possible, and vigorous tax collections have aided in keeping inflation under control. Counterpart funds from aid commodities have played a vital role in this operation.

The deficit in foreign exchange arises because the amount received from exports although registering large gains from year to year is insufficient to obtain the commodities that the island has to import including military items imported by the Chinese Government itself. Supplies needed include fertilizer, soy beans, petroleum products, chemicals, and cotton, as well as machinery and parts for the development of industry. Since the Chinese Government itself has no other resources on which it can draw for these purposes, the deficit must be made up by outside aid or by private investment.

Formosa

I. United States Aid

The FOA has submitted the following statement regarding program objectives:

(*Introductory Note:* The present paper consists of three parts: (1) A comment on the basic structural situation as it relates to the need for United States economic aid; (2) a résumé of principal problems and developments emerging or becoming more serious since March 1954; (3) a brief discussion of current economic conditions within the framework of the price, production, budgetary, balance-of-payments and investment situations.

Program objectives, as distinct from overall United States objectives, which have been formulated on the basis of the military, political, and economic situation are briefly as follows: (1) to support the military program; (2) to maintain price stability; (3) to enhance the prestige of the Nationalist Government; and (4) to expand productive capacity toward economic self-support when more normal conditions can be restored. These objectives are mentioned here in order that their relationship with the economic situation, discussed below, may be noted.)

1. The Basic Structural Situation

The structural situation is characterized by a low ratio of known natural resources, productive capacity, and production to the size of the population. These fundamental features of the economy account in large measure for the small annual average per capita income of around US$100, and the inadequacy of Government revenues and of foreign exchange earnings to support, in addition to minimum non-military requirements, a military program of the magnitude favored by United States Government policy. As the local production of goods and services is nearly sufficient to provide for civilian requirements, the essential function of the economic aid program is to make available additional resources roughly equivalent in value to military requirements (exclusive of military hardware). In effect, therefore, the economic aid program is primarily a military support program.

2. Emerging or Changing Problems

Superimposed on the basic economic situation outlined above are

recent developments and problems which influence the feasibility and relative urgency of major program objectives (see introductory note). The principal among such developments and problems are enumerated below:

(1) The Communist bombardment of *Kinmen Island* and threats to invade Formosa will probably discourage local and foreign private investment and result in a further shift of emphasis on the part of the Chinese Government from economic growth to military preparation. This will put a higher priority on the military support objective and delay achievement of the economic self-support objective.

(2) A decline in total estimated *foreign exchange earnings* for 1954 and 1955 compared with 1953 has resulted from the limitations on sugar exports under international agreement and the fall in rice prices on world markets (see "The Balance-of-Payments Situation" below). This emerging problem will influence the total magnitude of aid requirements and slow down progress toward the economic self-support objective.

(3) A large drop in local *rice prices* since March 1954 has tended to encourage wasteful consumption of rice and has thereby reduced the amount of potentially exportable rice. Falling rice prices have also reduced the demand for United States Surplus wheat and barley, resulting in a decreased rate of Counterpart sales proceeds collections. This development affects the total magnitude of aid required and the amount of surplus agricultural commodities which should be included in the fiscal year 1955 Program.

(4) The estimated excess of fiscal year 1955 Government expenditures over revenues is less than was anticipated in March 1954. Provided military expenditures do not increase beyond those now budgeted, this development will contribute to attainment of the price stability objective (see "The Budgetary Situation" below).

(5) The rapid rates of agricultural and industrial *production* increases prevailing in 1952 and 1953 are expected to level off considerably in 1954 and 1955 (see "The Production Situation" below). This probably will add to the difficulty of maintaining price stability and increase the time required to achieve the economic self-support objective.

3. *The Current Economic Situation*

The recently emerging or changing problems outlined above influence the general economic situation concerning prices, production, the budget, the balance-of-payments and productive investment. The current situation with respect to these economic areas is discussed below.

(1) *The Price Situation* (related, obviously, to the price-stabilization objective). With United States economic assistance, the price situation in the period, January-September 1954 (latest data available), was generally favorable. The Government wholesale and retail price indexes for Taipei declined 6 and 5 percent, respectively. General wholesale food and clothing subindexes fell 15 and 8 percent. Retail rice prices dropped 24 percent, with favorable cost-of-living implications for a sizable part of the population. The JCRR index of prices paid by farmers declined 12 percent, while the index of prices received by farmers dropped 8 percent. The Kinmen incident of September 3, 1954, and Communist invasion threats resulted initially in a sharp increase in the black market rates of gold and United States dollars, but have not caused thus far a rise in the general price level.

Related to the price situation in January–September 1954 was a money supply increase (exclusive of "free" counterpart and preferential deposits) of 19 percent, compared with increasse of 21 and 12 percent in the corresponding periods of 1953 and 1952. An increase in loans to private firms and individuals was the most important contributor to the money supply expansion, followed in order of importance by loans to governments and loans to government enterprises.

While price stability was maintained in January–September 1954, it must be strongly emphasized that this was due to a large extent to the economic aid program. Continued price stability will be dependent on the inclusion of a large volume of saleable commodities in the fiscal year 1955 aid program.

(2) *The Production Situation* (related to the military-support, price-stability and self-support objectives). Rates of agricultural and industrial production increases in 1954 and 1955 are expected to be substantially less than in the previous 2 years. The weighted average increase of combined agricultural production (including forestry and fisheries) and industrial output (including mining, transportation, and power) in 1952 and 1953 over the respective previous year is estimated at 12 and 16 percent. The comparable increases projected for 1954 and 1955 are 4 percent and 3 percent respectively, compared with an annual population growth of 2.5–3.0 percent. The tendency of industrial output to level off after remarkable gains in 1952 and 1953 is due principally to 3 factors: (1) the limitation imposed on sugar production by international agreement; (2) the fact that to an increasing extent industrial investment has taken the form of new expansion of plant and equipment rather than rehabilitation of idle capacity, with consequently smaller production increases per dollar invested; and (3) the slump in certain industries, notably textiles, due to overproduction relative to demand. Lower rates of projected farm production increases are attributable basically to the absence of an appreciable amount of additional arable land, to the already inten-

sive mode of farming, and to the limitation of sugar production as mentioned above.

(3) *The Budgetary Situation* (related to total aid requirements and to the price-stability, military-support and self-support objectives). The essential feature of the fiscal year 1955 budgetary situation is a notable increase in the Chinese Government's own revenues which, however, is more than offset by an increase in combined budgetary expenditures (including counterpart GBS and Counterpart for the military outside the budget), largely for military purposes. Combined Provincial and Central Government revenues (excluding Counterpart) in fiscal year 1955 are 63 percent above fiscal year 1953 and 16 percent above fiscal year 1954. Combined Provincial and Central Government expenditures (including GBS and Counterpart for the military outside the budget) are 62 percent above fiscal year 1953 and 19 percent above fiscal year 1954. It must be emphasized that these data do not allow for an increase in military expenditures which may be necessary in view of Communist invasion threats.

(4) *Balance-of-Payments Situation* (related to total aid requirements as well as to the military support, price stability and self-support objectives). The most prominent feature of the prospective calendar year 1955 balance-of-payments situation is a decline in total foreign exchange earnings relative to the 2 previous years. This is due principally to the restriction imposed on sugar exports under international agreement, and to an expected decline in prices of both sugar and rice, which account typically for around 80 percent of total export earnings.

Essential elements of the balance-of-payments situation are summarized in the table below. Minimum exchange of requirements (excluding military equipment supplied under MDAP) are estimated at US$220 million for current year 1955. As with the internal budgetary estimate, it must be emphasized that this does not include increased military outlays which may be required by the changing military situation.

[Millions of dollars]

Trade and payments	1938	1951	1952	1953	[1] 1954
Exports, f. o. b.	130	93	120	130	98
Imports, c. i. f. (including aid)	104	151	222	199	207
Trade balance	26	−58	−102	−69	−109
Balance of Payments:					
Balance on goods and services		−61	−99	−80	−125
Net capital		61	94	90	95
Private		3		9	10
Official and banking		58	94	81	85
Government grants		61	92	83	85
Long-term capital		−6	−2	−2	
Short-term capital		3	4		
Change in gold and exchange reserves		+10	+4	+16	−23

[1] 1954 data partly preliminary or estimated.

(5) *The Investment Situation* (relating to the self-support objective). Fundamentally, the situation continues to be characterized by a slow rate of expansion of operative production capacity relative to the rate of population growth.

Fixed capital formation from local sources of capital is at a low rate, although perhaps about the same as in most other Southeast Asian countries. The prevailing low national propensity to invest and a high propensity to consume in Formosa is due partly to low average per capita income (roughly US$100 annually), and fairly even distribution of income coupled with the fact that profits from trade and commerce are generally above profits from more productive undertakings. Low fixed capital investment is also attributable to government policy, which in accordance with the basic policy of early recovery of the China mainland, gives higher priorities to building military strength and to increasing current living standards than to the economic growth of Formosa. This policy is manifested in numerous ways including some reluctance on the part of the government to export rice at prevailing world market prices and a propensity to allocate nearly all available foreign exchange to importation of raw materials and consumer goods. In view of the high degree of government control over the economy, it seems unlikely that present rates of productive capacity expansion from local capital sources will be substantially increased unless the government's basic policy is changed.

Prospects concerning the inflow of private foreign capital have both encouraging and discouraging facets. Encouraging are the following: (1) the recent enactment of a new foreign investment law which removes certain restrictions on participation by aliens in industrial and mining enterprises, and which raises the allowable rates of profit remittance and capital repatriation; (2) legislation now pending which would grant tax concessions to new industries and to establish industries undertaking major expansion; (3) conclusion of contracts with 3 American firms for the purchase, on an installment basis, of US$11.6 million of industrial machinery and equipment, payment for US$8.2 million of which will be during a period of 10 years. Tending to offset these favorable factors are the Communist pledge to "liberate" Formosa and the absence of a war risk provision in the Sino-American Industrial Guaranty Agreement. While it is not possible to predict with any certainty the volume of private foreign and overseas Chinese capital which may be invested in Taiwan in the next several years, the total is not likely to be large in view of security conditions.

Considering the factors noted above which tend to limit fixed capital formation with local sources of funds as well as the inflow of foreign private investment funds, it seems hardly likely that rapid progress toward self-support, at current living standards, will be made in the foreseeable future. Actual achievement of this objective will,

in all probability, not be possible until security conditions are less uncertain, and until military expenditures can be substantially reduced or grant aid for developmental purposes expanded. A substantial level of developmental aid will be necessary merely to maintain present per capita production.

II. Aid to China Mainland

While not strictly pertinent to United States aid to Formosa, it may serve to bring that aid in more accurate perspective to note that from 1937 to 1949 some $3.5 billion of all forms of aid including military were expended in or on behalf of the then Chinese Government. From V–J Day to March 1949 somewhere between $2 and $2.5 billion in aid in the form of grants and credits were extended to China. Of this amount $411 million was in the form of credits, $125.0 million for direct military aid, and the balance in grant aid. This amount does not include the sale or transfer of surplus military equipment and supplies having a procurement cost of approximately $1 billion which were sold to the Chinese Government for $232.0 million of which $95.0 million was in the form of credit.

III. Economic Aid 1948–50 Inclusive

Economic aid to Formosa started in 1948 under the China Aid Act of 1948, Public Law No. 492, Title IV, Eightieth Congress, at which time Formosa was treated as a province of the Chinese Republic. Between 1948 and 1950, preceding aid furnished directly to Formosa under ECA, careful estimates indicate that approximately $21.0 million net of economic aid was received in Formosa. Fertilizer was the major item furnished followed by crude oil and wheat flour. Sizable sums were utilized to support the Joint Commission on Rural Rehabilitation and the engineering services of the J. G. White Organization, both of which transferred to Formosa from the mainland.

IV. Economic Aid Cumulative Fiscal Years 1951–54 [1]

In this period a total of $396,639,200 was disbursed for aid to Formosa subdivided by major project categories as follows:

Health and sanitation	$1,494,900
Agriculture and natural resources	58,581,600
Transportation, communication and power	33,685,400
Industry and mining	29,718,500
General and community development	2,464,300

[1] From FOA Sources.

Education	$1,280,800
Public administration	1,183,500
Total project costs	128,409,000
Maintenance of civilian supply	183,393,200
Direct forces support	84,826,000
Ocean freight unassigned to field of activity	11,000
Total	396,639,200

Economic Aid Programs

Prior to fiscal year 1954, the danger of inflation made it necessary to use the bulk of available FOA funds for imports of consumer goods and industrial raw materials. These imports served the dual purpose of (*a*) supplying needed consumer goods and raw materials for industry, which the Chinese could not finance out of their own foreign exchange and (*b*) generating counterpart funds to help the Government finance certain local currency expenditures without excessive inflation. This aid succeeded in mitigating the serious inflation found at the time the program began. During 1953 wholesale prices rose 16 percent, as contrasted with 91 percent increase during 1950. Other beneficial effects are seen in the substantial increases in the production of rice and other agricultural products, and in the output of industries operating at or near capacity during 1953. These have reduced the need to import essential consumer goods and have increased exports.

In absolute terms, production has risen above prewar levels. In 1953, industrial production rose to an index figure of 140 as compared with 100 in 1941. Agricultural production in 1952–53 rose to an index of 102 as compared with prewar. In per capita terms, however, production is below prewar because of the influx of a million and a half troops and civilians from the mainland plus an increase in the local Formosan population of nearly two and a half million. These increased have raised the population from 5.7 million persons in 1937 to nearly 10.0 million in 1953.

Compared to levels in 1949 striking gains, both absolute and per capita, have been achieved in production. Firm power capacity has increased from 149,000 kw. in 1949 to 271,000 kw. in 1953, 52 percent above the prewar Japanese peak. Rice production has increased steadily and in 1953 reached an alltime record of about 1.7 million tons. The production of textiles has increased fivefold since 1950, permitting Formosa to meet its entire current requirements for military uniforms as well as to satisfy nearly all civilian requirements.

The improved economic situations—higher production levels, rising exports, and a retarded price inflation—made it possible in fiscal year 1954 to increase substantially the allocation of FOA aid funds for development of power, transportation, and industrial facilities. Outside

assistance for capital development is required because (*a*) a faster rate of investment is the only means of further increasing per capita production and thereby achieving progress toward self-support (even of keeping abreast of the rapid population growth and increasing military requirements), and (*b*) available Chinese resources for this purpose are inadequate.

Counterpart funds and dollar aid have been used to improve the clothing, equipment and rations of the Chinese armed forces. Over $5 million in offshore procurement contracts were placed with Chinese arsenals during 1953 for the production of small arms and ammunition.

Technical Cooperation has assisted the program of the Joint Commission on Rural Reconstruction (JCRR) and other programs improving agriculture, public health, education and public administration. Surveys have shown that approximately 95 percent of the rural people of Formosa know of American assistance to these programs and have felt their benefit. These programs have contributed materially to the peace and order now prevailing within Formosa, as well as to the marked increase in production that has benefited so materially the overall economy and the defense effort.

V. United States Aid—Fiscal Year 1955 [2]

For fiscal year 1955 approximately $90 million will be made available for the Formosa program. These funds will be used as follows: Direct Forces Support, $25.0 million; Mutual Defense Support, $62.6 million; and Technical Cooperation, $2.4 million. As described in greater detail below, all activities—irrespective of functional category—also will receive considerable support from counterpart funds, as a local currency supplement to the direct dollar aid shown above.

Direct Forces Support—$25.0 Million

Funds in this category are being used to finance civilian-type imports required by the Formosan forces to supplement the military equipment and technical assistance furnished under the MDAP, and to assure its effective utilization. Items to be included will be used in the construction of warehouses, barracks, training centers, transportation facilities, airfields and revetments for jet and conventional aircraft. Also included will be imports of raw materials for the local manufacture of certain types of ammunition and small arms. Petroleum products for aircraft, ships, and combat vehicles will be supplied.

[2] From FOA Sources.

Mutual Defense Support—$62.6 Million

These funds will supplement foreign exchange resources of the Chinese Government. They will be used to assure an adequate supply of consumer goods, industrial raw materials and capital goods and services.

Of the total funds requested within this category, $38.2 million will be used to finance industrial raw materials, such as phosphate rock to manufacture calcium superphosphate, soy beans for cake and edible oils, raw cotton to manufacture textiles, and lubricating oils for manufacturing industries, railways, buses, and power generation. A small amount, $0.5 million will be used to improve harbor, railway, and telecommunications systems, which are essential to effective support of the military establishment. The balance will be used as follows: $0.3 million for improved irrigation and fishing facilities, $4.0 million for power and shipbuilding, and $15.5 million for the expansion of industries already established. (These are chemical fertilizer, paper and pulp, lumbering, sugar refining chemicals, rubber processing and metals, and the mining of copper, gold, bituminous coal and coke.) A further $0.7 million is for the services of a United States firm of consulting engineers. The balance of $3.4 million is for rehabilitation and replacement equipment.

FOA aid to industrial development in fiscal year 1955, provided in this program, is expected to be particularly effective because it is geared to Chinese assurances, which FOA believes are within their capabilities, that the Government will further improve its economic planning, take steps to establish a favorable climate for private foreign and domestic investment, and increase the efficiency of presently Government-owned industries.

Technical Cooperation—$2.4 Million

The funds requested in this category will finance the cost of experts in the fields of agriculture, public health, education and public administration; small quantities of supplies and equipment for demonstration purposes; and a trainee program in the United States for about 145 persons. In addition to the dollar funds indicated above for the technical cooperation component, a substantial amount of counterpart funds is made available in support of its activities, as detailed later. An important purpose of this program is to help the Government and the people of Formosa to help themselves, by giving aid to their efforts to establish fundamental programs affecting the general welfare in such fields as agriculture, health, education, public administration, and industry. Help in specific projects has been given to improve agricultural production through the adoption of better

techniques; to control malaria, tuberculosis and other diseases; to improve technical education, as a companion measure aiding industrial development; and to improve public administration, bringing about more effective budgeting, taxation, and expenditure controls.

Economic Aid-Operating Program Fiscal Year 1955

[In thousands of dollars]

Total			[1] 89,700
A. *Technical exchange and cooperation*			3,100
Agriculture and natural resources		822	
Industry and mining		78	
Transportation		38	
Labor		18	
Health and sanitation		507	
Education		742	
Public administration		203	
Community development, social welfare and housing		15	
General and miscellaneous		677	
		3,100	
B. *Defense support*			61,600
Project assistance		19,724	
Nonproject assistance		41,876	
		61,600	
Project assistance			
Agriculture and natural resources	325		
Industry and mining	17,874		
Transportation	1,280		
Health and sanitation	100		
Public administration	120		
Community development, social welfare and housing	25		
	19,724		
Nonproject assistance		41,876	
Agricultural community (sec. 402)	34,500		
Petroleum-Lubricants	800		
Raw materials and semifinished products	4,106		
Machinery and vehicles	1,979		
Rubber products	350		
Miscellaneous	141		
	41,876		

C. *Direct forces support*		25,000
Project assistance, barracks, etc	6,502	
Nonproject assistance	18,498	
	25,000	
Nonproject assistance		
Nonproject assistance (sec. 402)	5,900	
Petrol products	5,077	
Raw materials and semifinished products	4,087	
Machinery and vehicles	1,638	
Rubber products	429	
Textile products	743	
Miscellaneous	624	
	18,498	

[1] Very substantial increases are presently under consideration and in all probability will be approved.

