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*Letter to the President of the United States*

*from*

*The President's Committee*

*To Study the United States Military Assistance Program*

*and the Committee's*

*Third Interim Report*

ICN 72259  
PNA 81425

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ECONOMIC ASSISTANCE  
PROGRAMS AND ADMINISTRATION

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708 Jackson Place NW.  
Washington 25, D.C.

July 13, 1959

A.I.D. HISTORICAL AND  
TECHNICAL REFERENCE  
ROOM 1858 NS

**Economic assistance programs and administration.**  
355 U.S. President's Committee to Study the  
U58 United States Military Assistance Program,  
Washington, D.C.  
Economic assistance programs and administration; letter to the President to the United States and third interim report. July 1959.  
71 p. illus.

1.Economic assistance, American. 2.Military assistance, American. I.Title. II.Draper Report.

# THE PRESIDENT'S COMMITTEE

## TO STUDY THE UNITED STATES MILITARY ASSISTANCE PROGRAM

708 JACKSON PLACE, NW.  
WASHINGTON 25, D.C.

JULY 13, 1959.

Dear Mr. President:

We submit to you herewith our third Interim Report, which deals with United States programs of economic assistance. This present study, in conjunction with our previous work on military assistance, will form a basis on which we can give you in our final report considered views on "the relative emphasis which should be given to military and economic programs, particularly in the less developed areas . . .," as you have asked us to do.

We believe that lasting world peace will ultimately depend to a large degree upon more widely distributed economic progress and increased recognition of the importance and dignity of the individual. We also believe that economic aid, so administered as to facilitate achievement of these objectives, is an essential and continuing foreign policy tool of the United States.

The increasing communist threat to the free world is an indivisible military-economic-political menace. Recently we have seen a new aspect of this threat: the effective use by communist dictators of military and economic aid programs as an aggressive means of advancing their plans to take over or subvert additional countries.

We have kept in mind in our studies your reference in the Budget Message to our Committee in connection with the need for reassessing the "interrelationships of military and economic assistance" and "consideration of the new Communist techniques in waging the cold war." In meeting the multiple threat posed by the activities of international communism, we must utilize as needed both economic and military assistance. These programs are neither alternatives nor competitors. Both are means of achieving related aspects of our total foreign policy objectives, and they are mutually complementary.

Military assistance helps to build essential military strength, but armed forces are dependent as well upon the people and the government of the country and upon a sound economic base, including roads, railroads, food,

fuel and power. Economic assistance can help to develop this base. On the other hand, sufficient military strength to provide a feeling of security is a first requisite for the order and confidence required in a country for economic development. This is the purpose of our military assistance.

The Committee believes that the substantial expenditures made by our Government in recent years for economic assistance are justified on grounds both of enlightened self-interest and of our moral responsibility to ourselves to do what we can to help other peoples realize their legitimate aspirations.

Our economic aid programs assist less developed nations in achieving economic progress within the free world. They thereby promote an international climate which facilitates the realization of our own national objectives and those of the free world and, at the same time, decrease the opportunities for communist political and economic domination.

But irrespective of the communist threat, the economic development of these nations is a desirable end in itself. The United States cannot prosper in isolation. The strength of our economy and the survival of our free institutions are dependent upon our being a part of a community of nations which is making acceptable economic and political progress.

We emphatically do not imply that we must continue all of our existing economic assistance programs indefinitely. Our resources though great are not unlimited, and our obligations are many. In deciding the best use of our resources, we must be more selective in choosing those countries and projects which will yield the greatest results in increasing free world strength.

For this reason, as in the case of the military aid program, we emphasize the need for continuous critical review of economic aid programs. This review should take into account the ability of the other industrialized nations of the free world to play an increasing role, and the ability of the less developed nations themselves to provide a greater share of the resources needed. It should lead to the elimination of any programs that do not contribute directly to our national interests and to free world progress. Without such selectivity in administration, these essential programs will not endure.

We also emphasize that the economic development of a country is primarily its own responsibility. Aid from the United States and other free world nations can be of great assistance, but it should not ordinarily be furnished and cannot achieve real results unless the recipient nation has the desire and determination to help itself.

In the early period after World War II, United States economic assistance programs were considered to be temporary measures to achieve specific objectives such as the relief and rehabilitation of war-ravaged countries. The Marshall Plan for European economic recovery had a terminal date and came to an end in less than four years with its purposes successfully accomplished.

Today, however, we must recognize that many forms of United States economic assistance must continue for as long as the communist threat exists, and certainly until greater economic progress has been made in underdeveloped nations.

The increase in the number and types of aid programs and participating agencies has greatly complicated the problems of planning and administration. Not only must various forms of United States aid be applied effectively in a particular country, but our contributions must be closely related to the efforts of the country itself. Actions and contributions by other free world nations, by international agencies, and by private enterprise must also be taken into account. Management of our aid activities has become an extraordinarily difficult administrative undertaking.

Our Committee is aware of the charges of waste and maladministration made in connection with our economic aid programs. While we believe that the administration and coordination of these programs has improved in recent years, there is no question but that some of these criticisms are justified. However, the conclusion we reach is that the programs must be continued and better administered, not emasculated or abandoned.

Our report, which is submitted herewith, is in two parts. The first deals with the substantive aspects of our economic assistance programs, and the second with their administration. Our principal substantive recommendations are:

Starting in Fiscal Year 1961, funds should be made available for development lending under the Mutual Security Program at the rate of at least \$1 billion a year. The amount requested for Fiscal Year 1960 should be provided.

A continuing authorization and longer range funding should be provided for the Development Loan Fund.

A continuing authorization should be provided for Technical Assistance.

Necessary legislative and administrative steps should be taken to assure that available surplus agricultural commodities are utilized more effectively, extensively and flexibly than at present, in support of our Mutual Security Program objectives.

Funds should be made available for Defense Support and Special Assistance in the amounts requested for Fiscal Year 1960. The United States should continue this needed grant assistance in support of necessary allied forces and other national objectives, subject to such reductions and eliminations as may become possible by (1) substitution of development loans and surplus agricultural products where practicable, and (2) changes in military or economic conditions in recipient countries. Greater efforts should be made to encourage such countries to stimulate their own exports in order to reduce the need for grant assistance.

Necessary legislative and administrative steps, including greater em-

phasis on the use of tax incentives and guaranties of private investments overseas, should be taken to stimulate increased participation by private enterprise, capital and management in foreign economic development in the less developed countries.

United States aid programs should place greater emphasis on the predominant responsibility of the countries being aided to take constructive steps to solve their own problems. Reasonable self-help efforts should ordinarily be a condition of United States assistance.

The United States should increase its emphasis on a multilateral approach to development assistance and specifically should support the proposed International Development Association.

In order to meet more effectively the problems of economic development, the United States should, when requested by nations to which it is furnishing economic development assistance, assist them in formulating programs designed to deal with the problem of rapid population growth, and should support research leading to better understanding of this problem.

The second part of our report deals with the organization and administration of economic assistance programs. Our Committee believes that the central weakness in the present organization is that existing arrangements do not provide adequate means for planning, coordinating and carrying out the various forms of assistance as integrated country programs under the foreign policy direction of the Department of State. This weakness has been compounded as additional departments and agencies have become active in the foreign field.

Our principal recommendations on organization and administration are:

A single agency should be made responsible for administering the major related economic assistance programs and activities now scattered among a number of departments and agencies in Washington.

The Executive Branch should put into effect the policies and procedures for long range planning of economic assistance set forth in the report.

The personnel needs of the long range program of the proposed agency should be met by appointing an outstanding individual, acceptable to the Secretary of State, to head the agency; by providing the agency with its own personnel system, including a career service tailored to its needs; and by the other steps set forth in the report.

There should be more effective decentralization of responsibilities for economic assistance plans and programs to the Ambassadors and the Economic Mission Chiefs, with improved policy direction and other supporting arrangements to make such decentralization effective.

The functioning of the foreign policy direction and coordination of economic assistance programs by the Department of State should be strengthened, while clear responsibility for operations should be given to the single agency.

The operating agency might be placed as a semi-autonomous unit within the Department of State, or it could be located outside the Department. For the reasons set forth in the report, the Committee definitely favors the latter course.

Paralleling our conclusions concerning military assistance, we believe that an effective working relationship between the Department of State and the operating agency, wherever it is located, will require restraint by the Department against becoming involved in the details of operations, a willing acceptance by the proposed operating agency of competent and timely foreign policy direction. It will also require the development in the Department of a thoroughgoing capacity to provide this direction, and the establishment of a workable system through which proper execution of plans and adequate opportunity to effect necessary changes in programs are assured. The central role in such a system of meaningful and effective foreign policy direction, utilized on behalf of the President and the Secretary of State, must be that of the Department of State.

In our judgment, adoption of the recommendations contained in the accompanying report, the more important of which are summarized above, should increase substantially the effectiveness of the economic assistance programs.

Respectfully submitted,

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THE PRESIDENT  
The White House  
Washington 25, D.C.

*Third Interim Report*  
*Submitted to the*  
*President of the United States*  
*by*  
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*To Study the United States Military Assistance Program*

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ECONOMIC ASSISTANCE  
PROGRAMS AND ADMINISTRATION

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## Part One

### PROGRAMS

#### I. Objectives of Economic Assistance

United States programs of economic assistance serve three major objectives of foreign policy: they promote economic development in less developed countries, they provide needed economic support to military allies, and they contribute to the solution of a variety of special political and economic problems.

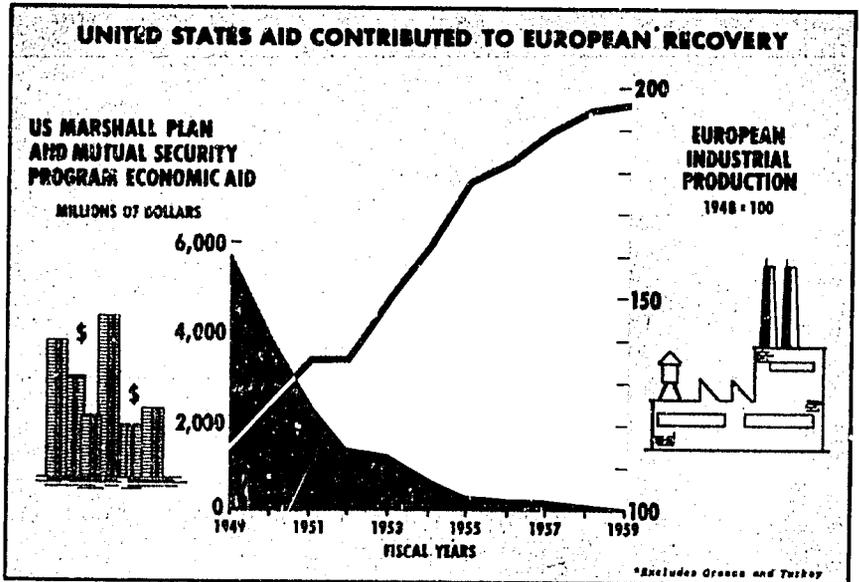
##### A. Promotion of Economic Development

The free world consists of less than half a billion people who live in relatively well developed and industrialized countries and more than a billion who live in less developed countries. The developed countries, which have made great economic progress over the past decade, are generally characterized by high per capita income and capital investment, efficient production, advanced research and development, highly organized financial and service industries, and social structure and governmental policies conducive to stability and further growth.

By contrast, the underdeveloped countries, many of which attained independence during this period, are finding it difficult to improve their traditionally weak economic positions. As a result there is a growing dissatisfaction in a large part of the world. These conditions constitute both a threat and a challenge to every nation of the free world—to us, to the other developed countries, and especially to the underdeveloped countries themselves, where the explosive situation created by these conditions exists. The degree to which all of us rise to this challenge may well determine our fate in this century.

The world is now entering upon a materially different situation as to distribution of economic strength compared with that existing in the first decade following World War II. During that decade our country was almost the Atlas of the free world in being the one source from which other countries could obtain assistance. Through the Marshall Plan for Western Europe and other aid programs, the United States contributed greatly to the efforts of many nations, ravaged by war, for their rehabilitation and economic recovery. Now a large part of the industrialized Western world and Japan are making rapid economic progress.

The United States and the other developed nations of the free world cannot, however, continue to enjoy their present rate of economic growth and prosperity in isolation. As an example: the United States is already



*U.S. economic assistance in Europe dealt with the problem of stimulating the recovery of a war-devastated industrialized area. The economic development of the less developed areas is a different problem. It is a longer term process and similar accomplishments in such a short period of time cannot be anticipated.*

Figure 1

dependent on foreign sources for more than 80 per cent of eleven important raw materials (nickel, platinum, antimony, bauxite, natural rubber, tin, chrome, industrial diamonds, manganese, cobalt and abaca) and to a lesser extent for numerous others; and this dependence will increase in the years to come. At the same time, normal export markets account for one-sixth to one-third of total markets for four of our important agricultural products (cotton, rice, wheat and tobacco), and are highly significant for many industrial products.

Our future prosperity will increasingly depend on such markets. The free nations of Europe and Japan are dependent to an even greater degree upon the raw materials and markets of the underdeveloped countries. We need the rest of the free world as it needs us.

The recent internal economic achievements of Russia, and more especially those reported by Communist China, have brought the problem of the underdeveloped countries sharply into focus. China and Russia are pursuing a totalitarian and brutal method of achieving rapid economic growth, at a tragically high cost in human life and in loss of freedom. Since this cost is

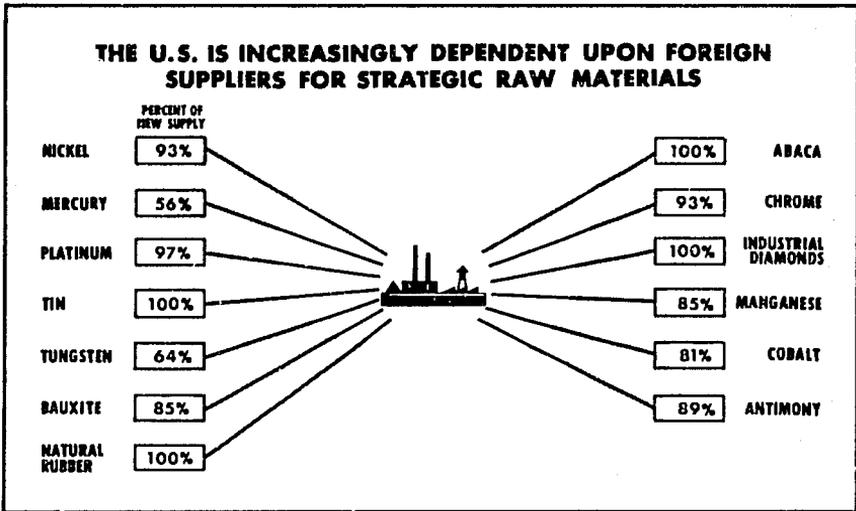


Figure 2

generally not clearly understood, the communist system seems to offer to many an alternative to the present slower rate of economic progress in the underdeveloped countries of the free world.

In the underdeveloped countries there is urgent need to move toward the achievement of a more acceptable rate of economic progress in order to decrease the possibility of communist political and economic domination. Surrender of any significant segment of the underdeveloped world to the communist bloc would have seriously damaging consequences for the United States and the rest of the free world.

While not ignoring the continued great responsibility of the United States, we should expect the assumption of increasing participation by the other more prosperous countries of the free world in assisting the underdeveloped nations. This shift is already occurring. We should seek the cooperation of the developed countries in devising policies, programs and organizational arrangements which will facilitate their increased participation. This means greater emphasis and reliance on multilateral programs.

It is even more important that the underdeveloped countries themselves adopt the policies and take the actions necessary to bring about economic progress and increased confidence within their countries. The effort toward development must be a truly mutual one if it is to succeed. The impetus for economic development in any country and the major effort to achieve it must come from within. Some underdeveloped countries have depended on others to solve problems which they have it within their own power to handle. The aid made available by developed countries will not be effective, nor can it be justified, unless the underdeveloped countries do their full part.

Progress toward meeting the basic needs and aspirations of the free world peoples, or tangible evidence on which they can base hope for progress, is

essential to the creation of a relationship between the United States and other free world nations which will best assure realization of our national objectives. The world climate necessary to achieve this relationship will not exist unless the more prosperous nations help in dealing with the problems arising out of the great differences which now exist between the economic opportunities of the various countries of the free world.

