

**UNITED STATES FOREIGN ASSISTANCE
ORAL HISTORY PROGRAM**

FOREIGN AFFAIRS ORAL HISTORY COLLECTION

Graduating Countries and Closing Down Programs

Excerpts from the US Foreign Assistance Oral History Program

**Association for Diplomatic Studies and Training
Arlington, Virginia**

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ASSOCIATION FOR DIPLOMATIC STUDIES AND TRAINING

ORAL HISTORY COLLECTION

The Association for Diplomatic Studies and Training, a non-profit, tax-exempt organization, was established in 1986 to enhance the training of foreign affairs personnel and to instill in the public a greater appreciation for our diplomatic history.

The Association's Foreign Affairs Oral History Program was established in 1988 and is housed in the Lauinger Library of Georgetown University and at the Foreign Service Institute in Arlington, VA. The collection is comprised of oral histories taken from a number of projects, with the unifying factor that all concern the conduct of American foreign affairs and experiences of those employed in the field of diplomacy and consular affairs and their families.

The oral history collection includes interviews done under the auspices of the Foreign Service History Center of George Washington University, which was amalgamated into the Foreign Affairs Oral History Program, the Foreign Service Family Project, the Women Ambassadors' Project, the United States Information Agency Alumni Association Project, the Foreign Assistance (AID) Oral History Project, the Senior Officers' Project, the Labor Diplomacy Oral History Project and others.

The aim of the US Foreign Assistance Oral History Program, in particular, is to develop a collection of oral histories of those who have served USAID and predecessor agencies and those who have served in foreign assistance programs of associated organizations such as private firms, private voluntary organizations, and other US government agencies. The Center for Development Information and Evaluation (CDIE) of the USAID has made a grant to help finance the preparation of 120 oral histories.

For the most part these interviews are carried out by retired USAID personnel on a volunteer basis, directed by the Oral History Program. The interviews are unclassified, and unless so marked are available for use by researchers. Most of these interviews have been transcribed and then returned to the person interviewed for editing. The transcript is an edited version, and is not a word for word rendition of the cassette tape. The editing usually consists of correcting of names and dates that have been missed during an interview. The individual interviewed may also choose to expand upon topics that may not have been developed in the time allotted for the interview.

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GRADUATING COUNTRIES AND CLOSING PROGRAMS

Excerpts from the U.S. Foreign Assistance Oral History Program

Compiled August 1997

Preface

The oral histories of those who have served with USAID and associated organizations are rich with insights on US foreign assistance programs. Each history provides a chronological accounting of the interviewee's work along with commentary based on first hand knowledge of events, personalities, and development activities. To assist those who are interested in a particular country, program area or topic, we are preparing a series of topic readers. These readers contain extracts from the individual oral histories on a specific topic that is addressed in a number of the histories.

This Oral History Reader is the first in the series. The topic is the experience of the foreign assistance program with countries "graduating" from US economic assistance or, as has been often the case, countries where programs have been closed for a variety of reasons. The material is drawn from those oral histories that have been completed to date; it may be revised, subsequently, to include material from additional oral histories that are now in progress.

W. Haven North
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AFRICA

SIERRA LEONE - Limited Project Continuation During Phase Out - 1962-1967

Excerpt taken from an interview with Victor Skiles

SKILES: Yes. A third was a one-man little mission to Sierra Leone. I don't really recall the date, but it must have been fairly late in my tour of duty at the PPC. And it again was strictly a non-PPC type of function. I'd been sent out there, in a sense, to try to resolve a problem that had developed between the Ambassador and the Assistant Administrator of AID, the regional director, who was trying to carry out the phase-out injunction and the ambassador was having none of it. In the event, we were able to work out an arrangement to continue the completion of a couple of limited activities that had a fairly long history and seemed to be making a real impact in a couple of areas. This was to be done without the benefit of a formal mission structure, which was phased out. I suppose in a way, this was the easy way to do it. You invent some limited structures, even if it means zero in terms of specific support and backstopping, and at the same time manage to finish some of the project activities that seem to be making a difference, rather than simply following the calendar, which we folks in Washington are accustomed to doing.

WEST AFRICA - Bilateral to Regional Aid - 1966

Excerpt taken from an interview with W. Haven North

Then I went back to Washington and became Director for Central and West Africa Affairs, a geographical subdivision in the African Bureau. This covered all the 22 countries from Zaire to Mauritania. It was a large area, although our involvement in Francophone Africa was small. We were just beginning to have some activities in those countries. We had a substantial program in Zaire, of course, at that time, as well as Nigeria, as I mentioned. We had a program in Ghana, Liberia, Sierra Leone, etc. It was a lot to keep track of.

Impact of the Korry Report This assignment took place about the time of Ambassador Korry's report (Review of Development Policies and Programs in Africa, 1966), which recommended that aid be concentrated in a few countries (ten were identified) in Africa and regional programs might be employed elsewhere. Earlier General Lucius Clay had reviewed U.S. assistance program world-wide and expressed the view that the European countries should carry the aid burden in most of Africa—"the U.S. is overextended in resources and under-compensated in results." Also Congress led by Senator Fulbright was determined to limit the number of countries being assisted by the U.S.—12 with supporting assistance and 26 with development assistance. He believed that such assistance got us involved in escalating commitments to a country as with Vietnam. The pendulum of support for African development had swung from expansion to contraction—but not for long.

As the Central and West Africa area for which I was assigned responsibility included many of the countries, largely francophone, where bilateral programs were to be terminated, we had a challenge in implementing the recommendations. The door was left open for regional programs which provided an opportunity for a number of projects as long as they served more than one country; many of these program were developed with State Department encouragement. One of the largest was the program funded through the Entente Fund based in the Ivory Coast which served five francophone countries in agriculture and livestock development. There were also a number of other regional projects. The legal and policy maneuvering required to preserve and develop these

regional programs—when was a program regional and not bilateral?—absorbed a great deal of time.

In the process of developing these regional programs for West Africa, I and others put forward the thought that the U.S. should emphasize linking West African countries in a common development effort. None of them, particularly the francophone countries, were likely to achieve significant development without close economic ties on trade, investment, transportation, communications, etc. with each of the coastal states and with each other. This idea was scoffed at as not being practical or feasible, which still seems to be the case even with the formation of the Economic Commission for West African States (ECOWAS).

UGANDA - Projects Fail After Mission Closure - 1973

Excerpt taken from an interview with Dr. Vernon C. Johnson

I had been in Uganda for three years when we decided to close the Mission. We recommended it to Washington and got approval to close. That's quite a feat itself going through the routine of closing down a Mission. Precise procedures had to be followed: selling things like refrigerators and stoves and whole houses of furniture. Keeping records. The night before we left, we were down to two people, myself and one other; we slept on the floor and left early the next morning.

During our packing to leave, Idi Amin sent for me because he had an idea that the British were forcing our hand. So he wanted to talk with me about it and find out why we were leaving. I went to the Ambassador, who said don't bother. Ambassador Melady said that he would take care of it. The Embassy stayed there after the Mission's closure.

In despotic countries such as Uganda at that time an Ambassador and Mission Director need close and frequent instructions. In this case, the Ambassador thought that our job was to project U.S. interests by maintaining good relations with Idi Amin's government. Most of us, including myself, thought otherwise. This made for friction within the overall U.S. Mission.

Q: What happened to the projects?

JOHNSON: We simply abandoned them. Going back eight years later, there were only remnants of some of the projects. I think that is symptomatic of so many projects, particularly in Africa, that, once the resources from outside are severed, it is very difficult for these project to be sustained. There are several reasons for this. For example, in an AID project that is on-going the resources and funds that are associated with the project give AID leverage to apply pressure on the government to deliver on whatever share they are to provide. However, at the point of phase out, that pressure, as well as the resources, disappears; the counterpart who worked with the project might be effective and efficient technically, but he has no clout to extract funds from the treasury.

Thus, one of the reasons that a lot of technical assistance projects deteriorate after phase out is purely cultural; the person who is left in charge of the project simply does not have access, remember he is just a technician, and to face the Minister of Finance is a real problem for him. So when the project needs resources—gasoline or some other critical item of work begins to lag— it goes down from there. the local technician simply can't do what the American technician (who has a resource base) could do when he was there. Support systems fail to function: there are some technical reasons but access on the part of individuals in terms of class and standards is the critical factor in this.

Q: It was a difficult time, wasn't it, to have to close out a program?

JOHNSON: Yes, that's right.

General Comments

A third flaw and, one already mentioned, is the phasing out of projects before they make a contribution to the host country's GNP. Before that point is reached a training center or a new seed farm are costs which can only add a burden to already weak treasuries. This latter flaw complements the one of "working oneself out of a job"—the counterpart system. Whatever might have been intended, it never worked as anticipated. A prime reason is that the AID technician comes with resources— and thus a degree of clout, whereas the counterpart that is left behind has little or no standing with government and has difficulty extracting funds when needed.

Q: What benefits can you give that have been derived from AID?

JOHNSON: To begin, AID graduates—the more advanced developing countries have certainly been helped. Korea, Taiwan, India, countries on the Asian rim, selected countries in Latin America, Ghana, etc. are some that come to mind. Just holding hands during their infancy could have been helpful.