Counterpart Funds

FOA-financed commodity imports develop counterpart funds which augment Chinese Government resources for essential military and civilian expenditures. For such expenditures during fiscal year 1955, it is estimated that a total equivalent of $93.7 million in counterpart funds will be needed. Part of these funds will be developed through the sale of commodities financed by FOA in fiscal year 1955. Part will be derived from corresponding programs of prior fiscal years, and from repayment of loans previously made from counterpart funds. The $93.7 million equivalent in local currency will be used during fiscal year 1955 as follows:

	Amount (million dollar equivalent)	Percent of total
Direct forces support	56.0	60
Mutual defense support	29.7	31
Technical cooperation	8.0	9
Total	93.7	100

China's Part in Program

The Chinese are devoting 80 percent of their national budget and nearly 60 percent of the combined National Provincial Government's budgetary resources to the military effort. They are increasingly assuming the administration and costs of American-sponsored technical assistance projects in such fields as health, education and rural development. A new foreign investment law is nearing enactment which, it is hoped, will improve the climate for private investment sufficiently to attract United States and other private capital.

Relationship of the Program to UN Projects in Formosa

Several projects are being carried out in Formosa by certain U. N. specialized agencies—the U. N. Educational, Scientific and Cultural Organization (UNESCO); the World Health Organization (WHO); and the United Nations Children's Welfare Fund (UNICEF). These projects are coordinated with the United States assisted education and health programs. Two of the U. N. projects in the fields of malaria and tuberculosis control are conducted jointly with the Joint Commission on Rural Reconstruction (JCRR).

VI. Major Projects [3]

Some idea of the character and magnitude of major projects approved and sponsored by United States aid programs in Formosa during recent years is suggested by the following tabulation provided by Foreign Operations Administration:

[3] From FOA sources.

FOA Industrial Projects Approved, Procurement Authorization Amount, and Status of Projects as of June 30, 1954

[In thousand dollars]

Fiscal year originally approved	Type of project	Description	Procurement authorization amount	Percent arrived	Percent installed	Expected completion date
	Power					
1951	Tien-leng hydro power station, Taichung.	Installation of 2 generating units of 26,500-kw. capacity each in power station constructed by Japanese. First unit has been in operation since September 1952, and second unit since September 1953. Awaiting final procurement report from contractor, William Hunt & Co. During past 6 months total monthly generation of this station reached one-fifth of total power system output.	4,146	98	98	Currently in operation.
1951	Li-wu hydro power station, Hualien, and East-West tie line.	Rehabilitation of Li-wu first 16,000-kw. unit and installation of a second 16,000-kw. unit. First unit placed in service in December 1951, and second unit in March 1954. Construction of first and second circuits of East-West cross-island transmission tie-line. First circuit put in service December 1951 and second circuit in November 1953.	1,500	98	98	Do.
1953	Tung-men hydro power station near Hualien.	Rehabilitation of station heavily damaged by floods. Station is now being located underground and requires a new diversion dam, powerhouse, and tailrace tunnel. Capacity of rehabilitated station will be 21,000 kw. Civil construction work is 70 percent completed.	1,200	13	9	August 1955.
1954	Tien-leng hydro power station, near Fengyuan.	Increasing dry season peaking capacity of this station by 59,300 kw., through installation of crest gates on the diversion dam and addition of a third generation unit.	1,200	0	0	End of calendar year 1955.
1953	Nan-pu steam power plant, Kaohsiung.	Development of 40,000-kv-a steam power to meet growing demand for power in Kaohsiung industrial area. Supplies and equipment include turbo-generator and steam generating unit, electrical apparatus, structural steel and insulating materials. Technical services of Gibbs & Hill, Inc., are being employed to perform engineering design and construction in connection with installation of generator.	7,091	20	10	October 1955.
	Highways					
1951	Silo bridge, Silo	Completion of 31-span, 2-km. bridge to eliminate highway gap at the center of the west coast highway system. Concrete piers and abutments were built by Japanese. FOA supplied structural steel, tools, and materials. Design and fabrication of steel work done by American Bridge Co. Placed in operation January 1953.	1,405	100	100	Currently in operation.
	Manufacturing					
1951	Kaohsiung ammonium sulphate works, Kaohsiung.	Expansion of plant capacity from 7,200 tons to 60,000 tons annually. Technical design and engineering work done by Wah Chang Engineering Corp. of New York has been completed. Installation of delivered equipment is awaiting completion of buildings.	1,857	98	0	End of calendar year 1955.

FOA Industrial Projects Approved, Procurement Authorization Amount, and Status of Projects as of June 30, 1954—Con.

Fiscal year originally approved	Type of project	Description	Procurement authorization amount	Percent arrived	Percent installed	Expected completion date
	Manufacturing—Con.					
1953	KASW nitrogen fertilizer works, Hualien.	Establishment of a 70,000-ton annual capacity nitro-chalk plant on original site of a bombed-out former Japanese aluminum factory. Equipment beginning to arrive. Plant construction expected to be completed by December 1955. Design work is being done by Wah Chang Engineering Corp. and Chemical Construction Corp.	4,000	5	1	July 1956.
1954	Taiwan Fertilizer Corp. factory No. 6, urea plant, near Taipei.	Establishment of 85,800-ton annual capacity plant for manufacturing urea containing 44 percent nitrogen. This will make Formosa nearly self-sufficient in nitrogenous fertilizer. Hydrocarbon Research has been awarded the contract for engineering design, procurement, and supervision of construction.	8,980	0	0	December 1956.
1954	Taiwan Fertilizer Corp., nitrophosphate plant, Kaohsiung.	Establishment of 4,300-ton annual capacity nitrophosphate production through construction of a nitric acid plant and an acidulation process plant for treating imported phosphate rock with nitric acid and subsequently with ammonia. This will permit the start of an extensive program in the use of mixed fertilizers in Formosa.	1,150	0	0	Summer 1956.
1954	Byproduct Coke Oven, near Taipei.	Installation of equipment for production of byproduct coke and oven gas, together with organic byproduct crudes which will result in annual foreign exchange savings of $1.5 million. Plant capacity will be 131,400 tons per year. Gas and other valuable byproducts, such as naphthalene and anthracene oil, will be utilized locally or exported. Represents largest individual venture in private enterprise to date in Formosa.	2,950	0	0	Calendar year 1956.
1953	Taiwan Paper & Pulp Corp., paper mills at Lotung, Tatu, and Hsinying.	Installation of equipment to rehabilitate and modernize paper mills so as to increase production, manufacture better quality products, and reduce costs.	1,220	8	0	Calendar year 1955.
1954	Taiwan Paper & Pulp Corp., Hsinying Paper Mill.	Installation of equipment to convert the Hsinying Pulp Mill from a sodium sulphite to a kraft process, in order to produce pulp from bagasse waste, thus producing a better quality pulp at lower cost. The pulp will be used for cement and fertilizer bags, as well as for mixing with ground wood pulp to make newsprint in the Lotung mill.	1,063	0	0	Calendar year 1956.
1954	Taiwan Sugar Corp., Hardboard Plant, Changhwa.	Installation of equipment to manufacture a high-grade, two-side finished hardboard and insulation board from bagasse waste. TSC will close down its sugar mill at Changhwa and use the buildings, rail sidings, and employees for the new plant, which will produce 45 million square feet of board per year from 35,000 tons of bagasse. Part of the board will be sold locally and part exported, resulting in net foreign exchange saving of $1.4 million annually.	1,175	0	0	November 1955.
1954	Ordnance Section Combined Service Forces, Double-Base Powder Plant, Kaohsiung.	Installation of equipment to manufacture double-base powder for mortar and cannon shells. Since facilities are available for making nitrocellulose, the major ingredient of double-base powder, costs of such a plant would be greatly reduced. Practically all raw materials are available locally. The plant would be established in connection with the single base powder plant which is initiating production in 1954.	2,362	0	0	1956.

VII. Personnel

The Taipei Embassy Economic Staff consists of seven persons costing $49,085 per year as against a total staff of 38 persons for all purposes costing $208,510 per year.

The Department of Defense as of November 1954 had a total of 977 persons in Formosa of which 836 were United States military personnel and 141 foreign nationals.

FOA as of November 1954 had a total of 150 persons in Formosa of which 94 were broadly classified as administrative and 56 charged to the program. A further breakdown of this total indicates that of 80 United States nationals, 24 were administrative, 47 technical assistants, 9 on reimbursable detail while 70 foreign nationals were listed as acting in administrative capacities.

VIII. Joint Commission on Rural Reconstruction

This Commission is unique to Formosa. It is a jointly operated Chinese-American organization with two American commissioners appointed by the President and three Chinese commissioners, including the chairman, selected by the Government. It was originally created to operate on the mainland. Since moving to Formosa it has been largely responsible for the outstanding success of the agricultural programs. It is financed to a limited extent by FOA but largely by Chinese Government currency derived from the counterpart fund. Its activities include programs in rural health and sanitation, land rent reduction and land reform, crops and livestock production, irrigation, improvement of farmers' associations, analysis of rural economic problems, and supervision of storage, distribution and utilization of chemical fertilizers and beancakes. Its success in maximizing self-help by the Chinese with limited supervision by American personnel affords an example which might well be followed in other areas. Its continuance is authorized under Section 536 of the United Security Act of 1954.

IX. J. G. White Engineering Corp.

In a somewhat similar fashion, the J. G. White Engineering Corp. serves the industrial and defense segment of the United States aid program in Formosa. Originally under contract to the Nationalist Government on the mainland for engineering and technical advisory services beginning in 1948 this organization moved to Formosa in 1949 with Government of Chiang Kai-shek. Its contract has been successively financed since 1948 by ECA-MSA and FOA. It now costs

approximately $650,000 annually and provides for a maximum of 30 American nationals chiefly senior engineers of which 25 are currently employed and in service in Formosa. It originally employed nine persons. This organization has a dual function in that it acts in an advisory capacity to both the Chinese Government and to the USOM of FOA in Formosa. In recent months it has been increasingly involved in the engineering of many defense projects with 4 or 5 of its total staff of 25 devoting full time to these projects. The Industry Officer of the USOM staff acts as liaison officer to the J. G. White Corp. The availability of this diversified engineering advice has proved useful to both the Chinese Government and FOA.

X. *Economic Problems*

As viewed by the Department of State, the current economic problems on Formosa as distinct from military and political problems include:

(1) The optimum degree and pace of industrialization,
(2) Exchange rates and inflation,
(3) The status of trade with Japan,
(4) Implementation of recommendations made by the United States sponsored Economic Advisory Group on modernizing fiscal and tax practices,
(5) The expansion of private investment and farm credit.

Economic problems stem basically from the political situation which has imposed some 2 million refugees upon a small island with an already large population, limited natural resources, and a colonial economy. The island has been required to maintain an abnormally large military establishment and to attempt to operate as the base of an independent state.

The island is relatively rich in sugar, rice, and certain other agricultural products, but the investment required to produce additional yield is high.

Formosa has only a small industrial base. Post-World War II development of industry has concentrated on the need to reduce certain types of imports, and there has been practically no manufacturing for export. Furthermore, development of new industry is handicapped by the obsolescence of most of the machinery and methods already in use. Capital required for development generally is very limited and the investment rate is low, partly because of the drains of the large military establishment and partly due to the poor investment climate. The Chinese Government has been making efforts to improve the situation and has passed a recent law regulating foreign investment which should provide some encouragement to capital from abroad. United States aid has been directed largely to military expenditures and day-to-day economic support of the military establishment.

The island has a substantial deficit in its foreign trade and payments balances. United States aid has had the effect of making up this difference from year to year. (For example, the foreign trade deficit and the figure for United States economic aid were both about $60 million in 1953.) This situation also goes back to the history of Formosa as a dependency of Japan and China. There is a marked lack of diversity in agricultural production, sugar and rice far out-

stripping other products. This places the small economy at the mercy of the world market prices for these products, which have recently shown a tendency to decline. The role of the island in the world sugar market is limited by its participation in the Sugar Agreement, which has set an export quota somewhat below its recently demonstrated ability to produce. An immediate problem is the necessity to market and even store a bumper rice crop in the face of surpluses occurring elsewhere in the area and the United States surplus disposal program.

In attacking these problems the United States Embassy Economic Section works closely with the staff of the Foreign Operations Administration mission (and with members of the Military Assistance Advisory Group with regard to aspects of military aid). The four primary objectives of our aid program to the Republic of China may be briefly described as follows: (1) To stabilize the economy, (2) to support the necessary military effort, (3) to develop the island's capacity for economic self-support, and (4) to assist the Chinese Government in increasing efficiency in its economic functions. The detailed plans of our aid effort are made and carried out by the FOA mission, with the economic section of the Embassy acting in an advisory and coordinating capacity with particular respect to policy functions correlated to those carried on by the Department of State and FOA in Washington.

An Economic Stabilization Board has been established in Taipei by the Chinese Government. On it sit United States Embassy, FOA, and United States military personnel as advisers. This body and its subcommittees meet regularly to recommend measures to improve the status of the whole economy. It is principally through this organ that United States aid plans are worked out with the Chinese Government.

Multilateral Economic Programs

The participation by the Government of the Republic of China in such multilateral economic organs as ECAFE, GATT, and the Sugar Agreement primarily involves the Embassy in matters concerning the continuing representation of Nationalist China in these bodies, since it has been a cardinal policy of the Communists to attempt to unseat the GRC and substitute representatives of the Communist regime in Peking.

Public Enterprise

The term "public enterprise" is loosely used to apply to a variety of commercial-type activities, governmental functions, banks, etc., under a diversity of forms of management and supervision. Following is, we believe, a comprehensive list. The China Broadcasting Corp. is owned by the Kuomintang, which makes it, too, a form of government enterprise.

Organization of Public Enterprises (According to Chinese Sources)

Public corporation or enterprise	Ownership	
	Government (percent)	Private (percent)
CENTRAL GOVERNMENT OWNED		
Supervised by Ministry of Communication:		
China Merchants Steam Navigation Co.[1 2]	99.00	1.00
Taiwan Telecommunications Administration	100.00	----------
Taiwan Postal Administration	100.00	----------
Supervised by Ministry of Economic Affairs: [3]		
Taiwan Salt Works	100 00	----------
Taiwan Fisheries Rehabilitation Administration	100.00	----------
China Petroleum Corp	100.00	----------
Taiwan Aluminum Plant	100.00	----------
Taiwan Gold and Copper Mining Administration	100.00	----------
Taiwan Steel Works	100.00	----------
Sin-Chu Coal Mining Administration	100.00	----------
China Textile Development Corp	99.50	0.50
Bureau of Mechanics and Engineering Service	100.00	----------
Taiwan Agricultural and Chemical Works	100.00	----------
Supervised by Ministry of Finance:		
Central Trust of China	100.00	----------
Central Bank of China	100.00	----------
Bank of China	66.67	33.33
Bank of Communications	87.96	12.04
PROVINCIAL GOVERNMENT OWNED AND SUPERVISED		
Industrial & Mining Corp	85.94	14.06
Agriculture & Forestry Development Corp	98.10	1.90
Tobacco and Wine Monopoly Bureau	100.00	----------
Forestry Administration	100.00	----------
Camphor Bureau	100.00	----------
Kaohsiung Ammonium Sulfate Plant	----------	----------
Agricultural Processing Factory	100.00	----------
Provincial Government Printing Works	100.00	----------
Taiwan Steam Navigation Co	100.00	----------
Taiwan Railway Administration	100.00	----------
Taiwan Highway Administration	100.00	----------
Taiwan Travel Service	----------	----------
Keelung Harbor Bureau	100.00	----------
Kaohsiung Harbor Bureau	100.00	----------
Taiwan Supply Bureau	100.00	----------
Taiwan Coal Control Commission	94.65	5.35
Shing-Sheng Pao (Daily News)	88.22	11.78
Taiwan Book Store	100.00	----------
Bank of Taiwan	100.00	----------
Taiwan Land Bank	100.00	----------
Taiwan Cooperative Bank	60.00	40.00
Huanan Commercial Bank	52.80	47.20
First Commercial Bank	66.60	33.40
Changhwa Commercial Bank	47.10	52.90
Joint Savings Corp	91.00	9.00
Life Insurance Corp	100.00	----------
Fire & Marine Insurance Corp	100.00	----------
JOINT NATIONAL AND PROVINCIAL GOVERNMENT OWNERSHIP		
Supervised by Ministry of Economic Affairs: [3]		
Taiwan Sugar Corp	96.71	3.29
Taiwan Power Co	90.76	9.24
Taiwan Paper & Pulp Corp	73.37	26.63
Taiwan Cement Corp	91.34	8.66
Taiwan Fertilizer Corp	96.03	3.97
Taiwan Alkali Corp	100.00	----------
Taiwan Machinery Manufacturing Corp	62.18	37.82
Taiwan Shipbuilding Corp	91.55	8.45

[1] All companies, corporations, banks, the Central Trust of China, the Taiwan Fisheries Rehabilitation Administration, The Taiwan Travel Service and the Shin-Sheng Pao Daily News have board of directors which in turn appoint general managers. The Taiwan Salt Works is controleld by a Readjustment Committee, and the Provincial Government Printing Works by a Director Committee. All others have managers or directors appointed by their supervising agency.

[2] The China Merchants Steam Navigation Co., the Central Trust of China, the Central Bank of China, the Bank of China, the Bank of Communications and the China Textile Development Corp. have all moved from the mainland with their assets. The Taiwan Fisheries Rehabilitation Administration, the Taiwan Steel Works, the Sin-chu Coal Mining Administration, the Bureau of Mechanical and Engineering Services, the Taiwan Agricultural and Chemical Works, the Kaohsiung Ammonium Sulfate Plant, the Agricultural

The above list in its original form gave the total rated capital of the entire list at NT$2,031,167,000 and total personnel at 131,631. The current legal rate of exchange is approximately NT$16 for US$1 but with the sizable black market considerably higher and wide fluctuations in exchange rates over a period of years, no acceptable or meaningful equivalent of this capitalization can be given in United States dollars or any other firm currency. Even an acceptable explanation of what is meant by "rated capital" would be difficult. The total personnel figure is also of highly questionable accuracy. The chief value of the list is that of showing that practically all essential industry, utilities, and services are government controlled. All have been the major recipients of United States grant aid funds in the form of materials, equipment and technical services. Sizable grants and loans of counterpart funds have been made to them.

Practically all of these operations have certain common characteristics: They are overstaffed with 2 or 3 times the number of employees necessary for the operation; the accounts and records follow no standard practice making it generally impossible to determine actual comparative costs, expenses, profit or loss; surprisingly many, if not most, have very competent technical talent on their staffs but this technical competency is given no authority or opportunity for managerial improvement; sales promotion is an unknown art. It is generally believed that to drastically reduce the payrolls of these organizations to rational size would create such unemployment as to present a social and political problem of great magnitude, the solution of which probably involving costs far outweighing that of the uneconomic losses inherent in their continued employment. Since local private capital in sizable amounts is entirely lacking and the climate for foreign investment (including that of overseas Chinese) is unfavorable, no means presently exist for the transition from public to private enterprise. A scheme to redistribute large landholdings and use equity shares in Government corporations in part payment for the land has been considered with little progress to date. Obviously under current conditions little progress can be expected in giving impetus to private investment.