We cannot assure equal opportunity for all peoples, but we can, along with other prosperous nations, help find a way for all peoples to see opportunities ahead. For us not to do so would be contrary to our national tradition. Only if we continue to do our part in this general international effort can we fully realize the ideals and purposes which should inspire us as a nation if we are to play our proper role in the world.

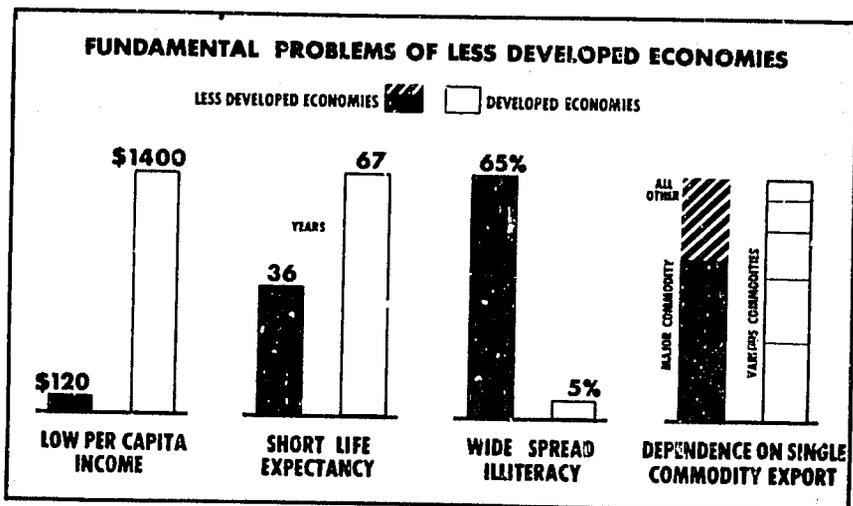


Figure 3

## B. Defense Support of Military Allies

Certain of the less developed countries maintain military forces important to the free world but beyond their own economic capacity to support. While the bulk of the equipment for those forces is provided by the United States through military assistance, these countries bear heavy troop support and maintenance costs which increase their budgets, add to import requirements and create inflationary pressures. They apply to their military effort substantial resources some of which could otherwise be devoted to maintaining or developing their economies. The economic prospects of most of these countries are such that it is unrealistic to expect them to be able to repay money for purposes which this Defense Support aid is designed to accomplish.

It is this group of countries, all of them "under the gun," which receives the great bulk of Defense Support as well as substantial amounts of other kinds of economic aid. Without external aid certain of these countries, such

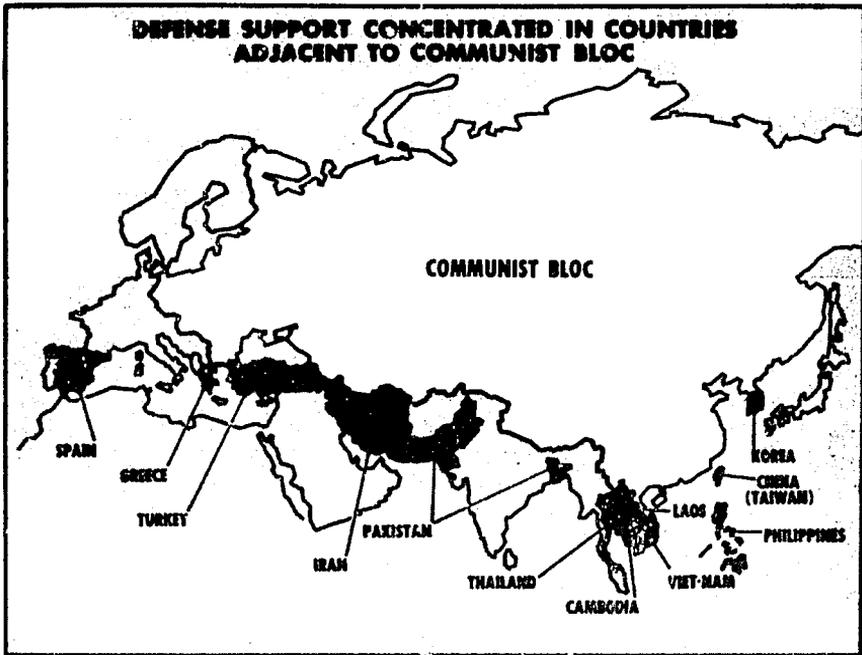


Figure 4

as Korea, would face economic collapse. In these and other countries military forces essential to the free world would be weakened or lost. In other cases the justification for Defense Support rests primarily on political or strategic considerations.

### C. Achievement of Special Foreign Policy Objectives

From time to time special foreign policy problems arise, often out of crises which develop in weaker countries. Such problems are frequently of a short term nature. They should not, except in cases of obvious necessity, be dealt with through "crash" economic assistance programs. Aid should not become a substitute for imagination, patience and sound foreign policy. In certain instances, however, such crises require the use of various types of grant aid, including surplus agricultural commodities and what has come to be called Special Assistance.

Special Assistance is used in a wide variety of circumstances which do not qualify for Defense Support or development aid, and constitutes a flexible tool of great value in enabling us to strengthen both allies and neutrals. For example, it has been used to sustain Jordan in a difficult situation. A different case is Berlin where our Special Assistance has emphasized the interest of the United States in this island of freedom. It has also been used to finance, in cooperation with the United Nations and others, the world-wide malaria eradication program and other health, education and refugee programs.

TABLE 1

*Principal Economic Assistance Activities of the United States Government (almost entirely in underdeveloped countries)†*

*A. The Mutual Security Economic Programs\**

[Request for Appropriation—Fiscal Year 1960]

	<i>Millions of dollars</i>
Development Loan Fund.....	\$700
Defense Support.....	835
Special Assistance.....	272
Technical Cooperation.....	211
Contingency Fund.....	<sup>1</sup> 200
Other.....	112
<b>Total.....</b>	<b><sup>2</sup>\$2,330</b>

<sup>1</sup> May be used for either military or economic programs.

<sup>2</sup> Includes \$175 million which can only be used for surplus agricultural commodities under Section 402 of the Mutual Security Act.

\*NOTE. This appropriation includes not only United States Government bilateral assistance activities, but also certain international activities, such as the United Nations technical assistance program, the United States contributions to which are financed with Mutual Security funds. There are additional activities carried on abroad by United States Government agencies which are financed by other appropriations. These activities, while important, do not involve, by comparison, the expenditure of significant amounts of funds.

*B. Other Major Bilateral United States Economic Assistance Activities—Fiscal Year 1959*

[Estimated Amounts Made Available to Underdeveloped Countries]

	<i>Millions of dollars</i>
Agricultural Surpluses Owned by the U.S. and Sold for Local Currencies Under Title I of P.L. 480 <sup>1</sup> .....	\$800
Export-Import Bank (Net Loans).....	440

<sup>1</sup> Calculated at world market prices.

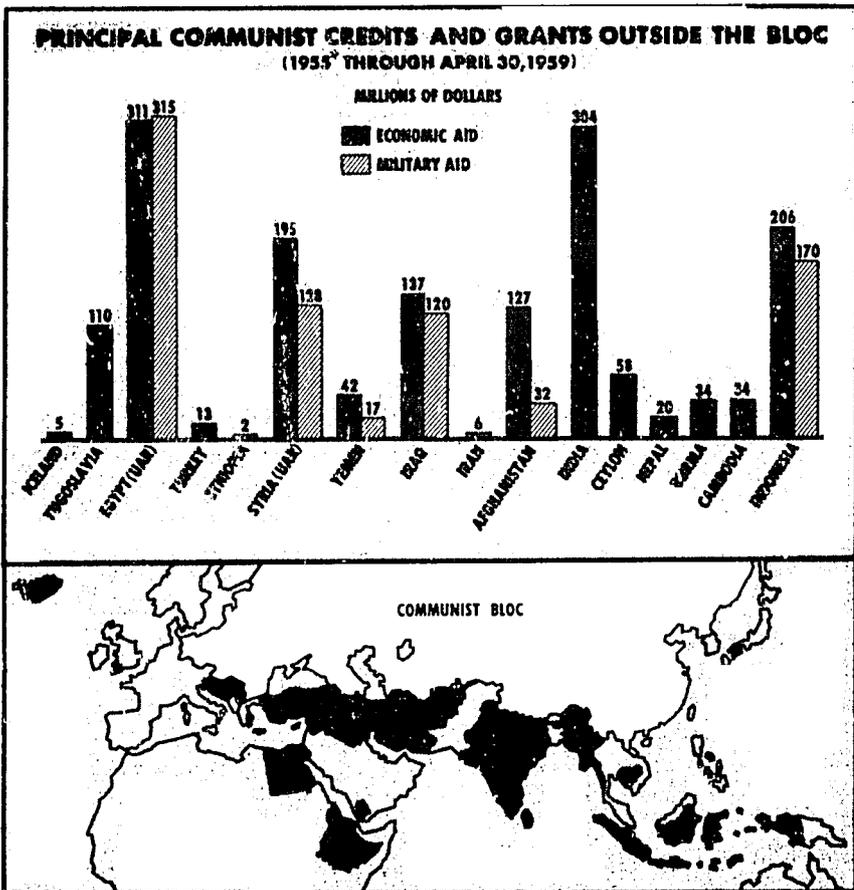
<sup>2</sup> In addition there were grants of agricultural surplus commodities for disaster and other relief purposes amounting to about \$175 million.

†Table 1 (A and B) does not include the activities of some of the principal international organizations providing economic and financial assistance to which the United States contributes, through channels other than Mutual Security Program appropriations, such as the International Bank for Reconstruction and Development, the International Monetary Fund, and the International Finance Corporation.

## II. Soviet Economic Offensive

Since the death of Stalin, the Sino-Soviet bloc has turned increasingly to the use of trade, technical assistance, economic and military aid as means of subverting the less developed countries. In the five year period starting in 1954, the communists have offered to the underdeveloped countries outside the bloc credits and grants of approximately \$800 million for military purposes and about \$1,600 million for economic purposes, totaling \$2.4 billion.

Almost all of the bloc aid has been provided through long term credits. Only about \$100 million has been in the form of grants. Although less than \$1 billion of the \$2.4 billion of aid has actually been delivered, the bloc has gained widespread favorable publicity, and presumably much



\*Includes a small credit extended to Afghanistan in 1954; excludes Bloc economic assistance to Argentina and Brazil.

Figure 5

good will, each time a new credit has been announced. During the last half of 1958, nearly 3,000 Sino-Soviet bloc nonmilitary technicians spent one month or more in the comparatively few underdeveloped countries they are assisting.

The Sino-Soviet bloc efforts have been highly selective. In addition to Yugoslavia (where aid was sharply curtailed in 1958), five countries—the United Arab Republic, India, Indonesia, Argentina and Afghanistan—have received the bulk of the economic credits for the five year period. Assistance in smaller amounts has also been given to Ceylon, Burma, Yemen, Cambodia, Turkey, Nepal, Iceland, Iran, Brazil and Ethiopia. In the United Arab Republic, Afghanistan and Indonesia, economic aid extended by the bloc since 1954 has been greater than the free world programs. Since the bloc extends lines of credit to recipients of aid who often choose such projects as industrial plants, hospitals or training institutes—rather than broader programs of overall economic development—bloc aid has often had high psychological impact value.

Although on a worldwide basis communist economic aid is dwarfed by the combined public and private United States activity, the Sino-Soviet bloc offensive is expanding rapidly. About \$1 billion of credits, or 40 per cent of the five year total, was extended in 1958 alone, of which over \$600 million was in the form of economic aid.

These communist loans have generally been at abnormally low interest rates by Western standards and are sometimes repayable in the borrowing country's surplus commodities. Moreover, this aid offensive, while sometimes marked by ineptitude, has often been fast moving, technically competent and politically adroit. For example, immediately after the July 1958 coup in Iraq, the bloc began a vigorous trade promotion campaign, and the Union of Soviet Socialist Republics, East Germany and Czechoslovakia concluded trade agreements with Iraq in the Fall of 1958. An arms agreement was signed in October 1958 and the first of several arms shipments arrived in Iraq in November. With trade and arms agreements came bloc technicians who, by the first quarter of 1959, numbered over 300. In early 1959 a credit agreement was concluded which provided \$137.5 million for economic development.

The bloc has also concentrated on increasing its trade with the underdeveloped countries. In 1955, Mr. Khrushchev announced, "We value trade least for economic reasons and most for political purposes." Again, in 1957, he emphasized, "We declare war on you in the peaceful field of trade. We will win over the United States."

The effectiveness of these trading efforts is demonstrated by the fact that, as compared with 50 bilateral agreements with 17 underdeveloped countries at the end of 1953, the bloc had 177 agreements in force with 33 such coun-

tries at the end of 1958. While this trade offensive may not in itself subvert an underdeveloped country and bring it into the communist orbit, the control of all bloc aid and trade programs by communist political authorities provides the Soviets with a powerful and dangerous political weapon.

Certain of the main export products of the underdeveloped countries are from time to time surplus to the requirements of the West. The communists, on the other hand, are in a position to utilize some of these items and they are free to arrange convenient barter exchanges without regard for competitive market prices.

As a country's trade with the bloc grows, its economic dependency on the bloc tends to increase. It has been frequently demonstrated that the bloc does not hesitate to use this power for political purposes. Typical examples are the political pressures to which Yugoslavia and Finland have been recently subjected.

It is estimated that Sino-Soviet trade with the underdeveloped countries in 1958 was only 3.5 per cent of the trade between the underdeveloped areas and the rest of the free world (\$1.8 billion vs. \$51 billion). However, bloc trade activities are expanding at a relatively rapid rate and may be expected to become more significant in the future.

The economic offensive of the communist bloc is designed to weaken the traditional political and economic ties among free world nations, to encourage neutralism as an intermediate step toward closer association with the bloc and to undermine free world defensive alliances. This is an integral part of the bloc strategy to draw free world nations into the communist orbit.

We must not be thrown off balance by each new Soviet move. While we must be aware of the political overtones of communist economic activities, and be prepared to forestall or offset these actions, our policies should not be based simply on countering Soviet moves. Our best counteraction is a clear cut policy of our own directed toward positive objectives. The long range answer to the economic offensive of the communist bloc is a strong and growing economy throughout the free world. Our aid program is an important element in the achievement of this end

### III. Economic Development

#### A. Requirements and Availabilities

The low income of the underdeveloped countries places severe limits on the capital they can themselves generate for economic development. While

private investment, both domestic and foreign, can and should make an important and increasing contribution, many countries are unlikely under present conditions to attract large quantities of private investment. The Committee is therefore convinced that, if development is to proceed, many of the countries concerned must receive substantial amounts of publicly financed investment from the United States and other countries, including guaranties of private investment where appropriate.

In attempting a determination of the appropriate amount of such assistance, it is important to consider total development needs of the underdeveloped countries, likely availabilities from all sources, and the amounts which can be effectively used. Limiting factors on effective use include insufficient personnel possessing the requisite skills and managerial competence, lack of basic facilities such as roads and utilities, and inadequate governmental, legal, social and educational institutions.

It is difficult, of course, to project needs for development assistance accurately into the future. Therefore, rather than relying on theoretical calculations of future needs, the Committee has considered the cumulative experience of the past. We have assessed the amounts likely to be available from all sources, including an estimate of what the American people and Government can and should be expected to provide under the circumstances. We have then attempted to make sure that the effective need is at least as great as the amount likely to be available and to determine whether this amount is sufficient to achieve worthwhile progress. Continuing assessments of the results of our aid will be necessary in order to estimate future requirements.

The Committee recommended in its first Interim Report on March 17, 1959, that the United States should provide development loans of \$700 million as recommended by the Administration for Fiscal Year 1960 and of at least \$1 billion a year starting in Fiscal Year 1961, over and above loans by the Export-Import Bank. This \$1 billion should include direct loans by the Development Loan Fund under the Mutual Security Program and contributions to any new international or regional lending institutions. The amount recommended for Fiscal Year 1961 would represent a moderate increase in amounts proposed for Fiscal Year 1960 and is substantiated by actual experience. During the first year of its lending operation, the Development Loan Fund committed approximately \$700 million.

Surplus agricultural commodities are a further though indirect source of development aid. It is recognized, however, that recent legislative proposals are directed toward reducing and eventually eliminating surpluses. While the present large surpluses may, for a variety of reasons, be reduced or eliminated in the years ahead, this does not seem likely in the near future. Since surpluses can be expected for some time, their value for development purposes should be realized to the fullest extent possible.