GHANA - Project Stopped for Political Reasons - 1976

Excerpt taken from an interview with W. Haven North

Eventually, we were able to put together a \$30 million multi-faceted project called Management Input Delivery of Agricultural Services—or MIDAS! I am afraid the acronym was a bit of an exaggeration. The project had components in credit, agricultural research, agricultural extension, agricultural development focused on women, fertilizer supply and seed production, studies of marketing strategies—all focused on small farmer development. The fertilizer component was intended to be a privatization of the fertilizer business to get it out of the Ministry of Agriculture. Similarly, the seed component was aimed at commercializing seed production outside of Government management. The project also included measures to strengthen decentralized agricultural credit administration.

My concept was to try to get something of sufficient size and scope that would attract attention, attract involvement, bring together the several project components and actors so that they could be mutually reinforcing rather than ad hoc and serve the objective of small farmer development. In the past at various times, we had worked a little bit on credit, a little bit on research, fertilizer distribution and so on without an overall framework. It took a long time to put this together, but we did; I still think it is a valid concept. My strategy was to attempt to develop the separate components, moving each ahead as they were ready while placing them in the overall framework of a large funded coordinated program addressing the needs of small farmers in selected parts of the country—an approach which did not fit well with USAID's programming processes and Congressional notifications requirements.

So developing the core components of this program was difficult.

However, the major problem came from another direction. We had worked at great length with the Government and the several Ministries and agencies involved in putting together and agreeing on the \$30 million MIDAS program. Then the word came that Secretary Kissinger was making trip in Africa and would be visiting Ghana. This was May 1976.

Q: He was Secretary of State by that time.

NORTH: Yes. So obviously when you have somebody at that level coming you have to have something for him to sign, something for him to do. This seemed like an excellent opportunity for launching the M.I.D.A.S. program during his visit. So the Government accelerated its efforts to get all of its agreements and approvals completed in time. My colleagues on the Government side were very responsive and cooperative; we worked closely together and finished the negotiations and got the program agreements ready for signature. (At this time, Shirley Temple Black had become the Ambassador replacing Ambassador Hadsel.) We were poised for Kissinger's arrival. The advance parties for Kissinger's visit had come with all the elaborate equipment for Kissinger's communications and related support requirements. We had all been given our assigned jobs. My staff was converted into baggage handlers and that sort of thing, much to their distaste.

Then the Government said, "Don't come." It disinvited him. The excuse being that Colonel Acheampong was not well, he was sick. (The story was that he had a boil and could not sit down.) Kissinger had been in Zaire and had finished the Zaire trip and was ready to come on. It was very embarrassing. Ambassador Shirley Temple Black was negotiating with the Foreign Office trying to get a clear answer because the Government's decision was off again, on again, as to whether Kissinger should come or not. The Foreign Office favored the visit; others in the Government objected on the grounds that the Government was yielding to pressure from the U.S. Government and weakening its non-alignment stance. This debate went on for quite a while. Finally, the Ambassador gave them a deadline. The response never came, so the visit was canceled. Well, that, of course, infuriated Secretary Kissinger and was taken as a "slap -in-the-face" for the United States. As a consequence, the MIDAS project, on which we had worked for months and months, was suspended. Signing that agreement would have not been consistent with this insult to the U.S. So this major, long term, important development effort was suddenly pushed aside as a political demonstration of U.S. Government disapproval.

Q: Was the cancellation of the visit a political move, the Colonel didn't want to be too close to the United States?

NORTH: I don't remember what all the reasons were. My impression was that Kissinger's visit conveyed an image of overwhelming Western influence at a time when

the government was trying to assert itself and show it was not going to be pushed around, to show that it was non-aligned and self-reliant. I was never quite sure what all the motivations were. There were those who felt it was symbolically wrong, that we must stand on our own feet...the revolutionary, Marxist types who wanted a more radical government position, possibly aided by Soviet influences. What was directly involved in this, I don't know. About all I know is that there was the combination of feeling that they were overwhelmed or being pictured as being dominated by the U.S....Kissinger would be a very dominating factor in this; there were factions arguing strongly against this display of U.S. interest in Ghana. (I have been told that the Nigerian Government was working behind the scenes, pressing the Government to cancel the visit. The Nigerians were objecting to U.S. policy on Angola.)

Q: From what I gather he was almost dragged kicking and screaming to Africa. He was not that interested in Africa.

NORTH: I am sure that is true. Neither Africa nor assistance to developing countries fell within the scope of his global strategizing. The cancellation, in fact, probably came at a propitious time for him because he became ill in Zaire and would have been in bad shape if he had come.

The incident was a minor speck in the world of international affairs, but for those involved in the program it was a traumatic situation. That was in the spring of 1976 and the program was put on hold with the exception of a few on-going activities. I was able to get agreement with the Embassy and Washington that we continue those programs we already had in the pipeline. It was the new commitment that we could not undertake, although this was the centerpiece of our program. Meanwhile the economy was continuing to go downhill, so the situation was not as attractive as when we started out to design this program. But it had been approved by Washington and we were ready to go. It was quite demoralizing given my staff's and my efforts to get a solid program underway.

ZAIRE - CRS Quits When Asked to Phase Out - 1983

Excerpt taken from an interview with Richard Podol

PODOL: This would have been about 1982 or 3, probably '83. In Africa Mission Director meetings, he would promote abstinence and the rhythm method as the only things that AID should ever get into. This was the problem. So, that was unique. The other was the fight I had with CRS, Catholic Relief Services, over a PL480 Title II program. They had a Title II program in Zaire, a maternal, child health feeding program, which was going well. So, I met with the local director and said, "Okay, why don't you come up with a phase out plan? You can find in Zaire all the local foods that you need to run this program." They grew soy, they grew corn; you didn't have to bring in corn and soy. They said, "No, we won't do it. We will not come up with a phase out plan." We went around and around. I said, "You ought to do it." They said, "No, we won't." They brought out one of their top officers, and he said, "Look, we intend to be in this country for the next fifty years. We want this food because it's our entree to get what we are after in this country. If you force us to have a phase out plan, we'll quit." I said, "Okay, quit" and they did. This went to McPherson and he had a review of it in Washington and, fortunately, upheld the position I took. So, they went to Congress with this. The next time I was in Washington, I was called in by the staffers on the House Foreign Affairs Committee for Africa. The staffers had been briefed on my disagreement with CRS. What really upset me was that they had memos from the Washington Food for Peace Office that I had never seen and they asked me about these memos. They were leaked to them by a woman who was very close to CRS. In fact, after she left AID, she went to work for CRS. So, these were the kind of experiences I had in Zaire that I had never had before. We had another small program in the Congo, which was run by CARE, and we really didn't have much input into it. They ran it; they did rural development activity.

Q: Was the CRS program phased out?

PODOL: Rather than phase it out, they just up and left - quit, refused to come up with a phase out plan. It wasn't within their broader agenda.

Q: So, nobody was able at that time to really overrule the procedure that you had made?

PODOL: No, nobody wanted to anyway.

ZIMBABWE - Program Reduced After Insults - 1986

Excerpt taken from an interview with Allison Butler Herrick

HERRICK: After two years in PPC, I was appointed as Mission Director for Zimbabwe, and for the Regional Program in Southern Africa.

Q: *What year would this have been?*

HERRICK: This was in June of 1986. Then there was a political event in Zimbabwe which caused some concern in Washington. At the annual celebration of our Independence Day in Harare, on the 4th of July, the United States reception was held in a hotel. The relationship between the United States Mission and the Zimbabwe Government had not been easy in recent times and there was very little communication. It had been very difficult for the Embassy to find somebody in the Foreign Ministry to talk to about how they were going to organize this particular reception. There finally were meetings, and it was agreed that the Minister of Foreign Affairs would come to the reception and that both he and the American Ambassador would make very short remarks. They knew that former President Carter, who was on a trip to Africa to promote the river blindness and agricultural programs of the Carter Center would be in Zimbabwe on the 4th of July. He would be invited to the reception but not to speak. This was all very much at the last minute.

As it turned out, the Foreign Minister did not come but sent a Junior Minister of Government, a younger man who was then Minister of Sports and Culture, to represent the Government and to present the Government speech. That speech went on and on, for a total of about 40 minutes, and it was rife with insults to the United States. At this time the Congress had not yet passed any anti-apartheid legislation, and the United States had not condemned apartheid in South Africa. President Mugabe of Zimbabwe was very upset with the United States and Margaret Thatcher and the British Government for not taking steps to isolate South Africa. The speech condemned the United States; it was pejorative and contained personal references--all-in-all a nasty speech.

President Carter walked out of the reception. The American Chargé d`Affaires and the British, French, German and other Western Ambassadors walked out with him. The

young Minister of Government continued his speech to an almost empty room. After this event the Chargé d`Affaires, Gib Lamphier, spent several days awaiting an apology from the Zimbabwe Government, which of course did not come. The speech had been given deliberately. So, for a while, the United States decided to delay the appointment of a new Ambassador in Zimbabwe, to have a Chargé only. My departure for Zimbabwe was delayed for a few weeks.

