



A Brief History of Foreign Assistance

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On September 4, 1961, the Congress passed the Foreign Assistance Act, which reorganized the U.S. foreign assistance programs including separating military and non-military aid. The Act mandated the creation of the U.S. Agency for International Development (USAID), which President John F. Kennedy established by executive order on November 3, 1961.

USAID became the first U.S. foreign assistance organization whose primary emphasis was on long-range economic and social development assistance efforts. Freed from political and military functions that plagued its predecessor organizations, USAID was able to offer direct support to the

developing nations of the world.

The agency unified already existing U.S. aid efforts, combining the economic and technical assistance operations of the International Cooperation Agency, the loan activities of the Development Loan Fund, the local currency functions of the Export-Import Bank, and the agricultural surplus distribution activities of the Food for Peace program of the Department of Agriculture.

While some could argue that the creation of USAID simply represented a bureaucratic reshuffling, the agency, and the legislation creating it, represented a recommitment to the very purposes of overseas development. USAID was established to unify assistance efforts, to provide a new focus on the needs of a changing world, and to assist other countries in maintaining their independence and become self-supporting

Historical Perspective

The 1961 reorganization of America's foreign aid programs resulted from an increasing dissatisfaction with the foreign assistance structures that had evolved from the days of the Marshall Plan, to which USAID and U.S. foreign assistance policy traces its roots.

By the end of World War II, Europe has suffered substantial losses, physically and economically. Responding to Europe's calls for help, the international community established the International Monetary Fund (IMF) and the International Bank of Reconstruction and Development (the World Bank) on December 27, 1945. On April 2, 1948, through the enactment of the Economic Cooperation Act, the United States responded by creating the Marshall Plan. While the IMF and the World Bank were created as permanent institutions, the goal of the Marshall Plan was specific: To stabilize Europe. The plan was designed not as an ongoing program for the European economy but as an emergency tool of assistance.

When the Marshall Plan ended on June 30, 1951, Congress was in the process of piecing together a new foreign aid proposal designed to unite military and economic programs with technical assistance. On October 31, 1951, this plan became a reality when Congress passed the first Mutual Security Act and created the Mutual Security Agency.

In 1953, the Foreign Operations Administration was established as an independent government agency outside the Department of State, to consolidate economic and technical assistance on a world-wide basis. Its responsibilities were merged into the International Cooperation Administration (ICA) one year later.

The ICA administered aid for economic, political and social development purposes. Although the ICA's functions were vast and far reaching, unlike USAID, ICA had many limitations placed upon it. As a part of the Department of

State, ICA did not have the level of autonomy the USAID currently maintains. ICA had no authority over military assistance and it did not have full control of overseas agricultural surplus disposal programs. At the time, multilateral donors (such as those affiliated with the United Nations and the Organization of American States) were playing a greater role in foreign assistance.

The Mutual Security Act of 1954 introduced the concepts of development assistance, security assistance, a discretionary contingency fund, and guarantees for private investments. The Food for Peace program was implemented that year, introducing food aid.

Congressional approval of a revised Mutual Security Act in 1957 led to the creation of the Development Loan Fund (DLF), which acted as the ICA's lending arm. The DLF's primary function was to extend loans of a kind that the Export-Import Bank and other donors were not interested in or prepared to underwrite - those repayable in local currencies. The DLF financed everything other than technical assistance but was most noteworthy for financing capital projects.

Neither the ICA nor the DLF met the need for long-range foreign development programs. That led to the creation of the U.S. Agency for International Development.

The 1961 Foreign Assistance Act

By 1960, the support from the American public and Congress for the existing foreign assistance programs had dwindled. The growing dissatisfaction with foreign assistance, highlighted by the book *The Ugly American*, prompted Congress and the Eisenhower Administration to focus U.S. aid on developing nations, which became an issue during the 1960 U.S. presidential campaign.

The new Kennedy Administration made reorganization of, and recommitment to, foreign assistance a top priority. It was thought that to renew special interests' support for foreign assistance at existing or higher levels, to address the widely-known shortcomings of the previous assistance structure, and to achieve a new mandate for assistance to developing countries, the entire program had to be "new."

The new directions most emphatically stressed were a dedication to development as a long-term effort requiring country-by-country planning and a commitment of resources on a multi-year, programmed basis. The new focus of development was to achieve economic growth and democratic, political stability in the developing world to combat both the perceived spread of ideological threats such as communism and the threat of instability arising from poverty. The economic development theory of W.W. Rostow, which posited "stages of economic development," most notably a "takeoff into growth" stage, provided the premise for much of the development planning in the newly-formed U.S. Agency for International Development.

In the final analysis, the greatest achievement of USAID and the Foreign Assistance Act of 1961 was that they addressed the organizational problems perceived in the existing foreign assistance programs. USAID set up organizational structures that helped meet the goals of country-by-country planning and long-term development planning.

Fowler Hamilton, who was appointed as USAID's first administrator, assumed his primary goal was to establish an agency founded on good, strong organizational principles that would stand the test of time.