Processing Factory and the Taiwan Supply Bureau are all new investments. All other enterprises are former Japanese assets rehabilitated and reorganized by the Chinese.

[3] Originally the Ministry of Economic Affairs directly supervised the Salt Work and Fisheries Rehabilitation Administration only. The other enterprises under this category were directly supervised by the National Resources Commission which was nominally under this ministry. To streamline administration the N. R. C. was abolished and its functions transferred on September 1, 1952.

NOTE.—The China Broadcasting Corp. is owned by the Kuomintang which makes it a recent addition to the above list of Government enterprises.

XI. Overseas Chinese

Since Formosa is intended to serve as a rallying point for Free China, a brief mention of the 12½ million Chinese, exclusive of those on Formosa, living in Far Eastern countries outside of China, is in order. Their distribution is as follows:

Japan	44,000 (about 20,000 are Formosan Chinese; most of the remainder are second- and third-generation Chinese born in Japan).
Vietnam	1,000,000 (about 5 percent of population).
Cambodia	300,000 (about 10 percent of population).
Thailand	3,000,000 (about 16 percent of population).
Malaya and Singapore	2,750,000 (about 45 percent of population).
Burma	300,000 (about 1.5 percent of population).
Indonesia	2,000,000 (about 3 percent of population).
Philippines	300,000 (about 1.5 percent of population).
Sarawak	150,000 (about 25 percent of population).
British North Borneo	75,000 (about 22 percent of population).

Their presence poses problems for themselves as well as for the governments within whose jurisdiction they live. The policies of the Chinese authorities with respect to overseas Chinese affect the National Government's and the Communist regime's relations with the countries of Southeast Asia, all of which countries are inclined to be fearful of the extension of Chinese political influence from whatever source. Political activities among the overseas Chinese by either the Chinese Communists or the National Government tend to impair their relations with the Southeast Asian countries.

While numerically a distinct minority in most of the Southeast Asian countries, except Malaya, the economic position of the Chinese and their concentration in urban areas have given them an importance far beyond that suggested by their numbers. In contrast to the agricultural orientation of the bulk of the Chinese on the mainland, the overseas Chinese by and large are concerned with business and nonagricultural pursuits. Sociologically, they represent a large part of the middle class in the countries of their residence.

With the rise of nationalism and the emergence of independent governments in Asia, the political position of the Chinese minorities has become increasingly precarious. The policies of the Southeast Asian governments toward resident Chinese minorities vary, but in general they have moved toward increasing economic, political, educational, and social restrictions. To protect themselves from possible Chinese domination and potential subversion, local governments have pursued policies which have engendered a sense of insecurity among overseas Chinese.

The overseas Chinese are caught in a highly ambiguous position as the following elements suggest:

1. Both local discrimination and cultural loyalty incline many of the overseas Chinese to look to some Chinese authority for support and protection of their interests. In general, they have hopefully anticipated the rise of a strong Chinese Government capable of supporting them.

2. To the degree that overseas Chinese look abroad for support and are subject to external influences, they arouse the apprehensions of their host countries and tend to impair the stability and security of Southeast Asian countries.

3. Both the National Government and the Chinese Communist regime attempt to exercise the role of protectors and compete for overseas Chinese support, which tends to arouse the fear and hostility of indigenous Southeast Asian nationalists.

4. The relationships and attitudes of the host countries with respect to Formosa versus the mainland have a bearing on the external orientation of the overseas Chinese communities, although the parochial loyalties of overseas Chinese make the mainland the obvious focus of their interest.

The majority of the overseas Chinese understandably have good reason to eschew political activities. They are inclined to lean in the direction in which they believe their personal interests lie. Of the minority identified with Chinese politics, a very rough estimate is that there are about 100,000 Chinese associated with Kuomintang organizations and activities and perhaps 3 to 4 times as many who might count themselves as supporters of the Chinese National Government. In the areas where identifiable Communist or pro-Communist organizations operate under various guises, such as in Burma, Indonesia, and Thailand, indications are that the pro-Communist elements have been two to three times as numerous.

Support and sympathy for the Chinese Communist regime have undergone a notable decline among overseas Chinese in the past two years. This shift of opinion against the Communists may be due to a variety of factors, including the following: (1) Communist confiscation and redistribution of land in South China dealt a heavy blow to the families of many overseas Chinese and has been much resented; (2) reports of bad business conditions, confiscatory taxes and purges on the mainland outrage the Chinese sense of justice, as well as hit their interests; (3) many of the savings and remittances of overseas Chinese were lost through confiscation or reforms; (4) many of the overseas Chinese lost relatives and friends in the waves of executions and trials which have taken place in China; (5) reports of insecurity and indoctrination and excessive political organization have dashed the naive reformist expectations of many overseas Chinese; (6) the terroristic actions of local Communist groups—closely identified with China or the Chinese—especially in Malaya and Thai-

land, and to a lesser degree in Indonesia and the Philippines, have discredited and aroused fear of both communism and Communist China; (7) the stronger stand taken by Southeast Asian Governments against local Communist activities has made support for Communists, and especially the Chinese Communists, less profitable.

Properly handled, this shift of attitude by overseas Chinese can be turned to the advantage of the National Government. The fact that it has become increasingly a one-party government has meant that it has not been able to appeal to non-Kuomintang groups and to develop a united front anti-Communist movement which takes into account a broad range of non-Communist opinion. Preoccupied with strengthening its position on Formosa and developing its military strength, the National Government has not attempted to restate its political doctrines or redraft its political programs to take account of the ideas and opinions of non-Communist overseas Chinese who are not supporters of the Kuomintang.

(*Note*: The above information on Overseas Chinese has been abbreviated from a report to the House Committee on Foreign Affairs by Congressman Walter H. Judd, chairman of special study mission to Southeast Asia and the Pacific, dated January 29, 1954.)

However, little or no evidence exists to indicate any strong or serious effort on the part of Nationalist China to enlist the active interest of overseas Chinese in the Far East residing outside of Formosa in the future of Free China. Whether the United States could or should take a position in this situation is beyond the scope of this paper.

Observations

1. In view of the paramount importance of Formosa from the military and political point of view, of necessity, problems otherwise important become of secondary significance. Their treatment proceeds from a consideration of timeliness and expediency, rather than that of logical order in a peaceful economy. Among these problems can be listed:

(*a*) Improvement of investment climate.

(*b*) Acceleration of transition from public to private enterprise.

(*c*) Encouragement of intercommunication, travel and relations with overseas Chinese.

(*d*) Industrial and economic development with relation to regional development, with particular emphasis on Japan.

(*e*) Recognition of increasing emphasis needed on industrial development with relatively decreasing emphasis on agriculture.

(*f*) Extension of trade agreements with other countries.

2. Some criticism has been made of the allegedly too great diversification of program projects and activities in general in Formosa.

Since the average per capita income is now given at United States $100 annually (Formosan statistics in certain fields are unusually reliable for Far Eastern countries) compared to $50 or less for other Asiatic countries, and sizable assays of public opinion indicate that 95 percent of the entire population are aware of the existence of United States aid to Formosa, it would appear that whatever the degree of diversification, the program as a whole has produced results desired, but not achieved in some other countries.

3. One important by-product of United States aid has been a studious and prolonged organized effort on the part of the Chinese to develop a balanced and coordinated 4-year plan for Formosa, with the object of achieving viability. Even though such a plan may be impossible of achievement and places large dependence on continuation of United States aid, it does provide a commonly used yardstick for balance and progress that provides a degree of stabilization to all economic thinking.

4. It is felt that intensified study should be given to the relationships of overseas Chinese to the National Government of Formosa, with the objective of stimulating the development of a program of greatly broadened support and community interest.

5. The complete lack of utilization of the industrial and technical competency readily available from the Department of Commerce suggests an opportunity for improvement in the area of industrial development and trade promotion.

6. Time has not permitted a detailed examination of the relationships between the J. G. White Engineering Corp. and the USOM in Formosa. Such information as is available suggests that effective working relationships between J. G. White and the technical competency available in the Department of Commerce relating particularly to industrial equipment, technical processes, commodity specialists, trade promotion, transportation, and investment opportunities, would materially benefit American-Chinese interests.

7. It is noted that the fiscal year 1955 aid program is arbitrarily divided into four components, i. e., military assistance, direct forces support, mutual defense support and technical cooperation. No convincing reasons are available to indicate the necessity for this division. The provision of military hardware and training is as obviously a function of the Department of Defense as is military assistance. The other 3 divisions all have a homogeneity in that all three consist almost entirely of commodities, equipment and services of commercial and civilian specifications and differ only in their end use purposes or objectives. Both end use purposes and objectives blend into logistic support for a defense force and its civilian component. That these 3 should be programed, budgeted and administered as a single entity, "economic aid," without the confusing semantics provided by the 3 above-mentioned categories, appears obvious.

8. Under continuance of present conditions, there are not apparent reasons why such a program of economic aid could not be the direct responsibility of the Department of State administered locally by the senior economic officer of the Embassy, thus eliminating the USOM now in Taipei. Making greater use of the technical competency available in many United States departments and agencies would increase the simplification of the administrative burden. However, it should be noted that in all probability no very great reductions in personnel or expenditures should be anticipated as resulting from such an arrangement. The advantages would be largely an improved efficiencies in operations.

9. If present conditions become further intensified by more active and enlarged military operations, it is conceivable that a position may be reached in which the entire aid program of military and economic aid should be combined and become the direct responsibility of the Department of Defense. While not strictly germane to this paper, it should be noted that there is a somewhat similar problem posed by Korea and Indochina and that day-to-day developments can radically change the character of the situation to be met.

10. Economic aid to Formosa in the existing atmosphere of tension and threatened aggression in that area cannot be reduced and may shortly be at the rate of $200 million per year, exclusive of military aid, in comparison with the approximately $100 million annually for the past several years. As long as Formosa remains a bastion for the defense of United States interests, these expenditures must be continued, possibly on a decidedly increasing scale.

11. This country program in Formosa represents an effort to establish and maintain a synthetic economy. This is considered essential for defense-security reasons and therefore the program is not subject to evaluation by the same standards as those applicable elsewhere.

Philippines

By John H. Nelson

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INTRODUCTION

The war damages in the Philippines have largely been repaired, to a great extent by the use of dollar capital brought into the Philippines in the form of war damage payments, transfers of surplus property, civilian relief, and other war-incurred payments such as those of the Veterans Administration. That dollar exchange enabled the Philippines to repair damage more rapidly than would otherwise have been the case, but it perpetuated an over-dependence on the United States. The total amount involved in this rehabilitation has been estimated at somewhere in the neighborhood of $1 billion expended in the period 1946–50 inclusive. It is interesting to note in passing that nine United States Government departments or agencies participated, and all acted more or less autonomously under very loose and informal coordination by the economic counselor of the United States Embassy.

The fall in raw material prices in late 1948 and early 1949, together with a high level of imports, brought about a foreign exchange crisis leading to further economic difficulties. Trade and foreign exchange controls were imposed in 1949 as a result of these difficulties. Since that time the economy has been kept on a fairly even keel, but only through the exercise of those controls, rather than through any dynamic expansion of the economy.

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I. Program Objectives and Obstacles to Their Attainment

The objectives of the FOA program are to assist the Philippines to:

(1) Increase the nation's economic capabilities to participate effectively in the mutual defense effort, and, at the same time, achieve a more adequate rate of productive investment without impairing consumption levels.

(2) Achieve political and social stability with a concomitant improvement in the general understanding and exercise of the principles of democratic government.

These objectives are accepted both by the United States and Philippine Governments. There are no apparent major divergences in interests. Both Governments are exercising sincere efforts toward their attainment.

There are a number of basic problems encountered in the Philippines which are retarding progress toward program objectives. Among the most significant are:

(1) The present low rate of domestic capital formation prevents a growth in economic capabilities sufficient to permit increasing contributions to the mutual defense effort and improvement in consumption levels. Capital inflows are currently inadequate to make up for the low rate of domestic saving. The inflationary implications of increased deficits in the central Government budget further restrict expansion in defense and public investment expenditures.

(2) *Current and anticipated long-run balance of payments* problems prevent any rapid expansion in imports of capital equipment required for economic development without undesirable reductions in consumption which would, in turn, threaten political stability.

(3) Lack of economic opportunity, oppressive land tenure and agricultural credit conditions, underemployment and unemployment, disease, and rural and urban poverty give rise to dissatisfaction and dissidence and provide a fertile field for the growth of communism. Neither local government institutions nor civic organizations are sufficiently well developed to combat these tendencies and provide for a continuous improvement in the understanding and exercise of democratic political procedures.

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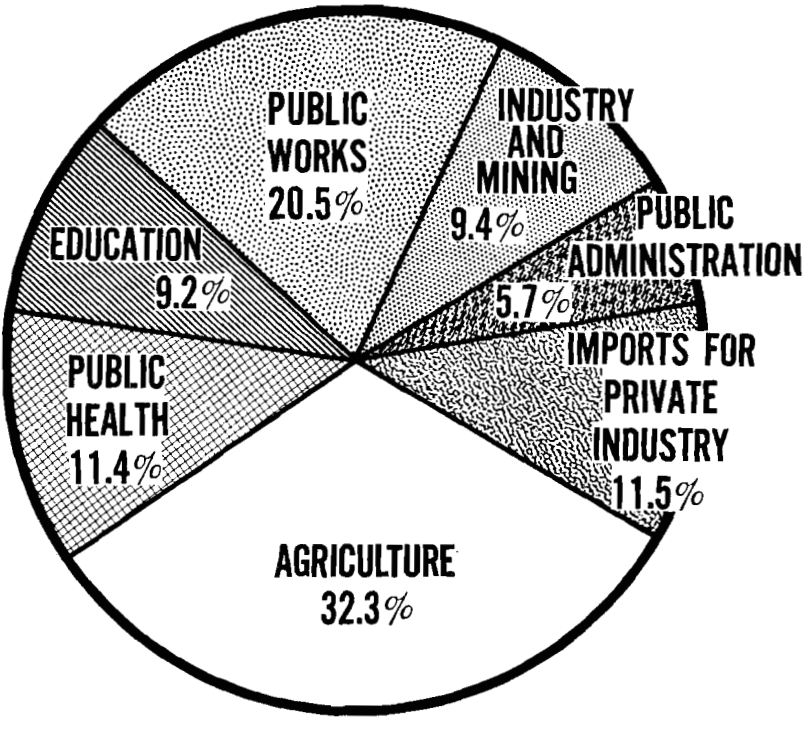
A number of means are now being utilized to assist the Philippines overcome the basic problems which the country faces and facilitate attainment of the objectives of the program. The fiscal year 1956 illustrative FOA program is designed specifically to aid the Philippine Government in its efforts to:

(1) Formulate and execute a coordinated economic development program.

(2) Encourage private investment in productive enterprise and encourage diversification and expansion of agricultural production.

FOA-ADMINISTERED AID PROGRAMS, FY 1951-55



II. Contributions of Past Programs to the Attainment of Program Objectives

FOA and Philippine Government efforts to increase private investment to date have, by and large, been less successful than efforts to expand public investment and government services. Imports of industrial equipment for resale to small and medium-sized enterprises and the establishment of an industrial guarantee and loan fund have made some production and employment increases possible, which might not otherwise have materialized. Technical assistance to be provided under the industrial development center now being established will provide interested investors with assistance and encouragement in establishing and expanding basic enterprises.

The industrial guarantee and loan fund was established in 1952. It is supervised by a committee representing all of the financial agencies of the Philippine Government and is chaired by a senior official of the central bank. The United States Government is also represented on the committee and has a strong position on it. As of June 30, 1954 three firms have been assisted with loans guaranteed totalling 1,086,000 pesos. A portion of the fund held in the form of bonds (peso) as of the same date totaled 8 million.

The industrial development center was organized by the Philippine Government, is headed by an outstanding Philippine engineer and has a relatively small Philippine staff. The industry officer of USOM also functions as principal industrial adviser to the center (Philippine Government). FOA is providing four technical assistants to the center to advise their Philippine corresponding numbers at an overall cost of $150,000 in the current year: A chief engineer, industrial management training specialist, industrial accounting specialist and an industrial information specialist. It is intended to function somewhat along the lines of the European productivity centers as these functioned in 1951 and 1952. If successful the idea may be adapted for further application in other countries of the Far East.

Both the industrial guarantee and loan fund and the industrial development center are parts of the larger complex of the commercial banks, Export-Import Bank operations and technical assistance in general working to promote industrial development.

To date, FOA's most important accomplishments in the field of private investment stimulation have taken the form of intangible contributions toward the improvement of the investment climate. These accomplishments have resulted from efforts to provide investors

with information and encourage the Government and Philippine financial institutions to improve the reasonableness and consistency of their treatment of potential private investors. Increased confidence in the operation of the Government is, of course, one of the principal prerequisites to expanded private investment.

III. United States Contribution to the Program

United States contribution to the Philippine program have been provided in the form of commodities, technical services of United States Government employees, contract technical services, and training of Filipino administrators and technicians abroad. To the end of fiscal year 1954, nearly $80 million in assistance had been provided, all on a grant basis. The fiscal year 1955 program totals $20.0 million in grants. It is interesting to note that while the ECA-MSA-FOA aid programs of 1951 to 1955 inclusive total $100 million, the report of the Bell mission to the Philippines issued in 1950 recommended a total aid program of $250 million for the succeeding 5-year period as being needed and within the absorptive capacities of the Philippines. It would appear that the ability to use aid effectively has been reached or possibly exceeded by the lesser amount of $100 million.

In past years the Philippine program was developed and presented on an integrated basis combining technical assistance, defense support and economic assistance aspects. In fiscal year 1955, to conform with the requirements of the Mutual Security Act of 1954, there are two components to the program: Technical cooperation grants, $7.6 million and defense support grants, $12.4 million. The fiscal year 1956 request is comprised of three components: Technical cooperation grants, $7.7 million, defense support grants, $8 million, and defense support loans, $25 million.

Funds made available under the Philippine program have been utilized largely for Philippine Government sponsored projects designed either to increase investment in productive public projects or improve and expand essential public services. The assistance allocated to the private section of the economy has been restricted to about $15 million in commercial imports in fiscal years 1951 and 1952 and $5 million included in the fiscal year 1955 program for the import of machinery for sale to small and medium-sized private enterprises.

The projects for which FOA assistance has been made available include activities in nearly every field of Philippine Government operation which affects the operation and development of the economy. In table 1, below, there is shown the distribution among fields of activity of assistance provided to date and proposed for fiscal years 1955 and 1956.

