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Report to the President of the United States
from
The Committee to Strengthen
the Security of the Free World

THE SCOPE AND DISTRIBUTION OF
UNITED STATES MILITARY AND
ECONOMIC ASSISTANCE PROGRAMS

March 20, 1963

Department of State
Washington 25, D. C.

The Committee to Strengthen the Security of the Free World was created by the President of the United States on December 10, 1962, to advise the President, the Secretary of State, the Secretary of Defense, and the Administrator of the Agency for International Development on U.S. government foreign operations programs in the economic and military fields.

The members of the Committee are:

General Lucius D. Clay, Chairman
Robert B. Anderson
Eugene R. Black
Clifford Hardin
Robert A. Lovett
Edward S. Mason
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George Meany
Herman Phleger
Howard A. Rusk, M. D.

At the President's request, the first task of the Committee was to examine U.S. military and economic assistance programs to determine whether their scope and distribution was contributing to the optimum security of the United States and the economic and political stability in the free world. This report is the result of that examination.

The Executive Secretary of the Committee during the period of this study was William T. Dentzer, Jr.

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March 20, 1963

THE PRESIDENT

OF THE UNITED STATES

Dear Mr. President:

Three months ago, you asked this Committee to examine the scope and distribution of U.S. foreign military and economic assistance and to recommend any changes we believed desirable for its optimum contribution to strengthening the security of the United States and the free world. This report embodies our general views on how the foreign assistance programs should be conducted. Our views concerning specific countries have been discussed at length with the Administrator of the Agency for International Development. We have not included the Export-Import Bank or its lending activity within the scope of this study.

I. U.S. FOREIGN AID SINCE WORLD WAR II

At the end of the war, only the United States had the strength and resources to fill the power vacuum into which international Communism sought to move. To strengthen the free world, the U.S. then embarked upon an extensive foreign assistance effort which has lasted well over a decade. First, the special programs for Greece and Turkey, the Marshall Plan, and U.S. contributions through new international organizations were undertaken. This was followed by the establishment of Point IV's technical assistance operations, to help less developed countries build a basis for further development, and a military-economic program designed to increase the ability of nations bordering the Communist bloc to resist Russian or Chinese imperialism. More recently, the U.S. added capital loan assistance on generous terms and surplus agricultural commodities to its long-standing Export-Import Bank and technical assistance operations and embarked on a sustained program, including its participation in the Alliance for Progress, of economic aid to less developed countries.

Questions and Criticisms

Each of our Presidents since foreign aid began has repeatedly expressed his judgment that this assistance is essential to the national interests of the United States and to the curtailment of Communist efforts in all parts of the world. Criticisms of aid activity, its burden on the already heavily pressed taxpayer, and the prospect of its prolonged continuation, however, have raised questions concerning the nature and conduct of these programs. There has been a feeling that we are trying to do too much for too many too soon, that we are over-extended in resources and under-compensated in results, and that no end of foreign aid is either in sight or in mind.

There are aspects of these programs which justifiably concern or perplex our citizens. It is clear, for example, that economic and social growth can be achieved only if it is based on an internal expression of will and discipline, without which external aid is of little value. Yet, many of the countries which have received our aid have not fully performed their part of the assistance bargain with their own resources. Moreover, we have not adequately conditioned our aid in many cases on the achievement of such performance. Indeed, we may find ourselves, in effect, granting a number of continuing subsidies because it is argued that their denial would create instability and lose us good will.

It is obvious, also, that the process of economic development is a long one and will be limited at the outset by the absence of trained manpower and adequate local institutions. Moreover, their absence in turn limits the capacity of these countries to absorb aid effectively. The miracle of post-war recovery in Western Europe was made possible by the application of temporary aid to countries whose well-established economic, political and social systems and trained manpower could use it wisely. In the less developed nations, most of these conditions do not exist. Moreover, the rapidity of population growth in many areas increases the magnitude of the development problem and accentuates social unrest.

There is evidence the American public feels strongly, too, that other prospering industrialized nations, having recovered their economic strength since the war with our assistance, should assume much more of the foreign aid burden than they are now carrying.

There has been increasing concern as well over the contribution of foreign aid to the persistent deficits in our international balance of payments—twelve in the last thirteen years. These deficits have produced a sustained decline in our gold stock and a marked increase in foreign-owned dollar balances, with a resulting loss in our international liquidity. Upon international dollar convertibility at the existing gold parity rest the international payments mechanism which has evolved since the war, the economic health and prosperity of the U.S. and its friends, and our role of political, economic, and financial leadership in the free world. Our commitment to the convertibility of the dollar is essential to the accomplishment of the objectives we properly seek abroad, including those of our foreign assistance programs.

There are other factors which trouble our citizens as well. While there is some awareness of the competence, dedication, and even gallantry on the part of many in the assistance programs, they believe that the quality of many others has not been adequate. They know also that the volume of aid and number of aid-giving sources in the free world have increased substantially and that the number of sources has created

difficult problems of effective coordination. They are concerned, too, that we have aided countries which are unaligned with us or even in opposition to us.

Recent Progress

Certainly the Agency for International Development (AID) is now aware of the criticisms directed against our foreign aid programs. The Act for International Development of 1961 is a good one. The consolidation of aid agencies, improvement in personnel, reduction in marginal activities, better analysis of development requirements, and increased insistence on self-help pursuant to the Act have been steps forward, as has the shifting of aid from a subsidy to loan basis in several countries and the establishment of target dates for terminating aid in others. Amendments to the Act in 1962 also have been helpful, especially the Hickenlooper Amendment, requiring suspension of aid to countries expropriating privately-owned U.S. property without adequate compensation, and the provision banning aid to Communist countries except in extraordinary circumstances.

The harmful effect on our international accounts also has been mitigated by tying U.S. economic aid to procurement in this country, a step which was necessary despite its undesirability as a general and continuing practice. This tying of aid has become increasingly effective to the point where, from a figure of fifty per cent of expenditures in 1962, less than 20 per cent of U.S. aid commitments in fiscal year 1964 is expected to add to a negative balance. It is estimated that this balance will have been cut in half, from about \$1.2 billion in 1960 to \$500-600 million for 1964, while the direct financing of U.S. exports of goods and services in the same period will have tripled, going from \$600 million to about \$2 billion a year. Moreover, further efforts are being made to reduce this drain.