One of the first programs undertaken by the fledgling USAID was the Alliance for Progress. Conceptually set up in the fall of 1960 by the Act of Bogota and confirmed by the Charter of Punta del Este (Uruguay) in early 1961, the Alliance was a hemisphere-wide commitment of funds and effort to develop the nations of the Americas. The Alliance became the basis for USAID's programs in Latin America throughout the 1960s. President Kennedy promoted the Alliance in trips to Colombia and Venezuela in 1961.

In Asia, USAID's first emphases were on countering the spread of communism, particularly the influence of the People's Republic of China. This quickly ballooned into a large program of assistance based on counter-insurgency and democratic and economic development in Vietnam, which lasted until the withdrawal of American troops in 1975. In Africa, USAID focused on such initiatives as the education of the leadership of the newly-independent countries and other economic and social imperatives of nation building.

Brief Chronology and Highlights of the History of U.S. Foreign Assistance Activities

1947

The Truman Administration wins approval of the U.S. Congress for military and economic assistance to Greece and Turkey.

Secretary of State George C. Marshall proposes the outlines of what became known as the Marshall Plan at a speech at Harvard University.

1948

The U.S. Congress enacts the Foreign Assistance Act of 1948 authorizing the 4-year Marshall Plan and the establishment of the Economic Cooperation Agency (ECA).

1951

Mutual Security Act of 1951 passed by U.S. Congress. The ECA was abolished and replaced with the Mutual Security Agency (MSA).

1953

The Foreign Operations Administration replaces the Mutual Security Administration and the Technical Cooperation Administration.

1954

The Mutual Security Act was passed to revise and consolidate all previous foreign assistance legislation. It was the first single piece of legislation to underlay the entire foreign assistance program.

1955

The International Cooperation Agency (ICA) replaces the Foreign Operations Administration. The ICA is less powerful from its beginning because of being placed under the direct authority of the Department of State. The ICA lost many of the authorities and programs its predecessor agencies had held.

1957

Two studies sponsored by the Foreign Relations Committee of the U.S. Senate which deal with the U.S. foreign assistance program: "Administrative Aspects of the U.S. Foreign Assistance Programs" (Brookings Institute) and "Agricultural Surplus Disposal and Foreign Aid (National Planning Association).

1959

The Draper Committee Report, "Economic Assistance Programs and Activities," recommends a unified economic/technical assistance agency outside the Department of State; long-range planning on a country-by-country basis; more decentralization to the field; and foreign policy direction and coordination of military, economic and agricultural activities by the Department of State.

Stanford Research Institute suggests founding an Office of Research and Development for Underdeveloped Areas.

Dean Harlan Cleveland of the Maxwell Graduate School of Syracuse University, future assistant secretary of State under President Kennedy, writes "Operational Aspects of U.S. Foreign Policy," which suggests strengthening the role of Ambassadors and including the ICA in the U.S. Foreign Service.

Before the 1960 Elections

U.S. Senate Foreign Relations Committee sponsors another Brookings Institution report entitled "The Formulation and Administration of U.S. Foreign Policy," which recommends a foreign assistance department with Cabinet-level status.

Foreign assistance policy becomes an issue in the Kennedy - Nixon presidential race.

The Mutual Security Act of 1960 passes; Senator Fulbright includes section 604, calling for investigation and findings on the existing structure of foreign assistance, and asks the president to look into the idea of a Point IV Youth Corps.

Act of Bogata enacted; becomes the basis for the Alliance for Progress and highlights the concept of self-help in development assistance.

After the 1960 Elections

The President's Bureau of the Budget (predecessor to the Office of Management and Budget) produces a report known as the "604 Study," which partially answers the requirements of the Mutual Security Act of 1960 and provided a detailed description of the existing foreign aid programs and suggested three sets of alternative organizational arrangements.

A Ford foundation paper, "A Suggested Regional Approach to the Administration of U.S. Assistance to Underdeveloped Countries," suggests the consolidation of foreign assistance within the Department of State with an undersecretary responsible for the program, the decentralization of foreign assistance to regional units and field missions to adapt aid to distinctive needs, country-by-country.

The "Orbit Paper" produced with the ICA recommends an independent department with cabinet status and the consolidation of the Development Loan Fund, the Export-Import Bank, the ICA, along with greater authority over the Food for Peace program. It calls for a single, strong field organization and planning on a regional (as opposed to a functional or procedural) basis.

1961

John F. Kennedy's first State of the Union Address calls for the establishment of a new, more effective program with greater flexibility for short-term emergencies, more commitment to long-term development; new attention to education at all levels; greater emphasis on recipient nations' role through public administration, taxes, and social justice; orderly planning for national and regional development.

Secretary George Ball's task-force for the reorganization of foreign assistance delivers "Growth to Freedom" memorandum to the President entitled "Plans for the Reorganization of Foreign Assistance, the Decade of Development." The memorandum outlines the deficiencies of the foreign aid programs and conceptual requirements for a new program. In March, President Kennedy sends to Congress a message outlining changes in the foreign assistance programs.

A bill entitled "Act for International Development" is introduced in the U.S. Senate by Senator William Fulbright. The bill passes Congress on September 4. In November, President Kennedy establishes the U.S. Agency for International Development as the executor of U.S. foreign assistance programs.