Currently, sales agreements are being made with underdeveloped countries under Public Law 480 (Agricultural Trade Development and Assistance Act of 1954), Title I, at a rate of approximately \$800 million a year, calculated at world market prices. Titles II and III of Public Law 480, and Section 402 of the Mutual Security Act, account for further surplus shipments to underdeveloped countries of about \$350 million a year. Some of these agricultural commodities are important for political and humanitarian purposes; but only when they permit increased use of local or foreign exchange resources for investment, or increase the level of productive effort in the countries receiving them, do they further economic development. Therefore, it is doubtful that, even if some increase in the overall surplus commodity export program were feasible, much more than three-quarters of a billion dollars a year in total could be counted as development assistance.

Our Western allies and Japan are now bearing an increasing share of the cost of free world development assistance. With growing prosperity, to a considerable extent resulting from earlier large scale aid to them by the United States, they should play an even more important role. In 1958, free world countries other than the United States provided over \$1 billion of such aid in the form of both grants and loans, largely to their own dependent territories. There seems to be no economic reason why, taken together, Western Europe, the British Commonwealth and Japan should not make even higher amounts available for development, either multilaterally or bilaterally.

From recent experience it can be expected, as an additional source of foreign public investment, that the International Bank for Reconstruction and Development and the Export-Import Bank will together provide a net lending of about \$900 million a year.

We thus conclude that, taking into account development lending by the United States and surplus agricultural commodities as recommended by the Committee, grants and loans by our allies, and loans by the International Bank for Reconstruction and Development and the Export-Import Bank, a total amount somewhat in excess of \$3.5 billion a year is well within the present capacity of the developed countries to provide.

In attempting to assess both the need for such aid and the ability to use it, the Committee has examined development plans of countries such as India and Pakistan, the experience of lending agencies, and a wide variety of expert opinion including studies heretofore made by the Committee for Economic Development, the National Planning Association, the Rockefeller Brothers Fund, and study groups at the Massachusetts Institute of Technology and the University of Chicago.

From this examination it appears that the underdeveloped countries now need, and have the technical, managerial and other capabilities to use effectively for economic development purposes, assistance at a rate of at least

the \$3.5 billion a year which the Committee feels can reasonably be expected to be available from all free world sources. This amount of aid could make possible a moderate rate of economic development, if effective action is taken by the recipients to mobilize their own resources, to operate under well constructed programs and to deal with the explosive population growth problem.

Compared with the challenge, that portion of the total program which we recommend be supplied by the United States is not disproportionately large. Yet it represents a vital increment which can stimulate and make possible the required larger efforts by the less developed countries. It can also encourage greater participation by the other more developed free world countries.

The Committee has taken into account the marked change which has taken place in the balance of payments of the United States. A few years ago the rest of the world appeared to be suffering from a chronic shortage of dollars. Today other Western countries are accumulating dollars and converting part of them into gold. In short, the United States has been making payments abroad which exceed its foreign earnings.

The recent recession was a factor in this situation. With general recovery and continued expansion, United States international accounts should come closer into balance, although further measures may be needed to improve our export earnings. Among these would be further action to reduce the remaining discriminations against United States goods which arose from the period of severe dollar shortage following World War II.

Some critics of our foreign aid program advocate reducing recent gold and dollar outflows from the United States by cutting that program. In our view this would be neither an effective nor a proper remedy. Since three out of every four aid dollars are spent directly in the United States and since most of the remainder is ultimately spent here, the contribution of our aid programs to the increase in foreign gold and dollar holdings is marginal. Aid transactions form but a small portion of the total trade and investment picture to which gold and dollar flows relate.

The effect of foreign aid on the United States balance of payments is also reduced by the fact that a substantial part of our aid goods goes to countries which could not afford to pay for them with their own funds. If they were not financed with aid funds, they would not be bought at all. In such cases, the United States is not foregoing export earnings.

More important, however, we do not believe that our long term foreign policy interests should be jeopardized as a corrective for short term economic problems which can be dealt with effectively by other means.

*We Recommend:* That funds should be made available for development lending under the Mutual Security Program in the amount requested for Fiscal Year 1960, and starting in Fiscal Year 1961 at the rate of at least \$1 billion a year.

## B. Relations With Recipients of Aid

The Committee believes that the success of our development aid programs will depend upon a relationship with recipient countries which meets the following tests:

We should give sufficient assurance of continuing help in economic development to enable the recipients to make plans with confidence.

Our aid should be conditioned on reasonable mutual undertakings, and should be extended only so long as the recipients reasonably carry out their undertakings.

Aid should not operate to diminish the country's determination to help itself or its willingness to rely on existing or available private resources. The initiative for development should rest with the country concerned. In no case should we urge development on a country at a faster rate than it deems to be in its own interest.

We should insist that countries whose development we are assisting take all steps which are reasonable under prevailing local conditions toward: (1) increasingly honest and efficient government; (2) an internal taxation system which provides a level of revenue consistent with the wealth of the country; (3) fiscal and monetary practices which will promote reasonable domestic price stability; (4) an attractive climate for local and foreign private investment; (5) the application of sufficient local raw materials and labor for projects receiving external capital assistance; (6) an appropriate exchange rate structure which facilitates expansion of exports; (7) removal of monopolistic conditions which hamper the private sector, particularly small business; and (8) development of financial institutions for channeling domestic savings into constructive investment.

Without resolute action by aided countries along such lines, their development will not proceed as it should and our assistance will not be fully effective. We realize that many underdeveloped countries will find it difficult to progress rapidly along these lines. They often do not have the necessary trained people, the institutions or the traditions. We should, therefore, be careful that the conditions we impose are not unreasonable.

*We Recommend:* (1) That future United States aid programs should place greater emphasis on the predominant initiative and responsibility of the countries being aided for taking constructive steps to solve their own problems; and (2) that United States aid should ordinarily be extended only so long as recipient countries reasonably carry out their undertakings.

## C. Loans and Grants

United States aid for development is provided principally in the form of United States goods and services, and is financed through dollar loans

repayable in dollars, dollar loans repayable in local currencies (soft loans), loans which are both made and are repayable in local currencies, grants and through supplying surplus agricultural commodities.

The needs for external capital assistance in many less developed countries over an extended period will exceed their ability to repay such capital in dollars on normal commercial terms. Yet United States grant aid for capital projects encounters increasing resistance, both on political grounds in the United States and because the relationship generated between aid-giving and aid-receiving countries by such aid is felt to be unhealthy. Loans are the natural and traditional means of aid for development assistance; they are consistent with the dignity of aided countries; and they are the form of assistance in which our allies will join us with increasing readiness. Except in extraordinary circumstances, therefore, the use of grants of capital for development purposes is already properly being discontinued.

To avoid the disadvantages of grants, soft loans repayable in local currencies have largely replaced grants as a compromise which imposes the discipline and businesslike relationship of a loan, without unduly burdening the future balance of payments situation of the country concerned.

However, too great a reliance on this method would lead to the accumulation of large amounts of United States owned local currencies, which may become a disturbing element in the future political relationship between the United States and the recipient. The United States already owns outright substantial amounts of local currencies. As of June 30, 1958, these amounted to the equivalent of about one and one-half billion dollars at existing exchange rates. Further accumulations of such currencies can be expected. It is important to realize that these local currencies, while expressed in "dollar equivalents," are not dollars. They are in great part the currencies of countries which are economically weak, cannot be used in any volume to buy goods outside the country of issue, and are not generally convertible into dollars.

The alternative is loans repayable in dollars made on easy terms of interest rates and time of repayment. The reasons for this course include: (1) avoidance of accumulations of local currencies and (2) ultimate repayment in usable currencies if economic development is achieved. Since many underdeveloped countries possess substantial natural resources, some expectation that they will be able eventually to repay loans entirely or partly in dollars is justified.

On the other hand, loans repayable in dollars at very low interest rates and payable over an unduly long period invite invidious comparisons by borrowers of dollars from the Export-Import Bank and the International Bank for Reconstruction and Development, who will consider themselves entitled to these easier terms of payment. Also very long term semi-soft loans in dollars might not become due until after the projects financed by

them had outlived their usefulness, inviting default unless the country's general economic situation had greatly improved.

This problem is complicated by the competition of at least three main sources for dollar loans (the Export-Import Bank, the International Bank for Reconstruction and Development, and the Development Loan Fund), and the further fact that the Development Loan Fund makes dollar loans repayable in both dollars and local currencies.

The United States has not yet developed adequate policies to deal with the accumulation and use of local currency holdings resulting from sales of surplus agricultural commodities and from loan repayments.

There is no simple formula for dealing with these problems. The question of whether the United States should make dollar loans to the underdeveloped countries repayable in local currencies or dollars can only be resolved country by country and should be based upon an estimate of the potential for economic progress of each borrower.

In our consideration of other aspects of assistance programs in this report, however, we make recommendations pertinent to these problems. These include more emphasis on grants in cases of agricultural surpluses, centralization of control of all United States foreign currency balances in one agency, and a greater consolidation of certain lending operations.

#### D. Surplus Agricultural Commodity Assistance

United States surplus agricultural commodities have been and can be used to assist in economic development, although the availability for such purposes of some of them may vary widely from year to year. While the Committee would not advocate creation of domestic agricultural surpluses for use overseas, these surpluses do presently exist and should be utilized to the greatest possible advantage.

When surplus commodities are sold abroad by the United States, it acquires title to the foreign currency proceeds. Some of these proceeds are used by the United States to pay certain of its obligations abroad, to develop new markets for agricultural commodities, and to purchase strategic and critical materials. However, a major share of such currency proceeds is loaned back to the country concerned, or to companies operating in that country, for economic development and other purposes.

The Committee believes that more effective use can be made of our surplus agricultural commodities for the achievement of United States foreign policy objectives by changes in administrative arrangements to coordinate more effectively the use of these commodities and local currency sales proceeds with other economic assistance programs. (See PART TWO of this report for organizational recommendations.) In particular, these changes would make possible the assignment to one agency of responsibility for co-

ordinating the programming of all local currencies owned by the United States Government. The administering authority should be given greater flexibility to adjust the methods of utilizing surplus commodities, whether by grant or sale, to the requirements of particular situations.

Surplus commodity sales transactions may, if continued on too large a scale, result in the United States acquiring, in the less developed countries where most sales are made, accumulations of soft currencies which cannot be profitably used by the United States and are politically disadvantageous. In some cases, however, sales of surplus commodities for local currency may be preferred by the other country, or the local currency may be useful to the United States, or a strong United States voice in the disposition of the local currency may be desirable. Therefore, the Committee emphasizes the need for a flexible approach to the methods of utilizing surplus commodities abroad. Accordingly, Public Law 480 should be interpreted or amended, if necessary, to authorize more flexibility in the utilization of surplus commodities for foreign economic development by grant or by sale with establishment of a counterpart account, and, where sales are used, by making loans or grants of the resulting local currency proceeds.

Another legislative step which would permit greater flexibility in the use of commodities would be to merge the authorizations for Public Law 480 Title I and II operations, or alternatively to provide authority for transfer between the separate authorizations contained in these titles. Without any change in the law, the Executive Branch can and should make more flexible use of Public Law 480 local currency sales proceeds by grant through greater employment of existing authority to waive dollar reimbursement requirements.

In addition, the legal provisions applying to the utilization of such commodities should be simplified by repeal of Section 402 of the Mutual Security Act, so as to eliminate overlapping in the sales programs now carried out under the Mutual Security Act and Public Law 480, respectively.

Surplus agricultural commodities must, of course, be used in ways which do not seriously interfere with normal United States sales of commodities for dollars or with normal export markets of friendly nations, or in a way to discourage agricultural production in recipient countries. Subject to these considerations, our stocks of surplus agricultural commodities should be used for foreign economic development and for humanitarian purposes to the maximum extent consistent with the ability of the recipient countries to use the commodities effectively.

The Committee wishes to stress that surplus commodity assistance can do only a part of the development job overseas. Complementary investment in the form of capital goods and other forms of assistance will almost always be required. Our comments and recommendations in this section should not be interpreted as implying that further use of surplus commodity

assistance can materially reduce the need for appropriations for the several Mutual Security economic aid programs.

*We Recommend:* (1) That utilization of available surplus agricultural commodities be geared more effectively to the advancement of United States foreign policy objectives, particularly those of the Mutual Security Program; and that to this end the necessary organizational adjustments be made so as to vest primary responsibility for the programs to utilize these commodities in the same officials who administer our other assistance programs (see the recommendations in PART TWO of this report); (2) that Public Law 480 be amended or interpreted, as necessary, to authorize a more flexible policy for utilization of surplus agricultural commodities for foreign economic development purposes, so that they can be used to a much greater extent (a) by grant with establishment of a counterpart account, or (b) by sale with a grant of the local currency sales proceeds, as well as by sale with a loan of the local currency sales proceeds; (3) that Section 402 of the Mutual Security Act of 1954 be repealed and that all sales of surplus agricultural commodities for local currency be carried out as one consolidated program under Public Law 480; and (4) that available surplus agricultural commodities be used for economic development to the maximum extent consistent with the ability of recipient countries to use them effectively and with the continuing need to protect United States dollar sales, normal export markets of friendly countries and the agriculture of recipient nations.

## E. Technical Assistance

Technical assistance is an essential part of any program for economic development. The accelerated transfer of know-how from the more developed to the less developed countries which this program involves can add significantly to the rate of economic progress at relatively small cost. It is particularly valuable in helping the less developed countries to overcome the critical shortages of highly trained manpower needed for technical, managerial and leadership functions. These personnel shortages often constitute a more serious limiting factor on economic development than do capital shortages.

The United States Technical Assistance Program on the whole has been highly successful. However, we believe its effectiveness can be increased still further. We have not always used the best of our technicians and the program has tried to cover too wide a range of activities with an undue proliferation of small projects.

1. *Mutuality.* Some projects have been initiated by the United States without full participation of the recipient country, thus creating the impression that the improvement of local skills is a United States responsibility rather than that of the government and nationals of the country concerned.

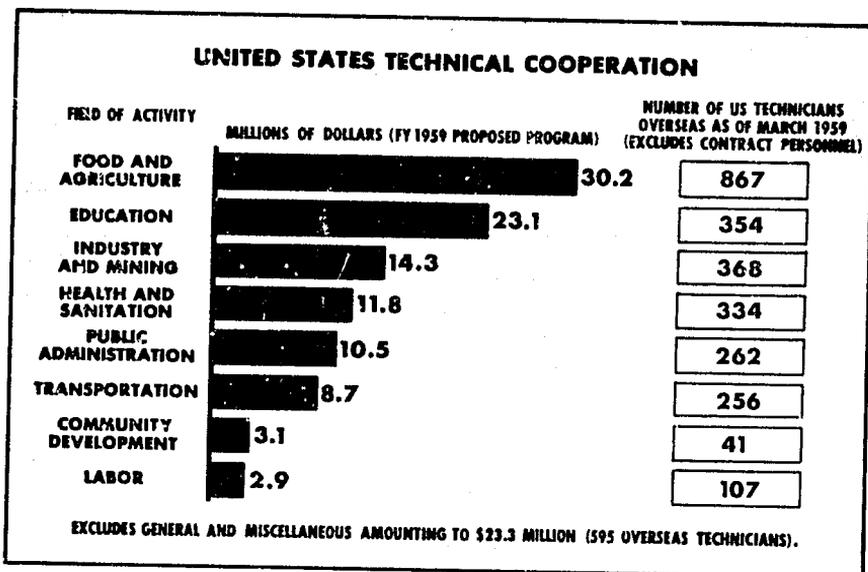


Figure 6

Ability to work with local governments on the basis of mutuality of effort varies from country to country; in all cases, however, this concept should be the guiding objective of our programs of technical assistance. To the extent that mutuality is lacking, programs should be revised or curtailed.

2. *Greater Use of Contractors.* The Committee notes the increasing use of contractors, particularly universities, in the Technical Assistance Program. While a great deal of planning and execution can continue to be provided by personnel directly employed by the United States Government, the Committee believes that contractors should be used to the maximum extent. The know-how, competence, skills and experience often not available by direct government employment, as well as the administrative and technical backing of private companies, foundations, universities and other qualified organizations, can be more effectively infused into the program through greater use of such contracts or grants-in-aid.