For a few years the program for Zimbabwe was continued only to spend out the "pipeline", with no new commitments except for funds brought in from a combination of 10 to 15 centrally-funded projects supporting family planning. Later the a program of new commitments was reinstated, but only at four, five, or six million dollars annually.

Q: Compared to what?

HERRICK: The United States had made much larger commitments to Zimbabwe in the past. This was an interesting story. The black majority people of Rhodesia had had a long war of independence against the regime of Ian Smith, who had proclaimed a unilateral declaration independence from Britain in 1965 and ran a country that was, in my view, well on the way to being worse than South Africa in terms of segregation and tension between the white colonial type rulers and the majority of the population. Independence came finally in 1980. Unlike many countries which have participated in consultative groups organized by the World Bank, Zimbabwe organized its own donor conference. The United States was there, and was the first donor country to make a commitment. We pledged \$75 million a year for five years, and did live up to that pledge.

Q: What were you as Mission Director trying to accomplish during that time, given that there was a cut in aid but you had a fairly large pipeline of resources?

HERRICK: We did, we had a very large program to continue implementing. The \$90 million education sector program continued until about 1990, and the agriculture sector program was about completed in 1989. We had an interesting time with the family planning program because it was supported by a number of world-wide programs that were operating in several countries, including Zimbabwe. We did bring in several millions of dollars a year in technical assistance in family planning programs. I've spoken of the private enterprise family planning program. There were programs to train

midwives, there was continued support for the family planning operation of the Ministry of Health which had been nationalized after independence. Zimbabwe, like Kenya, was already showing the statistical effects of education for females and the availability of family planning services. The numbers of women evincing a desire for a smaller family was growing, the number of women using modern contraceptive methods was increasing, and the population growth rate was beginning to go down.

In the last two years I was in Zimbabwe, the United States saw enough change in the Zimbabwe Government's ability to work with us to come to the conclusion that we could have a small AID Program of four to five million dollars a year of new money. Since the two major sector programs were coming to an end and since we were deeply concerned about the continuing controls on pricing and the monopoly controls in most sectors of the economy, we wanted to use our new funds for purposes of policy change. Therefore, we used the funds to bring in expertise that was acceptable to the Zimbabweans, including a professor who was still a Zimbabwean citizen but had been teaching at the University of Washington.

We also financed studies carried out totally by Zimbabweans who might be influential in the government. Some of these individuals had been abroad as long as 17 and 18 years during the struggle for independence. They had gone overseas, or to other countries in Africa to finish their secondary education, sponsored by missionaries or by an AID project administered by the African American Institute to educate Africans of countries that were not yet majority ruled. As sponsorship continued, many of the students managed to earn university degrees and were teaching in the United States and in Canada. They returned home after independence. There were tensions between those who had spent the years of war against Rhodesia in Zambia or Mozambique or carrying on the internal guerilla war and those whose families and churches had helped them get out of the country. Most of the appointees to the highest level in government were individuals with a guerilla war history. But there were others, at other levels, particularly in the Ministry of Finance and at the University who were influential. One of the places of influence was the golf course. Golf seems to be one of the first sports in which Africans participated on a desegregated basis--of course there is no body contact in golf.

Q: What were the results of these initiatives on the policy and reform?

HERRICK: We were beginning to see some slow results.

It was important to Mugabe that the United States was supporting the efforts of SADCC [Southern African Development Coordination Council]. Therefore, I think Mugabe was willing to see a continuing presence of the United States in his country. Our financial assistance to the country was not large enough to be persuasive and at the time the World Bank assistance (before the structural adjustment was finally organized) was more than ours, but was not large in comparison with most countries of Africa. I think Mugabe thought it was important to continue, relations on, shall we say, a barely even keel with the United States, but that did not involve much courtesy. If we became too friendly he always had a little dagger to throw out. For instance, the time he went to the annual meeting of economists at Davos, Switzerland, and managed to answer an American journalist, "Yes, I am a Marxist." Other times he snubbed an American visitor or otherwise made unwelcome comments when he was visiting the United States. At the same time, he resented our trying to give him advice, or to influence his vote on a candidate for a UN post. He maintained a "prickly" exterior but I don't think he wanted to kick us out.

Q: So do you think that foreign assistance had its direct developmental contribution but also it preserved the political linkage despite the disruption?

HERRICK: I think so.

ASIA

THE PHILIPPINES - Recommended for Phase Out - 1950

Excerpt taken from an interview with Victor Skiles

SKILES: Yes, early to mid 50. I guess I'd better be more specific on this one because of a few things that happened just a short time later, but I think it was March, 1950. The Working Group on Near East Policy was to some extent an interagency committee, but primarily from various parts of State. Its chore was to try to hammer out some policies and principles with respect to our views and treatment of the Arab states, Israel, and related problems and peoples. (A little bit later there was one on Korea when the Korean War broke out, but this was entirely different. It was primarily a backstopping committee chaired by Alexis Johnson.) One of my early assignments was to accompany a man from the Bureau of the Budget on a trip, around the world in a sense, but primarily in Middle East, South Asian countries. His charge was a rather general one: to look at all the U.S. programs involved in that area, State Department's functions and activities, U.S. information activities, etc. Mine was, of course, a bit more limited, focusing on State's activities and somewhat informally trying to measure each local American institution in terms of its capacity to head up or carry on assistance activities if and when they came to the area.

Q: And all of this was in light of the Point Four speech, the inauguration speech of 1949 and the effort to formulate programs that would go beyond the Marshall Plan in the world?

SKILES: That's largely true. Certainly it was true for the early parts of the trip down through India. There were different influences at work in Thailand and the Philippines. We already had programs working there. But if you want to put it all in one basket, yes, that was basically what we were up to.

It makes me laugh at myself in a way, because the one place that I thought looked like the U.S. had already done enough by way of economic assistance and ought to start phasing out was the Philippines, and that was way back in 1950. I guess we put a lot more in after that than we had before.

INDONESIA - Closing Down Program - 1964

Excerpt taken from an interview with Charles C. Christian

CHRISTIAN: Our infrastructure programs seemed to achieve their stated objectives, although with reasonable delays considering the trying circumstances. We had a malaria program that was making progress. As I recall, there were two stages of malaria programs: "containment" and "eradication." It was a large program, because of all the islands and the rainwater of the tropics. The program achieved containment, or at least that is what the statistics showed, and began to make headway in the eradication area. However, that all went down the tubes, as well as the rest of the program, when Sukarno told us to "go to hell with your aid", which was sometime in 1964.

Q: Why was that?

CHRISTIAN: He was a political adventurer. He was challenging all of his neighbors in military skirmishes in Malaysia, West Irian and the Philippines. He joined the so-called "axis of five" that was China, North Korea, North Vietnam, Cambodia, and with Indonesia it was five. He decided that he couldn't push Uncle Sam around the way he wanted to, and get support from us for his ventures into the neighboring countries. He desperately wanted the Irian Barat territory that still was held by the Dutch. We wouldn't give him any military support to take that back. He also wanted to attack Malaysia and Singapore; the reason escapes me. At one point, Singapore was not a separate state from Malaysia. He was getting in the middle of all of those political things in the region, to divert his people's attention from their economic plight, the prevailing poverty. So he kept nationalism issues on a front burner to try to build patriotism and build support for those activities rather than economic development which is a lot harder to achieve.

In spite of Sukarno's belief that the more children, the merrier, our family planning program was installed there. It was pretty rough going against the Muslim trend, and against the attitude of Sukarno who had many amorous affairs with many wives with the predictable consequences. I'm sure the population program had greater success in other places than it did in Indonesia in those years. By 1964 Sukarno had enough of our stiff-

arming him, and trying to keep him in line. He told us in print, and in person to the Ambassador, to "go to hell with your aid". We proceeded to go.

My five year tour at USAID/Indonesia was many faceted. I started out as an end-use officer. I was then an auditor, and then the deputy controller, then Controller, before becoming the AID Affairs Officer during the last year. The latter occurred because the Mission phased down from 130 U.S. direct hire, to myself and a secretary and two or three foreign nationals. We had all of this U.S.-owned property to dispose of, including real estate. In the final days, there is an interesting story about the disposition of the AID office building, a four storied building we had just recently constructed using PL 480 generated funds. We had used that building for about a year before our departure. See appendix A "Indonesia Remembered" for more on this topic.

Q: You closed down the mission?

CHRISTIAN: We held it in a suspense situation for about six months, and then after being there for five years, I was ready to move on, and I turned it over to Cal Cowles, former program officer at USAID/Indonesia. And AID started building its program back up again in a new political climate. The new President, Suharto, and his people, in the Indonesian way, gradually eased Sukarno out of power after an aborted coup by the Indonesian Communist Party (PKI). The coup was aided and abetted by Sukarno against his own government. He believed he could control the Indonesian Communist...fat chance as they were tied closely with the Chinese Communist Party. I have not covered, in detail, the abortive coup in September 1965 which eventually led to Sukarno's downfall and removal from office.