Table 1.—United States Contributions to the Program—By Field of Activity

[In thousands of United States dollars]

Field of activity	Actual fiscal year 1951–54	Proposed fiscal year year 1955	Philippine Government request fiscal year 1956
Agriculture and natural resources	27,926	4,295	3,425
Industry and mining	1,393	2,945	4,155
Transportation	17,484	2,245	2,785
Labor	397	160	180
Health and sanitation	9,558	1,805	2,255
Education	7,642	1,560	1,340
Public administration	3,190	1,615	1,170
Community development	639		
Nonproject assistance-grants	11,494	5,000	
Nonproject assistance-loans			25,000
Technical support and regional costs	206	375	390
Total	79,929	20,000	4[illegible],700

Funds are made available to a specific project only after a program for the fiscal year has been approved and a detailed project proposed, presented by the Philippine Government. The project proposal normally describes the activities to be undertaken, sets forth the guiding principles and plan of work under which the project will operate and provides assurances that the Philippine Government will provide the necessary administrative and financial support.

Upon approval of the project proposal, funds are obligated by the signing of a project agreement. Procurement of commodities is generally carried out in accordance with FOA regulations by the Philippine Government. Procurement normally begins within 30 days after the obligation of funds. Deliveries of commodities are made directly to the operating agencies of the Philippine Government responsible for project implementation. Upon the arrival of commodities, the Philippine Government deposits local currency counterpart in an amount commensurate with the dollar value of the assistance provided by the United States. Since the aid is provided to Government projects, the funds deposited are derived from a Philippine Government appropriation.

In table 2 which follows, the current status of FAA dollar funds are the status on June 30, 1954 are outlined.

Table 2.—United States Contributions to the Program—Use of Funds

[In thousands of United States dollars]

	June 30, 1954	Oct. 31, 1954 [1]
Planned program	79,929	99,929
Allotments	79,929	89,329
Obligations	79,929	80,290
Unobligated balance (line 2-3)		9,039
Commitments	68,270	71,723
Uncommitted obligations	11,659	8,767
Paid shipments	55,964	60,173
Unliquidated commitments (line 5-7)	12,306	11,550

[1] Estimated.

Project proposals for most activities included in the fiscal year 1955 program have been prepared by the Philippine Government and are now being reviewed by FOA. FOA has expressed the belief that all funds to be allotted under the fiscal year 1955 program could be utilized promptly and effectively as they were made available.

Contracting for procurement of commodities for which funds have been obligated has been initiated. It was estimated that all funds obligated could be committed on the basis of firm contracts before the end of December 1954. However, in February only a small portion of these funds have been committed.

IV. Philippine Contribution to the Program

Philippine contributions to the program have been provided in the form of commodities, technical services, and general labor. Most projects have been made integral parts of the operations of permanent Philippine Government agencies. Hence, the needed goods and services have been financed from appropriations. Since the dollar costs of a project are only a part of the total cost of the activity, the Philippine contribution to the total cost of operating the projects comprising the program has exceeded the United States contribution. Moreover, since most of the activities begun with United States assistance are to be continued permanently by the Philippine Government, the annual operating cost of the activities will have to be financed on a continuing basis from the Philippine budget.

In table 3, below, the Philippine and United States contributions to program costs are compared.

Table 3.—Philippine and United States Contributions to the Program

[In millions of United States dollars]

Fiscal year	United States	Philippines
1951-52	47.0	11.2
1953	17.9	33.9
1954	15.0	41.5
1955 [1]	20.0	80.8
1956 [1]	40.7	102.7

[1] Estimated.

Philippine contributions are provided from counterpart and regular and special appropriations. Since counterpart deposits are made largely from appropriations, almost the entire burden of financing local currency costs is met from Philippine revenues. A breakdown of the sources of local currency in fiscal year 1955 is provided in table 4, which follows.

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Table 4.—Philippine Contribution to the Fiscal Year 1955 Program—by Source of Funds

[In millions of United States dollars]

	Equivalent amount
Counterpart	27.0
Special appropriation to the Philippine Council for United States Aid	10.9
Special appropriations to Government agencies	9.9
Regular appropriations to Government agencies	15.2
Public borrowing	10.9
Other	6.9
Other	6.9
Total	80.8

In fiscal year 1956, it is anticipated funds for continuation of activities and establishment of new projects will be provided from similar sources. Plans are now being laid to include virtually all continuing costs of projects now underway in the regular appropriations of the various operating Government agencies in fiscal year 1956 and thereafter.

V. Organizations Responsible for Administering of the Program

The planning and operations of the Philippine program are coordinated by the United States operations mission in Manila and the Philippine Council for United States Aid. Individual projects are planned and administered by regular operating agencies of the Philippine Government.

The Philippine Council for United States Aid is officially designated as the representative of the President and the counterpart agency to the United States operations mission. General policy guidance is provided to the Philippine Council for United States Aid by the President and the National Economic Council. Each annual program is prepared, as fully as possible, as a component of the long-term Philippine development program being prepared by the National Economic Council. All requests for assistance originate in the operating agencies of the Government and are reviewed for compliance with Philippine Government policy and for consistency with the objectives of the program by the Philippine Council for United States Aid.

The staff of the Philippine Council for United States Aid is comprised of Filipino program planning and review specialists and technical advisers. The staff members work with the regular Government agencies at all stages of project and program planning and implementation.

The United States operations mission, headed by a Director, receives guidance from the Ambassador who serves as leader of the country team in accordance with Executive Order 10338 of April 4, 1952. Policy guidance is also provided by FOA/Washington.

The mission staff includes 20 full-time positions. As of November 17, 1954, 19 of these positions are filled. These personnel are paid from appropriated administrative funds. The individuals included in this group are the mission Director and his immediate staff responsible for planning and administering the United States contributions to the program.

The technical assistance staff assigned to the Manila mission consists of technical advisers requested by the Philippine Government and is paid from program funds. At present 139 technical assistance positions have been requested by the Government and recommended for recruitment by the mission. Of this number, 100 persons are actually on duty. Specialists are being recruited for the remaining 39 positions.

Technical services are also provided the Philippine Government under eight FOA-financed contracts with American universities and management firms. While these contracts are between the American and Philippine agencies, the United States operations mission maintains close liaison with the groups and provides them policy guidance to assure the conformance of their work with program objectives and United States policy.

In March 1953 the evaluation team for the Philippines appointed by Governor Stassen recommended a reduction of 25 percent in the FOA staff in Manila. A comparison of the staff at that time and as of December 1954 is given below:

	March 1953	December 1954	Current vacancies
Administrative	34	20	1
Technical assistants	108	138	38
Contract employees	19	58	5
Locals	176	180	
Total	337	396	44

On the basis of authorized and approved positions, the total staff has been increased by approximately 18 percent instead of reduced by 25 percent.

The team also recommended a sizable reduction in the 63 projects current in March 1953. The present number of projects is 75 to 80, with some indication of probably an even larger number depending on project definition.

United States Embassy Economic Activities

The Economic Division of the Embassy in Manila has a staff of 11 officers and 5 secretaries, with an annual overall cost of $112,399 out of a total Embassy staff of 125 persons (47 Americans, 78 locals) costing $725,447.

The Embassy economic staff is separate from and independent of the USOM (FOA) staff.

While there are no visible obstacles to inegration of the USOM (FOA) with the Economic Division of the Embassy in Manila, it is believed that such integration per se would result in no appreciable benefits to United States interests at this time due to the fact that the functions of both are complemenary and not duplicative.

The Treasury Department has a resident Treasury attaché in Manila who reports directly to the Treasury but works closely with the Embassy economic staff.

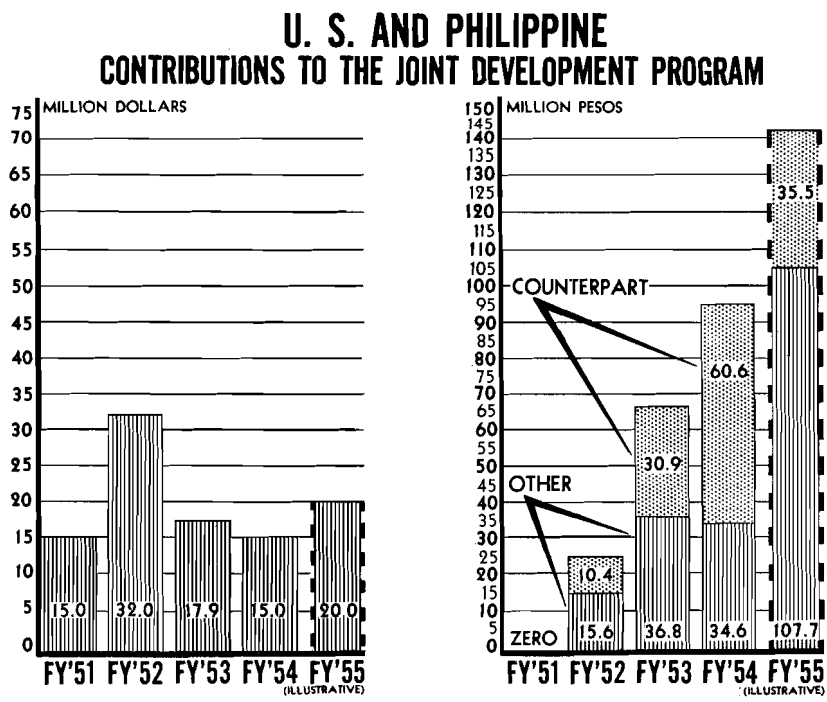
The Department of Agriculture also has an attaché in Manila reporting direct to the Department.

VI. Fiscal Year 1955 Operational Program

The program totals $20 million and is comprised of three components: (*a*) Technical cooperation projects, $7.3 million (plus $0.3 million of regional and interregional costs); (*b*) defense support projects, $7.4 million; and (*c*) defense support nonproject component, $5 million. A supplementary fiscal year 1955 operational program totaling $3.1 million for projects to be financed from deobligations of previous fiscal years' funds is also included. The projects included in the operational program and the supplementary program will be undertaken by the various agencies of the Philippine Government. The nonproject assistance will be provided in the form of essential equipment to be purchased by small- and medium-sized private business enterprises.

The operational program corresponds with the illustrative program presented to the United States Congress with a few justified exceptions noted below. The entire $20 million is to be provided on a grant basis.

In preparing the operational program, three significant increases in project allocations were made as a result of changes in priorities. First, equipment programed for highway improvement was increased



in amount to provide additional support for the President's rural improvement program. Second, funds were added to the education category to provide for three new contracts to aid in the improvement of vocational teacher training—activities long planned by the Government and the mission but which have only recently become feasible. And third, provision was made for contract assistance to the newly organized Government Survey and Reorganization Commission, which is charged with the responsibility of preparing plans for reorganizing the executive branch of the Government. Additional funds are also provided for extension of other contracts essential to improvement of public administration.

Table 5.—Comparison of Fiscal Year 1955 Iluustrative and Operational Programs—By Category

[In thousands of dollars]

Category	Functions		Technical cooperation		Defense support	
	Recoded illustrative program	Operational program	Recoded illustrative program	Operational program	Recoded illustrative program	Operational program
10. Agriculture and natural resources	4,423	4,295	1,965	1,455	2,458	2,840
20. Industry and mining	8,575	7,945	960	520	7,615	7,425
30. Transportation	2,722	2,245	425	110	2,297	2,135
40. Labor	135	160	135	160		
50. Health and sanitation	2,115	1,805	2,115	1,805		
60. Education	980	1,560	980	1,560		
70. Public administration	1,050	1,615	1,050	1,615		
80. Community development, social welfare, and housing						
90. General and miscellaneous						
Technical support	(1)	75	(1)	75		
Regional and interregional account	(1)	300	(1)	300		
Total	20,000	20,000	7,630	7,600	12,370	12,400

[1] In the illustrative program neither technical support nor regional and interregional costs were shown separate from the categories.

The requirement of section 303 of the Mutual Security Act of 1954 to the effect that commodities can be supplied under the technical cooperation title for demonstration and instruction purposes only has required a reexamination of the technical cooperation component of the operational program. To comply with the act, commodities for a number of projects which do not fall clearly within the intent of the legislation have been programed in the defense support component even though they were in the technical cooperation component of the illustrative program. This change is most evident in the agriculture and natural resources category.

This indication that funds provided for technical cooperation and for defense support were combined by FOA to finance single projects illustrates the departure from the original concept of what constituted technical cooperation. In actual practice, all three categories of aid— i. e., technical cooperation, defense support, and development assistance—may be and frequently are used jointly and

severally as fund sources for projects identical in type or for components of a single project. These projects may be described generally as constituting economic aid irrespective of the declared objective established for purposes of relating them to a fund source. This makes it difficult to determine for a particular project whether it was intended as technical cooperation, defense support, or development assistance. No convincing reasons are apparent that a single category identified as economic aid would not be more accurate and useful for both congressional consideration and administrative purposes.

Program Cost Sharing

During fiscal year 1955 the $20 million in FOA grants will be matched by Philippine local currency contributions equivalent to about $65 million.[1] The local currency will be provided from counterpart (authorized withdrawals ₱22.2 million—$11.1 million), regular and special appropriations included in the central government budget (₱72 million—$36 million), and other sources including public borrowing and municipal, Provincial, and private contributions (₱35.6 million—$17.8 million). The fact that the Philippine contribution is significantly greater than the United States contribution and derived largely from noncounterpart sources is a positive indication of the Government's intent to provide adequate support for the program.

Even more significant than the actual magnitude of support in fiscal year 1955 is the trend in local currency support. As shown in table 6, below, during each successive year of the program a greater share of the total costs of the program has been assumed by the Philippines.

Table 6.—Sharing of Program Costs—Fiscal Years 1951–55

[In millions of dollars or equivalents]

Fiscal year	United States contribution	Philippine contributions		
		Total	Counterpart [1]	Other
1951–52	47.0	12.9	5.1	7.8
1953	17.9	56.9	38.5	18.4
1954	15.0	40.0	20.2	19.8
1955	20.0	64.9	11.1	53.8

[1] Authorized withdrawals. Corresponds with app. D of the Fiscal Year 1955 counterpart program as revised, October 1954.

The local currency funds to be available during fiscal year 1955 are expected to provide adequate support to the FOA program during the year. In fiscal year 1956 and thereafter, larger local currency

[1] It should be noted that the local currency expenditures during fiscal year 1955 will be largely in support of activities for which dollar financing was provided under the fiscal year 1954 and earlier FOA programs. The local currency costs directly associated with dollar assistance provided during fiscal year 1955 will not be met until fiscal year 1956 or subsequent years.

expenditures and expenditures more directly related to the fiscal year 1955 FOA dollar program will have to be provided for. The Philippine Government is now planning its central government budget for fiscal year 1956, and, in doing so, is making provision for continuation of essential FOA-aided activities.

It is now estimated that in fiscal year 1956, the equivalent of about $71.3 million (₱142.7 million) will be needed to support costs of the fiscal year 1955 and earlier programs and some early costs of the fiscal year 1956 program. These funds will have to be provided from counterpart (authorized withdrawals of ₱38 million—$19 million). Philippine appropriations (₱48.4 million—$24.2 million; excluding appropriations required for ultimate deposit to the counterpart fund), public borrowing (₱27.8 million—$13.9 million) and municipal, Provincial, and private contribution, etc. (₱28.5 million—$14.2 million).

The mission plans to obligate fiscal year 1955 dollar program funds only after firm assurances have been received from the Philippine Government to the effect that the needed funds will be made available when required.

Proposed Use of Deobligated Funds

It is proposed that all deobligations of prior years' funds materializing during fiscal year 1955 be reobligated for similar uses. A supplementary program totaling about $3 million and including technical cooperation and defense support components has been planned.

It should be noted that the supplementary program proposes the division of the $3 million of deobligations between the technical cooperation ($0.9 million) and defense support ($2.1 million) components. The Philippine program in past years has operated as an integrated program with no differentiation between the technical cooperation and defense support components. Hence, reuse of the funds should not be restricted to one component.

In table 7, which follows, the category source of the estimated deobligations is compared to the proposed reuses.

Table 7.—Source and Reuse of Funds Deobligated During Fiscal Year 1955

[In thousands of dollars]

Category	Estimated deobligation	Proposed reobligation
10. Agriculture and natural resources	759	230
20. Industry and mining	161	324
30. Transportation	314	1,730
40. Labor	4	118
50. Health and sanitation	685	580
60. Education	623	
70. Public administration	405	75
90. Miscellaneous	80	
Total	3,031	3,057

VII. Fiscal Year 1956 Proposed Program

This is a proposed tentative program put forward by the Foreign Operations Administration as an illustrative program: This program is subject to many charges as it is studied by the Congress. Its chief value at the moment is that of an example of the application of future United States foreign aid philosophy to a specific country, the Philippines. The proposed program is comprised of three interrelated elements, each designed to meet specific requirements. First, a grant technical-cooperation portion of $7.4 million is included to provide for a portion of the technical needs of the nation which cannot be met locally. Second, a grant defense-support component of $8 million is included for key development projects, which it is hoped will significantly increase the nation's future economic capabilities. This portion of the program is designed to encourage more effective use of Philippine resources; each project will require a Philippine contribution significantly larger than the United States contribution. And third, a government-to-government loan of $25 million of defense-support funds is proposed as a means of making possible more rapid progress in carrying out the Philippine development program.

The technical-cooperation component of the program is planned to provide the Philippines with the technical assistance required for a number of priority purposes. First, it is expected to facilitate the development of the country program now being prepared by the National Economic Council. Second, it is likewise expected to encourage and facilitate private investment by making technical assistance available for industrial project evaluation and planning. Third, technical guidance will be provided to strengthen the activities of the Government which are designed to encourage increases and diversification of agricultural production. And fourth, assistance will be provided to increase the effectiveness of the Government, particularly through strengthening its fiscal operations, improving the organization and management of key agencies of the executive branch, and making more effective the essential public services, particularly the activities in the fields of health and education most directly related to the solution of political, economic, and social problems.

The technical-cooperation segment of the program will also provide essential foundations for other components of the program. Technical services for evaluation, planning, design, and implementation of many of the projects included in the defense support grant and loan components will be included under the technical cooperation com-

ponent. Without the technical services provided, FOA does not believe that the projects could be carried forward as effectively or as rapidly.

The technical-cooperation component is also deemed essential to the success of the program in that it should contribute to the maintenance of balanced development by aiding growth in noneconomic sectors to keep pace with economic development.

The grant funds provided under the defense-support portion of the program will be utilized for important projects similar to those included in past programs. Most of these projects will be essential public facility projects normally considered prerequisite to expansion in the private sector. All of the projects included are high-priority projects in the National Economic Council's program. All can be expected to contribute directly to the attainment of basic program objectives.

Provision of the requested funds on a grant basis by FOA should encourage the Philippine Government to mobilize resources and channel them into desirable basic facilities. The Philippine contribution to the projects will be significantly larger than the United States contribution. Local currency costs of the program will be met largely from public borrowing.

Since the projects included in this element of the program are largely in the public sector and are not directly revenue earning, they are not included in the proposed loan section of the program. Completion of the projects should contribute directly to increases in the economic capabilities of the country and should ultimately provide additional government revenue. If the desire by the United States for the future growth and improvement in the Philippines without continued United States assistance is to be attained, it is the judgment of FOA that both the return from the basic investment and the increased revenues should be allocated to further development of the economy rather than to repayment of loans.