Also, more countries are becoming independent of U.S. aid through the successful combination of our assistance and their own internal efforts. Greece, Israel and the Republic of China are expected soon to reach the point where their external financial requirements can be met by conventional loans from the Export-Import Bank, the International Bank for Reconstruction and Development, and other sources. The Philippines, also, under its present vigorous leadership, is moving to a similar position.

II. PRESENT STATUS AND FUTURE GUIDELINES

Even with due consideration for improvements, however, much remains to be accomplished. While we are concerned with the total cost of aid, we are concerned even more with whether its volume is justified

and whether we and the countries receiving it are getting our money's worth. We believe that we are indeed attempting too much for too many and that a higher quality and reduced quantity of our diffuse aid effort in certain countries could accomplish more. We cannot believe that our national interest is served by indefinitely continuing commitments at the present rate to the 95 countries and territories which are now receiving our economic and/or military assistance. Substantial tightening up and sharpened objectives in terms of our national interests are necessary, based on a realistic look at past experience, present needs, and future probabilities.

There should be no doubt, however, of the great value of properly conceived and administered foreign aid programs to the national interest of the United States and of the contribution of the foreign assistance dollar in such programs to the service of our nation's security. We live in a world in which poverty, sickness, instability and turmoil are rife and where a relentless Communist imperialism manipulates this misery to subvert men and nations from freedom's cause. A foreign aid program is one instrument among many which we and other developed countries adequately can afford and vigorously must use in the defense and advancement of free world interests. It is our purpose in this report to point out how this essential program can be strengthened for this purpose, and our criticisms and proposals here should be viewed in the light of this objective.

There is ample evidence of the need for aid and that it can be successful under proper circumstances. While it may be argued that the cost of Marshall Plan assistance to the U.S. taxpayer was larger than necessary, it is clear that its provision made possible the rebuilding of a free world nucleus with the strength to withstand and forestall Communist pressure. Presently, there are many countries in the less developed areas which wish to be free of Communist domination but lack the political or economic strength to maintain their independence without help from more fortunate nations. If countries with a will to be free are to become or remain so and if their governments are to prove to their peoples that the democratic, non-Communist route to political and economic well-being is the better one, some form of external assistance to their internal efforts is necessary.

To examine the utility of our assistance programs objectively, one must bear in mind their basic purposes. In this year's programs, over \$1 billion was allotted for direct military assistance to countries on the bloc's periphery which are allied with us or each other in defense against Communist attack. These countries also received about \$700 million in economic aid to support their military effort and otherwise add to their stability and growth. These funds represent 44 per cent

of the total foreign assistance appropriation. If we add to this the military and economic support of Vietnam and Laos and of other border countries which wish to retain their independence, though not allied with us or with other countries in common defense, total expenditures for military support and accompanying economic aid in the border areas aggregate \$2.8 billion or 72 per cent of total appropriations. Dollar for dollar, these programs contribute more to the security of the free world than corresponding expenditures in our defense appropriations. If one adds to this sum our assistance under the Alliance for Progress, about 15 per cent of the total program, and our contributions to international organizations of which we are members, amounting to \$150 million, the total reaches 91 per cent of current foreign assistance appropriations. This does not mean, of course, that these programs are exempt from constant re-examination in the light of their necessity and effectiveness, but it indicates the major purposes which foreign assistance presently serves.

In asking whether we receive optimum value from our assistance programs, we must know what we seek and what it is we expect. We must not be disappointed if nations which receive our aid do not always agree with us. If our assistance strengthens the will and capacity of a country to remain independent and helps it move toward political and economic stability, our money will have been wisely spent. If our aid simply postpones the inevitable day of financial and national reckoning, then we have wasted our substance and helped the country not at all. It is for this reason that aid to countries which are avowedly neutral and sometimes critical of us may be in order, so long as their independence is genuine, their overall behavior responsible, and their use of their own resources prudent and purposeful.

We must be clear as well as to the kind of economic systems we attempt to foster and assist. Our aid should help create economic units which utilize not only limited government resources wisely but mobilize the great potential and range of private, individual efforts required for economic vitality and rapid growth. The broad encouragement of these efforts requires incentives, as Mr. Khrushchev recently has emphasized in seeking to improve his own economic system. However, there have been too many instances in which foreign economic aid has been given without regard to this fact and to the historic form, character, and interest of our own economic system. We believe the U.S. should not aid a foreign government in projects establishing government-owned industrial and commercial enterprises which compete with existing private endeavors. While we realize that in aiding foreign countries we cannot insist upon the establishment of our own economic system, despite its remarkable success and progress, we should not extend aid which is

inconsistent with our beliefs, democratic tradition, and knowledge of economic organization and consequences. Moreover, the observation of countless instances of politically-operated, heavily subsidized and carefully protected inefficient state enterprises in less developed countries makes us gravely doubt the value of such undertakings in the economic lives of these nations. Countries which would take this route should realize that while the U.S. will not intervene in their affairs to impose its own economic system, they too lack the right to intervene in our national pocketbook for aid to enterprises which only increase their costs of government and the foreign assistance burden they are asking us to carry.

The argument that aid should be given for "political" as well as "economic" reasons also must be carefully examined. The problem in extending aid lies in distinguishing between those judgments which are wise, encompassing as they do the full range of economic, political, and other factors in long-term perspective, and those which are unwise. Whether a country ought to receive aid from the U.S. is a question of our enlightened self-interest; however, the kind and basis of aid provided thereafter—except when paramount military security or other extraordinary circumstances are involved—are questions to be determined on economic grounds. Here, as in other instances, the U.S. must establish sound benchmarks for its own performance and stick to them, whatever the vagaries of ephemeral world opinion.