One "lessons learned" point: The importance of the events in Indonesia in terms of the east-west struggle should not be minimized. Vietnam and Indochina get all of the attention of the historians, and, of course, the damage to our society from our experiences relating to Vietnam was surely of great importance; but you wonder about the outcome if we would have let Vietnam solve their internal problems similar to our reactions following the abortive coup in Indonesia. Would the world, particularly the U.S., have been a better place today? I think McNamara has alluded to that saying in his recent book that Indonesia was proof that the "domino" theory may be discounted. All 20/20 hindsight. However, I feel that Indonesia, on the world scene and in the context of the East-West struggle, far more important in a future sense to the West than Indochina.

Indochina, of course, is important, to our undoing in America, or at least our partial undoing. But just think about it...Indonesia is the fifth largest in population in the world, and the third richest in natural resources. The saving of Indonesia from the Communist sphere of influence was extremely important in world history.

Another interesting point is that USAID/Indonesia had one of the largest participant training programs in AID at that time. The USAID had trained as many as three thousand Indonesian, mid and upper level, who became Western oriented. That number may include the military trainees, many of the military leaders had been trained at Fort Reilly, or other U.S. bases, but a lot of the other leaders had been trained by USAID who came into office later in the next government.

Q: In the development area?

CHRISTIAN: In the finance ministry and other ministries. USAID had trained many participants, it was a big part of our program. The USAID had a large training office with four or five U.S. direct hire people, not to mention several outstanding Indonesian nationals.

Q: What were the effects of having to scale down the program?

CHRISTIAN: AID in Indonesia was for all intents and purposes discontinued. They had to start over a year later in a lot of the areas. In many cases it might have been a good thing to start over with a lot of those projects.

Q: Why was that? They weren't doing well?

CHRISTIAN: It was positive to get a clean start in an economic development atmosphere. I would hesitate to say that was the case for all of the prior activities; I am sure some of them had served a useful purpose. We completed the Jakarta by-pass highway; the residue of benefit of the education programs is difficult for me to evaluate. I guess, with the clean sweep of the government, with the new people who were receptive to the U.S. After this abortive coup, I believed things were going to work much better. And I think they have, from what I understand. Except, unfortunately, the present leader has overstayed the time when he was beneficial to the well being of the country and the Indonesians.

Q: But what would you think were some of the difficulties and accomplishments of that period?

CHRISTIAN: As mentioned before, one of the things that comes to mind is that we had a Mission Director there who was a Iowa agriculturalist, and his first interest was corn. He tried pretty hard to move the agriculture programs in the direction of corn production. But that was going up against a culture, and a tradition, and a heritage that it just wouldn't fly. Rice was it, and the only thing, but he tried very hard to introduce another crop. He was a very good man. I like him as a person, and as a director, but I think he had a losing cause with corn. Lasting major successes...they were hard to come by in Indonesia at that point, because the government was being so obstreperous. The government officials did not have the backing of the top man, and what the top man wanted, the country did. He was the revolutionary, he was their George Washington. Sukarno caused much trouble for the Dutch, and led the Indonesian independence revolution, as our founding fathers did with the British. I guess the malaria containment was achieved at that point, which slipped backwards during the hiatus. That initially was an achievement. The participant training was, perhaps, the lasting real achievement. Indonesia was the pincer of the southern part of Asia and the failure of their coup may have kept that part of the world from going Communist, which relates in some measure to our role in training Indonesians, as discussed earlier.

Q: Through the participant program or through the program in general?

CHRISTIAN: Our program played a part, I think. The fact that the Communist led coup of 1965 was not successful, was due to some Indonesians with Western orientation, coming forward at the right time, coming forward to put down the coup. It resulted in the killing of some 300,000 Communists. Unfortunately, many innocent people of Chinese extraction were included in this blood bath.

Q: These people that helped put down the coup were trained in the U.S. as part of the participant program?

CHRISTIAN: I am sure many of them were. Just the exposure to Americans and our culture may well have contributed to it a great deal, but we certainly cannot take total credit, maybe not even a large percentage. However, some measure of credit was due to our presence and our AID program. The fact that the Communists made the mistake of

butchering seven revolutionary heroes, Indonesian generals, and the effective use by General Suharto of this fact by parading their coffins through downtown Jakarta for a miles long parade the following week or so played a good deal in turning public opinion against the Communist party.

INDONESIA - Mission Closing - 1965

Excerpt taken from an interview with John (Jack) Sullivan

SULLIVAN: Well, Zablocki needed help in foreign affairs. My advancement was not going to be sticking to domestic politics. He encouraged me to go back and get a doctorate, so I went to American University and made a pretty good deal with them about what it was going to take to get that. I concentrated on South and Southeast Asia because the Vietnam War was heating up very strongly then, and Zablocki was at that point, chairman of the Asia subcommittee, so he needed help with Asia. So I subsequently worked half-time for him and proceeded to get the doctorate and in 1969...

Q: What did you write your thesis on?

SULLIVAN: I wrote it on the United States and the “new order” in Indonesia, and it had a fairly substantial portion dealing with foreign assistance. The dissertation dealt a bit with the U.S. government policy. It was sort of diplomatic history, but in that I had quite a bit of work on the way foreign assistance worked. Also I've always believed that U.S. foreign aid to Indonesia was handled masterfully after the 1965 aborted Communist coup in what's called “Gestapu.” At the time our ambassador was Marshall Green, and he and his people really were running the aid program. I can't even remember who the aid mission directors were at that time. But the way in which the United States positioned itself vis a vis the Indonesians was very good.

Back in those days, the '60s, AID had kind of a carrot and stick approach. You held the carrot out to the government, then you supposedly had a stick that if they didn't do what you asked then you wouldn't give them the money. I never thought that worked very well. The carrot was never big enough and the stick never scared anybody. I'm talking mainly about ESF or security-supporting assistance as it was called in those days, I just never thought it could create any real reforms.

Well the U.S. really did it differently in Indonesia, and I give Marshall Green credit. The United States did what I call “the pot of gold at the end of the rainbow” method. We said, "Okay, here's a rainbow of reforms we want you to put into effect. We want you to do this thing and this thing and this thing, and when that rainbow is complete, then there

well may be a pot of gold at the end of it." And the Indonesians did it; they did everything we asked them to, they were actually a bit naive. In their first commercial code, after they got rid of the leftists, their first commercial code was actually copied out of a Harvard textbook, and they enacted it. And our people were saying, "Now you may not want to rush into this. You don't have to take it lock, stock and barrel." But they did it.

Q: Did they get the pot of gold?

SULLIVAN: Oh yeah.

Q: What?

SULLIVAN: The pot of gold of foreign aid clicked in about 1968. We didn't rush in to give them military aid or economic assistance. We waited to see how things were going to play themselves out. I think that was a brilliant stroke. Marshall Green's written a good book about it, he talks about the strategy, and I give him very high marks in my dissertation. I think there were others who had a hand in it. A lot of them were economic types in the East Asia Bureau at the State Department. AID really wasn't there. Basically State and Treasury called the shots.

Q: They closed down the mission at one point.

SULLIVAN: The U.S. had closed down the AID mission so there wasn't AID around. But it was people like Marshall Green and Ed Masters, he was political counselor. Actually that group of foreign service officers in the Indonesian mission were one of the best that I've ever seen. It deteriorated subsequently, but at that time, we had - Paul Gardner was another good one - an extraordinarily talented and thoughtful group. Marshall Green of course has gotten a lot of kudos over the years, and he's still around, a very bright guy. His son works for us frequently.

SOUTH KOREA - A Success Story - 1964-1967

Excerpt taken from an interview with Vincent Brown

Q. *When did you arrive in South Korea, and what was the political, economic and social climate?*

BROWN: We arrived in Seoul early in the morning of October 3, 1964. Contrary to our arrival in Zaire, everything was handled very efficiently. We were through customs in minutes, and on our way to our home. Our little house was comfortably furnished and waiting for us in a gated area on one side of the UN Military Compound called South Post. As we entered our home, I was informed that I was expected at the office for a meeting. So I left Francoise and the children at home to unpack, and went directly to the office to start work. This heavy, urgent work load would continue non-stop during our three years in Korea. I never worked so hard before, nor since.

The USAID offices took up a whole building in downtown Seoul, not far from the Economic Planning Bureau (EPB). (Actually the USAID office in Korea in those days was called a USOM, United States Operating Mission. But I'll use our current term for an AID mission (USAID) from here on out.)

Politically, this was a period of great internal stability. President Park Chung-Hee and his political party had been elected with a large majority. The government was firmly established with full support of the military. There was a small opposition party of no serious consequence. The potential threat from North Korea was constantly with us, and provided a strong incentive for unity. While it is no longer the case today, in the '60s Americans were still considered "blood brothers" having successfully fought together and stopped the Communists. Students were very active in those days as they are now. However, at that time the demonstrations were over issues such as whether to accept reparations from Japan or not. The spirit of teamwork between the Koreans and the Americans at all levels was at an all time high.