The $25 million defense-support loan portion of the program has been requested by the Philippine Government as a direct outgrowth of the National Economic Council's economic development program. FOA believes the requested assistance should be provided because a capital inflow of this magnitude is essential to the establishment of a significant acceleration in the rate of economic development. Expanded investment in the sectors for which the loan will be utilized is considered essential as a means of overcoming the internal and external economic problems of the country and moving ahead toward the attainment of the basic objectives of improving the economic capabilities of the country.

While the loan is proposed on a government-to-government basis, the funds will be utilized for specific projects. The projects included in the illustrative list prepared by the Government complement the

technical cooperation and defense support project programs. FOA considers that all the projects appear to be of the type necessary to insure fundamental economic growth. Each project might be expected to make a contribution by stimulating further industrial investment in the private sector.

The planning for the projects included in the illustrative list is for the most part already completed, or is in advance stages, and the remainder can be planned to a sufficient extent to permit the funds to be utilized effectively in fiscal year 1956. While a considerable amount of detailed engineering specifications are yet to be completed for most of the projects, FOA considers that there is enough time remaining for this work. All of the projects proposed are similar to activities now carried on within the Philippines. Hence, the technical aspects of the projects are considered to be within the competence of the economy to carry them out.

The Government is prepared to finance the local currency costs of the projects by borrowing from the public and from the banking system. The National Economic Council believes the general inflationary impact of the borrowing will not be severe and that the disadvantages of some small rise in prices will be more than offset by the attainment of a higher level of investment.

FOA and the National Economic Council do not believe that there is any practical way of obtaining financing for the proposed program in the absence of United States assistance of an extraordinary nature. It does not seem likely that sufficient private foreign investment could be interested to carry out the projects. Moreover, it does not appear that there is any public source outside the United States which would be willing to finance the needed capital inflow. Nor is it likely that any significant improvement in the Philippine balance-of-payments condition will occur to provide means of financing the extraordinary capital inflow.

The Government's request for an FOA loan in contrast to a loan from the Export-Import Bank has been justified on the basis of the continued need for an expanding capital inflow which would not impair the ability of the economy to repay loans either on a short-time basis or in dollars. It is believed the capital inflow necessary will not be limited to a span of 3 to 5 years but may stretch beyond by as much as a decade. The exact magnitude of the necessary inflow will depend upon the rate at which projects can be planned and implemented and the rate at which domestic resources can be allocated to investment.

The Government's proposal for fiscal year 1956 is that the loan be on a long-term repayment basis (about 50 years) at a rate of not more than 3 percent interest. It also proposes that repayment be permitted

in local currency with the use of the repayment proceeds to be subject to joint United States-Philippine decision.

The fiscal year 1956 program makes no provision for budgetary support for increased defense activities in view of the uncertain state of planning of force goals, both as to size and timing. However, the prospective deficit in the Central Government budget indicates that unless economic development expenditures would be curtailed at the same time, any agreed expansion of the Armed Forces of the Philippines would raise for serious consideration the question whether United States budgetary support would be required in the form of imports of salable commodities (e. g., surplus agricultural commodities).

VIII. The Philippine Contribution to the Program

In fiscal year 1956, as in earlier years, the cost of the Philippine program will be greater in local currency than in dollars. The necessary local currency financing will be provided by the Government, largely from special appropriations and public borrowing. Generation of counterpart through the sale of FOA-financed imports is an unimportant method of providing local currency to meet program costs in the Philippines. Since most projects are in the public sector, counterpart deposits are made from special Philippine appropriations.

In table 8, which follows, the local currency cost of operating the Philippine grant project program in fiscal year 1956 and earlier years is compared with the FOA grants during the same years.

Table 8.—FOA and Philippine Contributions to Program Costs

[in millions of dollars]

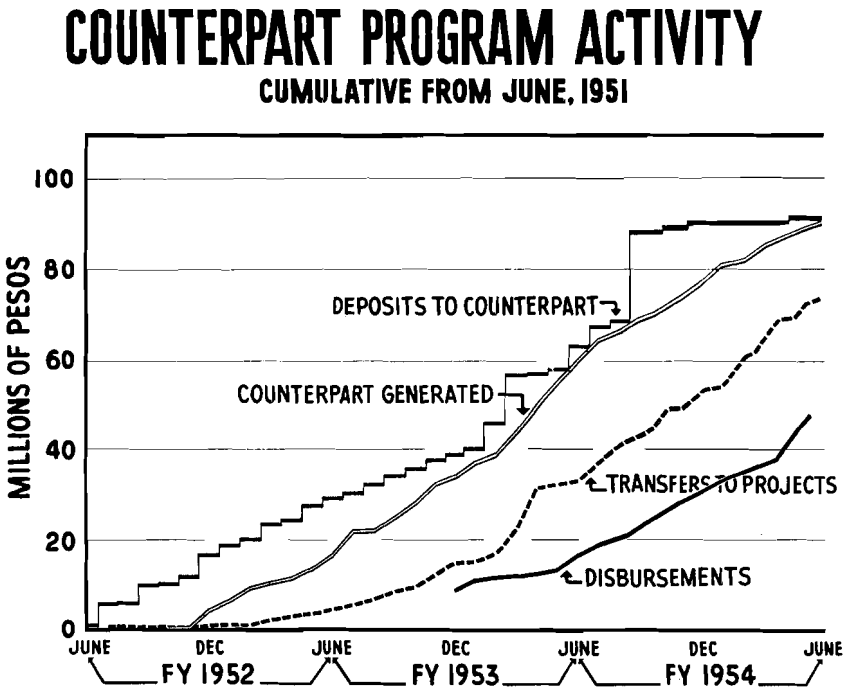
Fisca year	FOA dollars	Tota	Local currency counter-part [1]	Other govern-ment
1951-52	47.0	12.9	5.1	7.8
1953	17.9	56.9	38.5	18.4
1954	15.0	40.0	20 2	19.8
1955	20.0	64.9	11.1	53.8
1956	[2] 15.7	71.3	19.0	52.3

[1] Authorized withdrawals. Corresponds with Appendix D of the fiscal year 1955 counterpart program as revised October 1954.
[2] Excludes defense support loan assistance of $25.0 million.

In fiscal year 1956, the equivalent of about $71.3 million (₱142.7 million) will be needed to support initial costs of the fiscal year 1956 grant project program and initial and continuing costs of previous years' programs. The funds will have to be provided from counterpart (authorized withdrawals of ₱38.0 million—$19.0 million), Philippine appropriations (₱48.4 million—$24.2 million, excluding appropriations required for deposit to the counterpart fund), public borrowing (₱27.8 million—$13.9 million), and municipal, provincial and private contributions (₱28.5 million—$14.2 million). Over two-thirds of the total costs will be required to support projects for which FOA dollar assistance will be provided in fiscal year 1956. About one-third of the cost will be for projects for which no additional dollars are included in the fiscal year 1956 program.

Local currency costs of the defense support loan program are expected to total the equivalent of about $17.7 million in fiscal year 1956.

These costs will be met largely by borrowing from the public and the banking system.



It should be noted that local currency costs usually must be met well after the time when the corresponding FOA dollar obligations are established. Hence, most fiscal year 1956 local currency costs must be asociated with dollar assistance provided in earlier years The full local currency cost impact of the fiscal year 1956 FOA dollar program will not be felt until fiscal year 1957; thereafter it will decline.

IX. Relation of the Philippine Program to Other Outside Resources

In fiscal year 1955 and fiscal year 1956 it is expected assistance to the Philippines, in addition to the FOA program, will include aid under the Colombo plan, United Nations Technical Assistance Administration, and the Fulbright and Smith-Mundt education programs. A limited number of training grants, offered through the University of the Philippines, are financed by three United States foundations. A few grants are also provided by private sponsors.

Assistance from these sources is invariably in the form of training grants, scholarships, and technical assistance grants; almost no commodity assistance is provided from any source other than under the FOA program. In fiscal year 1955 the Colombo plan will have available an estimated $100,000 to finance the training of selected Filipino specialists. The UNTA and other U.N. agency programs tentatively propose the expenditure of $380,000 and peso support of $175,000 to finance 34 technical assistants and 19 training fellowships. Operation of the Fulbright and Smith-Mundt programs, under the direction of the United States Department of State, will involve expenditure of an estimated $150,000 and ₱400,000 to finance some 75 trainee, research, and graduate scholarships as well as a number of foreign leader grants and exchange professorships. The total cost of all aid from the above sources will be equivalent to $1.2 million in fiscal year 1955. It is likely a similar amount may be available in fiscal year 1956.

The various training and scholarship activities financed by other agencies supplement and complement the FOA Type A technical assistance program. In almost all cases participants are selected by the sponsoring agencies on the basis of scholarship attainments or demonstrated ablility in specialized fields.

Technicians from the U.N. Technical Assistance Administration and other U.N. specialized agencies (WHO, FAO, UNESCO, UNICEF) are provided, for the most part, in fields to which FOA assistance is not extended. In some cases, however, a U.N. technician performs services in areas where FOA projects are in operation. In such cases, the U.N. contribution is complementary to FOA aid and supports project objectives. Close cooperation is maintained between the FOA and the U.N. Resident Technical Assistance Representative and a high degree of coordination achieved in field operations where the services of the two agencies must be blended. A typical example is the FOA-PHILCUSA Forest Products Laboratory project, which

combines commodities and participants financed by FOA with the services of a technician provided by the UNTAA.

A number of questions suggested by this paper were raised by Mr. Henry W. Prentis, Jr., Chairman of this Task Force, in recent interview with FOA personnel. A report of these discussions follows.

X. Interview—Mr. H. W. Prentis, Jr. With FOA Officials

Mr. Hagberg stated that the land title project was regarded as extremely important by the FOA as a means of combating the Huk Movement; that the Philippine Government had neither the organization nor the money to carry the land title project through; hence the necessity of the grant made by FOA for this purpose.

His comments regarding the $5 million of grant-in-aid assistance provided in the 1955 fiscal program for essential equipment to be purchased in local currency from Philcusa by small and medium sized private business enterprises in the Philippines, the sales proceeds for which are to be credited to the counterpart funds account, were as follows:

The Monetary Board of the Central Bank has been anxious to maintain a reserve of at least $300 million to stabilize the Philippine peso. At the present time these reserves stand at $283 million and hence it seems unwise to reduce them by another $5 million.

It is true that the Export-Import Bank has authorized a line of credit of $5 million to five Philippine commercial banking corporations and that so far this line of credit has not been utilized.

FOA and Philcusa have been working to set up an investment guarantee organization in the Philippines to encourage the investment of private capital in individual enterprises, and for this purpose $5 million of additional counterpart funds are required. That is the principal reason for the proposed $5 million grant-in-aid instead of using a portion of the Philippine international reserves, or utilizing the line of credit of the Export-Import Bank. Mr. Hagberg assured me that his general philosophy is not to give grants when the program is bankable and funds can be secured from either the Export-Import Bank or the International Bank of Reconstruction. I told him that in this case or any other case where the issue was finely divided, it should always be resolved in favor of the American taxpayer. He assured me that the general trend in the Philippines under the Magsaysay Administration is toward private enterprise. He mentioned particularly the leasing of the Manila Hotel to private managers and the discontinuance of the government operated Philippine airlines as practical illustrations of this trend. He assured me that if the machinery proposed to be purchased by the $5 million FOA grant was secured either through that means or through the Export-Import Bank line of credit, the 17 percent foreign exchange tax would have to be paid in either case.

The Philippine Government's contribution for the current fiscal year is $80 million; the contribution of the United States, $20 million. Of the $80 million contributed by the Philippine Government, about $30 million comes out of counterpart funds, so that the actual distribution of the expense of the Philippine program is about $50 million of the United States and $50 million for the Philippine Government. Mr. Hagberg assured me that the contribution made by the Philip-

pine Government does not include its entire outlay for road building, but only that part of the outlay in which there is direct American participation.

I called his attention to the fact that the evaluation team sent to the Philippines in 1953 recommended a reduction of 25 percent in the MSA staff at that time. On the other hand, there has been an increase from 337 employees in March 1953 to 396 on December 1, 1954, with 44 jobs unfilled. Mr. Hagberg called my attention to the fact that the staff had been reduced from 34 to 20 during the period. However, I insisted that the evaluation team meant the total of employees, not simply those on the administrative staff.

I also called his attention to the fact that the evaluation team recommended that the 63 projects then in progress be reduced. Instead, they have been increased to from 75 to 80. Mr. Hagberg stated that there actually has been greater concentration but that budgeting and accounting requirements had necessitated a breakdown of the projects so that there appear to be more.

He testified that all the work that FOA is doing in the Philippines is necessary to fight communism. He justified all of these projects, including its labor activities, on that score. I asked him whether any definite objectives had been set which, when attained, would result in the program being discontinued. He told me that no such objectives had been set and admitted that in many countries, such as Indonesia, the aid given was determined more or less by smoke signals and was largely a matter of judgment. I pointed out to him that Philcusa had a staff of 360 people and that there were 396 in FOA and asked him why procurement could not be done in the regular Government departments and thus reduce the staffs of both Philcusa and FOA. He felt that it would be a mistake to follow such procedure since FOA can follow through much better by concentrating its procurement activities in Philcusa rather than having them distributed through the regular Philippine Government departments.

Both of these gentlemen assured me that there is now close cooperation between the chiefs of mission and the FOA staff in every country in which FOA is carrying on operations. I asked Mr. Hagberg whether it is possible that we are trying to aid the Filipinos too rapidly, and inquired as to what assurance we have that the Philippine economy can use increased aid efficiently. He assured me that he was very careful to see that the Philippine Government is able to absorb and handle all aid that is offered them. Not only must they be able to meet the budget requirements but also must have sufficient trained people available to administer the aid effectively.

XI. Observations—Philippines FOA Country Program

The following observations may be useful:

1. There is substantial evidence that the overall program is making measurable progress toward the specified objectives.

2. It appears that there is too great a diversification of activities and that concentration on fewer projects or lines of activity would be desirable, but we are unable with the evidence at hand to make a specific recommendation in this regard.

3. In common with practically all countries, the technical cooperation phase of the Philippine program experiences a chronic shortage of technical personnel (some 38 vacancies existing as of December 1954). Since this is a common problem of considerable magnitude (some 400 to 500 current continuing vacancies worldwide) it suggests that (*a*) the personnel recruiting staff of FOA is at fault, or (*b*) the technical cooperation program is beyond the capacity of the United States to provide competent personnel, or (*c*) the need for competent personnel be reduced to a level possible of fulfillment, or (*d*) that no serious intent exists to fill the vacancy rosters for technical assistants, or (*e*) that a combination of 2 or more of these 4 factors is involved.

4. In the important segment of industrial development in the Philippines over a period of years it is curious to note the total absence of the utilization of the technical assistance available in the Department of Commerce in this field in the consideration of specific or related problems. Complete dependence by the Foreign Operations Administration on other sources and ignoring the established advantages of the Department of Commerce would seem an unnecessary duplication of services and constitute wasteful practices.

5. The total FOA staff in the Philippines is some 396 positions including some 44 vacancies as of December 1954. Philcusa as the Philippine counterpart of the FOA mission (USOM) has a total payroll of some 360 persons paid from Philippine Government appropriations. It would appear that a total of 756 people to administer the Philippine United States aid program of $20 million for fiscal year 1955 is excessive. In all fairness it should be noted, however, that including counterpart and other forms of local contributions the program is greatly in excess of $20 million and actually involves expenditures of some $87.9 million.

6. There have been many examples in the past of improper and careless programing, procurement, and general management. Much

equipment for rehabilitation of the colleges, university and hospitals was purchased with no provision for its housing. Expensive electrical equipment, including an electronic microscope, X-ray machines, sterilizers, etc., were purchased when no electric power was available for their utilization or trained personnel to operate them. Large quantities of fertilizer (one or more shiploads) of improper specifications were bought early in the program with no previous arrangements made for its storage, distribution, or sale. Unnecessarily elaborate and expensive hospital equipment was purchased in excessive amounts in the form of operating and autopsy tables, laundry machines, stainless steel service trays rather than plastic, etc. Drugs, pharmaceuticals and chemicals of improper specifications, form, and quantity were ordered but purchase prevented after much delay and embarrassment. For example, distilled water was ordered from the United States to be shipped by freight to Manila, notwithstanding the previous furnishing of stills to produce distilled water in Manila. Drugs were ordered in unstable solutions which could never have arrived in usable form rather than as stable crystals (argyrol).

It was never possible to pinpoint the person or persons responsible for these and other similar cases beyond locating the responsibility in a large area of management.

There is no available evidence to show that similar errors of omission or commission have been reduced.

7. Attention is called to the $5 million grant aid in the fiscal year 1955 program (25 percent of the total 1955 dollar aid program) for essential equipment to be purchased in local currency from Philcusa by small and medium sized private business enterprises in the Philippines, the sales proceeds for which are to be credited to the counterpart fund account. This item is discussed in Mr. Prentis' reported interviews with FOA officials in the preceding pages of this paper.

Granted that the 10 million pesos in counterpart to be generated by this expenditure and importation would provide a measure of useful capital for the proposed establishment of an industrial guarantee and loan fund (its primary purpose) as jointly endorsed by the Philippine Government and FOA, there still appear no conclusive or cogent reasons why this capital should be provided by grant aid funds.

It is also noted that the original proposal for this operation was predicated on the lack of dollar exchange and made no mention of the now primary intent to set up the industrial guarantee and loan fund with counterpart.

No evidence has been advanced either that the 10 million peso capital cannot be appropriated from public funds of the Philippine Treasury or cannot be raised by public subscription under local private sponsorship. Equally lacking are the reasons for the nomination of the

specific amount of 10 million pesos or details as to management of the fund once created.

The process for the creation of this 10 million peso account is interesting. To initiate the operation Philcusa will publicly announce that it is prepared to receive applications for the purchase of industrial machinery, equipment and materials to the value of 10 million pesos and to be purchased by local entrepreneurs in peso currency. In light of past experience the total of applications received will greatly exceed the amount available and the responsibility for screening these applications down to the 10 million peso limit devolves upon a Philippine Government agency, Philcusa, with some small degree of informal consultation with FOA personnel. The resulting approved list is broken down into broad general categories such as woodworking machinery, metal working machinery, processing equipment, electrical equipment, materials, etc. This list is submitted to FOA/W for approval. On approval by FOA/W, Philcusa then submits to FOA/W the names of the proposed end users with the specific equipment and/or materials allotted to them. FOA then has 10 days in which to consider and veto any particular end user. Just what criteria is used for both lists is not clear. The clearance and approval of the two lists are suggested as more or less pro forma.

8. About 2 or more years ago Philcusa and the FOA mission in Manila jointly approved a lighthouse rehabilitation project calling for the expenditure of approximately $800,000. The equipment specified was largely of an obsolete type used 25 or more years ago in Western Europe and the United States. It called for much equipment of highly expensive character including custom ground lenses of exacting specifications and oil burning lamps requiring a high degree of personnel attendance. With considerable difficulty this proposal was disapproved in Washington, an experienced United States Coast Guard officer assigned to make a field survey of the requirements, modern automatic and semiautomatic equipment recommended, and the whole project completed for approximately $400,000.