3. *Institutional Development—Regional Approach.* The person-to-person approach of the American technician to the people of foreign countries is a vital aspect of the Technical Assistance Program. Splendid work has been done by religious, charitable and other public spirited voluntary organizations, agencies and companies—as well as many official representatives of the Technical Cooperation Program—in building individual personal relationships. There is, however, neither the time nor the manpower available for the aid program to provide this personalized assistance for the millions of people in the underdeveloped countries for whom training would be helpful. Therefore, more emphasis should be placed on the support of existing centers and the establishment of additional centers where local

people can be trained to apply and to teach others to apply the techniques required for developing their own countries. In some cases there may be advantages in a regional approach. Regional activities would provide a means of bringing together the future leaders of various nations in an area.

4. *Role of Multilateral Agencies.* In certain cases the multilateral approach to technical assistance provided by the United Nations has advantages not available to bilateral programs. National pride makes many of the less developed countries reluctant to become overly dependent on any individual country. The United Nations Special Fund and other technical assistance programs also make it easier to obtain experts from countries other than the United States. In addition, the multilateral approach encourages interest in and financial participation by other nations in the objective of economic development in the underdeveloped countries.

*We Recommend:* (1) That the United States stimulate greater recipient country responsibility for the selection, planning and implementing of technical assistance projects; (2) that in providing assistance required for the Technical Cooperation Program, maximum use be made of private companies, foundations, universities and other qualified organizations; (3) that greater emphasis be placed on supporting country-wide or regional training centers; and (4) that the United States increase its support of the United Nations Special Fund and other United Nations technical assistance programs.

## F. The Need for Continuity

In its first Interim Report this Committee called for "the necessary legislative and administrative steps" to put both military and economic assistance programs on a continuing basis. In the second Interim Report we recommend measures which should be taken to put the military assistance program on such a basis, including a continuing Congressional authorization for the appropriation of funds for the program. Similar steps are necessary for the economic development programs to give them the necessary continuity.

The effectiveness of economic aid can be greatly increased if the principal programs aimed at development—Development Loan Fund lending, Technical Assistance, and surplus agricultural commodity aid—are authorized and funded on a longer range basis than at present.

1. *Continuity for Development Loan Fund.* The recent shift of United States development financing from International Cooperation Administration appropriations, which lapse if not obligated by the end of the fiscal year, to Development Loan Fund "no year" capital funds, has removed one of the barriers to the flexible funding of long term projects. However,

the lack of long term assurance of availability of Development Loan Fund assistance still has adverse effects.

Development programs are necessarily of a long term nature. Participating countries must make plans and commit their limited resources to such programs and are often reluctant to do so unless there is a reasonably assured source of financing for the program as a whole. As long as the authorization and funding for Development Loan Fund operations are on an annual basis, projects must be undertaken without knowing whether financing will be available for later closely related projects. This increases the difficulties, already great, faced by less developed countries in making orderly long term plans. Further, the fact that availability of loan funds is not assured beyond the amount appropriated for a given year encourages premature submission and approval of projects which have not been adequately analyzed and planned.

There are various ways in which Development Loan fund operations can be placed on a longer range basis than at present. One way would be to meet the Fund's needs by public debt financing—authorizing the Fund to borrow specified amounts from the Treasury in each year of a multi-year period, with the Secretary of the Treasury authorized to obtain the necessary funds by public debt transactions. The operations of the Export-Import Bank are financed by public debt transactions.

This approach has definite advantages. However, the precedent of the Export-Import Bank is not fully applicable in one important respect: unlike the Bank, the Fund has little prospect of becoming self-sustaining. Loans repayable in local currencies will not return dollars except in the few cases where they can eventually be converted into dollars. Only a small portion of the loans will be dollar loans repayable in dollars. These loans will not call for payments for several years and when repayments start they will be made over an extended period of time. In these circumstances the Fund's new dollar lending requirements will have to be covered entirely or largely by new dollars.

In order to finance the Fund on the necessary long range basis, the Committee believes that a continuing authorization should be provided for the Development Loan Fund and that appropriations should be made in each year to cover total needs for the year in question (after deducting amounts previously appropriated for that year) plus 25 per cent of the estimated requirement for each of the succeeding two years. To start this system, the appropriation in Fiscal Year 1961 should be \$1 billion for that fiscal year, \$500 million for obligation starting in Fiscal Year 1962, and \$250 million for obligation starting in Fiscal Year 1963. In each fiscal year thereafter, assuming for example that the Fund's needs will be \$1 billion a year, \$500 million should be appropriated for the fiscal year in question and \$250 million additional for obligation starting in each of the succeeding two fiscal years. In this way long range planning, both by the United States and bor-

rowing countries, will be facilitated and, at the same time, the Administration and the Congress can still adjust the program up or down from year to year as conditions change.

2. *Continuity for Technical Assistance.* As with development lending, there is need for more assured continuity in the Technical Assistance Program. It is essential that United States technical assistance planning be meshed with the planning of recipient countries, which bear a significant portion of the cost of most projects. This would be easier to do with a program that is on a continuing basis. The present annual authorization for technical assistance does not provide an adequate basis for a continuing program, and a continuing legislative authorization is desirable.

3. *Continuity for Surplus Agricultural Commodity Assistance.* In the case of surplus agricultural commodity assistance, authorizations for use of commodities, by sale or grant, under Titles I and II of Public Law 480, are now for 18 months. The Committee recognizes that there is uncertainty as to the future availability of some surplus commodities, but there appears to be reasonable assurance that some others, such as wheat and cotton, will be in surplus supply for several years at least. Also, the needs of particular recipient countries will vary from year to year depending on crop conditions. Nevertheless, as in the case of development lending and technical assistance, steps should be taken which will facilitate longer range planning for utilization of available surplus agricultural commodities. Public Law 480 should now be amended to provide at least three year authorizations for Title I and II operations in an adequate dollar amount, so that the use of surplus commodities, and of the local currencies derived from their sale or grant, can be planned on a longer range basis and coordinated with long term planning of other United States assistance programs and of local resources.

4. *Annual Congressional Review.* In proposing such continuing authorizations we recognize the desirability of annual Congressional reviews of the status and direction of these programs. Should Congress enact such authorizations, it would still be desirable for the responsible Departments to keep the interested Committees, including the authorizing Committees, continuously informed about the programs, and for representatives of the Executive Branch to appear periodically before these Committees to explain them. This parallels our recommendation concerning the authorizing Committees' functions under a continuing authorization for military assistance in our second Interim Report and contemplates the presentation of long run programs by the Administration to the authorizing Committees. The Congress can, of course, terminate the continuing authorizations at any time.

*We Recommend:* (1) That a continuing authorization be provided for Development Loan Fund operations, and that starting with Fiscal Year 1961 appropriations be made each year to cover total estimated Development Loan Fund needs for the fiscal year in question and part of the need for each of the succeeding two years as indicated above; (2) that a con-

tinuing authorization be provided for technical assistance; and (3) that Public Law 480 be amended so as to provide at least three year authorizations for Title I and II operations in a dollar amount adequate to permit long range planning for the utilization of surplus agricultural commodities.

## G. Multilateral Aid

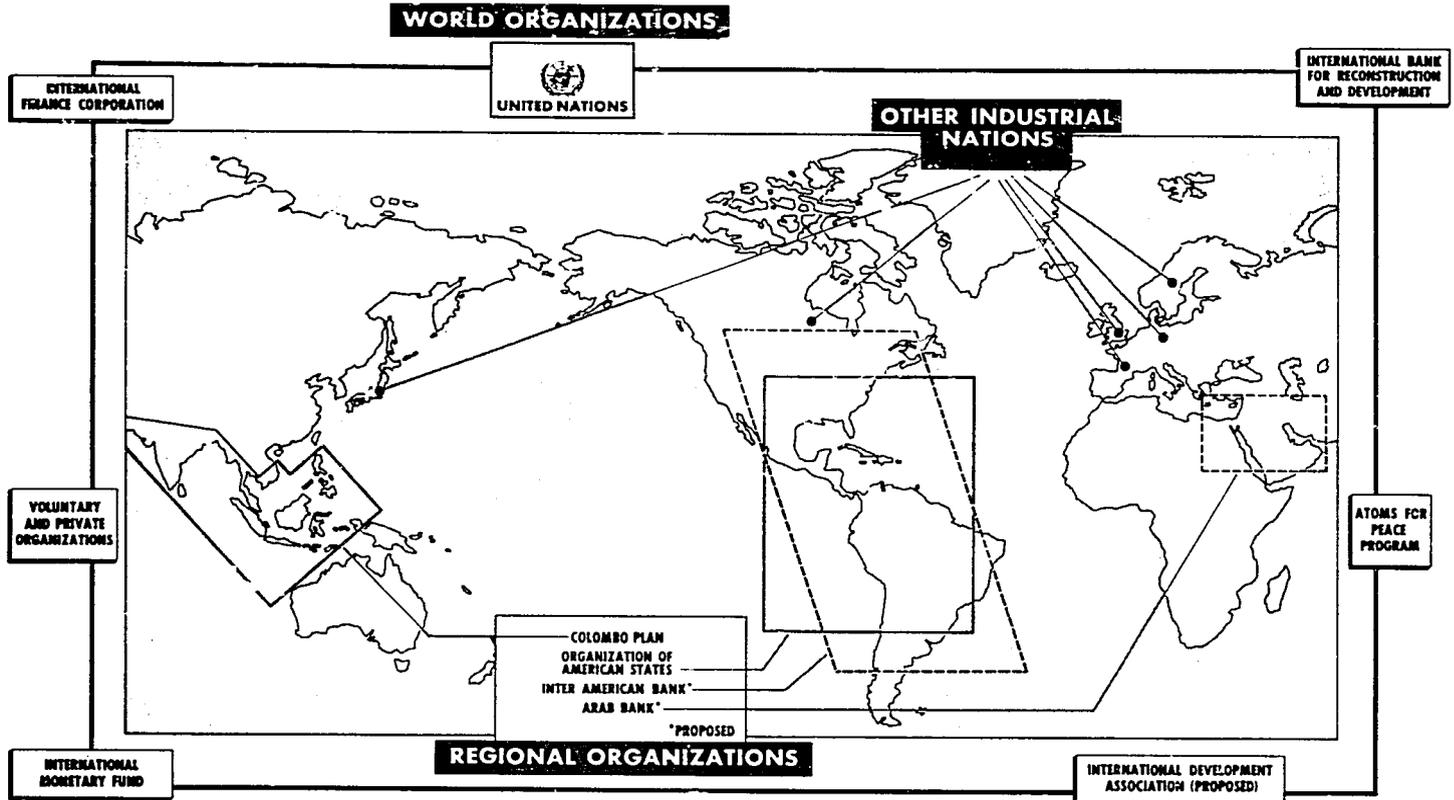
Other free world industrialized countries share with us an interest in the economic development of underdeveloped countries. Furthermore, they have the combined capacity to furnish development aid roughly comparable to that provided by the United States. There are already clear indications that the European countries are providing increasing assistance to the underdeveloped world. The United States should encourage further steps in this direction. One of the best ways to stimulate increased efforts on their part is to join with them in multilateral development programs. Our own contributions to development on a multilateral basis should be taken fully into account along with our bilateral aid in determining the appropriate magnitude of the total United States development effort. Increases in the amounts we make available for multilateral aid should contemplate reduction in our bilateral aid. For some considerable time, however, we anticipate that both forms of assistance will exist side by side.

1. *The World Bank and the Monetary Fund.* The International Bank for Reconstruction and Development and the International Monetary Fund are already proven successes. Their resources should be expanded as the scale of their operations increases.

2. *International Development Association.* We have been favorably impressed by the possibilities of the proposed International Development Association, the purpose of which would be to promote, by financing projects for the economic development of less developed member countries which are not eligible for loans from the International Bank for Reconstruction and Development or from the Export-Import Bank. The Association would make long term loans payable wholly or partly in the currency of the borrower. It would, as an international organization, engage in lending operations similar to those of the Development Loan Fund, and the activities of these two organizations would therefore need to be carefully coordinated.

The capital of the Association would be provided through subscriptions by all member countries. It would offer the industrial countries of the free world an opportunity to pool a part of their growing financial strength and export capacity to promote the economic progress of the less developed areas.

# SOURCES OF ECONOMIC DEVELOPMENT ASSISTANCE OTHER THAN DIRECT US AID



35

Figure 7

It is generally considered that the initial capital contribution should be about \$1 billion, and that the United States subscription would be proportionate to our participation in the International Bank for Reconstruction and Development. This would amount to about \$300 million. Provision presumably would be made to replenish the initial capital from time to time, with the approval of member countries.

It has been suggested that local currencies of the underdeveloped countries owned by the United States and other members might supply a substantial portion of the capital requirements of the Association. Provision should of course be made for the maximum possible use of such currencies, of which the United States owns substantial amounts. Most of these are soft currencies, however, issued by countries without the economic strength to permit their conversion into hard currencies. These soft currencies cannot normally be used to obtain from the industrial nations the goods and services needed for development. Accordingly, contrary to some optimistic views, the International Development Association cannot be financed effectively to any appreciable extent with such local currencies. Its capital will, therefore, have to be supplied chiefly in the form of hard currencies. It is intended that the capital should be used chiefly for long term loans repayable in the currencies of the borrowing countries, normally not convertible into hard currencies. As this takes place, and the capital becomes fully employed, it will have to be replenished with additional amounts of hard currencies.

We believe the objectives of the proposed institution are sound and desirable. It would supplement on an international basis the efforts of governments and other international agencies interested in economic development. Also, in bringing together the countries which have the resources to finance economic development it would facilitate the exchange of information and the coordination of their plans and efforts.

3. *Other Forms of Multilateral Aid.* In addition to these institutions of world scope, joint approaches to the problem of particular countries or regions have proved their usefulness. The United Nations Special Fund as well as the other special agencies of the United Nations are making an important contribution to the development of the underdeveloped countries. The Organization of American States provides an instrumentality through which all of the American States can cooperate in the development of Latin America. The proposed Inter-American Bank will provide a multilateral agency for financing development in Latin America. There are possibilities that the proposed regional Arab Bank will be established and will serve a useful purpose in the Middle East. The Colombo Plan furnishes a continuing method of coordinating bilateral aid to the countries in South and Southeast Asia.

Special groups of aid-providing countries can be advantageously formed to deal with particular situations. Recent examples are the collaboration

of Western countries to deal with the problems of Turkey and of the Indian Five Year Plan. Such collaboration encourages participation by the several countries concerned. Further, the lending countries can derive assistance from each other in dealing with borrowing countries in a realistic and constructive manner.

We are particularly impressed with the need to approach the question of development in the Far East in the light of the important role that Japan can play. Like the countries of Western Europe, Japan has achieved a spectacular industrial and agricultural recovery, to which United States aid has contributed in an essential way. Japan, itself, has a vital interest in the development, prosperity and trade of the Far Eastern area, and therefore has a powerful incentive to contribute to orderly progress in that part of the world. It has already expressed its desire to assist in this general effort. Now that the enmities stemming from the war are lessening, it should be increasingly possible for Japan to participate in bilateral and multilateral arrangements designed to employ its financial and technical resources in that area as effectively as possible.

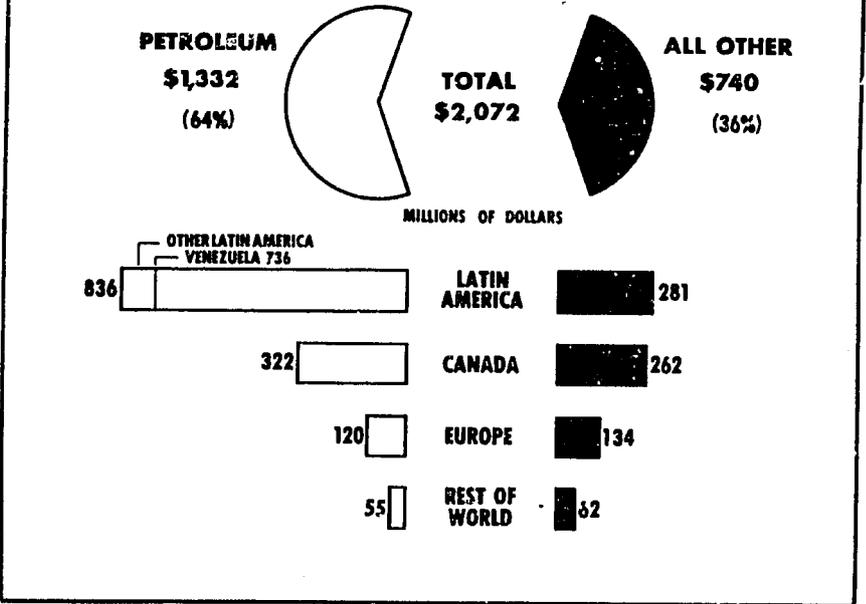
*We Recommend:* (1) That the United States increase its emphasis on a multilateral approach to development assistance; (2) that our bilateral aid and our contribution to multilateral aid be considered together in determining the appropriate level of development assistance; (3) that in addition to support of existing international organizations the United States promote the establishment of the International Development Association and continue its support of the Inter-American Bank now being organized; and (4) that the United States join with other interested Western countries and with Japan, on an *ad hoc* basis, to deal with development problems of particular countries or regions.