Economically, while most people were very, very poor the economy was in the early stages of an economic take-off which would remove it from the U.S. economic aid rolls after a few years. South Korea had a number of significant pluses. Most of the

infrastructure damage caused by the Korean war had been repaired and modernized. The population was 98% literate in Hangul, the Korean language. This literacy made it much easier to introduce new techniques in agriculture, and made its workforce easy to train in the manufacturing sector. Korea's free market economy approach was very attractive to foreign investors, especially the U.S. and Japan as well as a number of Western European countries. The years of supplying the U.S. military based in Korea had taught Korean business men the importance of quality control, and complying with contract specifications and standards on a consistent basis. In 1964 the export drive started in 1960 was beginning to take off. In fact the USAID had a very talented, dynamic, "hands on", export promotion advisor, Amicus Most from New York City, who was very busy and effective in helping the budding Korean export industry grow faster.

The USAID annual program of Development Loans, Technical Assistance (consultants and participant training), significant food imports (Titles I, II, III, and IV), and Commodity Import Grants totaled close to \$260 million a year. When this amount was added to the invisible earnings from the presence of the U.S. military (roughly another \$150 million) gave the U.S. considerable economic leverage. In fact the USAID had a joint economic stability agreement under which the USAID jointly monitored the Korean government's economic activities on a monthly basis.

I guess the most wonderful part about the three years that I worked in Korea, was the sense of accomplishment. The economy grew spectacularly in agricultural production as well as the manufacturing sector. The increase in the standard of living of the Korean people was visible to the naked eye.

Q. We all know of South Korea's continued success both economically and as a functioning democracy. The list of countries graduating from our assistance roles is not very long. Are there some lessons to be learned here?

BROWN: Before getting into specifics, I should like to point out that by 1964, the USAID had already established itself as a major factor or force in South Korea's economic/social reconstruction period after the end of the fighting in the late '50s. Although earlier prognostications were that it would take 25 to 50 years before South Korea would be able to "go it alone," in only 15 years after the end of the fighting, the situation was beginning to change dramatically. *I believe this stunning turnaround would not have taken place were it not for the U.S. foreign assistance program.*

During these years, the amounts of technical assistance including participant training, program grants, loans, and emergency food were consistent from year to year and very large. By the mid '60s South Korea was entering into the "takeoff" phase of development. Although the \$150 million a year in 1964 represented a substantial reduction in aid levels over previous years, it still was a major help to the Korean economy. The commodity import program still provided much need raw materials for Korean industry.

The capital development loan program was hitting its stride. Loan financing for private petroleum refineries, chemical plants, and manufacturing industries was stimulating the economy. Public sector projects which assisted agricultural development, roads and dams were already underway. Electric power, and port rehabilitation projects were in their final phases. Almost all of these development activities were financed with a combination of grants and long term low-interest rate loans. The invisible earnings from the presence of the 50,000 or so U.S. troops were over a \$100 million a year.

Perhaps, one of the most important development tools of the '60s was the economic stabilization agreement which made the USAID a full partner with the Ministry of Plan in programming the scarce resources, monitoring the government's collection of domestic revenue, its expenditure levels, and the relative emphasis between development and consumer spending. The USAID Program Office's economic section met monthly with the Planning Commission to review the monthly statistics as well as the allocations of foreign exchange. The needed economic discipline was supplied by the USAID during these joint meetings. Had the USAID not been there, the Planning Commission might have bowed to domestic pressures for excessive government subsidies and consumer spending. Psychologically, this joint programming was palatable to the Koreans because their U.S. colleagues were considered "blood brothers". Almost all of the civil servants we dealt with had been directly effected by the North Korean invasion and were very grateful for the U.S. standing by their side in time of crisis. Economic stabilization agreements for major USAID programs have become more and more common in recent years. I believe the success of the agreement in South Korea, helped lead the way for more widespread adoption of this technique.

PAKISTAN - Threat of Bomb Development Leads to Aid Cut-off - 1978

Excerpt taken from an interview with John H. (Jack) Sullivan

So one day in 1978 I received a briefing paper indicating that the State Department's going up to brief Senator Glenn and will say, "Yes, Pakistan is trying to get a bomb." I signed off on it and sent it back and said "You just notified me. I'm stopping the aid program." So I cut the aid program off. That is one of the nice things about having some political backing, the chairman of the Foreign Affairs Committee was right there. I never called him on it. I didn't need the 600 pound gorilla. I suppose he might have helped me and might not of, but I never had to ask. Just the fact that you've got a 600 pound gorilla sitting in your corner doesn't hurt.

So I cut aid off and I told the State Department I was cutting it off, and I told people to start no new projects, we were going to phase down. Well the Pakistanis knew something was going on, but we had no official announcement. I cut aid off in July. If you look at the history books it will tell you we cut aid off in October. But in July, I cut it off and we began downsizing. The State Department didn't know what to do. So at one point in September, they convened a meeting with Christopher Chaired. I remember coming in and everybody's looking at me because it was my decision. I don't know whether Gilligan was there or if it was Doug Bennett, but anyway the top AID people backed me on my stand. I had been notified and the law was pretty clear.

So I went to the meeting, and our ambassador in France, I can't think of his name but he was a very good guy, was negotiating this issue. I joined the meeting, and everybody's looking at me as if to say, this boy is going to go to the woodshed for what he did to the State Department guys. And our Ambassador got up and said, "What a brilliant move because the Pakistanis don't know what's going on. They're getting mixed signals. We haven't told them anything but they're worried because the foreign aid program is coming to an end." And he said, "It's made our negotiating with them so much better that the foreign aid program is going down, yet there's been no official announcement of it." So I walked out, that's one of those moments you'd like to live forever. I didn't do it because it was a brilliant move. It had to be done because having come from the Hill you didn't want to kid those members, I mean Glenn and other senators. Why should you lie to them? It's not in our national interest for the Pakistanis to have a bomb.

So anyway, State finally made it official. They continued negotiations and I continued to phase aid down. In October they finally got nowhere and that's when they cut the aid off. Then they reinstated aid at the time that the Afghanistan war started. That's how politics intrudes on those issues.

Q: But what was the effect on the aid program, the development program we were working on?

SULLIVAN: Well it was a little bit herky-jerky I can tell you. I never felt our development methods in Pakistan were that effective anyway. We probably did a few things that were useful. One day in Pakistan they sent me out with a guy who was supposed to be doing rural development, a retired brigadier general. We went out on a site visit in a rural district. He got into a fight with a landowner who said, "I know what we need. We've got to get rid of these small farmers." This retired general got angry and told this landowner: "You and your type are wrong; you're killing this country, and we're going to have to change things." I was surprised that in front of me he was so combative. And he didn't last another two months. The power structure got him. He was a decent, well-meaning guy who was just brought to the end of his rope by the nonsense that these big farmers were talking. Here is where I saw that the regional extension agent was living at this guy's house. I asked him: "How often do you get down to help the smallholders?" "Oh, I've got a lot of work here." Baloney. Why would we want to put money into that? I still think much of the money in Pakistan went down a rat hole.

EUROPE

NETHERLANDS - The First Voluntary Marshall Plan Graduate - 1952

Excerpt taken from an interview with Herman Kleine

KLEINE: By the end of 1952, the program in Holland began to wind down. The Dutch economy was in strong recovery. We were in negotiations for the final year. The process of negotiation began with the presentation and analysis of data from the government. The mission made recommendation to Washington that the U.S. contribution for the final year should be about \$15 million dollars. It so happened that I was sent to Paris for a meeting on the Dutch program with the people in Paris that were involved. In Paris was a fellow who was on detail from the Federal Reserve Bank, whom I got to know quite well. We were having a get together and were talking about the balance of payments to the Netherlands. He mentioned that there had been a sharp increase in gold and dollar reserves held at the Federal Reserve Bank in the account of the Netherlands.

This was startling news. There were 90 million dollars that we hadn't heard of or rather, had not been informed about by the Dutch Government.

Q: Which would have reduced the level of assistance.

KLEINE: It would have wiped it out. So I went back to The Hague and told the mission director. He recognized that whatever case there was for the final 15 million was gone. He went to the Ambassador. At that time, the agency was called the Economic Cooperation Administration, headed by Paul Hoffman. It was completely separate from State Department, but it had a loose relationship with the Embassy in country but there was no direct line of authority.

Q: It was not under the Ambassador?

KLEINE: No, it was not under the Ambassador in those days.

Q: It is now.

KLEINE: Exactly. It was always expected that we would keep the Ambassador informed. At that time the Embassies were, however, extraneous to the interests of the host government. They were mainly interested in the Marshall Plan and its resources. So their relationships were very strong and deep with the Marshall Plan people and very marginal with the Embassy people. That created a lot of hostility and there was that hostility between the Ambassador and the Mission Director Hunter.

The Ambassador wanted very much for that final contribution to be made to the Dutch Government. We insisted that there wasn't any basis for it. Finally, he agreed. The negotiations focused on trying to convince the Dutch that it would be to their interest to voluntarily renounce further aid. They did and received a lot of favorable publicity in the papers, including *The New York Times*, as the first country that voluntarily renounced further assistance under the Marshall Plan.

Q: Were you a part of that decision?

KLEINE: Very much so. *The New York Times* reported that the termination resulted from financial sleuthing. So, that was the end of the infusion of Marshall Plan funds to Holland.

Q: Did you ever find out where that 90 million dollars came from?

KLEINE: Yes, I did. I should have mentioned that it came from their relationships with Indonesia. Indonesia had been part of the Dutch empire. It was just about at that time that disengagement was well underway, but they were still getting large financial transfers.