Some aid projects have come into being as gifts to prove our esteem for foreign heads of state, hastily-devised projects to prevent Soviet aid, gambles to maintain existing governments in power, leverage for political support, and similar reasons. While a certain amount of this is unavoidable, there have been too many exceptions to the rule. Insofar as others believe we accept promises in lieu of performance, respond to careful campaigns against our embassies, pay higher prices for base and other settlements if negotiations are long and unpleasant enough, and give unjustified aid in the hopes of precluding Soviet assistance in marginal cases, to that extent the firmness of U.S. negotiating positions loses credibility, our efforts to make aid more effective by getting local self-help are weakened, and U.S. Congressional and domestic backing for aid is undermined.

We seek not to create difficulties for our official representatives around the world, beset with responsibilities to maintain good relations and concurrently urge foreign governments to take difficult steps in the interest of a better but uncertain future. We wish only a better understanding of this problem by our official representatives and those who would judge and assist them.

We are convinced that the U.S. must take more risks for the purpose

of obtaining performance from foreign governments, be more willing to live with charges that it is insensitive to other countries' needs, and accept the consequences that in some countries there will be less friendly political climates.

III. FINDINGS

The conclusions of our examination embrace the nature of U.S. interests and programs in various areas of the world, general matters concerning the free world development assistance effort, and aspects of U.S. programs deserving special comment. We will consider them in that order.

The Border Areas

In examining our national interest in foreign military and economic assistance, the direct relationship to free world security is most evident in the defensive strengths of those nations which, in their contiguity to the Communist bloc, occupy the frontier of freedom. Many of these countries are our allies, and some belong to alliances with which we are associated. Several of these nations are carrying defense burdens far beyond their internal economic capacities. These countries are now receiving the major portion of U.S. foreign assistance but are also providing more than two million armed men ready, for the most part, for any emergency. While their armies are to some extent static unless general war develops, they add materially to free world strength so long as conventional military forces are required. Indeed, it might be better to reduce the resources of our own defense budget rather than to discontinue the support which makes their contribution possible.

This does not mean that the military assistance program in this area does not need present and continuing review. We are convinced that in several of these countries, indigenous forces are larger than required for their immediate mission of defense and not large enough to assume other missions. There, phased reductions of a very substantial order appear practical, after further careful examination, without unduly sacrificing immediate effectiveness. This would not only lessen the cost of military assistance but reduce related supporting economic assistance as well. Moreover, the amount of economic support for these military programs could be further reduced in at least one instance if long-delayed internal financial reforms were undertaken.

There are a few other border countries whose military forces presently are of value largely for internal security purposes. Even though they belong to alliances with which we are associated, we believe the present level of support to these forces, particularly with sophisticated weapons, cannot be considered as essential to the security of the free world. In

these countries, which have substantial resources of their own, significant reductions of military and economic assistance are in order.

In addition there are other countries in this border area, particularly in southeastern and western Asia, to which we provide economic assistance and, in some cases, military equipment, though they are neither allies nor members of alliances with which we are associated. We believe most of this military assistance is not essential to our own or free world security, and we cannot recommend continued supply of this equipment. Also, economic assistance provided to some of these countries on the basis of past agreements is beyond that necessary for our interests. While firm commitments to these countries should be honored, economic aid should be phased down in some cases and phased out in others.

In our consideration of border countries, we have not attempted to analyze the substantial cost of our efforts in Laos and Vietnam, since the nature of present U.S. commitments there precludes useful examination by this Committee. While we recognize that the foreign aid program must be flexible in view of rapid changes in today's world, it was not designed for combat zones; we suggest consideration be given to making provision for such areas other than in our foreign aid program.

In any review of front line countries, special attention must be given to India, even though it is not an ally. We have provided economic assistance to India for some time, most of it as part of a multilateral undertaking which obtains aid from other sources. Recently, we have agreed to extend military assistance on a parity with similar aid from the United Kingdom and other Commonwealth countries. The importance of this program frequently has been misunderstood in view of past expressions of Indian foreign policy and certain aspects of its internal philosophy. India has recently proved, however, that it is determined to maintain its independence from Communist domination. Together with our ally, Pakistan, it is the only area of South Asia able to offset the Red Chinese colossus. Unless their freedom and economic growth continue, there can never be a balance of power in Asia and our own involvement in this area could be indefinite and infinitely more costly. Thus, we believe that in the interest of our own and free world security, economic and military assistance to India, as well as to Pakistan, must continue under present circumstances. However, it would be difficult to justify continued economic assistance at present rates unless other free world countries continue and extend their support on terms comparable to our own.

We cannot leave this area of the world without special reference also to Indonesia. Because of its population, resources and geographic position, it is of special concern to the free world. However, we do not see how external assistance can be granted to this nation by free world

countries unless it puts its internal house in order, provides fair treatment to foreign creditors and enterprises, and refrains from international adventures. If it follows this path, as we hope it will, it deserves the support of free world aid sources.

On the western end of the bloc periphery, Greece and Turkey are moving toward increased security and well-being. Both of these important nations, however, are still in need of military assistance and economic support, and Turkey will require both forms of assistance for some time to come. We believe that other NATO members should increase their contributions to these countries to the point where they bear a proportionate share of the burden and that the proportion of our own assistance should be reduced accordingly. Elsewhere in Europe, there is no apparent need for further military or economic assistance other than for the fulfillment of existing commitments.

Africa

As we consider the African nations, immediate security interests are less evident than in countries adjacent to the Communist bloc. The U.S. does have a stake in helping to create a climate of stability and growth in freedom, however, and the Communists have already displayed their interest and subversive potential in this area. Also, the new countries of Africa in most cases have maintained close ties with the former metropolises without impairment of their full independence, and the latter in turn have displayed considerable willingness to help meet the assistance needs of these young nations. The Committee regards Africa as an area where the Western European countries should logically bear most of the necessary aid burden. In fact, this is proving to be the case. Almost all nations formerly under French aegis are now receiving heavy French assistance, largely in grants. We welcome this present arrangement, based on past relationship, and trust it will continue. Similarly, the new nations formerly under British rule should look largely to the United Kingdom for economic assistance, and we hope that this experienced nation will continue to provide it. The new Overseas Development Fund of the European Economic Community also should prove a major source of help.