9. Similarly a dredge was jointly approved by Philcusa and FOA/Manila which according to Philippine specifications would have cost between 3 and 4 million dollars. On redesign by the United States Army Corps of Engineers a better dredge was designed and built for $2 million as a result of intervention by FOA/W.

10. It is the present policy of the FOA to decentralize responsibility and authority hitherto shared by Washington and the field mission in favor of increased authority for field missions such as the USOM in Manila. A number of the above observations suggest that however desirable that may be from an administrative point of view, little evidence exists indicating the capability of the USOM personnel in Manila to properly discharge such responsibilities.

11. An example of the indivisible operations of the program is provided in the multiple-purpose projects in which power, irrigation, flood control and water supply potential of key river valleys is involved. Here we have services of power engineers, reclamation-land use technicians and geologists all employed on a coordinated single project also involving in many cases road and bridge construction, new land settlement and harbor facilities. Quantities of supplies, materials and equipment related both to individual phases of the operation and to the projects as a whole are involved requiring integration of purchasing as well as planning and programming. Successful location and identification of potential coal resources has to be followed by continuing mining surveys plus materials testing and utilization calling for different professional techniques in orderly availability in relation to transportation facilities, market demand and development capital availability. Educational contracts between American universities and the agriculture, public administration, engineering, education, and business administration colleges of the University of the Philippines have to be coordinated with the corresponding phases of the agricultural, economic, commercial and political community. Establishing an organization of 20 private rural banks, agricultural extension services and 110 farm cooperatives are inseparable components of the overall agricultural program which in turn again is related to water use, control, transportation and storage. Some of the technical cooperation services doubtless can be isolated and handled separately, i. e. malaria control, hospital rehabilitation, rural health, professional and vocational training, etc.; equally some segments of development assistance and in basic public works. However, probably three-quarters of the total program expressed in persons and dollars does require centralized coordinated administration. Furthermore, the Philippine Government has appropriated some $60 million of counterpart funds ($3 million over legal requirement) for local expenses of the entire program so that the program to be administered is not a $20 million program but $20 million plus $67.9 million or more expressed in counterpart funds. Such a program cannot be administered except by a closely coordinated operations staff in the field as well as the Washington headquarters. This necessity for coordination suggests a strong word of caution in any future reorganization or realignment of the FOA or its functions both in Washington and in the field.

12. The proposed request for a $25 million FOA loan in fiscal year 1956 and other features of the current aid programs relating to technical assistance and grant aid for various forms of industrial development and investment in the Philippines raise at least two important questions. First, is the Philippine Government making a maximum effort within its own resources to improve the investment climate for

both domestic and foreign investors? And, second, does the intimacy of American participation through the aid programs for industrial development expose the United States to the risk of criticism resulting from participation in approving purely Philippine ventures or in the approval of loans?

In connection with the first question it may be noted that a publication of the Department of Commerce, "Factors Limiting United States Investments Abroad," devotes seven pages to the Philippines. Offsetting these obstacles to private investment we have presently two bills before the Philippine Congress (one modeled after a recently validated Turkish law to promote industrial development) designed to improve the investment climate and with reasonable expectancy of approval. A modification of a recent law nationalizing retail trade (aimed at the Chinese) is also proposed, while a recent delegation of Philippine businessmen was officially sent to the United States to determine at first hand the obstacles to known instances of potential American investment in Philippine industry. The objective of this delegation was to explore possibilities of removing these obstacles. A beginning has been made in turning Government-controlled operations over to private operation. Expected approval of the recently renegotiated trade agreement may be expected to aid in industrial development.

For example, in the management of the industrial guarantee and loan fund, by a committee of officials of Philippine financial institutions including the Central Bank, a Philippine Government institution, employees of the USOM (FOA), i. e., officials of the United States Government, also have representation and strong position in approval or disapproval of individual requests for guarantees or loans. And in the case of the industrial development center, a Philippine Government institution, the industry division director of the USOM has a dual responsibility in that he also serves as principal industrial advisor to this center which is provided, on a full time basis, with four United States employees, technical assistants, who have opposite numbers on the Philippine staff. Again, a decision to approve or disapprove a proposed industrial venture is in effect a joint decision of the Philippine Government and officials or employees of the United States Government.

The question presented is whether participation to this extent by United States Government officials in what would appear to be purely internal operations of the Philippine Government is appropriate and proper.

13. The above observation leads to a question of principle in the use of United States economic aid in any of its forms, i. e., technical cooperation, direct forces support, defense support, development assistance by grant or loan, in the degree to which representatives of

the United States Government officially participate in the utilization of this aid. This participation varies from the minimum exercised in the case of commodity or equipment purchases confined to a comptroller end-use check to the maximum represented by a continuing responsibility by joint memberships with representatives of the host Government on various committees, councils, commissions, etc., for a vote in the use, management, and control of the funds or services provided by United States aid on a continuing basis, such as is suggested by the references to the industrial guarantee and loan fund and the industrial development center in section IV of this paper. Such a situation unavoidably provides a potential area for controversy and criticism, particularly in highly nationalistic and perhaps supersensitive underdeveloped countries. This situation may aggravate rather than ameliorate United States foreign relations with those countries. It also carries with it an implied degree of continuing financial liability.

If aid were only granted or provided where it could be utilized without such continuing joint control or disposition with its attendant risks, i. e., where there existed an acceptable local capability of complete local control, this would permit drastic reductions in the aid program. Whether overall United States foreign policy objectives could be reached as rapidly or as satisfactorily by such a policy is difficult to predict. Great variations in local conditions suggest no rigid policy with respect to this principle or subject, at least without more extensive study, but it can be noted that the principle deserves most serious and prompt attention.

14. The program by itself could be reduced and conducted with improved efficiency, but, considered in relation to the entire Far East program, a sizable reduction would appear unwise for the immediate present for many reasons. Predominant among these reasons is the fact that the new Magsaysay Administration appears to represent a marked improvement over preceding administrations and needs all possible United States support to maintain its position and have ample opportunity to demonstrate its capabilities. As a matter of fact, immediate increases in the armed forces of the Philippines are closely related to the proposed increase of perhaps 50 percent in the program now being operated in fiscal year 1955 with large increases in total program proposed, as noted above, for fiscal year 1956. If serious hostilities occur in or around Formosa, the Philippines would become an active staging area.

Republic of Korea

By Paul A. Neuland

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Republic of Korea

Military and Political Background

Following the Russo-Japanese War, Korea became a Japanese protectorate in 1905 and was formally annexed by Japan in 1910. It remained in this status until the end of World War II.

By virtue of agreements between the Allied Powers at Cairo, Potsdam, and Moscow, responsibility for military government in Korea was assigned to the Soviet Union north of the 38th parallel, and to the United States south of it. The United States responsibility was assumed by the United States Army on September 9, 1945.

The fundamental United States objectives of the United States Military Government in South Korea were to establish as soon as possible a self-governing and sovereign Korea, independent of foreign control and eligible for membership in the United Nations; to insure that the National Government so established would be fully representative of the freely expressed will of the Korean people; and to assist the Koreans in establishing a sound economic system and an adequate educational system as essential bases of an independent democratic state.

Although the Foreign Ministers of the Big Four had agreed at Moscow on December 27, 1945 to reestablish Korea as an independent and democratic state, the Joint United States-Soviet Commission which was established to form a provisional Korean Government had no positive results, largely due to Soviet obstructionism and to Soviet exploitation of North Korea as a newly acquired satellite area. However, the Moscow agreement was observed in South Korea, where political democratization made relatively rapid advances. South Koreans were initially brought into the machinery of military government as advisers to the American directors, but by August 1946 they had become the directors and the Americans had assumed merely advisory roles. On May 17, 1947 the United States Military Governor established the South Korean Interim Government which embraced legislative, executive, and judicial functions and was manned with elected or appointed South Korean nationals.

On September 17, 1947 Secretary of State Marshall brought the Korean problem before the U. N. General Assembly, which on November 14, 1947 created a U. N. Temporary Commission on Korea to assist in establishing a National Government of Korea (not merely of South Korea) and to supervise the withdrawal of occupation forces. However, Soviet occupation forces prohibited its entry into North

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Korea. Elections for deputies to the National Assembly were held in South Korea on May 10, 1948 and it met for the first time on May 31, 1948, Dr. Syngman Rhee being elected chairman. On this occasion seats were left vacant in proportion to the population of North Korea, since it was confidently hoped that North Korea would later send its representatives to participate in the national assembly. On August 15, 1948, the third anniversary of Korea's liberation, the American occupation of South Korea was terminated and the Republic of Korea (ROK) was established with Seoul as its capital.

Economic Background

Korea as a whole is slightly larger than Minnesota. The 38th parallel divides it into 2 approximately equal parts, with 9 million people in the north and 21 million in the south (where in addition there are now 2½ million refugees). The administration, management, and operation of Korea's economy had been in Japanese hands for 40 years, and the departure of the thousands of Japanese managers, technicians, and Government officials who had preempted all positions of power and skill during the Japanese rule left a dearth of trained managerial and technical manpower to cope with the problems to be faced.

The greatest problem was the economic imbalance caused by the dismemberment of Korea at the 38th parallel. Two-thirds of the heavy industries, nine-tenths of the hydroelectric power, and practically all of Korea's major coal, iron, and other known mineral deposits were located in the north. On the other hand, three-fourths of Korea's agriculture was in the south. Such industries as were located in South Korea were practically at a stand-still at the end of World War II, and it was estimated that they were operating at only 30 percent of available capacity 3 years after the war. The production of minerals was meagre, being hindered by obsolete and inadequate equipment. Agricultural production in South Korea, like other phases of its economy, was at a low ebb, in striking contrast to the fact that Korea had been one of the four surplus-rice countries in the Far East prior to the war.

U. S. Economic Aid to South Korea

The United States met this situation by providing extensive economic assistance to South Korea from the beginning of the occupation. Such aid consisted mainly in shipments of food, fertilizers, and agricultural supplies to prevent famine, disease, and unrest. Deliveries of these aid goods amounted to $378 million during the 3 years of the occupation.

The Economic Cooperation Administration (ECA) took over the responsibility for economic aid after the end of the occupation and carried on this work until the country was invaded in 1950. During this time it programmed $170 million in economic aid for the Republic of Korea, aiming for a balance between the immediate need for consumer commodities and the development of capital projects which might ultimately make further economic assistance unnecessary.

ECA initiated projects for the expansion of power generating facilities, increased tungsten production, the development of new anthracite coal fields, the rehabilitation of the fishing industry, the production of chemical fertilizer, and the expansion of the railway system. It also financed commodity purchases with first priority to raw materials, fertilizers, spare parts, and repair equipment.

The first 5 postwar years showed encouraging results. The per-capita income was raised to $60 per year, which was the highest ever achieved in Korean history. (Compare with $200 for Japan and $2,000 for the United States.) The Republic of Korea's agricultural position had been improved to such an extent that it became self-sufficient in foodstuffs and began again to export substantial amounts of rice to Japan. However, its foreign trade position continued to be characterized by limited export availabilities and by lack of effective direction in making suitable trade arrangements or in developing a long-range trade pattern.

The Invasion

On June 25, 1950 the North Koreans crossed the 38th parallel. The U. N. Security Council that same day determined that the North Korean action constituted a breach of the peace and shortly thereafter designated the United States to lead a U. N. Unified Command in repelling the attack and restoring international peace and security in the area.

ECA immediately suspended its activities for further economic development, and from then on until its termination in the spring of 1951 largely confined its efforts to cooperating with the United States Army in maintaining a pipeline of imports to meet the essential demands of the civilian economy.

Wartime Relief Activities

The Commander in Chief of the U. N. Command (CINCUNC) assumed the responsibility for civilian relief and related activities in the theater of operations. In February 1951 he assigned these functions to the U. N. Civil Assistance Command in Korea

(UNCACK), which was placed under the United States Eighth Army. The structure of UNCACK was designed to parallel that of the ROK Government. Its headquarters was at Pusan, the temporary seat of the ROK Government, and from there its chain of command extended to field teams located in each of the 10 provincial capitals. UNCACK took over ECA's functions and quickly grew to a large command. As of September 30, 1951 it had over 700 personnel on its roster, including nationals of 12 nations.

February 1951 also saw the start of the U. N. Korean Reconstruction Agency (UNKRA), which had been established by the U. N. General Assembly on December 1, 1950 to assist CINCUNC and the ROK Government in their relief and rehabilitation activities. UNKRA is funded from voluntary donations by U. N. member nations and certain nonmember nations. The U. N. General Assembly gave it a ceiling authorization of $250 million. $206 million was pledged by 23 nations, the United States pledging $162.5 million, or 65 percent of the total, and significant contributions being also pledged by the United Kingdom, Canada, and Australia.

The programs undertaken by UNKRA, under the supervision of the U. N. Commission for the Unification and Rehabilitation of Korea (UNCURK), were mainly directed toward the long-range rehabilitation of the Republic of Korea, while those undertaken by the United States Army through UNCACK were for immediate relief. All of these activities came under the supervision of CINCUNC.

The scope of these programs for economic aid and civilian relief in the Republic of Korea varied with the military situation. As the invaders spread destruction through the peninsula, direct assistance to the distressed and homeless became the first requirement. As the military situation eased and as it became less urgent to provide direct relief in support of the military operations, longer-range economic problems could once more be considered.

The estimated value of deliveries financed by United States appropriations for economic aid during the entire period of hostilities from June 1950 to August 1953, including United States Army funds for civilian relief, ECA funds, and United States contributions to UNKRA, was approximately $345 million. United States Army funds also supplied more than an estimated $50 million for engineer, signal, and transportation supplies for combined military-civilian use; $50 million, for raw materials turned over to the ROK Army for processing into finished products, and $250 million for servicing, repairing, and replacing United States equipment used in carrying out rehabilitation projects and in providing transportation, food, clothing, and medical care for refugees.

Currency Problems

For the purpose of meeting the local-currency requirements of the U. N. Command, the Republic of Korea on July 20, 1950 agreed to advance local currency against later reimbursement. The basic unit of ROK currency was then the won, which was officially valued at 1,800 to the dollar. Its value with relation to the dollar decreased during the next 3 years successively to 2,500, then 4,000, and eventually to 6,000 by February 1953. The rate established for accounting purposes in determining United States debits for these won advances was generally the same as the official rate, although there were certain minor variations as the exchange value fluctuated. Won drawings for the United States armed forces appear unfortunately to have contributed heavily to the ROK inflation, since additional buying power was thus created without additional consumer saleables being made available. Although the ROK Government had agreed to reduce outstanding amounts of ROK currency when these won drawings were repaid, there is no indication that this was actually done after the United States began to make partial settlements in 1951.

Combined Economic Board

The ROK Government proposed on January 16, 1952, that all previous won advances be paid in full and without delay, and that all future won advances be paid as made. This led to a series of negotiations between CINCUNC and the ROK Government which resulted on May 24, 1952, in an economic coordination agreement, by virtue of which a combined economic board was created, composed of representatives of CINCUNC and of the ROK Government, to serve as a coordinating and advisory agency for the U. N. Command and the Republic of Korea on all economic aspects of the program for civilian relief and rehabilitation.

The United States agreed to make prompt, full, and final settlement for advanced ROK currency by paying the sum of $4 million per month on account, beginning with May 1952. These payments were to be at varying rates of exchange, more or less in accordance with the fluctuating official rate. The ROK Government agreed in turn to require repayment of only 90 percent of the advanced amounts, the remaining 10 percent being considered as a ROK contribution to the combined war effort. The ROK Government further agreed to combat inflation; to apply sound fiscal and monetary policies; to institute rationing and controls over foreign exchange, credit, wages, and prices; to promote the export trade; and to achieve the maximum antiinflationary effect from imports, including aid goods.

However, the ROK Government did not initiate the monetary and fiscal controls contemplated in this economic coordination agreement. United States representatives frequently found it impossible to reach working agreements with ROK officials. In many instances when working agreements were reached, the ROK Government was unwilling or unable to take the necessary measures for the accomplishment of specific programs, and frequently failed to provide timely information as to the economic plans and activities of the ROK Government. Negotiations through the combined economic board were impeded by the tight control over economic decisions which was consistently retained on the highest level of the ROK Government. The actions of the combined economic board thus did not prove to be very effective, and CINCUNC–ROK negotiations were not materially assisted by its existence.

Further Currency Crises

In November 1952 the ROK Government again requested that all outstanding dollar repayments for won advances be made at once, and gave notice that as of December 15, 1952, it would be impossible to continue to advance won under existing arrangements. After consideration of the problem at Washington by the National Security Council, CINCUNC was authorized to effect complete reimbursement to the Republic of Korea for all won already advanced and to be advanced in the future, provided that the ROK Government would agree that reimbursement for future advances would be at a rate of not less than 180 won to the dollar.

In accordance with this authority, CINCUNC made an agreement with the ROK Government on February 25, 1953, to pay $85 million immediately on account, thus settling for all unpaid won advances through February 6, 1953, and in the future to pay for all advances of ROK currency on a monthly basis, at a rate to be determined quarterly on the basis of the Pusan wholesale price index for April 1951. Coincident with this agreement, the ROK Government changed the unit of ROK currency from the won to the hwan, the rate of conversion being 1 hwan to 100 won. Since the won had been last valued at 6,000 to the dollar, the initial value of the hwan was thus 60 to the dollar.

The Tasca Mission

It became apparent early in 1953 that the relief assistance which the United States was at that time making available to the Republic of Korea was inadequate to support the rapidly growing ROK mili-

tary establishment, let alone rehabilitate the ROK economy. The ROK armed forces were consuming steadily enlarged quantities of available consumer resources. ROK military expenditures were causing progressively greater budgetary deficits and constantly rising inflation.

In view of this situation, the National Security Council recommended to President Eisenhower that a review of the entire situation be made without delay. In April 1953 the President sent an economic mission to Korea to survey the ROK economy and to make recommendations as to the amount of external aid necessary to make the Republic of Korea self-supporting. The mission was headed by Dr. Henry J. Tasca, subsequently Chief of the FOA mission at Rome, and included representatives of FOA, the Department of Defense, the Treasury Department, and the Department of State.

In June 1953 the Tasca mission reported to the President that United States economic assistance in the order of $1 billion over a period of 4 or 5 years would enable the Republic of Korea to become self-supporting, except for its military requirements. The assumptions on which this estimate was based were that the United States was prepared to assist the Republic of Korea in achieving a standard of living approximately that of 1949–50; in supporting a military force capable of deterring external aggression by other than a major military power; in promoting rehabilitation and reconstruction; and in maintaining monetary and financial stability. (An interesting parallel is provided by a report dated December 15, 1952, that, based on a survey conducted for UNKRA by Robert R. Nathan Associates, Inc., the Republic of Korea would need economic aid amounting to $1.750 billion over a period of 7 years.)

The report of the Tasca mission included an analysis of the economic measures to be taken to achieve these goals. It recommended that the ROK Government initiate certain essential changes in its financial structure for the purpose of balancing its budget, establishing and maintaining a uniform exchange rate, strengthening its currency, and tightening credit controls. It further recommended that the technical and professional skills of ROK nationals be developed as rapidly as possible, that a new aid agreement be negotiated, that the United States Army continue its relief activities, and that the operations of UNKRA be accelerated. It finally recommended that CINCUNC continue to be responsible for economic aid affairs, but that there be focused in one position under CINCUNC the responsibility for coordinating the United States Army's program for civilian relief, the UNKRA program, and the proposed new program for economic rehabilitation.