EUROPE - Closing Down Programs - 1955

Excerpt taken from an interview with Herman Kleine

There was another change in the organization back in Washington, and I became the acting number two in the European Region, under Stuart Van Dyke who was promoted to the Regional Director.

Q: *What year was that?*

KLEINE: That would have been late 1955.

Q: *That would have been FOA (Foreign Operations Administration)?*

KLEINE: I forget when the MSA became the FOA and not long after we had the ICA, International Cooperation Administration. In that period before 1957 there was a reorganization in which the European region also received responsibility for operations in Libya, Ethiopia and Liberia.

Q: *They had a desk for Africa.*

KLEINE: Right. An Africa Desk. The European Region became the European and African Region. A lot of the time during that period I devoted to the phasing out of our programs in Europe. We weren't providing new resources, but we wanted to tie everything together with bows and ceremonies so that everything could be accounted for. We sent out negotiating teams to various capitals to negotiate closing down of operations including residual counterpart. That was done country by country.

LATIN AMERICA

LATIN AMERICA - General Comments on Graduates

Excerpt taken from an interview with Marshall Brown

Q: Well, let's turn to some of the different countries that you were associated with in that process. What were the countries that you found most promising or most responsive and vice versa?

BROWN: Well, we graduated Chile and now own stock in Chile. So, it must be a successful country. I mean, Chile was one that went off the AID rolls.

Q: What was your criteria for the graduation?

BROWN: Well, the L.A. bureau didn't graduate anybody. Typically it was the White House or OB or an administrator. I mean we would have kept helping everybody as long as there was money there. You could always flunk the graduation. I mean, Chile was clearly able to go on its own. I think there was a political problem as well which always helped graduate countries. And so State said, "We'll back away from Chile for a little bit during the Pinochet years." And IDB and the World Bank picked up the slack. Chile has taken the right economic policy course and doing very well for themselves.

Colombia graduated itself. It was an odd case of a strange administration coming in the mid-1970's as I recall and saying, "We don't need assistance." Sort of a breast-beating, "We are a graduate." It really wasn't true but they wanted to say it was true and what could the U.S. government say but "Yes, well, OK." And we gave them the "golden handshake" and then later on the next government said, "Hey, we didn't mean that! That was wrong." We said, "Sorry, you are a graduate." And so Colombia graduated a little early while the drug problem was developing. It might have been just as well for our interests that we got out of there when we did because then the drug problem became much more serious. And I'm not sure how effective we could have been.

Brazil was graduated for human rights reasons. We could have done a lot more there if we had stayed. But they have been all right with the idea of the IDB and the World Bank and everyone's resources

Argentina had been a graduate early on. They never were a major AID recipient. It was a country, sort of like the Italians, a country full of Europeans, like Italy. Sometimes they couldn't get their act together. They had all the human resources and all the natural resources but like good Italians they couldn't release their politics. And so they floundered over themselves for many years.

Peru and Bolivia were major recipients throughout these years and continued to be so they have made great strides. Bolivia particularly. Going from a socialist disaster to a free market based society that deals with poverty problems.

Central America, when I was in Brazil, it was regarded as kind of the backwater. That's where people went who got in trouble. Or if they weren't very good they went to Central America. It was an "elephant's graveyard" used to be the joke. By the time I got to be deputy assistant administrator, Central America was on the front burner. That was the soft underbelly of the United States and had become our number one priority.

Q: This was the Kissinger Initiative?

BROWN: Yes. This was the Kissinger Initiative in the early 1980's. Back in the 1960's, Central America had levels at ten million dollars country level. That was a big program, mostly grants. And very small things.

Q: What was your perspective on what ROCAP was supposed to be doing and why?

BROWN: Well, it was designed to create...to foster regional integration and common services-things that could be done on a regional basis such like a science technology institute or ag-research operation, or an industrial research operation. Things that had economies of scale that if the countries would get together and do them centrally rather than each little country trying to replicate that. And essentially I think that was a great disaster. It was a concept that went beyond Central America. They weren't that interested in regional anything. They wanted national entities in our concept. They would grudgingly agree to put in their small part of the funding.

Q: What was the prime motivation for trying to promote this concept?

BROWN: Well, there was always someone in the LA bureau who had a vision of an integrated Central America. And going back to the 1960s because, as I say, they were there by 1965. Larry Harrison came in as ROCAP director and pushed it very hard at some point in the 1970s before he retired. And got disenchanted and said we should close ROCAP. Interesting characteristic is whenever he would leave a country he would want to close the mission. There was no sequel to Larry Harrison. We left Costa Rica and he recommended that; we left Haiti and he recommended that; we left ROCAP and he recommended that. So Larry said, "Close ROCAP. It is hopeless." Well, I made the mistake of keeping ROCAP alive at the time. I argued against Larry and was successful and we kept ROCAP alive. Only to have me kill it years later. I should have gone on with Larry, he was right in the first instance.

Q: Why did you keep it alive?

BROWN: Well, a combination of reasons. One, the hope maybe that there was something there that they could grasp onto and that at some point they would see the benefit of this cost effective approach. And with various things including the stabilization fund -- you know, for macroeconomic balance of payment problems which was never effective but was created -- the idea of a grain storage facility for grain shortages. All these things were great ideas but they were beyond Central America's interest. So, it was partly maybe this would work and partly it was one more spigot we could argue needed funding in the budget battle. Every mission you got or every black hole as Jesse Helms would say, you poured money down. We could argue, "Hey, we need funding for ROCAP and we would have an ambassador in Guatemala arguing for it too, so it was partly pragmatic, budgetary politics. I also believed that maybe there was a chance that maybe this thing would eventually take hold. Ultimately everyone agreed. We had given it a chance. We had thirty years of effort and Central America didn't deserve any more regional assistance.

Q: Is ROCAP still there?

BROWN: No. It was abolished as such and became an arm of the Guatemalan mission, reporting to the Mission Director and limiting itself to certain regional activities.

URUGUAY - Opening Program After Phase Out - 1962-1964
An End to Police Training - 1969

Excerpt taken from an interview with Robert Nooter

Q: What was the program? Why were we providing assistance to Uruguay?

NOOTER: Uruguay is a relatively prosperous Latin American country. I don't remember the per capita income, but it was not low. Uruguay is a very sophisticated country, reminiscent more of Europe than of an underdeveloped country, and like Argentina, had been very successfully developed up through the thirties, but it had fallen on hard times. The AID program had actually phased out there in, I think, 1958. But it was being reopened in 1962 as a result of the agreement of the U.S. to give substantial assistance through the Alliance for Progress, which was conceived in Punta del Este in 1961.

Uruguay came back into the AID program because of the Alliance for Progress. You asked why we were there. I remember being shown, in great secrecy, by the State Department the transcripts of some of the discussions that had gone on that formed the basis of the AID program in Uruguay because I had asked exactly your question. Why are we going there? What is the level of aid, and on what basis is it conceived? What kind of program is it to be?

What these transcripts revealed was that Uruguay had been promised a certain level of aid if they would vote for the Alliance for Progress, which was actually in great doubt as to whether it would be accepted by the OAS countries. My understanding was that it needed a two-thirds vote to be accepted by the OAS. The Alliance was a program in which the U.S. agreed to provide aid, and the Latin American countries agreed, at least in a general sort of way, to follow a set of policies having to do with what would make their countries develop more effectively. A lot of Latin American countries at that time didn't want to be so closely associated with the U.S.

The Uruguayan vote was the one extra vote needed to make the two-thirds majority. The president of Uruguay - they had a rotating presidency at that time; a nine man council governed the country, and one of the members of the council served one year - held out

for a certain level of aid, which depending how you read the transcript was either 10 million or 20 million dollars. It was not the only time I was involved in a politically motivated aid level where the amount was not clear.

AID thought the agreement was for a ten million dollar program of assistance. The period was somewhat indefinite as to whether that amount was for one year or two years. A small office had already been set up in Montevideo with a couple of people from AID's regular staff.

NOOTER: Also another theme that we will come back to in our interview is that in those days AID ran large overseas missions that were empowered to do a great deal. But someone in AID had the notion that we really ought to change that style. The notion was that the AID mission in Uruguay should be a three person mission, that that would be the size of it. That was predetermined - three or four including the secretary because you had to have a U.S. secretary for security reasons. If you had classified documents you had to have a U.S. secretary to handle them.

So I went to Uruguay with the understanding that it would be a four person mission. The way AID was structured didn't make that very practical, however. I think by time I left, the mission had grown to ten U.S. staff. But somebody was thinking at that time of changing the style to smaller missions. As I remember, the mission in Thailand at that time was about 400 Americans plus local staff. When I got to Liberia, we had about 300 people, 150 direct hire and 150 contract. But in Uruguay they had the notion that they wanted to run a small mission.

We set out to try to identify programs. Some technicians had been there ahead of me trying to develop programs. There was an agricultural program that was really in agricultural education. It had been conceived and was in the later planning stages. There were preliminary plans for a housing program and one of the staff had been working on giving a loan to a cooperative bank for subloans to members of the cooperative for agricultural processing. And this was the program we were putting together and trying to get started.