It can always be said that in fragile, new, developing countries, the United States must provide aid lest they accept it from Communist nations with resulting political penetration and eventual subversion. We cannot accept this view. We believe these new countries value their independence and do not wish to acquire a new master in place of the old one; there already have been instances on the continent to corroborate this belief. While our aid programs in this area are generally new, experience has shown they tend to increase. In the light of its other

responsibilities, the United States cannot undertake to support all of the African countries, especially when their ties with other free world nations are largely elsewhere.

In the northern and northeastern area of the African continent, with the exception of surplus agricultural commodities, most of our assistance has gone to countries in which we have military bases. In general, future economic aid to countries in this area should either be curtailed as existing commitments are fulfilled or substantially reduced, except for technical assistance—the primary present need—and PL 480 shipments of agricultural commodities. Beyond this, further direct aid should be limited to loans for particular projects with economic justification and on terms appropriate to the financial abilities of the countries concerned.

Elsewhere in Africa, our economic assistance programs should be similarly limited. We should fulfill specific programs in Nigeria and Tanganyika to which we are committed, as with Tunisia in North Africa. As these commitments are completed, further U.S. aid should be confined to participation in multilaterally-supported programs.

With regard generally to U.S. military assistance to African countries, we must bear in mind that the chief burden of helping these nations to enhance their internal security capabilities again falls logically on the former metropolises, with which most of these countries have retained police and military relationships. In some cases, small-scale and supplementary U.S. training programs and internal security assistance may be justified, and limited activity in a few countries where we maintain bases is in order. Small programs and missions should be terminated elsewhere. We believe the problems created by military assistance programs in the African countries generally would be greater than those they would forestall or resolve.

The Congo merits particular mention. While recognizing that the U.S. has encouraged the United Nations to assume great responsibilities there, we believe the U.S. also has contributed proportionately more than its share to the task assumed. We believe the U.S. should attempt to maximize the economic assistance of other nations to the Congo and that its own contribution should be not more than half the total economic aid provided for the next few years, after which external assistance beyond conventional means could be discontinued to this potentially rich country. We believe also that military aid and expenditures should be reduced as rapidly as possible, consistent with and designed to improve the internal security problem which now exists.

Latin America and the Alliance for Progress

Because of the unusual importance of and difficulties in this area, the Committee has given it special attention.

The Alliance for Progress—predicated on a joint endeavor to achieve for the Latin American peoples economic progress and social justice with free institutions and political liberty—was born in the face of a formidable inheritance. Political and economic instability, habits of government, and social rigidity in Latin America, ambivalent emotions toward U.S. power and influence in the hemisphere, deteriorating Latin American terms of trade, vacuums of political leadership and technical skill, the absence of U.S. and Latin American institutional structures adequate to deal with these problems, and increasing Communist efforts to exploit them—these and other conditions combined to argue for both the urgent necessity and short-term impossibility of the Alliance.

Our offer of a multilateral Alliance and our performance subsequent to that offer should have proved the strength of our commitment to this program. Latin American understanding of and willingness to fulfill the undertakings of leadership, self-help, and self-discipline agreed to in the Punta del Este charter, however, with notable exceptions have yet to be proved.

Now that the first and organizational phase of this complex enterprise is completed, we believe the U.S. should increase its efforts to achieve greater Latin American performances beyond promises under the charter. This insistence on national economic and social performance, notwithstanding the internal and international political problems involved, is necessary, both because of and despite the primary importance of this area to the U.S. The U.S. and Latin America cannot allow another Castroite-Communist Cuba to come into existence. And while adequate and timely U.S. aid is necessary to reduce the political, economic, and social instability which could lead to such an end, as always it can be no more than a catalytic agent to supplement the attitudes and actions of indigenous governments and societies. No matter what the amount of outside assistance, nothing will avail to promote rapid progress if Latin American leaders do not stimulate the will for development, mobilize internal savings, encourage the massive flow of private investment, and promote other economic, social, and administrative changes.

With this in mind, the Committee believes the following in order:

1. The U.S. should continue to make unmistakably clear that the Alliance for Progress is a long-term venture of extraordinary complexity and scope, demanding a decade or more of sustained effort by all involved to attain truly significant results. Accordingly, the U.S. will not accept empty praise or unjustified criticism of the Alliance as substitutes for Latin American performance. Also, the American public should cease to judge the Alliance on whether it has accomplished in two years what must take much longer. Indeed, care must be taken even now to assure that U.S. assistance does not exceed amounts that can be

usefully absorbed without encouraging even less effort and discipline on the part of government to the south. It should be recognized that demand for rapid results could lead to expenditures which would ultimately defeat their purpose.

2. While the Alliance has spurred some progress in Latin American willingness and ability to make necessary changes, the U.S. and hemispheric organs of the Alliance should make even more clear to the governments and publics of the hemisphere that they are serious about self-help, fiscal reform, and other changes. The U.S. should indicate it expects the achievement of certain attainable goals over the next few years, with continued assistance meanwhile conditioned on reasonable progress toward that end. In doing so, we must recognize there are various reasons for non-performance by Latin governments apart from their unwillingness, including legislative resistance, opposition from powerful private interests, shortages of able civil servants and technicians, and the absence of certain institutions. While we should not seek quickly what we have no right to expect, there are certain vital fields where improvements can and must take place; without them, Latin America has no hope for real progress and no claim to external assistance.

3. The U.S. should be increasingly more specific on the self-help and reforms it seeks and do so on a country by country basis. At the top of such a list are the goals of monetary stability, sound financial and social budgeting, reductions and eventual elimination of subsidies to government enterprises, tax systems and administration which contemplate raising local revenue levels, stimulating private local and foreign investment and distributing the tax burden more fairly, and measures for the better utilization of land designed to increase agricultural productivity and credit, expand and diversify agricultural exports, encourage rural development, and increase income on the lower levels of society.

4. Assistance should be concentrated heavily on those countries which undertake to meet the principles established in the charter of Punta del Este.