## H. Contribution of Private Enterprise

We believe that a greater contribution can be made to foreign economic development by the resources of private enterprise of the United States and other countries. Development can be facilitated by the skills, practices and economic incentives of private enterprise. Private investment in the underdeveloped countries not only contributes to the needed flow of capital resources, but, more importantly, carries with it the essential flow of managerial and technical know-how.

The skills and resources under the control of our business organizations represent one of our most valuable national assets. The Soviet government, in its activities abroad, can utilize the entire resources of its country. We cannot successfully compete unless we can similarly call on all of our resources.

# NEW U.S. DIRECT INVESTMENT MADE ABROAD IN 1957\*



\*Excludes reinvestment of earnings and portfolio investment. The year 1957 is the latest period for which reliable statistics of the type depicted in this figure have been reported

Figure 8

In many countries, American companies are engaged in important undertakings with little or no government assistance. In other countries, because of the conditions existing, there are many economic objectives, of importance to the country and to our government, which cannot be achieved on a strictly business basis. In such cases our government must, if it desires some particular task to be accomplished in the economic field, provide the necessary financial and other arrangements within which United States business organizations can play their role. For their part, the foreign governments should take the measures necessary, as some are doing, to create a favorable climate and all possible incentives to attract both domestic and foreign private investment.

Further methods should be developed to encourage private enterprise and management to participate to the fullest extent possible in the task of foreign economic development, even where conditions are unfavorable for normal private investment activity. Dr. Donald K. David, Chairman of the Committee for Economic Development, has usefully proposed that this objective can often be facilitated with aid funds by building a new partnership of business and government by having "government agencies contract with

private companies and private management to plan, build, organize, operate, and train local people for operating business enterprises abroad.”

The increased role for private investment has been dealt with recently in a thorough and thoughtful report, “Expanding Private Investment for Free World Economic Growth,” prepared by Ralph I. Straus, Special Consultant to the Under Secretary of State for Economic Affairs, and in another authoritative report made to the President by the Committee on World Economic Practices of which Harold Boeschstein was chairman.

In view of the thoroughness with which these reports have treated the subject, this Committee concluded that no useful purpose would be served by making an independent study of this important aspect of economic development. We do, however, concur fully with the conclusion of these studies that much greater use must be made of private enterprise for foreign economic development and that a variety of steps is necessary to stimulate increased activity by private enterprise abroad.

We are particularly impressed with the desirability of making available to American business more effective tax incentives to encourage private investment abroad, as recommended by the Straus and Boeschstein reports. We are also in accord with the recommendations of these reports for increased use of Government guaranties of private loans and investments overseas. The Committee supports use of such guaranties in preference to direct government-to-government loans wherever feasible, with broadened coverage to include additional types of risks, and with the reserve to back the guaranties limited to maximum foreseeable net cost rather than to set aside 100 per cent of the amount of the guaranties issued. We also believe that the various incentives and programs should be so geared as to channel as much United States private investment as possible into the less developed countries, where the need for economic development is the greatest.

The frequent emphasis by Government agencies on the encouragement of private investment is often more in the form of lip service than effective help and incentives to investment. We emphasize that what is needed is not only new techniques and procedures, but also a more affirmative attitude on the part of Government agencies and officials both in Washington and in the field toward the promotion of private investment. Our Ambassadors and economic officials abroad should do much more to channel our economic aid into private enterprise projects and to avoid wherever possible the financing of governmental projects which would compete with local private business.

In PART TWO of this report, we suggest the appointment of a full time board of business leaders to stimulate a cooperative effort between government and private enterprise in this field.

Although we are convinced that much can be done to increase the flow of private capital to less developed countries, we wish again to emphasize that private investment cannot quickly reach sufficient magnitudes to reduce sig-

nificantly the requirement for governmental economic assistance. Much of the necessary financing in these countries does not lend itself to private investment.

The valuable help being rendered by foundations and other nonprofit organizations in many countries in a wide variety of humanitarian endeavors should not be overlooked. These activities in many of the underdeveloped countries will undoubtedly expand through the years.

*We Recommend:* That necessary legislative and administrative action be taken to stimulate increased participation by private enterprise in providing both capital and management to the less developed countries, with emphasis upon additional tax incentives to encourage private investment abroad and increased use of Government guaranties of private loans and investments overseas. In this connection, every feasible means should be employed to assist and encourage the growth of local private enterprise.

#### IV. Defense Support and Special Assistance

The Committee has emphasized in this report the problems of economic development because it considers that the long run interest of the United States in a growing free world economy will best be served by assistance which has development as its primary objective. The Committee is equally convinced, however, that there is a continuing need for grant aid programs of Defense Support and Special Assistance.

The main purpose of Defense Support is to bolster the economies of nations not strong enough to support the military forces requisite for their security and ours. Special Assistance is intended to deal with a wide variety of problems which cannot be dealt with by other forms of economic grant aid. Both types of aid, properly administered, further the defense of the free world and strengthen our national security.

There has been increasing doubt in certain quarters as to the desirability of continuing grant aid programs for Defense Support and Special Assistance purposes. Critics have argued that continued grants for these purposes establish an undesirable long term relationship of dependency between the United States and the recipient countries and tend to become self-perpetuating. In the case of Defense Support, it is sometimes argued that countries concerned should adjust the size of their armed forces to the levels which their economies can support independently rather than for us to continue to provide the grant economic aid needed to maintain the present level of armed forces.

On the other hand, proponents of the program take the position that the grant aid proposed this year represents the minimum necessary to support

desirable levels of armed forces and to achieve other related United States objectives abroad.

The Committee has examined the Defense Support and Special Assistance programs in the light of these conflicting points of view and has reached the conclusion that we must continue these programs, although it should be our long range objective to reduce or eliminate them wherever possible. The plain facts are that Defense Support in certain countries is indispensable to the maintenance of our world posture, and that Special Assistance, as a tool of diplomacy, is a valuable implement in the cold war. Grant aid has been a widely used instrument of foreign policy throughout history, has served United States interests over the postwar years, and should not be foreclosed where it serves our national interests.

Specifically we conclude that:

First, for Fiscal Year 1960, Defense Support and Special Assistance in the amounts proposed by the President are needed.

Second, there are a number of countries receiving Defense Support and Special Assistance which will need such aid in substantial amounts for many years to come if United States and free world foreign policy objectives are to be attained. Although certain countries have no early prospect of economic viability, it would be contrary to United States interests to abandon them. Generally speaking, the Defense Support countries are unable to sustain an otherwise desirable level of military effort without such aid. It would be false economy to withdraw support from armed forces which are urgently needed for free world defense.

As indicated in our first Interim Report, appropriate adjustments in the size of military forces should be made from time to time. However, it should not be assumed that force reductions will automatically permit corresponding reductions in Defense Support aid requirements, since these are based on a total complex of military, economic and political factors in which the size of the forces maintained is only one, but very important, element.

Third, Defense Support and Special Assistance programs beginning in Fiscal Year 1961 can be reduced in cases where: (a) economic progress or reductions in military costs make this possible; or (b) surplus agricultural commodities or development loans can provide a substitute means of meeting the recipients' needs.

Fourth, it is especially important, in our efforts to reduce grant aid to stimulate vigorous action by recipient countries to increase their exports. Inadequate attention is being paid to this subject. While it cannot be expected that growth of exports in most of the less developed countries can approach the record of the Western European nations during the postwar recovery period, there are greater possibilities in this respect than are presently being realized. Vigorous action is needed in countries now depending on grant aid to increase production of items for which export demand exists.

Often one of the important steps to be taken is the establishment of realistic exchange rates in place of overvalued rates which prevent realization of the full export potential.

Fifth, those in charge of our economic aid program should develop plans, country by country, for the progressive reduction of dependence on grant aid for Defense Support and Special Assistance. We must counteract the tendency of some of these countries to assume that we will give support permanently at present levels. These plans should indicate year by year the steps by which each country could approach the goal of self-support, taking fully into account the basic requirements for defense establishments and essential elements of the national economy. These plans should be developed in consultation with the countries concerned, and reviews of the progress toward self-help should be made annually.

*We Recommend:* (1) That for Fiscal Year 1960, Defense Support and Special Assistance be made available in the amounts requested by the Administration; (2) that the United States continue this needed grant assistance in support of necessary allied forces and other national objectives, subject to such reductions and eliminations as may become possible by (a) substitution of development loans and surplus agricultural products where practicable and (b) changes in military or economic conditions in recipient countries; and (3) that the United States stimulate vigorous efforts by recipient countries to increase exports in order to reduce grant aid requirements.

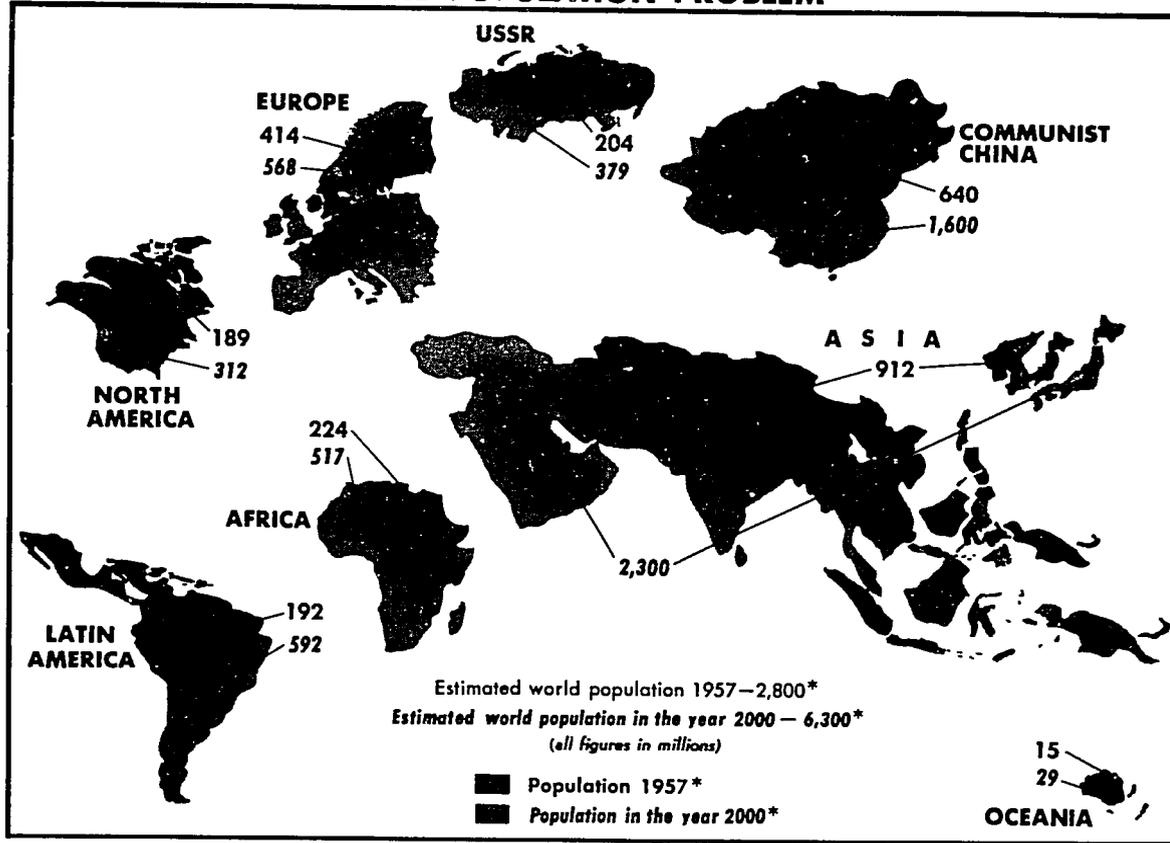
## V. The Population Question

No realistic discussion of economic development can fail to note that development efforts in many areas of the world are being offset by increasingly rapid population growth.

In 1950 the world population was estimated to be about 2.5 billion. This represented an increase of approximately one billion in the previous fifty years. If present growth rates continue, there would be a further increase of nearly four billion in the second half of the 20th century. This would more than double the 1959 population of the world within the next forty years—a period much shorter than the life expectancy of those just now reaching voting age. Problems connected with world population growth will be among the most serious to be faced by the younger generation of today.

A large part of the world population is at present underfed. The United Nations estimates that from 1950 to 1955 the world's population increased at an annual rate of one and one-half per cent, with the population in many underdeveloped countries increasing at double this rate. World food pro-

# THE POPULATION PROBLEM\*



\*All statistics based on public sources; size of areas proportional to estimated populations. Estimates for the year 2000 based on United Nations "medium assumptions" for birth and death rates. Computations based on the U.N. projections result in estimated average

rates of annual population increase per area as follows: Europe, 0.7%; North America, 1.2%; USSR, 1.4%; Oceania, 1.5%; Africa, 1.8%; Communist China, 2.1%; Asia, 2.1%; and Latin America, 2.7%.

Figure 9

duction is barely keeping pace with the increase in population in the world. However, the increase in food production in most of the underdeveloped countries has been falling behind the increase in population.

The seriousness of this problem is increased by the fact that the major population growth is taking place in the economically underdeveloped areas, where annual rates of three per cent are not uncommon. Unless the relationship between the present trends of population growth and food production is reversed, the already difficult task of economic development will become a practical impossibility.

The present rapid rates of population growth result primarily from a decrease in mortality rates rather than from a marked increase in fertility rates. Public health campaigns, especially in the less developed areas, have been phenomenally successful in many countries. In some instances, death rates have been cut by as much as 30 per cent in a single year and 50 per cent in the short span of 10 years. This is a great humanitarian achievement. Nevertheless, continuation of the traditionally high fertility rates meanwhile results in rapid population growth.

Although experience in the more developed countries suggests that present high fertility rates may eventually fall more into line with the decreased mortality rates, these high fertility rates are normally a part of deeply rooted cultural patterns, and natural changes occur only slowly. In many countries, national production is failing even to keep pace with population growth, and per capita gross national product and food supplies are therefore decreasing rather than increasing.

Government leaders in many of the less developed nations recognize that the only hope for their people lies in accelerating the normal adjustment to the rapidly declining mortality rate. Few countries have set up the necessary programs, although broad acceptance has been found in those areas where programs have been established. Most of the countries lack the large numbers of trained social and public health workers needed to implement an effective program.

Basically, the problems of rapid population growth and of adequate economic progress must be faced and solved by the individual countries. The United States and the other more advanced countries can and should be prepared to respond to requests for information and technical assistance in connection with population growth. Such information will help to point up the seriousness of the problem, and to encourage action in countries where population pressures exist. Such information is also useful in defining the areas in which initial efforts will be most effective. Recognizing an immediate problem created by the rapid growth, the United States should also increase its assistance to local programs relating to maternal and child welfare.

*We Recommend:* That, in order to meet more effectively the problems of economic development, the United States (1) assist those countries with

which it is cooperating in economic aid programs, on request, in the formulation of their plans designed to deal with the problem of rapid population growth, (2) increase its assistance to local programs relating to maternal and child welfare in recognition of the immediate problem created by rapid population growth, and (3) strongly support studies and appropriate research as a part of its own Mutual Security Program, within the United Nations and elsewhere, leading to the availability of relevant information in a form most useful to individual countries in the formulation of practical programs to meet the serious challenge posed by rapidly expanding populations.

## VI. Relation to Foreign Economic Policy

The Committee, in accordance with its assignment, has given consideration only to our foreign assistance programs. However, the success of these programs is closely related to the foreign and domestic economic policies pursued by the United States and the other industrialized countries of the world.

Most of the underdeveloped countries depend heavily on their export markets. Stable and expanding markets for their products will be important factors in the prospects for development. Continuance of the past decade's worldwide economic expansion and growth of international trade would contribute greatly to these prospects. The Western countries in their own interest and in the interest of the entire free world should pursue import and other economic policies which will permit adequate access by the underdeveloped countries to needed markets and which generally will stimulate a growing volume of world trade.