Also during the time I was there, we began a police training program, a kind that was popular in AID at that time. AID had the notion that part of the government outreach to the people was through the police department, and if police services were oppressive and brutish then the governments would appear to be oppressive and brutish. On the other

hand, if police were trained to be efficient and courteous, the country would be better off. That program later became the basis for the incident that happened in 1969, when urban guerrillas in Uruguay, called the Tupamaros, kidnapped the head of the AID police program and created an enormous international incident. It became the basis for a movie done by the same fellow who did "Z", and the result was that Congress decided that AID's police program should be stopped.

Q: I think that happened after you were there.

NOOTER: Yes, in 1969 and I left in 1964, but the program had started during my tenure. It's only later, when the U.S. began getting involved in places like Somalia and Haiti, that the U.S. Government came back to realizing that police training is an essential part of running a modern government. If you are starting to build a government structure, this is one of the essential services. This would be an interesting study for some researcher to go through the whole history of this program, but not stop in 1970, but to continue on up to the present day, including the Somalia experience.

John Hannah, who became head of AID in 1969, was one of the early supporters of police training when he was the president of Michigan State. John had that notion very much in mind and felt very strongly about it. I know he thought it was a big mistake when they were required to pull back from those programs. It is certainly true that the publicity that was generated by the police programs, where the revolutionaries tried to make the U.S. appear as oppressors because we supported the police was very bad for AID. But the basic concept of training police not to be oppressive is essentially sound.

Q: Were there any elements, though, in the public safety program using it by other agencies in the U.S. government for intelligence and other covert activities. Did you ever see any evidence of that?

NOOTER: At the time I was there it was not used that way in Uruguay. I guess that it was not uncommon for police programs to have some individual in that group be a cover for a CIA person. Again, the notion of using AID for CIA cover came out as an issue in the early 70s and John Hannah put a stop to it everywhere around the world in all AID programs. Of course the State Department was used as a CIA cover and probably still is. Where else are they going to be put? But so was AID, and it probably was a mistake to

use AID for a CIA cover. But once it came out and became public knowledge, it was cut everywhere except in Laos.

BRAZIL - Operation Topsy Shuts Down Projects - 1967

Excerpt taken from an interview with Herman Kleine

KLEINE: The other development of interest that was going on was called "Operation Topsy," which had been launched by Ambassador Tuthill. Operation Topsy received a lot of notoriety. It was designed to reduce the U.S. presence abroad. A target was set to reduce staff by one-third within a certain period of time. This applied to all U.S. elements - Embassy, AID, USIA, etc. His proposal was approved in Washington and it started a very difficult exercise.

Q: That was initiated in rather than in Washington?

KLEINE: Yes.

Q: I see. And his position was that...?

KLEINE: That it was in the United States' interest to have a reduced presence abroad. Since the largest number of people were in the AID mission, the impact was greatest on AID. While there was some grumbling about the proposition that it was good for the U.S. interest to have fewer people abroad, no one in Washington had the courage to oppose it.

Q: Contractors and direct hires?

KLEINE: Contractors and direct hires. Frank Carlucci was the Embassy political officer at the time and he was the main action officer for the ambassador on the project. You may recall that he became the Secretary of Defense years later.

Q: Why was it in the United States' interest to have fewer people? What was driving this?

KLEINE: There was a time when Americans abroad were considered to be the "ugly Americans." It was just a simplistic idea that he proposed at the right time. The political

climate was right for it. It was very warmly received. Tuthill received a lot of credit for "Topsy."

Q: *What Administration were we under then? Was this under Nixon?*

KLEINE: Let's see. This would have been 1967... It would have been Johnson, just before Nixon.

Q: *Just before? So it was the Johnson Administration that started this move to reduce the number of Americans abroad?*

KLEINE: Yes, it was an aggressive exercise.

Q: *It meant closing out projects?*

KLEINE: With the slimming down of staff, there was the closing down of some projects, yes.

COSTA RICA - The Golden Handshake - 1969

Excerpt taken from an interview with Ronald Venezia

VENEZIA: Larry Harrison was at that time AID's youngest director. He'd been in Costa Rica earlier as a program officer. Larry was a real firebrand. A very liberal firebrand and he had established a very strong link to the culture and Costa Ricans in an earlier tour. He hit the ground running and that was when we were going to phase out Costa Rica for the first time I'm aware of. That would be the late '60s. Costa Rica in 1969, either '69 or '70 or '68 or '69 whatever, had for two years running the highest per capita growth rate GNP in Latin America. This was in the neighborhood of 8 or 9 percent a year. It was a dream come true. Everything was moving along. Remember Walt Rostow? The take-off idea, it was all there. Larry came in and said it is time for us to leave and we should terminate what we're doing but we have to terminate in such a way as to give them a golden handshake. So he dedicated himself to designing a golden handshake in the agricultural sector. Besides agriculture, the rest of the program was pieces of this and that. There were quite a few things, other things going on, but Larry's real focus was in agriculture. So he decided that he would create an administrative unit in the mission, which picked up all these pieces and I helped on the design of that and it was called the office of institutional development and it included education, health, community development, family planning and training.

Larry meanwhile was developing his golden handshake - an agricultural sector loan. It was one of the early versions of those sectors loans that AID came to use in the '70's and it had many pieces to it - it had a land titling piece, an agricultural extension piece, ag credit, education - almost all of it was going to the government by the way. It was a lesson we learned later on not to do, but we were all living in the Alliance still. The Alliance said the private sector had failed in the social sectors, what was required was that governments move into the forefront, especially in the social sectors, and AID put its money into the social sector in the whole of Latin America, including Costa Rica.

Q: *In the social service sector?*

VENEZIA: In spite of earlier investments in the servicios, social services were still very weak. In the 1950s during Point 4 you had started out creating a semblance of structures

to support investment in social services and eventually led into what was referred to as the servicios. The 1960s and 50s were characterized in Latin American by the creation of parallel organizations, very well funded, very well staffed, and very well led generally by Americans with programs in rural water, sewage, agricultural extension, agricultural research, education, etc. At the end of the 1960s, corresponding to the creation of AID, was the collapsing of these servicios into the line ministries. This collapsing was in effect just taking this service organization and moving it over and this was happening all over the hemisphere. The theory was, we are no longer going to do it ourselves, they have to do it. There has to be a Ministry of Agriculture that is going to become an active player. So an enormous amount of effort was put in to reorganizing and increasing expenditure in the social sector through the creation of a much larger role for the public sector in providing for the basic services of education, health, agriculture. By the early 70's, the Alliance was dying, Kennedy was gone. The war in Vietnam was beginning to heat up but we still lived the rhetoric of the Alliance of Progress. And so Larry was off creating this enormous public investment structure for agriculture and that was going to be our golden handshake. Now you can have perspective ...

Q: Why was there a policy to phase out?

VENEZIA: Because of the strength of the Costa Rican economy. In other words if you believe in the take off theory that was in effect there, that the plane goes along and it gets a certain amount of lift and then it takes off on its own and Costa Rica had two years sign of tremendous growth, and it had 90 % literacy, it had a social security system and people said why are we here, ...

Q: There was no political rationale for the assistance?

VENEZIA: Not particularly aimed at Costa Rica. There was no pressing global issue that was Costa Rica specific, except for an incident following the election of Pepe Figueres and it got Larry PNG'd, this time by the Ambassador. It seemed to be a pattern of AID directors in Costa Rica getting PNGed, which was very much on my mind when I went down there in 1990, I can tell you. Larry was working on the creation on this major agricultural sector loan, which was for 20 million dollars, in those days a lot of money. Especially for a country of 2 million people, 2 1/2 million people. So he worked on that and he kind of left me alone. He just wanted this other stuff taken care of and not to

cause any problems. Well, I was getting involved in these new sectors and I got involved in a municipal development initiative.

I said to myself, what's missing in Larry's piece is a people piece. In other words he had extension, he had land grants, there was some co-ops, but there was no connection back into the community. So I began to look into that aspect in terms of municipal development and in terms of community development and what I came in and offered Larry mid way through his process was an addendum to his program. It was the creation of a municipal bank, which was referred to as IFAM or Instituto de Fomento Municipal, and a program with the community development organization of the government. I understand IFAM is about to be abolished because it has failed to deliver on its promise to strengthen the municipalities. Nonetheless, it was one of the high points of my early career.

LATIN AMERICA BUREAU - Bilateral to Multilateral Aid - 1969-1973
CHILE - Political Motives Affect Aid - 1972-1973

Excerpt taken from an interview with Herman Kleine

Q: What about organization relations? You said they worked very well, but were there any areas where State Department was pushing a political interest or other interest that was a problem for you?