Reorganization of United States Economic Aid Activities

As an outgrowth of the recommendations of the Tasca mission, President Eisenhower on August 7, 1953, approved a memorandum which reorganized the administration of the economic aid program in the Republic of Korea. Under this reorganization, economic affairs were to continue as a responsibility of CINCUNC until such time as the United States Government, acting in the name of the United Nations, should determine otherwise.

CINCUNC was to have on his staff an Economic Coordinator, nominated by the Director of FOA, subject to the approval of the Secretaries of State and Defense and of CINCUNC, and appointed by the President with Senate confirmation. The Economic Coordinator was to be paid by FOA and was also to represent FOA in the Republic of Korea. CINCUNC was to delegate to the Economic Coordinator the responsibility for developing and supervising integrated programs of relief, rehabilitation, and stabilization in the Republic of Korea and for coordinating all of these programs with the military program. The Economic Coordinator was to represent the United States on the Combined Economic Board and to be responsible for developing overall proposals for economic aid.

FOA was designated as the agency of principal interest within the United States Government for supervising and directing the new economic aid program. Communications between FOA and the Economic Coordinator were to be through CINCUNC channels. The Economic Coordinator was to be subject to the political guidance of the United States Ambassador but not to his coordination, like FOA mission chiefs in other countries. The Economic Coordinator was also authorized to make his own arrangements for negotiating with the ROK Government. This turned out to mean particularly President Rhee, the Prime Minister, and the Minister of Finance.

On August 8, 1953, in connection with the signing of the United States-ROK Mutual Defense Treaty, President Rhee and Secretary of State Dulles issued a joint statement which included the following declaration about the new economic aid program:

> We contemplate that the projected 3- to 4-year program for the rehabilitation of the war-ruined Korean economy shall be coordinated through the Combined Economic Board, under the joint chairmanship of the Korean and American representatives. This program contemplates the expenditure of approximately $1 billion of funds, subject to appropriations thereof by the United States Congress. Two hundred million dollars has already been authorized out of prospective defense savings.

The Economic Coordinator was to have a relatively small staff of not over 40, but the staffs of about 258 in UNKRA and 765 in the United States Eighth Army's Korean Civil Assistance Command (KCAC), which had succeeded UNCACK toward the end of the pe-

riod of hostilities, were also to be available to him for carrying out the program. In addition, many troops behind the combat areas were engaged in the United States Eighth Army's program of Armed Forces Assistance in Korea (AFAK). Finally, the numerous voluntary agencies operating in the Republic of Korea supplemented these governmental activities with their own substantial private programs.

The Economic Coordinator

President Eisenhower immediately appointed Mr. C. Tyler Wood to fill this new position of Economic Coordinator for Korea, and he assumed his duties in August 1953. The several fields of responsibility were slightly shifted about to meet the new mission, being divided more or less evenly between KCAC and UNKRA in accordance with what they had previously been doing. KCAC was given the responsibility for transportation, communications, public works, agriculture, health, welfare, supply, and distribution. UNKRA took over general education, vocational training, irrigation, forestry, flood control, industry, mining, housing, power, and liaison with voluntarry agencies.

Full use was made of existing personnel, as for instance, by detailing the health specialists in UNKRA to KCAC's health section and the power specialists in KCAC to the UNKRA power section. UNKRA was in general assigned responsibility for capital investment projects of a long-range type, engineering surveys for which were conducted by the firm of Knappen, Tibbett, Abbott & McCarthy under a virtually exclusive contract. KCAC was generally assigned relief projects with more immediate objectives.

Further Currency Negotiations

One of the first difficulties with which the Economic Coordinator came to grips was the currency problem. Negotiations were undertaken through the Combined Economic Board in an effort to settle such problems as the won-dollar conversion rate, expenditures of ROK foreign exchange, and ROK individual pricing polices before launching the program for economic reconstruction and financial stabilization. Agreement was reached on December 14, 1953, whereby the United States committed itself to obtain the necessary aid funds, to commit them expeditiously, and to recognize the won-dollar conversion rate of 180 to 1, while the ROK Government pledged its best efforts to minimize the budgetary deficit, to establish a counterpart mechanism, and to limit the extension of credit to 5 billion hwan annually. A series of annexes to this agreement set forth certain

principles regarding the financing of the investment program and the pricing of aid goods.

The ROK Government publicly noted a few days later that the exchange rate of 180 to 1 was "unchangeable forever," but the Economic Coordinator took immediate exception to this unilateral interpretation and the ROK Government finally agreed that the rate would stay at that figure merely until June 1954, at which time it would be reviewed. In return, the Economic Coordinator further conceded that the control of credit and of foreign exchange was to be a function solely of the ROK Government.

Programing for Fiscal 1954

Contemporaneously with these negotiations, the Economic Coordinator started to program the $200 million made available to FOA by the Congress for fiscal 1954 as the first installment of the $1 billion of economic aid which had been recommended by the Tasca mission. These funds were transferred from surplus funds available as savings to the Department of Defense due to the cessation of hostilities. In addition, the Congress appropriated $80.6 million to the United States Army and $35 million to UNKRA for their relief and rehabilitation programs during fiscal 1954.

The exact amount of United States military assistance given to the Republic of Korea during fiscal 1954 is unknown and will probably never be ascertained, since it is virtually impossible to determine the dollar value of the equipment transferred to the ROK armed forces as United States units withdrew.

By June 30, 1954, procurement authorizations for the entire $200 million of FOA funds had been issued, a large proportion being approved during the last quarter. Many of these obligations were based on generalized estimates rather than on detailed specifications. A description of the 11 projects which constituted FOA's program for industrial development during fiscal 1954 are illustrative of the buildup of the new program.

These 11 industrial projects received procurement authorizations aggregating $88.6 million, or approximately 45 percent of the total appropriation. The first two of these projects were handled by FOA itself, but supervisory responsibilities and funds for the other nine were transferred to KCAC. Since delivery of goods and completions of construction projects against these funds have in general been notably slow, the estimated completion dates given below may be regarded as somewhat unrealistic.

1. Fertilizer Plant

Most of the 600,000 metric tons of synthetic nitrogen fertilizer produced in Korea annually before World War II came from the large hydroelectric development on the Yalu River north of the 38th parallel, so that the South has had to depend on imported fertilizers for the past 10 years. A survey was undertaken in 1953 by the Chemical Construction Corporation under contract from UNKRA to analyze ROK fertilizer requirements and how to meet them. It came up with the report that the required annual production figure was 120,000 tons of contained nitrogen and recommended that three fertilizer plants be built, each with an annual production capacity of 40,000 metric tons.

Plans were immediately begun for building the first of these three plants, which was to produce ammonium sulfate. Indigenous Korean coal was to be used for the fuel to produce the ammonia, and the sulfur was to be imported. The estimated cost of this one plant varied from $12 million to $20 million. UNKRA's funds were found inadequate to finance it and the project was taken over by the Economic Coordinator for financing through FOA. In May 1954 the Republic of Korea strongly urged that the plant be redesigned for the production of urea instead of ammonium sulfate, on the ground that tests of Korean coal had proved it to be inadequate as a fuel for the production of ammonia and that Korea should not have to depend upon imports of sulfur, which were estimated to amount to about $2.5 million annually. FOA accepted this proposal for modifying the program and solicited engineering proposals for a urea plant. The proposals were received on September 27, 1954, and were turned over to the National Research Council in Washington for review. This has just been completed. During the course of this review, the National Research Council received bids from various firms. FOA has tentatively accepted the joint offer made by two American firms, namely, F. H. McGraw, Inc., and Hydrocarbon Research, Inc. Details of the proposed contract are presently being negotiated on a high-priority basis and it is expected that the contract will be executed during April 1955.[1] The proposed contractors reportedly have a team ready and poised for departure to select the exact site for this plant in the vicinity of Chungju, as recommended by the ROK Government. (The other two plants are tentatively scheduled for location at Seoul and Pusan.)

It is estimated that the construction of housing for the workers, the preparation of the foundations, and the pouring of the concrete will actually begin during the summer or early fall of 1955. The urea plant will cost substantially more than an ammonium sulfate plant.

[1] This contract was signed on May 13, 1955.

The procurement authorization has been issued in the amount of $23 million, with completion expected by 1957.

Although the modification of this project from ammonium sulfate to urea was in part based on the findings of the Chemical Construction Corporation with regard to the inadequacy of Korean coal, there are strong indications that purely political considerations had a large part in making the change. In view of the fact that urea is not generally regarded the most appropriate fertilizer for Korea, that serious harm may be caused by its misuse, and that it costs substantially more to produce, it may be asked whether fuel oil should not have been substituted for coal and whether the political pressures of the ROK Government should not have been more firmly resisted.

Criticism has also been expressed about this project on the score that the funds were obligated upon a general estimate rather than upon detailed specifications. It may also be asked whether all of the possibilities for placing the contract through competitive bidding were thoroughly explored prior to undertaking current negotiatiotns with the contractor recommended by the National Research Council.

2. *Thermal Powerplants*

Major emphasis has been placed in FOA's programing during fiscal 1954 on the development of electric generating facilities to replace the lost power sources in the North. A contract was negotiated during fiscal 1954 with the Pacific Bechtel Corp. for the construction of three thermal powerplants with an aggregate installed capacity of 100,000 kilowatts. As of March 15, 1954, special equipment in the amount of approximately $12 million had been ordered by this firm under subcontract. Construction was actually started in July 1954. The procurement authorization was for $30 million, with completion expected by 1956.

This project has been highly controversial from the very beginning. An engineering survey conducted by FOA technicians in 1953 indicated that ROK economic needs would justify the construction of two thermal powerplants with a total installed capacity of about 40,000 kilowatts, one having about 30,000 kilowatts and the other about 10,000 kilowatts. Their combined cost was estimated at approximately $10 million. It is understood that political pressures were largely responsible for expanding the project to well over twice the size originally deemed necessary by FOA technicians.

The contract with the Pacific Bechtel Corp. was negotiated, not let, on the basis of competitive bidding. FOA officials have indicated that this was done for the purpose of having the ROK Government select a reputable American engineering firm to make the initial sur-

vey, so that the project would be carried out more or less under United States auspices. Otherwise, they state, the ROK Government would have insisted that the funds be turned over to it for construction of the plants under its own supervision.

This is another instance in which ROK political pressures appear to have been successfully applied to obtain United States approval of a major industrial project. The procurement authorization also appears to have been issued on the basis of rough estimates instead of the detailed specifications that would have been required for competitive bidding.

3. *Seoul Central Exchange*

This project was for the procurement of a 20,000-dial central office, 10,000 lines of new equipment, a 450-line toll switchboard, power and testing equipment, and 14,000 telephone instruments. The procurement authorization was for $4.2 million, with completion expected during 1955.

4. *Railway Rolling Stock*

This project was to provide parts and backshop equipment for the ROK Ministry of Transport and to purchase 1,400 assorted freight cars. All of these items have either been shipped or were at dockside as of December 15, 1954. The procurement authorization was for $14.2 million, with expected completion by 1956.

5. *Rehabilitation of Fixed Railroad Equipment*

This project was to provide funds for KCAC's transportation engineers to assist the ROK Ministry of Transport in developing watering and communications facilities and in obtaining equipment and steel for the repair of the Han River bridge. The procurement authorization was for $2 million, with completion expected during 1955.

6. *Railroad Construction*

This project was to finance the Maesong-Cholan spur extension from the mainline to the coal-mine area. It included approximately 80.3 kilometers of construction, 40 tunnels, and 54 bridges. The procurement authorization was for $3.1 million, with completion expected during 1955.

7. Purchase of Naval Vessels

This project was to purchase two CIMAVI naval vessels at $750,000 each for use as coastal cargo vessels. It has been decided to carry over this project into fiscal 1955 and to supplement it with new money so that four ships might be purchased. The original procurement authorization in fiscal 1954 was for $1.5 million, with completion expected during 1955.

8. Cargo-Handling Equipment

This project was to purchase cargo-handling equipment from the United States Army when military units moved out. It consisted of five 350-ton barges, 2,000 tarpaulins, 17 mobile cranes, 9 trailers, 3 tractors, 1 gantry crane, and assorted forklifts, pallets, slings, and spreaders. The procurement authorization was for $1.2 million, with completion expected during 1955.

9. Construction of Fishing-Boats

This project was to rehabilitate several small shipyards and a fish cannery, and to build a number of 13-ton gill netters under plans previously developed by UNKRA. The procurement authorization was for $1.5 million, with completion expected during 1955.

10. Waterworks

This project was to develop water wells and water storage facilities, since 38 of the 54 ROK waterworks were damaged during hostilities and production was down to 20 percent of normal. The objective was to build it up to 80 percent of normal capacity. The procurement authorization was for $2.9 million, with completion expected during 1955.

11. Repair and Construction of Roads and Bridges

This project was to purchase 1,100 tons of steel, 17,000 tons of cement, 161,000 linear feet of piling, and 1.9 million board-feet of lumber. All of these supplies were to be used as highway equipment for the construction and/or repair of 37 bridges, totaling 5.8 kilometers at a cost of $450,000 per kilometer. Grading and surfacing were also provided for approximately 14 percent of the 15,000 kilometers of war-damaged roads and highways. The procurement authorization was for $5 million, with completion expected during 1955.

Procurement of Commodities

Originally, FOA undertook procurement through other agencies of the United States Government, such as the General Services Administration and the Departments of Defense and Agriculture, except for certain bulk commodities like cotton, which were obtained through private commercial channels. However, a new procedure was initiated in February 1954, since the ROK Government insisted on having its own trade channels play a greater part in this operation. The new procedure is for commodities to be procured through private channels in the Republic of Korea, except for supplies required in connection with large development projects in the fields of power, railroading, and telecommunications. FOA undertakes procurement through other channels if the ROK Government determines that it can not handle specific procurement items.

The procedure is thus for the procurement authorization to be approved in Washington, transmitted to the Economic Coordinator for action, then transferred to the Procurement Office of the ROK Government, and then transmitted to the Bank of Korea, which issues the invitations to bid and makes the award. Bids are not made on a fixed dollar basis but rather in hwan on a fluctuating basis, the lowest acceptable rate being 180 hwan to the dollar. In practice, the procurement contracts are thus auctioned off to the lowest bidder for dollars. The contract for any one procurement authorization is broken down among four or more bidders, unless there are not enough bidders available.

Upon selection of the bidders, the Bank of Korea informs the Economic Coordinator and asks him to request a letter of commitment from FOA headquarters in favor of an American bank. At the same time, the Bank of Korea issues procurement subauthorizations to the successful bidders, each of whom has to deposit 25 percent of the value of his bid in the Bank of Korea at the agreed rate. Upon the receipt of the letter of commitment from Washington, the Economic Coordinator transmits it to the Bank of Korea and the procurement operation then takes its normal course. When the shipping documents are received by the Bank of Korea, together with a statement that the dollars have been paid, the importer pays to the Bank of Korea the remaining 75 percent of his bid and thus ends the transaction. In certain instances the importer has to deposit only 15 percent of the value of his bid.

This procedure was reportedly developed under serious misgivings on the part of FOA, which feared that ROK trade channels were not yet able to handle such a vast operation and that it would create confusion, an inefficient distribution of imported commodities, and possibly uncontrollable irregularities. It may well be that the existence

of such procurement procedures constitutes one of the reasons for the notable delays which have occurred in laying aid goods down in the Republic of Korea.

A number of press reports claim that pressures have been exerted by various ROK officials to divert certain of these funds to the benefit of their friends.

It has also been alleged that, even though the dollar accounts in the Bank of Korea are supposed to be blocked, some of these procurement dollars nevertheless have a tendency to slip out of normal banking channels. Certain contracts have also reportedly been canceled without the released dollars being returned to blocked accounts. If true, such leakages would result in dollars being at large in the ROK economy in the hands of private importers, well beyond the possibility of any United States control over their eventual use.

UNKRA's procurement practices have been quite different. After the Economic Coordinator has approved an UNKRA project and ROK approval has been obtained through the Combined Economic Board, UNKRA writes up the detailed specifications and transmits the procurement authorization to UNKRA headquarters at New York for execution. (The only exception is for items which are to be procured in Japan, the procurement authorization for which is sent to the UNKRA branch office at Tokyo.) UNKRA headquarters is assisted in making the actual purchases by the procurement agencies of the several countries which have contributed to UNKRA, particularly those of the United States, Canada, the United Kingdom, and the other Commonwealth countries. A few selected items are procured through U. N. agencies, and commercial channels are used in emergencies.

Preparations for Fiscal 1955

During the preparation of the budget for fiscal 1955, the projected level of economic and military assistance to the Republic of Korea was set at about $600 million. While the economic funds were part of the budget for the mutual security program, the military funds were included in the regular budget of the Department of Defense, being earmarked to defray the cost of military hardware and of direct logistical support for the ROK Armed Forces.

President Rhee came to Washington in July 1954 and discussions were started immediately to establish the conditions under which the United States would make such massive economic and military aid available during fiscal 1955. It soon became apparent that agreement would not be reached during President Rhee's visit and his staff remained in Washington to continue discussions, which were transferred to Seoul in September 1954.

The principal issues involved were the level of economic and military aid, the size of the ROK Armed Forces to be supported, the hwan-dollar conversion rate, realistic exchange rate, the inclusion of Japan among the sources of procurement for certain commodities, and the guarantee of effective cooperation by the Republic of Korea in programing the use of aid funds. Another issue was added in October 1954 when the ROK Government cut off hwan advances to the United States Armed Forces as a result of United States insistence that these advances be repaid in accordance with existing agreements at the rate of 254 to 1, rather than at 180 to 1. It was the United States position in this matter that the lower rate was directly inflationary and would rob United States taxpayers, channel dollars to the black market, and cause a flight of capital from the country.

The Agreed Minute

President Rhee appears to have been impressed by the firm position taken by the United States during these negotiations and on November 17, 1954, signed an agreed minute. According to this agreed minute, the United States was to provide economic and military assistance to the Republic of Korea amounting to $700 million during fiscal 1955, $420 million to be for military assistance and $280 million for economic aid. The Republic of Korea in turn agreed to maintain under arms a specified number of troops principally assigned to 21 active ROK Army divisions and enough ready reserves to provide 10 divisions in case of emergency. The Republic of Korea further agreed to adopt several corrective enonomic policies and certain measures calculated to effect savings in the ROK Military Establishment.

The acceptance of the agreed minute by the ROK Government should not be taken as indicating that it has abandoned either its aspirations for uneconomical industrial development or its methods of attempting to achieve these aspirations. There is every appearance that the ROK Government acquiesced largely because it was convinced that the program for fiscal 1955 could not otherwise have gone forward. However, whatever be the reason behind such ROK acquiescence, the agreed minute seems to be definitely in line with United States policy towards achieving a position of military and economic strength in the Republic of Korea.