The United States has been directing its economic policies since World War II toward these ends. There has also been an encouraging movement in this direction on the part of other industrialized countries of the free world as their economies have gradually become stronger. From the point of view of the entire free world, it is a matter of first importance that these policies be continued and strengthened.

## Part Two

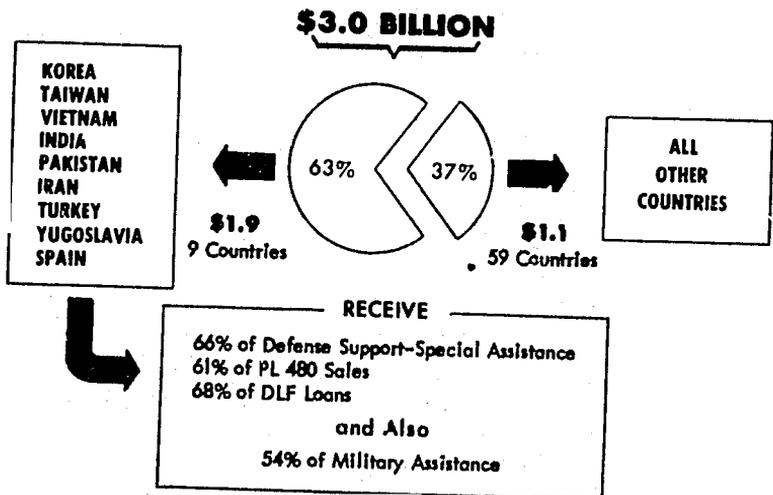
# ADMINISTRATION

## VII. Scope and Complexity of the Problem

There is no more difficult administrative undertaking in the United States Government than that posed by the management of the various economic assistance programs and the necessity for assuring their conformity to foreign policy objectives. Their scope and complexity is evident from the discussion in the preceding pages, and from the charts in this section of the report. The annual dollar value of the economic and technical assistance programs and related activities places this governmental operation in a comparable rank, measured on a financial scale, with major governmental departments.

While a large part of United States foreign assistance dollars is concentrated in aid to less than a dozen key countries, most of which border the Soviet bloc, complexities are not measured by dollars alone. There

### A FEW COUNTRIES RECEIVE THE BULK OF U.S. ECONOMIC ASSISTANCE



*Defense Support, Special Assistance, Technical Cooperation, PL 480—FY 1959, DLF—Loans announced through May 31, 1959*

Figure 10

are several different types of programs in most of the approximately 70 countries involved. The problem of administration is further complicated by the wide variation from country to country of the "mix" of aid programs, which varies in accordance with the recipient's needs, resources and specific problems. Figures 11, 12 and 13 give a further description of the programs and the problems they present.

### THE 'MIX' VARIES SHARPLY FROM COUNTRY TO COUNTRY

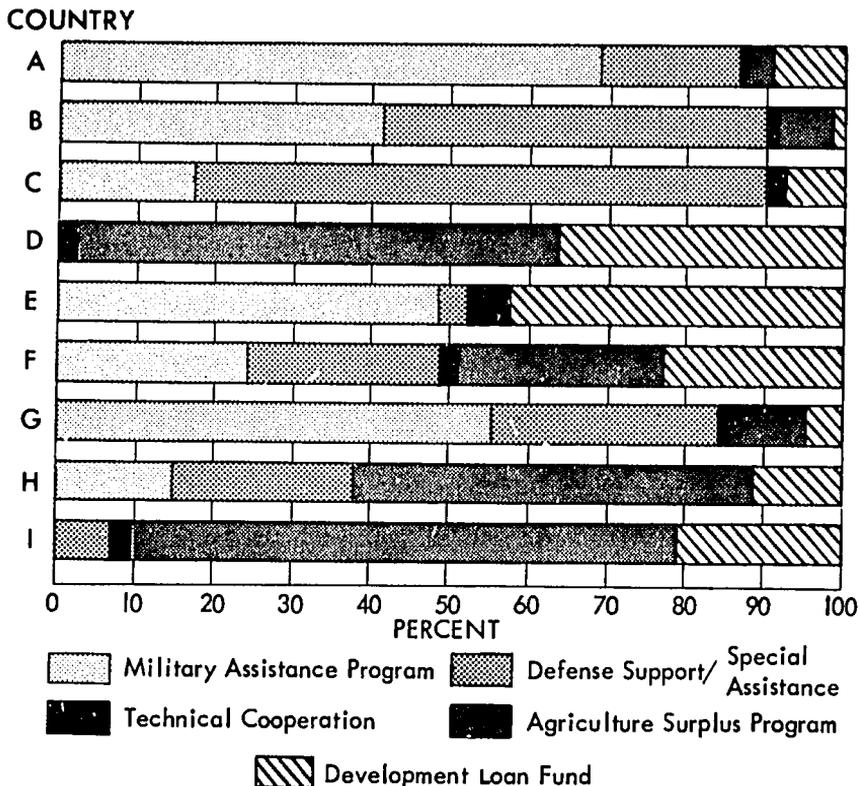


Figure 11

The Committee finds that in recent years the administration of the several forms of economic assistance, under the coordination of the Under Secretary of State, has been steadily improved. However, recognizing the long term nature and vital importance of these programs our country needs: to marshal all resources available for foreign economic assistance into a single integrated program; to increase the effectiveness of support of foreign policy by this integrated program; and to improve the efficiency with which it is carried out, both in Washington and in the field. The present fragmented organization, with its dispersion of authority and responsibility, makes satisfactory attainment of United States objectives difficult if not impossible.

## VIII. The Present Organization

### A. Current Structure and Relationships

The present organization of the United States Government for the planning and administration of programs contributing to the development of free world economic strength is exceedingly complicated. While military assistance is administered by a single agency, the Department of Defense, over a dozen major agencies or Departments carry out activities which involve elements of economic assistance.

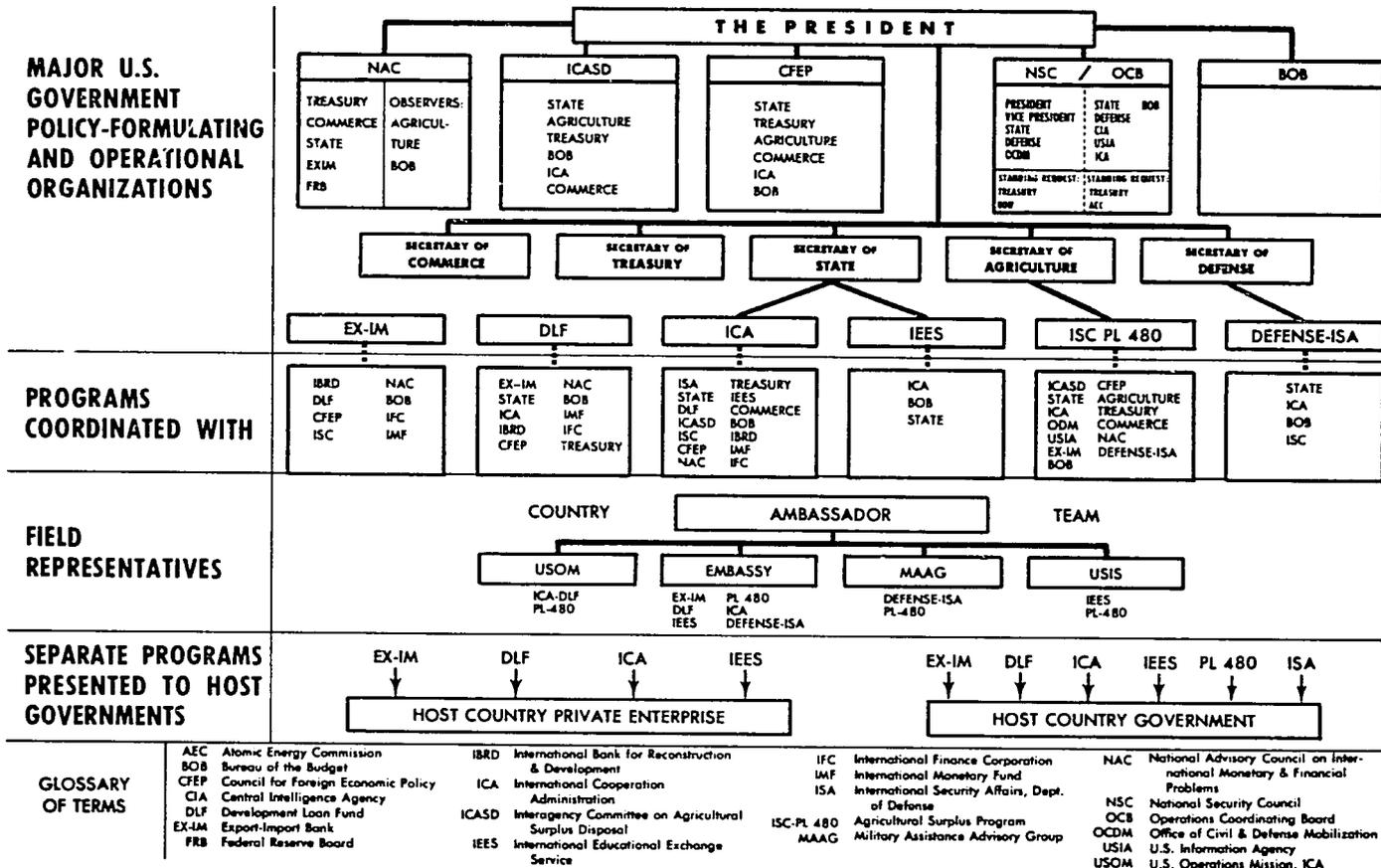
The Export-Import Bank, the Development Loan Fund, and to a lesser extent the International Cooperation Administration, provide assistance in the form of loans. The International Cooperation Administration administers grant aid to countries in the form of Defense Support, Special Assistance, Technical Assistance and surplus commodity grants. While the Department of Agriculture is responsible for most surplus agricultural commodity sales, the International Cooperation Administration is required by law to use a portion of its appropriation (\$175 million in Fiscal Year 1959) to finance foreign aid through the use of agricultural surpluses.

The Department of State—with the United States Information Agency handling field activities—administers educational exchange programs. However, the International Cooperation Administration and the Department of Health, Education and Welfare also administer exchange programs. Other government agencies have their own programs in a number of countries, some of which are primarily for domestic purposes. The Departments of Health, Education and Welfare, Labor, Treasury, Interior, and Commerce, the Atomic Energy Commission and the National Science Foundation are among the agencies having their own overseas activities in addition to the services they provide for the International Cooperation Administration under contract.

Planning and administering United States aid programs is further complicated by the need to relate them to the bilateral programs of other governments, the efforts of private agencies, and the programs of a dozen or more regional and international agencies which carry on similar operations.

The task of coordinating aid provided under the Mutual Security Program by the United States has been assigned to the Under Secretary of State for Economic Affairs (now the Under Secretary of State), aided by a Special Assistant for Mutual Security Coordination. The Department of State also voices the views of the United States in the United Nations, the Organization of American States and various regional groups. Although the Department of State coordinates this country's relations with these and other international agencies, other Departments also furnish representation for the United States in international bodies.

# SIX SEPARATE FOREIGN AID AGENCIES



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Figure 12

The National Advisory Council, under the chairmanship of the Secretary of the Treasury, establishes overall financial policies for the Export-Import Bank, the Development Loan Fund (DLF) and the International Cooperation Administration (ICA). The Council also provides guidance for the United States representative to the International Bank for Reconstruction and Development (IBRD), the International Monetary Fund (IMF) and the International Finance Corporation (IFC). In addition, liaison with United Nations technical agencies is carried out by the United States government agency in the appropriate field, such as the Department of Health, Education and Welfare in the cases of the United Nations Educational, Scientific and Cultural Organization (UNESCO) and the United Nations International Children's Emergency Fund (UNICEF), and the Department of Agriculture in the case of the Food and Agricultural Organization (FAO).

## B. Handicaps to Effective Administration

The growing diffusion of sources from which United States assistance may be obtained contributes to the difficulties of effective administration. Specific problems are:

First, it has become increasingly difficult to integrate the several forms of assistance into a harmonious whole that can then be coordinated with military assistance and blended into the totality of our relations with individual countries.

Second, too many uncoordinated voices are permitted to speak for the United States in the economic assistance field. Officials of countries who receive our aid have difficulty in comprehending the purposes and roles of a number of United States agencies, which may use different operational and administrative procedures for similar activities. Working relationships with international economic and technical assistance agencies, complicated at best, are made even more difficult.

Third, uncoordinated policy and program guidelines are issued by individual agencies separately and at different times. Often they are not specific.

Fourth, important issues may remain unresolved for considerable periods of time, or be glossed over in a series of compromises made by a lower level interagency working group, with the consequence that clear cut courses of action are not defined.

Fifth, costly delays occur. An excessive amount of staff time is spent in interagency coordination to the detriment of program planning, analysis and control. Often delays occur because of the necessity of reconciling the views of the many agencies now participating in overseas activities.

Sixth, there is no centralized responsibility for planning or implementing the use of local currencies owned by the United States Government.

Seventh, the present procedure for interagency review does not always bring about comprehensive consideration of what the United States seeks to accomplish in each country through the several forms of assistance.

Eighth, there is no one place in Government where there is a complete and meaningful record of what is being done in each country, and a clear assessment of the results.

Ninth, in some countries, the Country Team system is not working effectively. Members of the Country Team tend to reflect their own agency viewpoints, and the Ambassador is in some instances unwilling or unable to provide adequate leadership or to utilize his clear authority to coordinate the activities of the various agency representatives. Furthermore, he can do little to coordinate activities of such agencies as the Development Loan Fund and the Export-Import Bank, which do not maintain staffs abroad, and tend to negotiate directly with country embassies in Washington and with representatives of the foreign governments who come to Washington for this purpose. This makes planning of assistance between the Country Team and the local government difficult.

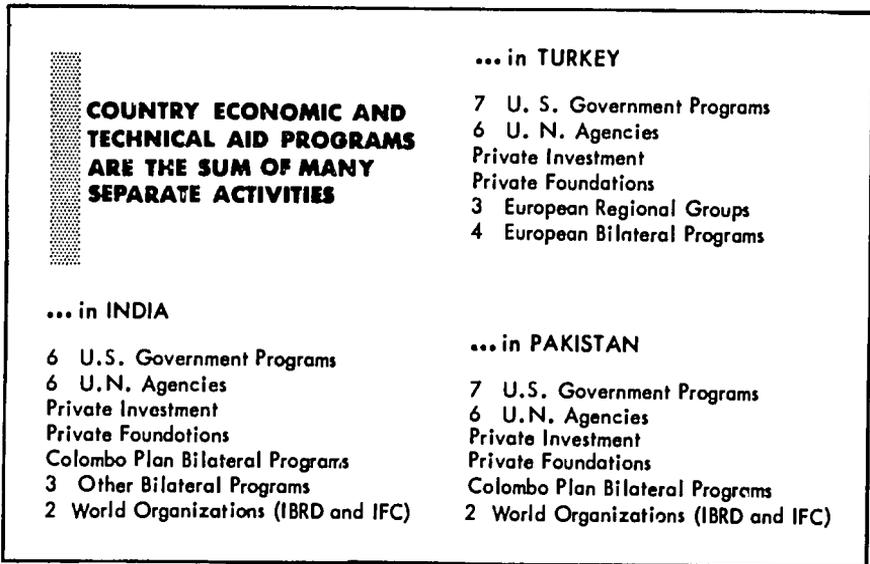


Figure 13

In addition to such general criticisms of the organization and administration of economic assistance, the Committee notes that the attention of the public has been called to a number of individual programs and projects which appear to have been unwisely planned, unduly delayed or poorly executed. In some of these cases, the criticism is certainly justified. It

must be kept in mind, however, that under the difficult circumstances of programs operated in so many different countries, hindsight is bound to detect errors and imperfections. To a significant extent, moreover, the weaknesses have resulted from deficiencies in organizational arrangements. Full efficiency cannot be obtained until these organizational weaknesses have been corrected.

We are not the first to call attention to the deficiencies in the existing organization of economic assistance programs. The Committee on World Economic Practices (the Boeschstein Committee) in its recent report dealing with cooperation between the government and the private sector of our economy in combatting the Sino-Soviet economic offensive, pointed out that it is "essential that our foreign economic programs have vigorous and unencumbered leadership," and commented:

"Our efforts to date have suffered from fragmentation and division of responsibility among many Departments, Agencies and Committees of the Government—State, Treasury, Defense, Agriculture, Commerce, ICA, DLF, Export-Import Bank, NAC, CFEP, etc. Inefficiency, ineffectiveness and delay have resulted."