5. We must continue to assume leadership with Latin Americans in stimulating the offering of incentives to the private sector which are required if Latin development goals are to be attained. Impediments to the growth of private enterprise must be identified and treated, the shallowness and harm of doctrinaire biases against responsible private enterprise exposed, new sources of credit opened to medium and small Latin American businessmen, and foreign investment encouraged in the confidence that all governments now have means to protect themselves against potential abuses. Agitation for the expropriation of foreign enterprises and for nationalization of private productive ventures is hardly conducive to the mobilization of private local and foreign capital invest-

ment and is destructive to rapid economic progress. Latin America must be encouraged to see its essential choice between totalitarian, inefficient, state-controlled economies and societies on the one hand and an economically and politically freer system on the other, realizing that a society must begin to accumulate wealth before it can provide an improved standard of living for its members. We believe the increasing acknowledgement that proper incentives to the private sector are required for dynamic growth must be accompanied by sustained U.S. and Latin American efforts and decisions at all levels of government policy and action. With such a basis, a more progressive Latin private enterprise spirit, substantial foreign investment which receives no more and no less than fair treatment, and other Alliance aid, the development of Latin America would be assured.

6. While the U.S. must employ the judicious withholding of funds as well as their timely award to encourage necessary internal reform, neither granting nor withholding funds is of value if incapacity and not unwillingness is the source of the problem. What is needed in such instances is an internal effort to build new institutions and external provision of the technical advice and backing needed in connection with these changes. It will take an extraordinary mobilization of U.S. and other talent to make such external advice sufficiently broad and incisive to be effective in the near future.

7. Normally, the financing of most local costs of economic and social development are borne by the recipient country, as external assistance is provided in the form of foreign exchange. Thus far, this has not been the case with the Alliance for Progress. We do not believe the U.S. should continue to finance such costs directly or through the Inter-American Development Bank except in countries which are moving to mobilize their own resources for this purpose and to build the local institutions and procedures necessary to channel them into productive investment. Even there, this interim assistance while the mobilization of funds takes place should not be provided in amounts which deter Latin American governments from raising their own potentially ample funds and should be terminated in countries where it has this effect.

8. The U.S. should continue and expand its efforts to assist the freer trade and economic integration of this region, with special note of the importance of wide and non-discriminatory Latin American access to the Common Market and to the economic development and increased human well-being which would be stimulated by a free Latin American economic community.

9. Finally, we would stress the importance of Latin American governments consulting with and enlisting in the pursuit of their develop-

ment programs the support of industrial, financial, labor, cooperatives, and other leaders who believe in the goals of the Alliance.

With regard to U.S. military assistance programs in Latin America, training, civic action programs, internal security assistance where necessary, and military equipment of a small arms or communications nature should be continued and the remaining activity eliminated. Latin American military forces are not required for hemispheric defense in the event of external attack, and U.S. supply of modern, sophisticated equipment in response to the pressures of local military prestige contributes to dangers which outweigh whatever temporary value they may be designed to serve.

Sharing the Assistance Effort

One must begin by giving due credit to the revived nations of Western Europe and Japan, as well as Canada, for taking up an increasing share of the burden of economic assistance to the less developed countries. Bilateral economic assistance from the governments of these nations rose from about \$1 billion in 1956 to \$2 billion in 1961. It is estimated that the comparable figure for 1962 is \$2.1 billion and for 1963 will be \$2.5 billion. While increasingly substantial sums have become available from these countries, only France is spending on as generally favorable terms as we are. With the exception of France, assistance from other free nations has to a substantial extent been in the form of hard loans to finance exports from the lending countries. Moreover, their aid includes obligations under reparations agreements and assistance to dependent overseas territories for which they are responsible.

We are convinced that the burden of sustaining foreign assistance to the less-developed countries is falling unfairly upon the U.S. and that the industrialized countries can and should do more than they are now doing. The present inequity is even more apparent when one adds defense expenditures to economic assistance to determine the national shares in the total expense of protecting and advancing the free world's well-being. This matter is of even greater concern when one considers the negative U.S. balance of payments.

The U.S. has been working on this problem for several years. The Development Assistance Committee of the Organization for Economic Cooperation and Development also has been striving for improved performance by the governments concerned and should be encouraged in its efforts. In addition, however, this matter should be the subject of systematic U.S. representation at the highest levels of government. Among our specific aims should be for Italy, despite her special problems, to allocate budgetary funds for aid, expand volume and liberalize terms, Canada to raise the volume of aid, the United Kingdom to lower interest

rates and increase the volume of its aid to independent, developing countries, Germany to raise its volume and soften terms, France to soften its aid terms outside of Africa, and Japan to soften its terms.

The importance of improving loan terms—including maturities, interest rates, and grace periods—is particularly apparent in the case of those nations undertaking comprehensive development programs. Unless the lending terms of other countries improve greatly and approach U.S. terms, international consortia and coordinating groups for such countries as India, Pakistan, Turkey, and Nigeria will saddle these countries with impossible debt-service requirements and U.S. funds would pay for these short-term and short-sighted debts. In this connection, we would note our belief that the International Bank for Reconstruction and Development and the Organization for Economic Coordination and Development should establish minimum terms for loans eligible to be considered as part of their consortia and other collective arrangements.

Other developed countries cannot, in a realistic world, be expected to assume their proper proportions of the assistance effort so long as we are apparently willing to bear more than our fair share. The U.S. should make clear its views to aid-giving and aid-receiving countries, since both have a role to play in its improvement. The U.S., other aid-providing countries, and the respective aid-receiving countries concerned should seek some understanding on the latter's borrowing patterns as developing nations. This is especially important for those countries which would utilize soft-term U.S. loans for repaying continuing hard-term loans from other sources. Also, developing countries must refrain from accepting inappropriate terms of aid and actively seek better terms from their various lenders.

Multilateral Aid

The importance of increasing the amount and improving the nature of aid provided for developing countries leads directly to the subject of multilateral assistance from the free countries.

We believe that both multilateral and bilateral assistance programs will have important roles in the foreseeable future. We also believe that the interests both of the United States and of the developing nations will be best served by the gradual shifting to effective international administration, free of the complications arising from membership of the Soviet Bloc, of as large a share of the responsibility for developmental investment as the cooperation of other free world aid-giving nations makes possible.