Programing for Fiscal 1955

The $280 million for economic aid to the Republic of Korea has been funded from a number of sources. $205 million was appropriated by the United States Congress and is administered directly

by FOA. $16.2 million is a reappropriated carryover from United States Army funds for civilian relief. $19 million is the United States contribution to UNKRA. The remaining $39.8 million has been transferred by FOA for economic assistance to the Republic of Korea from the unused appropriation for Southeast Asia.

The protracted negotiations leading to the agreed minute caused a virtual standstill in advance planning, programing, and procurement during the first five months of fiscal 1955. Because of this delay, it was at first believed impossible to obligate the funds available for this fiscal year and that there would soon be a serious gap in the pipeline of deliveries. By December 1, 1954, all of the funds had been "programed for obligation" as follows:

Agriculture and natural resources	$8,204,000
Industry and mining	16,130,000
Transportation	34,445,000
Health and sanitation	2,430,000
Education	1,500,000
Public administration	5,825,000
Community development, social welfare, and housing	34,066,000
Maintenance of civilian supply (commodities)	113,347,000
FOA payroll	3,753,000
Counterinflation reserve (commodities)	41,300,000
United States contribution to UNKRA	19,000,000
Total programed	280,000,000

Obligations as of March 15 under this program amount to $141.9 million. Deliveries have been negligible, and only $17.8 million was actually expended by January 31, 1955, including $10.4 million transferred to UNKRA.

Projects for the obligation of the remaining $138.1 million are in various stages of development and review. Although FOA officials are confident that all of the funds will be obligated before the end of this fiscal year, it is feared that it will be virtually impossible to do so other than on the basis of generalized estimates rather than of valid and detailed specifications.

FOA places great emphasis on the importation of saleable commodities to combat inflation, and the entire program is divided about equally between consumer goods and investment projects.

This has been a highly controversial subject since the start of the program. Certain officials in both the United States and ROK Governments have suggested that it might be advisable to give more consideration to projects for industrial development, provided they are based on sound surveys and overall requirements of the ROK economy and kept within the absorptive capacity of the country. According to this point of view, the importation of consumer salables should continue, but to a lesser degree than at present.

Another criticism has been that the economic aid program merely aims at being self-balancing by keeping a general 50–50 ratio between consumer goods and capital investments within itself, whereas it should rather be designed to achieve overall stability by offsetting the inflationary effect of the military build-up without regard to ratios.

Procurement of Cotton

The only item which has actually been delivered and paid for out of funds for fiscal 1955 is raw cotton. A total of 50,600 metric tons of raw cotton were to be procured at a cost of approximately $29 million. The first increment of 9,600 metric tons costing $7.6 million has already been delivered. The second increment in the same amount and at the same cost is presently under way.

The cotton is to be used by the 21 cotton-spinning mills in the Republic of Korea. Because of a shortfall in the planned installation of spindles in these mills, production targets were not met during the early part of fiscal 1955, so that the original requirement of 50,600 metric tons has now been reduced to 40,000 metric tons.

These production difficulties were encountered in spite of such favorable circumstances for the mills as being able to acquire raw materials and mechanical equipment either as aid-program commodities or at favorable foreign-exchange rates. There is therefore serious question as to how the industry will react to increased costs and less favorable circumstances. Consideration might therefore be given to improving its operational efficiency rather than expanding its facilities still further. This development points up the constant problem inherent in any expansion of ROK industrial capacity at other than a gradually progressive rate.

Military Assistance in Fiscal 1955

Four hundred and twenty million dollars was appropriated to the Department of Defense for military assistance to the Republic of Korea in fiscal 1955, about $270 million being for end-items and training and about $150 million for other items delivered for the direct support of the ROK Armed Forces. These funds represent the dollar value of the military supplies delivered to ROK units in the field as though they are part of the United States Military Establishment. The dollars themselves remain in the United States.

More significant, perhaps, from the economic point of view, is the understanding reached in the Agreed Minute that the pay of the ROK Armed Forces would be raised and their rations increased without any increase in ROK expenditures, since the United States was to

finance all ROK defense expenditures in excess of 35 billion hwan a year. On February 1, 1955, this understanding was supported by further agreement that the United States would provide $28.9 million during the remainder of fiscal 1955 to purchase subsistence items including edible oil, red pepper powder, soy beans, salt, barley, fresh fish, canned fish, fresh vegetables, kimchi, rice, and cigarettes.

These subsistence items are obtained from within the ROK economy and not from imports. The United States Army, therefore, provides hwan and not dollars for their purchase, obtaining the hwan through what are described as dollar auctions, which were started a few months ago to obtain hwan for the local-currency needs of the United States Armed Forces after the ROK Government balked at providing hwan at a higher rate than the unrealistic figure of 180 to 1.

Dollar auctions are now held weekly, 3 out of 4 to obtain hwan for the purchase of the above-mentioned subsistence items, 1 out of 4 to obtain hwan for the local-currency needs of the United States Armed Forces. About $2 million is thus auctioned off each week. During the week of March 14, 1955, $2.2 million was sold to 118 bidders, the top bid being 506 hwan to the dollar and the average bid being 496 hwan to the dollar.

This procedure appears to be most undesirable. For one thing, it has the direct result of jeopardizing the United States Army's budgetary position by making it impossible to know how much local currency will be available for approved programs. Such auctions also increase the supply of local currency, since no hwan are retired by the ROK Government in proportion to the dollars auctioned off. In addition, and probably most significant of all, the United States can make no end-check as to the use to which these dollars are put by private speculators, who reportedly use them to import unessential goods which have no beneficial effect on ROK rehabilitation. A thorough review of these transactions would appear to be in order.

The item for rice in the above shopping list deserves particular attention. About $12 million is given to the ROK Government in hwan for its purchase. However, in reality, the ROK Government does not purchase this rice as it does the other items on the list but requisitions it from the farmers as a kind of tax levy in kind. This particular transaction therefore might well merit particular attention in future budget reviews.

Although these funds are used for miltary pay and rations, it is obvious both from the nature of the situation and from the history of the negotiations which led to this arrangement that it is nothing other than a method of providing budgetary support to the ROK Government.

Inflation

Since the continued and massive inflation has been frequently referred to as one of the most outstanding obstacles to ROK rehabilitation, a few details might be in order on this subject. In August 1953 the Seoul retail price index stood at 7,861.7 and the Seoul wholesale price index stood at 6,179, each against a base of 100 in 1947. The ROK money supply (note issue and demand deposits) stood at 17.8 billion hwan, even after the currency reform of February 1953 replaced a hundred of the old won with one new hwan.

During the next 14 months, the ROK money supply rose 145.8 percent to a level of 43.7 billion hwan. The price indices by January 1955 had risen about 75 percent above their levels of August 1953.

One of the factors contributing heavily to the inflation has been the use of the printing press to meet enormous ROK budgetary deficits. In fiscal 1955 scheduled ROK expenditures of 90.2 billion hwan were backed up by anticipated revenues of only 38 billion hwan, representing a deficit of well over half of the budget. First estimates place the ROK deficit in the coming fiscal year at 46.5 billion hwan. Proponents of the argument that the way to combat inflation is by importing consumer saleables maintain that the volume of commodities which have been delivered have failed to have much of an effect on inflation, partially because distribution of these goods has been facilitated by credit expansion and because the ROK Government has insisted on pricing a significant portion of the aid goods at unrealistic subsidization levels.

Although pressures toward even greater inflation have been held in check to a degree since February 1953, it appears that more stringent fiscal and monetary measures are needed to prevent a resumption of the upward spiral, particularly in the fields of currency conversion rates, realistic pricing policies, taxation reform, Government controls over banking and credit, the budget, and counterpart procedures. All in all, inflation still presents the greatest single problem to ROK economic rehabilitation and lessens the economic aid program by its depreciative effect on the value of the dollar.

Total Amount of United States Assistance

According to various sources consulted in the preparation of this report, a reasonable figure for the monetary value of the assistance given by the United States to the Republic of Korea from the end of World War II through fiscal 1955 would be $6.57 billion in military aid (including the estimated United States share of the cost of the Korean War) and $1.84 billion in economic aid.

Contributions to the Republic of Korea from other sources during this same period have totaled about $80 million, of which about $25 million has been from United States voluntary agencies (including over $5 million from the American-Korean Foundation for Civilian Assistance), $20 million from other nations through UNKRA, and $35 million from other nations not through UNKRA. It will thus be seen that about 96 percent of the total amount of aid given to the Republic of Korea has come from the United States, 94 percent being from the United States Government and 2 percent from United States voluntary agencies.

Activities of Other United States Agencies

Several other United States agencies besides FOA and the Department of Defense participate in the economic aid program for the Republic of Korea.

1. Department of State

The role of the United States Embassy at Seoul is somewhat unusual with regard to this program. In other countries the economic aid program is administered by an FOA mission, the director of which is subordinate to the United States Ambassador. The economic coordinator, being on the staff of CINCUNC, is independent of the United States Ambassador, although the latter is the President's representative and is therefore the senior unilateral United States representative in the Republic of Korea. The small economic staff in the United States Embassy produces economic studies, including a comprehensive quarterly economic report, and handles normal commercial activities. The unusual arrangements between these three senior United States officials are reportedly working well, mainly because of harmonious personal relationships between CINCUNC, the United States Ambassador, and the economic coordinator.

At the Washington level, FOA looks to the Department of State for policy guidance and consults it on all significant operational matters The United States aid program is in fact so closely related to overall diplomatic relationships that such close consultation is necessary and takes place on a day-to-day basis. All important communications from Washington to CINCUNC are cleared by an informal interagency committee consisting of representatives of the Department of State, FOA, the Department of Defense, and the Treasury Department. These agencies constitute what is known as the unified command, the word "unified" in this connection meaning the totality of the machinery of the executive branch of the United

States Government at Washington, to which the United Nations has delegated the responsibility for directing the U. N. Command in the field. Organizational arrangements on the Washington end appear to be working well at the present time, although there have been serious delays in some instances.

2. *United States Information Agency*

The United States Information Agency carries on a program in the Republic of Korea in the fields of information and cultural activities. It has begun no programs for the exchange of persons under the Smith-Mundt and Fulbright Programs, although Fulbright funds have been set aside for this purpose under an agreement signed with the ROK Government in 1950. FOA has undertaken a few exchanges of ROK technicians as part of its larger program for economic development.

The emphasis in the output of the United States Information Agency in the Republic of Korea has recently emphasized efforts to persuade the ROK Government and the ROK people that United States assistance is helping to establish a stable economy and to provide the defense support necessary to maintain sufficient ROK armed strength to repel or deter aggression and to preserve ROK independence.

3. *U. S. Eighth Army Program*

The program for Armed Forces assistance to Korea (AFAK) was begun by the United States Eighth Army in November 1953 after the cessation of hostilities. The objective of this program is to encourage and assist such ROK community projects as the construction and rehabilitation of schools and hospitals. These projects are sponsored by ROK-United States troop units. Supplies are financed by AFAK appropriations. Technical assistance is furnished by United States troops and labor is supplied by the local ROK communities or nearby ROK military units. This program amounted to $15 million during fiscal 1954, being financed by the transfer of funds from the United States Army's civil relief appropriations. It is estimated that the program will amount to approximately $5 million during fiscal 1955.

4. *Department of Agriculture*

The United States Department of Agriculture undertakes few activities in Korea and no agricultural official is presently assigned

to Seoul. However, agricultural reports are received from the United States Embassy's economic officer, Mr. Willard O. Brown, who is a trained agriculturist. It is anticipated that additional coverage will be given by agricultural personnel presently stationed in Japan. Several marketing specialists have visited the Republic of Korea for such purposes as reviewing livestock production, making recommendations on this subject to the ROK Government. Marketing specialists for grain and wheat have advised ROK Government officials how the production of grains and grain products might be increased and how agricultural extension services might be developed. Marketing specialists for rice have also visited the country to improve rice distribution and to help in solving other problems connected with this commodity.

5. *Department of Health, Education, and Welfare*

The activities of the Department of Health, Education, and Welfare in this area have been quite limited. The Office of Education has assisted in developing a program for vocational education, has sent a specialist overseas to advise ROK educators concerning this program, and has recruited the administrator for UNKRA's entire educational program. The Office of Vocational Rehabilitation is training a ROK specialist on a U. N. fellowship to rehabilitate disabled ROK nationals. The Social Security Administration has supplied technical information to the personnel of the 46 voluntary agencies which are engaged in humanitarian activities in the Republic of Korea, particularly in the fields of health, education, and welfare.

6. *Department of Labor*

The Department of Labor does not participate in this program overseas, and its stateside participation has been limited to making arrangements for the training of certain ROK industrial engineers during fiscal 1952.

Economic Aid for Fiscal 1926

Should the Tasca estimate be accurate, namely, that $1 billion in United States economic aid will be required for the Republic of Korea over a period of 4 or 5 years, future appropriation requests may be expected at somewhat the same rate as at present through fiscal 1958 or 1959. After that, the need might taper off. However, in the light of the present situation, it is permissible to entertain doubts regarding

the accuracy of the Tasca estimate. Much depends upon the manner in which the aid program is planned and managed.

The President is expected to request about $280 million for economic aid to the Republic of Korea for fiscal 1956. The ROK Government will reportedly have available about $100 million in foreign-exchange credits for programing in fiscal 1956. Should President Rhee succeed in pushing through his demand that United States counterpart be figured at the ratio of 180 hwan to the dollar, the effective level of United States economic aid funds would be substantially increased. It has been reported that President Rhee would be agreeable to receiving no new dollar aid if this rate were to be irrevocably established for both military and economic counterpart funds.

Military Assistance for Fiscal 1956

On the military side, it is probable that the United States will have to commit funds to support the ROK Armed Forces as long as they are maintained at the present level.

Present indications are that the President will request approximately $400 million for military assistance to the Republic of Korea in fiscal 1956, subdivided into $180 million for military end-items and $220 million for direct forces support.

Differences in ROK and United States Objectives

It is apparent that ROK objectives have not always coincided with those of the United States. The United States is aiming at the development of a viable ROK economy with a standard of living approximating that of 1949–50 and capable of supporting a military force adequate to deter external aggression except by a major power. The ROK objective, on the other hand, has been to achieve self-sufficiency on a competitive level with Japan. The ROK Government further rejects the standard of living of 1949–50 as a valid goal because Japan has progressed beyond that level and the Republic of Korea will not willingly accept a role subordinate to and dependent upon cooperation with its recent oppressor.

The Republic of Korea is jealous of its recently acquired sovereignty and regards the programing of its foreign exchange as a purely domestic matter. It resists the purchasing of aid goods from Japan, claiming that the ROK aid program would thus be diverted to assisting Japan. It desires United States aid but resents United States insistence on participation in programing the aid dollars. It desires to maintain the fiction of a permanent and unrealistic hwan-dollar rate of exchange for counterpart deposits and military hwan drawings.

Organizational Changes Planned by Executive Branch

It is reported that the executive branch is contemplating various organizational changes during fiscal 1956. Under current proposals, CINCUNC would reportedly continue to have overall responsibility, with economic affairs handled as at present under the staff supervision of the economic coordinator. It was originally anticipated that UNKRA would be phased out for lack of funds by the end of fiscal 1955 and its agent general was preparing a liquidation plan for the consideration of the U. N. General Assembly. However, sufficient funds have now been made available by the participating countries to insure its continued operation for at least part of fiscal 1956. In any event, it is planned that, if and when UNKRA is reduced or terminated, KCAC will take over its operations.

KCAC itself is scheduled for sharp cutbacks by the end of fiscal 1955 and its field organization is expected to shrink from 10 to 5 provincial teams by that time. It is further anticipated that, by the end of fiscal 1956, a United States civilian organization will be set up to absorb and carry on the functions presently administered by both UNKRA and KCAC. This new organization would presumably take over qualified American and perhaps even foreign personnel from these two predecessor agencies.

However, the proposed termination of KCAC has caused serious concern in many quarters because of the fear that sufficient qualified civilians could not be recruited under present hardship circumstances in the Republic of Korea to carry on KCAC's and UNKRA's activities with any measure of success and that, even if they are recruited, such a civilian organization could hardly provide the necessary logistical support for the administration of the economic aid program in the field. Serious consideration is therefore reportedly being given within the executive branch to modifying the proposed changes so as to continue KCAC in existence as long as the situation demands.

The executive branch is reportedly further proposing to have the funds for military assistance in fiscal 1956 placed in the MDAP portion of the budget instead of in the regular budget of the Department of Defense as heretofore. The Department of Defense is reportedly planning to transfer approximately $175 million from other available funds to finance military assistance until such time as MDAP deliveries can catch up, which is expected to take about 6 months. It is planned that future MDAP activities will be handled by the Military Assistance Advisory Group (MAAG) in the Republic of Korea, as in other countries. However, the MAAG at Seoul will come directly under CINCUNC rather than under the United States Ambassador, since supply in a theater of operations is properly a function of military command.

Finally, the executive branch reportedly plans that the $220 million to be requested for fiscal 1956 for direct forces support, consisting of such common-use items as rations and petroleum products for the ROK Armed Forces, will be administered by FOA or its successor. One objection to this proposal is that these common-use items are not intended for a standby military establishment but rather for combat forces in an active if not currently shooting theater of military operations. Although the military situation is now stabilized, hostilities could conceivably break out at any time without warning. Hence, some doubt has been expressed as to the wisdom of separating the supply activity even in part from the military chain of command.

Findings and Conclusions

1. Between 1945 and 1955 the ROK has received from the United States approximately $6.5 billion in military aid and $1.8 billion in economic assistance. Additional military and economic assistance in large amounts must be anticipated for several years.

2. It is highly doubtful that the Tasca estimate of $1 billion of economic assistance to the ROK over a 4- or 5-year period will be sufficient to bring about a viable economy.

3. FOA programing and procurement of economic aid leaves much to be desired. Undue emphasis seems to have been placed on political considerations in programing certain major projects. Funds for many projects were obligated toward the end of fiscal 1954 against general project agreements, rather than against final contracts based on specifications and definite cost estimates. The present procedure for the procurement of large amounts of grant aid commodities through private ROK trade channels has caused delays in purchase and delivery and inefficiency in distribution and has prevented adequate check against certain alleged irregularities.

4. The failure to arrive at a satisfactory agreement with the ROK Government regarding the exchange rate tends to prolong and accelerate the inflation and to vitiate the value of our economic assistance.

5. Much of direct forces support is in effect a form of direct budgetary support. Use of military-assistance funds for this purpose should be carefully reviewed to insure that it fits in with overall ROK requirements.

6. There is a difference in thought between the programers of economic aid regarding the relative importance to be given to industrial projects and consumer goods as a means of combating inflation. Some definite agreement should be reached on this point before the program goes much farther.

7. There is evidence that President Rhee regards a broad program of industrialization as the basic solution to the ROK problem. His views appear to include certain large industrial projects. There is real doubt as to the amount of industrialization the ROK could absorb and utilize efficiently within the next few years.

8. The administrative structure for the management of economic assistance to the ROK is complex, confusing and tortuous. That it has made possible even a limited result is a tribute to the ability of the economic coordinator, the Ambassador, the military commanders, and the Agent General of UNKRA to work together in harmony under very difficult conditions. A simpler and more direct method of administration seems essential to the future success of any program.

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