## IX. Basic Concepts for Organization and Administration of the Economic Assistance Programs

The Committee considers that the adoption of certain basic concepts of organization and administration will materially simplify and improve the operations and effectiveness of the program. In our second Interim Report we applied a number of basic concepts to the organization and administration of military assistance. There is a major problem encountered in the case of economic assistance programs, however, that does not exist in dealing with military assistance: the proliferation of operating agencies in Washington with a resulting dispersal of operations in the field.

The new communist techniques in waging the cold war, which increasingly include fast moving use of flexible economic as well as military assistance programs, emphasize the necessity for improved arrangements in our economic organization if we are to compete successfully.

The basic concepts which we believe should guide the organization and administration of economic assistance are as follows:

First, the strengthening of the functioning of the Department of State on the policy level with respect to economic assistance programs to assure conformity of economic assistance programs to foreign policy and to related assistance programs both in planning and execution.

Second, the focusing of responsibility in a single agency for planning, programming and execution of economic assistance within the framework of

foreign policy direction by the Department of State.

To bring this about we are later making recommendations in which we propose:

Consolidation in a single agency of the several related economic assistance responsibilities in Washington, now scattered among a number of agencies.

Long range planning and continuity of programs: economic assistance planning should be on a longer range basis, measures to assure continuity in administration, including provisions for personnel, should be undertaken.

More effective decentralization to the field: although recognizing that some decentralization has already been achieved, we believe there should be a further decentralization of planning and operating responsibilities to the field, accompanied by further integration within each country of all assistance activities under the leadership of the Ambassador.

Strong foreign policy direction by the State Department balanced with clear responsibility for field operations in the single agency: there is need for clearer and more effective foreign policy direction of economic assistance programs by the Department of State, coupled with freedom by the operating agency to carry out approved programs without unnecessary interference.

## X. Steps to Carry out the Basic Concepts

### A. Consolidation of the Several Related Economic Assistance Responsibilities in Washington in a Single Agency

1. *Need for a Single Agency.* Historically, the greatest United States success in the field of economic assistance has been the Marshall Plan. The challenge of the present world situation is as great, indeed in many ways it is greater, than that which the Marshall Plan was designed to meet. The Committee believes that the record of success under the Marshall Plan warrants giving great weight to the organizational precedent, established in 1948, of a single agency. While the problems now facing us differ in a number of important respects from the problems of European recovery, there are parallels, including the nature and magnitude of our task and its importance for our future.

The Committee on World Economic Practices (Boeschstein Committee), in its report to the President, concluded that our foreign economic programs had failed to inspire the participation of private enterprise in combatting the Sino-Soviet economic offensive and recommended that

responsibility for these programs be centralized to provide more effective leadership.

Existing organizational arrangements in the field, as well as in Washington, have also been properly criticized on the ground that they interfere with effective management for economic assistance purposes of the resources represented by surplus agricultural commodities and by the local currencies generated by their sale and from other sources.

Reviewing the sum total of the economic assistance activities, we believe that a single operating agency could better correlate, and could make more effective and economical use of, the total economic resources which the United States can make available for building free world economic strength. Centralized operational responsibility should reduce the problems involved in achieving a proper balance between policy direction and operations, and also increase the ability to achieve the necessary selectivity in initiating, changing and terminating individual programs.

This organizational arrangement should also focus responsibility for assuring that local governments are making their proper contribution.

For the reasons set forth in a later section of this report, the Committee believes that the operating agency should be outside the Department of State. However, the consolidation of operating functions is a more important consideration than the agency's location in the Executive Branch.

2. *Functions of the Agency.* To accomplish effective integration of related economic assistance functions by a single agency, the following specific steps are necessary:

First, there should be assigned to the agency the functions, personnel and facilities of the International Cooperation Administration, including its operating responsibilities for Defense Support, Technical Assistance, Special Assistance and guaranties of private investments.

Second, the Development Loan Fund should be transferred to the agency. Neither the concept of the Fund, nor its corporate structure, should be changed. The Director or Deputy Director of the agency should be appointed Managing Director of the Fund.

Third, there should be transferred to the agency authority to (a) decide which countries will receive surplus agricultural commodities, determined by the Department of Agriculture to be available for use under Public Law 480, and whether by sale or grant, (b) decide the amounts of such commodities to be assigned to any one country, and (c) assist the Ambassadors in negotiating agreements as to commodities to be supplied and the use to be made of funds derived from their sale. The economic assistance agency should also be continuously informed of the bartering of surplus agricultural commodities by the Department of Agriculture, so that it may take these arrangements into account when planning the use of surplus agricultural commodities.

Fourth, there should be transferred to the agency, from the Export-Import Bank, responsibility for loans repayable in foreign currencies under the "Cooley Amendment" to Public Law 480.

Fifth, the agency should be assigned responsibility for coordinating the programming of all local currencies generated by Public Law 480, and the several mutual security programs, including the Development Loan Fund.

Sixth, the agency should be assigned clear responsibility for the initial development of assistance plans for the operating activities in countries which make up the total United States economic assistance program. When country plans have been developed, which should include dollar guidelines, and have been approved by the Department of State, the single agency should have responsibility for carrying them out.

The Committee does not consider that the above discussion necessarily includes all the functions which might eventually be assigned to the agency. For example, certain of the foreign activities of other Departments which have an economic impact abroad might be usefully included at some later time.

The Committee also notes that there are areas of possible competition and overlapping of functions between the Export-Import Bank and the Development Loan Fund. While the Export-Import Bank was established primarily to finance American exports, its loans have been making an increasingly important contribution to the economic development of many underdeveloped countries. The Committee suggests that if the activities of the Export-Import Bank and the Development Loan Fund cannot be effectively coordinated a further consolidation of functions should be considered.

3. *Special Problems.* The Committee has given particular consideration to three special problems relating to the operations of the single agency.

a. *Encouraging Private Investment.* The Committee has stressed in PART ONE of this report the importance which it attaches to the role of free enterprise and private capital in economic development.

Both the report of the Committee on World Economic Practices and the report by Mr. Ralph I. Straus on "Expanding Private Investment for Free World Economic Growth" note the need for a central point in the United States Government which would be concerned with the steps required to encourage private investment and other forms of private participation in foreign economic development.

Despite these excellent reports and the wide interest in the increased role American free enterprise can play in building world economic strength, the steps taken so far by the Government will not, in the judgment of the Committee, serve adequately to mobilize the forces of free enterprise in this country for this task. The problem is twofold in that (1) the opportunities for private trade and investment abroad, and for participation by private interests in government projects, have not been made known in

forceful enough ways to private businessmen in this country, and (2) when private business, on its own initiative, has sought the aid of government in its foreign trade and investment, or has indicated its desire to make its services or facilities available to the Government, it has not always found a ready and sympathetic response.

The Committee has noted, with approval, the appointment of a new Deputy Director for Private Enterprise in the International Cooperation Administration to handle this phase of operations on behalf of the Under Secretary of State, as well as the recent steps taken by the Department of Commerce to intensify its efforts in this field. It believes, however, that for an interim period of at least a year or two, these efforts should be supplemented by the creation of a relatively autonomous high level group of private businessmen reporting to the head of the proposed single economic agency.

Such a group might, for the purpose of illustration, be called "The Board for Free Enterprise Mobilization Abroad." This group, which should be headed by an outstanding businessman with national prestige, and should include a few key men of similar distinction representing segments of American business interested in overseas activities serving on a full time basis, could organize and carry out means of achieving the objectives stated above. At a later date, the functions of this board might be absorbed in an orderly way into the organization of the Director of the proposed single agency.

b. *Coordination with International Programs.* It is essential that economic assistance provided by the United States be coordinated with similar programs of international agencies. The Department of State and the single economic agency should establish arrangements which will permit the agency to take an active part in consulting and working with these international agencies which conduct programs in countries in which the United States also provides assistance.

c. *Coordination with Overseas Activities of Other Government Departments.* The Committee has been impressed by the growing number of United States departments and agencies which are engaged in overseas activities. While many of these activities are wholly unrelated to economic assistance operations in nature or purpose, others contribute in varying degree to economic development. Some of these activities appear to be adequately coordinated with economic assistance programs, but in a growing number of instances there is no coordination, or it is ineffective. The Committee did not explore this important subject in detail, since many of these activities have to do with domestic rather than foreign assistance problems. However, the attention of the Executive Branch is invited to the fact that further steps may be needed to assure that these multiple overseas activities are properly related to our Mutual Security and other assistance programs and to United States foreign policy.

*We Recommend:* That—subject to the proposals made later herein as to the role of the Secretary of State—the following specific steps be taken: (1) create a single economic assistance agency; (2) assign to the agency the functions, facilities and personnel of the International Cooperation Administration; (3) transfer to the agency the Development Loan Fund without changing its general statutory concept or corporate structure, and designate the Director or Deputy Director of the agency as the Managing Director of the Fund; (4) transfer to the agency authority to (a) determine what countries will receive surplus agricultural commodities under Public Law 480 and whether by sale or grant, (b) decide the amounts of such commodities to be assigned to any one country, and (c) assist the Ambassadors in negotiating agreements as to the commodities to be supplied and the use to be made of funds derived from their sale; (5) transfer to the agency, from the Export-Import Bank, responsibility for loans repayable in foreign currencies made under the “Cooley Amendment” to Public Law 480; (6) assign to the agency responsibility for coordinating the programming of all local currencies generated by Public Law 480, and the several mutual security programs, including the Development Loan Fund; (7) make the agency responsible, subject to the foreign policy direction of the Department of State, for the initial development of economic assistance plans for individual countries, and for coordination of the operating activities of United States economic assistance programs for each country; (8) appoint a relatively autonomous high level group of private citizens to report to and advise the Director of the agency as to how best to mobilize American private enterprise for free world economic development; and (9) make provision for the agency to take an active part in consulting and working with the various international agencies concerned with development.

## B. Long Range Planning and Continuity of Programs

The development of the economic and political strength of the free world is inevitably a long term and continuing process. There are no short cuts. Progress cannot be shipped abroad like a manufactured product, nor achieved by a mere injection of dollars.

The assistance which the United States contributes to such development is not likely to be effective unless it is planned and administered in the light of long range objectives. Our Committee sees three specific ways in which these can be facilitated: (1) improved long range planning, (2) appropriate legislative authorizations, and (3) personnel arrangements consistent with the long term nature of the program.

1. *Improved Long Range Planning.* Assistance programs of a continuing nature should be based on long range planning. This should include a comprehensive statement of United States objectives in each country and

a long range plan for their accomplishment, time phased to the greatest extent practicable. This plan should be based on the best local development plans and objectives which can be realistically formulated. Such plans should identify the contribution which the local government will undertake to make from its own resources, the possible sources and extent of external assistance, including participation by other developed countries, multilateral lending agencies and private investment, and the appropriate form of the United States contribution, which must necessarily be limited.

2. *Appropriate Legislative Authorizations for Future Programs.* In its first Interim Report, this Committee called for "a longer term outlook" for both military and economic assistance programs. In the second Interim Report, it recommended steps to put the military assistance program on a continuing basis. Successful long term planning of economic assistance programs also depends upon assured continuity. The Committee's recommendations on the legislative changes required to achieve adequate continuity are set forth in PART ONE of this report.

3. *Personnel Arrangements.* The administration of economic assistance programs will never be better than the quality of the personnel who conduct them. If programs are to be administered successfully on a long range basis there must be long term recruitment of the best personnel available. Excessive turnover in personnel must be avoided. The Committee believes that six interrelated steps should be taken to attract and hold the leadership and staff required to administer such a long range program:

First, an outstanding individual with recognized public standing and proven administrative ability, acceptable to the Secretary of State, should be appointed by the President to serve as administrator of the single agency. The rapid succession of eight men in the position of Director of the International Cooperation Administration and its predecessor agencies in recent years has contributed to reducing the effectiveness, status and prestige of this position. This has been accentuated by the downgrading of the post of Director when the International Cooperation Administration was formed. The establishment of a single economic assistance agency should make it easier to get the best possible Director because of the challenge of the larger job. This would also assist him in recruiting top flight assistants and other personnel.

Second, the single economic assistance agency should have its own personnel system suited to the special characteristics of the aid program. The recruitment, training, rotation and promotion policies of the Foreign Service have not been designed to provide the specialized, technical, as well as the occasionally short term, personnel required for economic assistance operations. The talents required for the formulation of foreign policy are distinctive, and individuals trained in the handling of foreign political matters do not normally possess the kind of experience required for the business type operations of economic assistance programs. Such programs require

personnel who can deliver commodities, give technical assistance and training, and build roads, dams and factories on exacting time schedules and budgets.

Third, the agency's personnel system should include a permanent career service. Excessive turnover in the field is inevitable unless permanent appointments can be made. The International Cooperation Administration has made considerable progress in developing and administering an overseas personnel program designed to meet the particular staffing needs of a worldwide economic assistance program operating in underdeveloped countries. Congress has given impetus to the development of this program by adding funds to the technical cooperation appropriation primarily to improve personnel administration with particular emphasis on language training. The accomplishments to date resulting from actions of both the Executive and Legislative branches are substantial, but not yet adequate to meet the challenge. We believe that legislation should be provided authorizing an overseas career system which will give an employee in the economic assistance program assurance of continuity of government service, such as is now provided to the State Department's Foreign Service and to military officers. Such legislation should result in attracting and retaining higher type personnel for the economic assistance field. In addition, the necessary steps should be taken to encourage other organizations, both governmental and nongovernmental, to detail more of their best qualified employees for tours of duty overseas in the economic field.

Fourth, for a short period of time (for example, six months or a year) the head of the economic assistance agency should be given special powers, similar to those granted to the head of the United States Information Agency when first established, to remove personnel inherited by the agency from its predecessors. These powers would permit the head of the agency to select for retention only the best of present personnel.

Fifth, personnel, even though expert in their own field, who are sent overseas to undertake the difficult and delicate task of developing new institutions and practices in another culture, need special training. Mission chiefs and other high officials as well as experts and specialists need such training. The Committee notes that Congress has made funds available for the expansion of the International Cooperation Administration's program for training its own staff, and considers that full advantage should be taken of the opportunities these funds create.

Sixth, at least in those comparatively few countries where the bulk of United States aid is provided, not only the chief of the United States Operations Mission, who is responsible for economic assistance, but the chief of the Military Assistance Advisory Group and, of course, the Ambassador should be selected on the basis of the special operating experience required. They should be retained in these key countries for several years regardless of existing rotation systems.

*We Recommend:* (1) That the Executive Branch take the required action to put into effect improved policies and procedures for long range planning of economic assistance; and (2) that the personnel needs of the long range program to be executed by the proposed single agency be met by (a) appointing an outstanding individual with proven administrative ability, acceptable to the Secretary of State, to head the agency, (b) providing the operating agency with its own personnel system suited to the special characteristics of foreign economic assistance programs, (c) including in the agency's personnel system a permanent career service, (d) giving the head of the agency, for a limited time, special powers to remove personnel, (e) providing improved training for the staff of the agency, and (f) selecting as chiefs of the United States Operations Missions in key countries men with special experience and competence.

### C. More Effective Decentralization to the Field

We consider it important that there should be a more effective decentralization to the field of planning and operating responsibilities. We recognize that the conditions pertaining to economic assistance are somewhat different from those for military assistance, but the need for increased decentralization applies to both. More effective decentralization should reduce the number of mistakes and distortions in our assistance programs, and permit their closer meshing with the indigenous programs of recipient countries.

One essential prerequisite to more effective decentralization is to place the major economic programs under a single agency in Washington, as we have proposed. This also should make possible better coordination in the content and timing of instructions to the field. As a result the Ambassador should be able to exercise more effectively his responsibility for coordination and supervision of all United States programs within the country. This includes development of local United States plans and programs, and consultation and agreement with the local government on the best way United States resources can contribute to a sound development program.

The Ambassador has a vital role to play in the administration of military and economic assistance programs. In our second Interim Report, we made three specific recommendations as to the function of the Ambassador as related to military assistance. We now make similar recommendations as to economic assistance.