A multilateral organization, having no political or commercial interests of its own to serve, is able to concentrate on obtaining the greatest possible return, in terms of economic and social development, for each dol-

lar of aid funds invested. It is also better able to limit its assistance to projects which are soundly conceived and executed and to condition the financing of such projects upon appropriate economic performance by the recipient country. Moreover, conditions imposed by an international, cooperative organization are not so susceptible to the charge that they infringe on the sovereignty of the recipient country; even if they offend national sensitivities, they do less damage to the fragile fabric of comity among nations than when such resentment is directed against a single country. Also, to the extent that international administration integrates funds contributed by a number of countries, it avoids the difficult problems of coordination which arise when aid is provided by many independent sources.

International administration of development assistance, of course, will realize the advantages cited only if it is effectively organized. In this connection, we would point out that the International Development Association (IDA), an affiliate of the International Bank for Reconstruction and Development, is a ready-made instrument to accomplish these purposes. To the extent that the U.S. and its partners can agree to increase the use of IDA as a common channel for aid funds, we will have achieved many of our common objectives—a fairer sharing of the burden and the effective and coordinated use of the assistance provided on terms both appropriate to the needs of the recipient countries and impartial as among the commercial interests of the contributing nations.

Country Planning

There is a difference between sound, forward-looking national budgeting in economic and social terms on the one hand and theoretical long-term national development planning as it is often encountered. Extrapolations of mathematical models based on questionable statistics for debatable base periods seem to have a way of going wrong, even when it is possible to find economists who agree with each other. Furthermore, these long-term projections have been of little or doubtful value and frequently have proved harmful by directing attention to the theory of economic development at the expense of its practical implementation. Sound governmental planning consists of establishing intelligent priorities for the public investment program and formulating a sensible and consistent set of public policies to encourage growth in the private sector. U.S. governmental officials and programs should strive for such utility and realism in the development planning they support and in which they cooperate.

U.S. Contributions to United Nations Assistance Agencies

U.S. contributions to the budgets of these organizations should not exceed our proportionate share of our regular U.N. assessment. Excep-

tions should be limited to contributions designed to increase the totals of these budgets proportionately and should be discontinued promptly if they fail in this purpose.

Technical Assistance

The most serious obstacle to growth in many less developed countries is the inability of their people to effectively utilize the resources at their disposal. Technical assistance should be directed primarily at the removal of these obstacles and is the major means by which external aid can help develop leadership and technological skills—essential preconditions for development—where they do not now exist. In many ways as well, our technical assistance programs are the most direct evidence to the people of other countries of our intent to help them advance. These programs need to be of high quality. Also, they should be undertaken only if deemed of sufficient value to be accepted and continued by the recipient country out of its own resources within a reasonable period of time. Such programs should be of specific and limited duration, fixed as they are started and scheduled for completion or turn-over to the recipient country. Three years may be an average period for such programs, and seven years would seem the maximum.

There is no doubt of our desire to help developing countries with what they essentially need and can absorb in the form of such assistance. The major limitations upon this are not financial but, instead, those which restrict their ability to utilize it well and which relate to the quality of the personnel at both ends of this process. Experience makes us doubt AID's ability to mobilize the high-quality manpower necessary to implement well and supervise properly all of the current technical assistance programs amounting to approximately \$380 million annually. We recommend that new program starts be sharply limited until the present total program review is completed in the light of developmental priorities for the various countries and of actual project operating effectiveness. We believe there are savings which can be made by a careful review of this nature concerning projects in a number of countries and of the technical staffs which implement them. This review and an earnest effort to assure future performance of high quality should limit the technical assistance program until and unless it can be demonstrated that an expanded, high-quality program can be placed in operation.

In this connection, we have noted certain resources whose potential has not been adequately tapped or in all cases adequately offered in the uniform high quality of personnel required. We believe that our nation's universities, particularly the land grant colleges as institutions created for development, possess talent and experience whose adaption should make possible a unique and greater contribution in several fields than is presently the case.

Loan Terms

With the establishment of AID, development loan terms were almost uniformly softened to a standard rate of 40 years maturity with a $\frac{3}{4}$ per cent service charge and a ten year grace period. This was done in the light of actual capacity of developing countries to service foreign debt and as a matter of U.S. national policy to assist their development efforts. Some 86 per cent of AID loans have been on this basis.

We believe that loan terms should be determined on a more flexible basis after country by country analysis. This would result in somewhat harder terms in the case of some countries than those which AID previously has extended and the transfer of strictly hard-term loans to other agencies. Loans to countries with adequate debt-servicing capacities in the foreseeable future should be made on harder terms. Also, as foreign assistance made possible by U.S. and other funds becomes increasingly available on soft terms from multilateral sources, soft U.S. bilateral loans correspondingly should become somewhat less necessary.

U.S. Military Base Rights

The Committee has examined the economic and military assistance the U.S. provides to certain countries in exchange for bases. In many instances, the practical cost seems excessive, particularly where the bases provide both considerable dollar income from expenditures by our personnel and substantial local employment. Aid for such purposes should be viewed as defense costs, and no economic assistance should be provided as their consequence. Moreover, every effort should be made to reduce assistance to foreign countries in return for these rights, especially Spain and Portugal, which are already more than adequately compensated.

Military Assistance Programs (MAP) in Less Developed Areas

In addition to our remarks above concerning various areas, the Committee wishes to note its general view that only in extraordinary circumstances should the U.S. provide MAP aid, including military equipment of a small arms nature, where the principal quarrel of the recipient country is with a non-Communist neighbor with which the U.S. also maintains friendly relations.

The Private Sector

AID has shown increasing awareness of the vital role played by local and foreign private investment in the development processes, but fuller cognizance is required in conceiving, conditioning, and implementing its programs in various countries. What we have said on this subject above concerning the Alliance for Progress has world-wide application. Our conviction is based not on doctrine but on the practical realization that

it is the private sector, operating with the cooperation of a vital and democratic labor movement and enlightened management on the basis of essential government services and sensible policies, which will make the greatest contribution to rapid economic growth and overall development.