*We Recommend:* (1) That there be more effective decentralization of responsibilities for economic assistance plans and programs to the Ambassadors and to the chiefs of the economic missions together with improved policy direction and supporting administrative arrangements in Washington to accomplish improved decentralization; (2) that United States Ambassadors

sadors, as personal representatives of the President, provide a strengthened leadership for all United States economic assistance plans and programs on an integrated country basis, pursuant to United States foreign policy objectives; and (3) that United States Ambassadors assigned to the relatively few countries with large assistance programs be selected with special consideration of their experience and competence in this field when appointed, be given training in the special requirements involved, and be provided with a senior staff assistant qualified to aid the Ambassador in planning and coordinating all United States assistance programs therein.

#### D. Strong Foreign Policy Direction Balanced With Clear Operational Responsibility

In recommending that a single agency be made responsible for administering related economic assistance programs, the Committee proposes, for reasons given later in this report, that this agency be located outside the Department of State, with its Director reporting to the President. At the same time, it believes there must be adequate assurances that the Department of State can play its key role of providing foreign policy direction in the planning and coordination of the programs, and that the foreign economic aid administrator will willingly accept this direction.

1. *Planning.* The Department of State should have the clear responsibility for providing the single agency with specific statements of foreign policy objectives, both regionally and by country, prior to that agency's preparation of country economic assistance plans. Since the conveyance of foreign policy directives is a complex and continuing function, it should be the subject of continuous contact between the single agency and the State Department—normally through their regional opposite numbers—both during the planning and execution of the programs. After the plan has been completed by the agency it should be approved formally by the Department of State, together with dollar guidelines for the programs in each country, before the plan is reduced to a program for presentation to Congress or for execution.

After this approval has been given, the single agency should carry out the program without requirement for further specific approvals by the Department of State. It should at all times keep the Department of State fully informed in good time, and the Department of State should have the right to veto any action which it considers inconsistent with foreign policy or the approved country plan. In addition, the State Department should have the right at any time to propose changes in, or additions to, the plan necessitated by changing country or world conditions.

2. *Coordination.* The staff, mechanisms and arrangements of the Department of State which are concerned with coordinating assistance programs should be strengthened, not to deal with operating details, but to provide adequate and timely foreign policy direction and coordination of all foreign assistance activities.

3. *Evaluation.* An evaluation staff should be provided, reporting directly to the head of the separate agency. This evaluation staff would be similar in concept and operation to that which has for the last three years advised the head of the International Cooperation Administration. The Committee stresses that it has in mind, not an inspection type function, but a policy and operational appraisal which will include the making of suggestions for the consideration of the Ambassadors and Country Teams, as well as making reports and recommendations to the Directors of the single agency. Auditing and inspecting activities should be performed separately, since different functions and different types of personnel are involved.

There should also be a small evaluation staff reporting to the Secretary of State under the direction of a high ranking assistant which would make evaluations of the sum total of our foreign operations, economic, military and informational. The State Department evaluation function should include consideration of the evaluation reports of the operating agencies (our second Interim Report on The Organization and Administration of the Military Assistance Program also recommended an evaluation staff for that program), and also field studies to be made by mixed teams for which the operating agencies (Defense, United States Information Agency, the single economic assistance agency, and others) would provide most of the personnel.

This State Department evaluation operation would help assure flexibility in meeting changing conditions and the initiation of improvements based on lessons drawn from experience. It should supply a useful tool to the Secretary of State in carrying out this responsibility of keeping the President informed on major foreign policy developments for which the President has ultimate responsibility to the nation.

*We Recommend:* That the role of the Department of State in foreign policy direction and coordination of all economic assistance programs be fully protected, and that the single operating agency be given adequate operational freedom, by measures which include (1) participation by the Department of State at an early stage in the long range planning of economic assistance, approval of such plans together with the dollar guidelines by the Department of State prior to submission to Congress or execution, and freedom for the operating agency to devise and carry out programs without further specific approval, except for items vetoed by the Department of State as being inconsistent with foreign policy or approved country plans; (2) strengthening the State Department staff, mechanisms and ar-

rangements concerned with the providing of foreign policy direction and the coordination of assistance programs; and (3) provision of an evaluation staff for the head of the separate agency and an evaluation assistant to the Secretary of State.

## XI. Location of the Economic Assistance Agency

In recommending earlier in this report that a single agency be given responsibility for administering related economic assistance programs, the Committee expressed the judgment that this agency should be located outside the Department of State. We here give a summary of the factors considered by our Committee in its deliberations on this matter.

The Committee considered that the only feasible alternative arrangement would be to place the agency within the Department of State as a clearly separate administrative and semi-autonomous entity, with its Director having the rank of an Under Secretary with direct access to the Secretary.

The suggestion has been made that some or all of the operating responsibilities for assistance programs might be assigned to geographic bureaus of the Department. But the Committee is convinced that the conduct of this program in Washington should be integrated, and that dispersion into State's area compartments is neither desirable nor feasible. Desk officers, in State, the International Cooperation Administration and the United States Information Agency are each doing specialized work—respectively, political, economic and informational. Each of them has a full time job in his own field.

Considerations put forward in support of placing the agency within the Department of State include:

That the Secretary already has an established position and plays the primary role in coordinating our relations with other countries;

That, as the official primarily responsible, under the President, for achieving this country's foreign policy objectives, and for coordinating both economic and military assistance programs, the Secretary would have more direct control over this important agency;

That there might be some increase in the time required of the President if another agency head is added to those now reporting to him;

That a senior official of the Department of State might be more effective than the head of a separate agency in negotiating with the heads of cabinet Departments; and

That economic assistance programs might be more readily related to United States policies on international trade and commodity matters if the agency head reports to the Secretary of State. This government's decisions on tariffs, customs, commodity price stabilization and import quota questions

are often as important as economic assistance to the economic development of other countries.

The Committee has given consideration to the arguments for a separate single agency, which include:

First, experience indicates that a separate agency is more likely to achieve a vigorous, imaginative program and effective administration of the distinctive tasks involved. The record of the Economic Cooperation Administration illustrates this point. The need to regenerate and apply to the problems of today the high vitality and sense of urgency which the Marshall Plan achieved is an overriding consideration.

Second, it would be easier to attract outstanding citizens for the head of the agency and to staff its top echelons if it had the recognition and prestige of separate status. The downgrading of the Foreign Operations Administration to the present status of the International Cooperation Administration has had observable adverse effects. The morale of the specialized operating personnel tends to be higher in a separate agency than in a subordinate entity of a large Department, which is primarily interested in the conduct of foreign policy rather than in operating problems.

Third, the creation of a single agency under a distinguished private citizen should facilitate the development of greater confidence and closer working relationships between the agency and private business organizations which could make so much greater contributions to the success of the program.

Fourth, the burdens on the President and the Secretary of State could be eased if they were relieved of many decisions of a purely operational nature. This should be possible if a strong leader with a strong organization has responsibility for operating the agreed economic assistance programs. The Secretary and his Under Secretary would be freer to devote themselves to the exacting task of foreign policy formulation.

Fifth, the administration of economic assistance will inevitably be the subject of public and Congressional complaints, criticisms and investigations. Congressional critics often insist upon dealing with the head of the responsible Department or agency. If the program is administered within the Department of State, the Secretary and Under Secretary would almost inevitably be drawn into many controversies not directly related to foreign policy. On the other hand, with a separate agency, outside the State Department, Congress and the public would place responsibility for efficient operation on the head of the new agency.

Sixth, an agency subordinate to the Secretary of State would have difficulty maintaining an autonomous status. There would be constant pressures to downgrade the agency and to subject it to the administrative processes of the Department of State which have not been designed to meet the requirements of major operating programs.

Seventh, long term economic development programs and short term political pressures are constant competitors for economic assistance resources. The location of the immediate responsibility for administering these resources in a separate agency under a strong leader would insure more adequate consideration of long term economic objectives.

After balancing all of these factors, the Committee feels that the considerations for placing the agency outside of the State Department outweigh the others, and—for the reasons enumerated above—definitely favors this course. The Committee wishes to emphasize that, if it is decided to place the economic assistance agency under the Secretary of State, the operating autonomy of the agency should be scrupulously protected.

## Part Three

# RECAPITULATION OF RECOMMENDATIONS

## Programs

### Economic Development

#### *Requirements and Availabilities*

That funds should be made available for development lending under the Mutual Security Program in the amount requested for Fiscal Year 1960, and starting in Fiscal Year 1961 at the rate of at least \$1 billion a year. (Page 24)

#### *Relations with Recipients of Aid*

1. That future United States aid programs should place greater emphasis on the predominant initiative and responsibility of the countries being aided for taking constructive steps to solve their own problems; and,
2. That United States aid should ordinarily be extended only so long as recipient countries reasonably carry out their undertakings. (Page 25)

#### *Surplus Agricultural Commodity Assistance*

1. That utilization of available surplus agricultural commodities be geared more effectively to the advancement of United States foreign policy objectives, particularly those of the Mutual Security Program; and that to this end the necessary organizational adjustments be made so as to vest primary responsibility for the programs to utilize these commodities in the same officials who administer our other assistance programs (see the recommendations in PART TWO of this report) ;
2. That Public Law 480 be amended or interpreted, as necessary, to authorize a more flexible policy for utilization of surplus agricultural commodities for foreign economic development purposes, so that they can be used to a much greater extent
  - a. by grant with establishment of a counterpart account, or
  - b. by sale with a grant of the local currency sales proceeds, as well as by sale with a loan of the local currency sales proceeds;

3. That Section 402 of the Mutual Security Act of 1954 be repealed and that all sales of surplus agricultural commodities for local currency be carried out as one consolidated program under Public Law 480; and,

4. That available surplus agricultural commodities be used for economic development to the maximum extent consistent with the ability of recipient countries to use them effectively and with the continuing need to protect United States dollar sales, normal export markets of friendly countries and the agriculture of recipient nations. (Page 29)

#### *Technical Assistance*

1. That the United States stimulate greater recipient country responsibility for the selection, planning and implementing of technical assistance projects;

2. That in providing assistance required for the Technical Cooperation Program, maximum use be made of private companies, foundations, universities and other qualified organizations;

3. That greater emphasis be placed on supporting country-wide or regional training centers; and,

4. That the United States increase its support of the United Nations Special Fund and other United Nations technical assistance programs. (Page 31)

#### *The Need for Continuity*

1. That a continuing authorization be provided for Development Loan Fund operations, and that starting with Fiscal Year 1961 appropriations be made each year to cover total estimated Development Loan Fund needs for the fiscal year in question and part of the need for each of the succeeding two years as indicated above;

2. That a continuing authorization be provided for technical assistance; and,

3. That Public Law 480 be amended so as to provide at least three year authorizations for Title I and II operations in a dollar amount adequate to permit long range planning for the utilization of surplus agricultural commodities. (Pages 33-34)

#### *Multilateral Aid*

1. That the United States increase its emphasis on a multilateral approach to development assistance;

2. That our bilateral aid and our contribution to multilateral aid be considered together in determining the appropriate level of development assistance;

3. That in addition to support of existing international organizations the United States promote the establishment of the International Develop-

ment Association and continue its support of the Inter-American Bank now being organized; and,

4. That the United States join with other interested Western countries and with Japan, on an *ad hoc* basis, to deal with development problems of particular countries or regions. (Page 37)

### *Contribution of Private Enterprise*

That necessary legislative and administrative action be taken to stimulate increased participation by private enterprise in providing both capital and management to the less developed countries, with emphasis upon additional tax incentives to encourage private investment abroad and increased use of Government guaranties of private loans and investments overseas. In this connection, every feasible means should be employed to assist and encourage the growth of local private enterprise. (Page 40)

### Defense Support and Special Assistance

1. That for Fiscal Year 1960, Defense Support and Special Assistance be made available in the amounts requested by the Administration;

2. That the United States continue this needed grant assistance in support of necessary allied forces and other national objectives, subject to such reductions and eliminations as may become possible by

a. substitution of development loans and surplus agricultural products where practicable, and

b. changes in military or economic conditions in recipient countries; and,

3. That the United States stimulate vigorous efforts by recipient countries to increase exports in order to reduce grant aid requirements. (Page 42)

### The Population Question

That, in order to meet more effectively the problems of economic development, the United States:

1. Assist those countries with which it is cooperating in economic aid programs, on request, in the formulation of their plans designed to deal with the problem of rapid population growth;

2. Increase its assistance to local programs relating to maternal and child welfare in recognition of the immediate problem created by rapid population growth; and

3. Strongly support studies and appropriate research as a part of its own Mutual Security Program, within the United Nations and elsewhere, leading to the availability of relevant information in a form most useful to individual countries in the formulation of practical programs to meet the serious challenge posed by rapidly expanding populations. (Pages 44-45)

## Administration

### Steps to Carry Out the Basic Concepts

Consolidation of the Several Related Economic Assistance Responsibilities in Washington in a Single Agency

That—subject to the proposals made later herein as to the role of the Secretary of State—the following specific steps be taken:

1. Create a single economic assistance agency;
2. Assign to the agency the functions, facilities and personnel of the International Cooperation Administration;
3. Transfer to the agency the Development Loan Fund without changing its general statutory concept or corporate structure, and designate the Director or Deputy Director of the agency as the Managing Director of the Fund;
4. Transfer to the agency authority to
  - a. determine what countries will receive surplus agricultural commodities under Public Law 480 and whether by sale or grant,
  - b. decide the amounts of such commodities to be assigned to any one country, and
  - c. assist the Ambassadors in negotiating agreements as to the commodities to be supplied and the use to be made of funds derived from their sale;
5. Transfer to the agency, from the Export-Import Bank, responsibility for loans repayable in foreign currencies made under the “Cooley Amendment” to Public Law 480;
6. Assign to the agency responsibility for coordinating the programming of all local currencies generated by Public Law 480 and the several mutual security programs, including the Development Loan Fund;
7. Make the agency responsible, subject to the foreign policy direction of the Department of State, for the initial development of economic assistance plans for individual countries, and for coordination of the operating activities of United States economic assistance programs for each country;
8. Appoint a relatively autonomous high level group of private citizens to report to and advise the Director of the agency as to how best to mobilize American private enterprise for free world economic development; and,
9. Make provision for the agency to take an active part in consulting and working with the various international agencies concerned with development. (Page 57)

#### *Long Range Planning and Continuity of Programs*

1. That the Executive Branch take the required action to put into effect improved policies and procedures for long range planning of economic assistance; and,

2. That the personnel needs of the long range program to be executed by the proposed single agency be met by
  - a. appointing an outstanding individual with proven administrative ability, acceptable to the Secretary of State; to head the agency,
  - b. providing the operating agency with its own personnel system suited to the special characteristics of foreign economic assistance programs,
  - c. including in the agency's personnel system a permanent career service,
  - d. giving the head of the agency, for a limited time, special powers to remove personnel,
  - e. providing improved training for the staff of the agency, and
  - f. selecting as chiefs of the United States Operations Missions in key countries men with special experience and competence. (Page 60)

#### *More Effective Decentralization to the Field*

1. That there be more effective decentralization of responsibilities for economic assistance plans and programs to the Ambassadors and to the chiefs of the economic missions together with improved policy direction and supporting administrative arrangements in Washington to accomplish improved decentralization;
2. That United States Ambassadors, as personal representatives of the President, provide a strengthened leadership for all United States economic assistance plans and programs on an integrated country basis, pursuant to United States foreign policy objectives; and,
3. That United States Ambassadors assigned to the relatively few countries with large assistance programs be selected with special consideration of their experience and competence in this field when appointed, be given training in the special requirements involved, and be provided with a senior staff assistant qualified to aid the Ambassador in planning and coordinating all United States assistance programs therein. (Pages 60-61)

#### *Strong Foreign Policy Direction Balanced with Clear Operational Responsibility*

That the role of the Department of State in foreign policy direction and coordination of all economic assistance programs be fully protected, and that the single operating agency be given adequate operational freedom, by measures which include

1. Participation by the Department of State at an early stage in the long range planning of economic assistance, approval of such plans together with the dollar guidelines by the Department of State prior to submission to Congress or execution, and freedom for the operating agency to devise and carry out programs without further specific approval, except for items vetoed by the Department of State as being inconsistent with foreign policy or approved country plans;

2. Strengthening the State Department staff, mechanisms and arrangements concerned with providing the foreign policy direction and the coordination of assistance programs; and,

3. Provision of an evaluation staff for the head of the separate agency and an evaluation assistant to the Secretary of State. (Pages 62-63)

## The President's Committee To Study the United States Military Assistance Program

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JULY 13, 1959