We endorse AID's activity in expanding investment guaranty agreements and increasing the volume of guaranties extended, now running annually at about \$500 million, and we note that further improvements are now under consideration. The investment guaranty program can and should be expanded, though the Committee has serious doubts as to the wisdom of guaranties against commercial risk, and we doubt the advisability of continuing aid to countries which refuse to enter into investment guaranty agreements.

The Food for Peace Program

This program is contributing materially to the development of the free world. We urge the expanded use of the "Cooley loan" provision and are pleased at increasing sales for soft term dollar repayment. The Committee would not approve, however, of food-for-work programs conducted on a basis enabling foreign governments to use our surplus food as full "wages" for work performed.

Organization of AID

We have not attempted to formulate recommendations in this area, though we are prepared to advise the AID Administrator on this subject as he may desire. We would recommend, however, reducing the number and nature of AID overseas missions to the type of representation required to implement the programs which would result from the adoption of our recommendations. The Committee also is of the view that regional offices, located in the field and in Washington, can serve large areas of Africa and, increasingly, areas of Central America and the Caribbean. Such consolidated offices should permit a grouping of talented officers and still provide necessary assistance to the countries concerned. Also, it is clear that the AID Administrator needs special, flexible, immediate and continuing authority to separate those employees whose performance is marginal or whose technical skills are not required under changing program requirements.

IV. FUTURE U.S. ASSISTANCE PROGRAMS

We are convinced that barring extraordinary developments, U.S. security interests will require maintaining our military assistance program for some years to come, though it should be reduced progressively as the economic capacities of recipient nations improve. We believe that in a few years, the basic need for such assistance can be served by an

annual appropriation of \$1 billion. It should be noted that the Department of Defense also contemplates the phased reduction of military assistance to this figure, though it believes it cannot be attained until fiscal year 1968. We believe further that the supporting assistance which supplements major military aid in several countries will continue to be necessary, though it should be possible to reduce this type of assistance in such cases sharply over a three year period.

For the present, however, we are convinced that reductions are in order in present military and economic assistance programs. Mindful of the risks inherent in using an axe to achieve quickly the changes recommended, the Committee recommends these reductions be phased over the next three years. This should permit the fulfillment of most past aid commitments and others which might be revised somewhat in the light of actions by the countries concerned. While dollar savings from these changes will be substantial, though not immediately great in relation to the total program, the changes wrought should permit aid to be more effective now and in the future.

The Committee recognizes that its recommendations to decrease or abolish aid in an number of countries and otherwise tighten standards will be difficult to implement and provoke charges that they are "politically impossible" in terms of good U.S. relations with countries concerned. The Committee recognizes as well that the political problems of pulling back from on-going aid programs are much greater than those created by U.S. refusals to extend aid where none previously has been given. Nonetheless, we believe these actions must be undertaken and can be effected by diligent diplomatic effort over a one to three-year period.

We hesitate to translate our recommendations into precise dollar terms. This would require in addition to our current examination, detailed review of programs now under consideration and judgments on the firmness of understandings arising from past negotiations with foreign governments. We have stated program criteria which affect the number of countries receiving aid and the nature of that assistance. AID informs us that if our criteria were now in effect, present programs would be reduced by approximately \$500 million, and there would be additional reductions in the following years as some of these programs were phased further down or out. We recognize the necessity of fulfilling present commitments which in some cases will delay the point when these criteria can be in full application and the existence of other commitments which could require increased funds in the future.

Beyond the period at hand, the future of economic assistance is not predictable. It depends on many factors, including the capacity of countries to absorb aid usefully, their pursuit of internal policies which

justify our external assistance, the pace at which sound multilateral institutions can increase their volume of activity, and the continued confidence of the free world in the stability of our economy. Once the objectives of the economic assistance program have been sharpened and operations improved, it will be easier to judge how much in the way of new resources should be provided yearly to facilitate the kind of economic growth in the developing countries which is in our national interest to support. In the long run, as more and more of the developing countries establish viable economies, there will be less need for extraordinary external assistance. As we approach this point, we can look for repayments of interest and principal on AID loans to provide an increasing share of the funds necessary for the economic assistance program. While repayments on AID loans in fiscal year 1964 will amount to only \$5 million, they will increase gradually thereafter. Moreover, there is approximately \$2 billion in outstanding dollar repayments of economic assistance loans from other sources, not including Export-Import Bank loans. The reappropriation of these repayments as well as those on AID loans could provide a revolving fund which could make possible a reduced appropriation of new resources needed yearly for the program.

In making our recommendations for present reductions, we recognize that future emergencies and unknown challenges are likely to arise. The President of the United States must have the flexibility to meet such contingencies, and nothing in this report should be construed to limit him from doing so as future circumstances require. It is for this reason that we strongly favor the provision of an ample Contingency Fund in the annual aid appropriation.

V. CONCLUSION

These, Mr. President, are our views and recommendations. We express to you our appreciation for the candor and cooperation of the officials of the agencies concerned who have helped in our examination, especially the new and vigorous Administrator of AID, whose attitude and ability has impressed us greatly.

In submitting this report, we hope to have been responsive to the concerns which moved you to create this Committee and to repose your confidence in us as members. The reductions recommended in current activities should not be construed as minimizing the importance in principle of foreign assistance. On the contrary, we believe these programs, properly conceived and implemented, to be essential to the security of our nation and necessary to the exercise of its world-wide responsibilities. If our recommendations are accepted, they should assist the programs in meeting these objectives.

Our examination of U.S. foreign assistance programs and consideration of them in this report has been based upon the sharp criterion of their value to the security of our country and of the free world. We would not express ourselves adequately, however, if we failed to note the further interests of our country and of our people in the purpose and effect of these programs. For this reason, we would point out that the need for development assistance and an U.S. interest in providing it would continue even if the cold war and all our outstanding political differences with the Communists were to be resolved tomorrow. This is so not merely because it is part of the American tradition to be concerned with the plight of those less fortunate than ourselves. This is so not merely because it is in our national self-interest to assure expanding markets for our production and reliable sources of supply of necessary raw materials. It is because the people of the United States hope to see a world which is prosperous and at peace that we believe those nations which are seriously striving to promote their own development should be helped by us and by our partners to create and maintain the conditions conducive to steady economic progress and improved social well-being within the framework of political freedom.

Respectfully submitted,
(signed)

Lucius D. Clay, Chairman
Robert B. Anderson
Eugene R. Black
Clifford Hardin
Robert A. Lovett
Edward S. Mason
L. F. McCollum
Herman Phleger
Howard A. Rusk, M.D.

DISSENTING STATEMENT

Mr. George Meany dissented from the report and submitted a separate statement.

Dear Mr. President:

I regret that it is necessary for me to dissent on the Report of the Committee to Strengthen the Security of the Free World. The report does not represent, in my opinion, an adequate contribution to the over-

all problem of free world security. Nor does it show real understanding of the nature of the basic struggle being waged between the forces of tyranny and freedom.

Moscow, Peiping and various other centers of International Communism are arrogantly attempting to intone the funeral oration of democracy in the free world. More important, capitalizing on social and economic stagnation, they probe everywhere for areas of weakness where they can penetrate and dominate. We should know this and we should accept the long-term costs of frustrating this enemy and reinforcing our own strength by supporting around us a community of resolute, prospering, free world societies.

The Agency for International Development and our Military Assistance Programs, wisely administered, are insurance against possible vast military expenditures and sacrifices of American lives, so great as to overshadow completely the cost of this insurance. I do not accept the view that we cannot afford to pay the full cost for these essential programs, nor, I am confident, do the people of the United States.

The many millions of dollars that are contributed each year by the American people to private voluntary agencies engaged in helping people all over the world amply testify their willingness to have our government continue full-scale foreign aid. AID and MAP programs demonstrate the enlightened self-interest and the traditional goodwill of the American people where expansion of human freedom and social justice are concerned.

You are fully aware, Mr. President, that I look upon foreign aid both as a responsible citizen and as a spokesman for American labor. The views that I have just expressed are shared, I am assured, by the vast majority of my fellow citizens. My colleagues in the American labor movement also share with me the special concern I have regarding AID and the Alliance for Progress not as business operations primarily, but rather as activities designed to promote economic and social well-being for entire populations of developing countries.

The report does not come to grips with this basic orientation. While paragraph 9 on page 13 of the Committee's report does stress "... the importance of Latin American governments consulting with and enlisting the support of industrial, financial, labor, cooperatives, and other leaders who believe in the goals of the Alliance in the pursuit of their development programs", it makes scant mention, however, of labor elsewhere and prefers to treat it, apparently, simply as manpower which requires some vague type of technical assistance.

There is no real Communist anywhere who does not know that free labor is a priority target for control. Czechoslovakia is a classic example

of Communist tactics applied against the labor movement for quick conquest. Let history help us shape the direction of our assistance programs and influence us to enlist the free labor movement as a partner in the programs AID is undertaking, a partner in progress. The report, I am sorry to say, does not mention these matters which are vital to the basic purpose of U.S. external assistance.

The report does not consider the adherence of recipient governments to the Conventions of the International Labor Organization relating to the rights of workers to freedom of association, and the organization of workers under conditions free from racial discrimination and forced labor devices. Certainly, if the worker is to bear the brunt of privation and the burden of nation-building—as in the case of developing countries—we cannot expect this vast sector to voluntarily enlist in our cause without rights, without freedom, without justice, without bread. If the case for private enterprise is valid—and we are convinced that it most certainly is—then the individual must also concurrently have his opportunities in the market as a selective job seeker and consumer. Yet the report discusses merely the building of additional institutions presumably to manage this type of problem.

The report's recommendations on future requirements serve no purpose other than to encourage reduction of AID resources to support present and future projects. The report gives no documented basis for proposed reductions. I think it is better to rely upon the President's presentation to the Congress and the exacting legislative process itself, rather than the report's arbitrary limitations to fix the financial requirements for support of programs serving the broadest long-term national interests of the United States. It is interesting to note in this connection that past Presidents of the United States have been subjected to and have overcome the advice of individuals whose view of the national interest was too narrow, whose approach was negative, and whose arguments taken out of context could be disastrously misused by both those within the country and abroad hostile to the clearly enunciated objectives of the President.

In view of the world situation, our country must assume responsibilities which fall upon those who are strong. I believe that your desire to strengthen the security of the free world and to promote the growth and consolidation of human freedom should have and, in fact, does have wide popular support. Our goals can be achieved only with greater popular support both in the United States and in the recipient countries. Popular support has never been enlisted by a backward and negativistic viewpoint.

Therefore, I recommend the following steps be taken to ensure the

successful completion of the world wide commitments undertaken or to be undertaken by AID as well as the Alliance for Progress:

1. AID funds should be substantially increased and geared to the increasing ability of AID personnel to implement a stepped-up program.
2. The United States should call for well prepared economic and social planning based on coordinated efforts by Latin American governments, labor and management.
3. Some projects should be conducted under the direct supervision and management of AID or Alliance for Progress authority, through its representatives and personnel, in cooperation with labor, management, and government in the recipient country.

In conclusion, I would like to recommend that AID establish a trade union department for the implementation of those recommendations hereinbefore mentioned. It is to be remembered that the predecessors of AID have all included this supervisory and administrative entity.

Respectfully submitted,

(signed)

George Meany

Albert H. Huntington, Jr.
6621 Gordon Avenue
Falls Church, Va. 22046

Monday P.M. 62
Nov. 14, 1983

Miss D. Helen Davidson
AID/PPC/E Office of Development
Information & Utilization
209 State Annex #18

Dear Helen:

Here is a fresh new copy of "The Clay Report," as we in A.I.D. always referred to it, or more formally "The Scope and Distribution of United States Military and Economic Assistance Programs," a Report to the President from The Committee to Strengthen the Security of the Free World, as issued on March 20, 1963, by the Department of State.

This is a major report on military and economic aid, prepared by a blue ribbon Presidential Committee chaired by General Lucius D. Clay. It should certainly be in your aid collection. If you already have a copy, you can use this in a second file.

Sincerely,

Albert H Huntington Jr.