KLEINE: No. I didn't see any serious problems. Problems did occur from the political side in the field. When country situations allowed, I was anxious to reduce and eliminate programs as I felt that the support for AID programs in needy countries would be strengthened on the Hill if we showed success stories. What better way to demonstrate success if we can say that such and such a country "graduated" from the concessional aid program? I started with that view back in Holland, when we nudged Holland off the aid list. In that way, we can show the American public that this is not an endless program. In the Latin American bureau, we felt it desirable to phase out when the time came that whatever was required could be provided by the multilateral organizations that we had done a great deal to build up. There was the World Bank, and in our region there was the first and the largest of the regional development banks, the Inter-American Development Bank, which we started. It was launched with direct appropriations from the AID appropriation. The first input I recall was \$500 million, which became the IDB Social Progress Trust Fund, in which we retained a veto on all projects until that was all disbursed. The IDB now is a multi-billion dollar agency. We kept pushing, as I said earlier, multilateralism - the "multilateral umbrella." The individual country reviews, in which we had the participation of the member countries as well as the U.S., became the hallmark of what we were doing. Under that umbrella we tried to phase down. The resistance to the phasing down came from the field, from the AID people and a good deal from the ambassadors. Ambassadors learned early on in this game that if you don't have anything to offer, you're not considered that important among the country's leaders.

Q: And did you "graduate" any countries?

KLEINE: Yes. We graduated Argentina, Mexico, Costa Rica, Colombia, Chile, Uruguay. Some decisions, however, were changed or stretched out after I left. We did

allow graduated countries to participate in regional projects in the interest of strengthening regionalism.

Q: So we went back to some...?

KLEINE: Yes, we went back or rather stretched out phase out schedules.

Q: We'll come back to that later.

KLEINE: Chile initially was a very active partner in the Alliance for Progress. Then it came onto hard times when it was considered to be under Communist influence. Allende took power and it was widely believed that he was very cozy with the Soviet Bloc. Our participation in that development process dwindled off very, very fast.

Q: So we terminated the program?

KLEINE: We didn't actually terminate it, but there were no new project starts. We were just working on old obligations until Allende was thrown out. There was a coup in 1973 by General Pinochet. There has been controversy as to what transpired, whether the U.S. was involved or not, but Pinochet became the head of government. We got marching orders after the coup from the White House and Kissinger to do everything possible to provide the maximum assistance to the Chilean government. An inter-agency committee was organized under Kissinger and every week we would have to report to him or his representative what was done, what was yet to be done.

Q: You talked about, earlier, phasing out some country programs. What kind of criteria did you have in mind, or how did you decide that these countries were successful and therefore not...?

KLEINE: The starting point was the view that AID should phase out of direct bilateral assistance at a certain time. The question was when. There were no clear cut, objective criteria that would tell us when that should occur. When we thought that multilateral resources from the World Bank, and IDB, and from new private sector investments were such that we didn't need any direct, large inputs, we felt that phasing out made sense.

Our plan was normally to continue a person-to-person relationship through PVOs (private voluntary organizations). We considered, too, that regional funded programs, those not country-specific, would continue. We made the point that phasing out of bilateral aid did not mean a withdrawal of U.S. presence or lessening of interest in the economic development of the country. We became, perhaps, a little generous in beefing up and working with the PVO's, the Partners in the Alliance, etc. during phase-out.

Q: You mentioned that Costa Rica was one of these countries. What was special about Costa Rica that suggested that it should be phased out?

KLEINE: It was one of the early democracies in that area. There was a well-established middle class. All the economic indicators in terms of per capita GNP, growth, education, indicated that it was a ready candidate for phase out, if you were looking for places to phase out.

Q: It was a success story?

KLEINE: It was a success story, but it never was a major recipient of bilateral assistance.

BRAZIL - PVOs Object to USAID Phase Out - 1970-1974

Excerpt taken from an interview with Richard Podol

Q: Were there any particular issues though, in your work with PL480?

PODOL: The issues that go back to India- How much ability did you really have to phase out programs that should be phased out. We wanted to phase out one in Brazil, for example, and this is where we ran into political flack. It's from the American Voluntary Agency, who's carrying out the program and doesn't want to see their role disrupted in that country. Sometimes, if they were a religious organization in particular, they had an agenda that went well beyond food. They felt that if they lost the food, they lost entree. So, anytime you wanted to close something out or reduce it dramatically, in Title II, we ran into this kind of situation.

ARGENTINA - Difficulty in Graduating Countries - 1972-1974

Excerpt taken from an interview with Allison Butler Herrick

HERRICK: Well, in the period that I was in the Latin America Bureau came a time of interest in graduating countries from the AID program. Argentina was one of the countries; I recall observing that people in the field were reluctant to accept the fact that there was going to be a graduation. That's a theme that I've seen in other places. AID has determined several times to graduate Tunisia, but there is always one more project to continue to its originally planned end, and then the situation changes enough to justify another set of new projects. I think it's very difficult for AID to graduate a country.

Q: You made a reference to Argentina being one of those countries.

HERRICK: Yes, that was one of the first. Of course AID has had graduates; Korea and Taiwan are well-known graduates of AID that are cited frequently. But in Africa and Latin America it's been very difficult.

Q: What was your understanding of the criteria for graduation? Why was Argentina and others being selected for this?

HERRICK: Because at that time Argentina didn't really need capital assistance to help build infrastructure; it could afford to do that by itself. It had an education system, it had a training ground for economists and various other things and was deemed to be able to afford its own development. Of course shortly after that came political turmoil and record-breaking hyper-inflation that undermined all of that.

COLOMBIA - Sudden Shutdown - 1972-1976

Excerpt taken from an interview with Ronald Venezia

VENEZIA: From Guyana I moved over to Colombia, it was called the North Coast area, and eventually, I guess after I was there about a year, the position of the chief of that division came open and I got appointed chief. Colombia at that time, was the largest AID program in Latin America.

It was a program based upon, it was referred to as a new concept, but today you'd call it a cash transfer. But in those days it was referred to as a sector loan. They had started in Colombia with balance of payment support which was a commodity import program in the early days. What happened in Israel later on, also happened in Colombia. When you get into the hundreds and hundreds of millions of dollars, I think the Colombia program was 3 to 4 hundred million dollars a year, it simply collapses under the weight of documentation when you have a commodity import program. You have to demonstrate what you've imported, you have so many transactions and it comes through the banking system and it became quite clear that you couldn't move money. There was getting to be a real backlog of unexpended funds, and there was pressure on moving money.

So AID, as is its wont, said, look, the idea is to get the money to the economy; we have a balance of payment problem here. Colombia needs the dollars to import its goods. We have these New Initiatives focusing on education, agriculture and health. You know we're going to focus our attention there. And what we want is the Colombians to increase their investments and budget for these activities. So why don't we just do the following. Why don't we look at their budgets for these three sectors and why don't we agree on levels that they need to invest in these sectors. They can put in so much and the rest will have to come from somewhere else. So what we will do is, we will make a sector loan in education, a sector loan in agriculture, and a sector loan in health, each year, and we will sign an agreement that commits them to certain levels of expenditure for those areas and then we will be able to say we have directed Colombia's budgets in these areas, and once we agree on that then we'll just give them the money.

Q: *These were loans?*

VENEZIA: These were 40 year concessionary loans and we would disburse the money and the money would lose its identity. In other words you could no longer say this school is ours and that school is yours and as for the commodity import program people, well, I'm sorry folks, you can no longer say that this money was used to import grain. That was a problem with AID's commodity import people who fought for years and they lost in Brazil, they lost in Colombia, and they lost in Israel also, so far anyway. That was a very nice money machine. It ran like a clock. The Colombians are quite clever. The Colombians were committed to these activities. This was politically very popular in Colombia, as you can imagine, and so this was going along very nicely. Then I got involved in the Colombia program and I began to notice a couple of funny things. One was that we were disbursing this money, without checking on what happened the previous year and I began to notice that there was an increasing disconnect between our money going in and what was being spent. Without anybody noticing, Colombia was getting dollars from another source which was, pardon the pun, growing, growing, and growing and was non reportable and Colombia's reserves were beginning to climb. Also from the U.S. side, AID is a money machine and so is the State Department, so the whole question of levels to Colombia was very important and the challenge was to keep those levels up. You have to justify those levels, and it's an annual grind you go through to make sure you get to Congress and you get the money and you sign it up and you disburse it. While all this was on automatic pilot, what was happening was - and it didn't take a real genius to see this - as Colombia's inflation - and you can imagine what happens when this kind of money gets pumped into the country - Colombia's inflation began to climb, and the Colombians began to want to start to control inflation, so they began to hold back on some of the expenditures, and what happened was, 300 million dollars that we had disbursed had not ended up in the budget. The reason was that it was being held by the Colombians away from the budget, and the budget expenditure level had been reduced to fight inflation and we had not reflected that in our annual program.

Q: *So this was going into reserves?*

VENEZIA: Well, it was going somewhere. It wasn't going in the budget. I didn't work for the IMF and I couldn't tell where it was going but I knew where it wasn't going.

Q: *Right.*

VENEZIA: So I did another one of my reports. This ended up, I don't mean to personalize this because a lot of other people are involved obviously, but I take a little responsibility for an AID bill of collection to the Colombian government, for 300 million dollars, which was delivered by the AID mission obviously not by me, I was just one of these Dobermans back in Washington.

Q: *Right.*

VENEZIA: I had a couple of notches on the bedstead and the Colombians' reaction was not expected. They said, I forget who the President was, they said, look, we have a wonderful relationship and thank you very much for all the money you've given, it's been very helpful and everything else. We will pay you back your 300 million and we will close your AID mission. The AID mission in Colombia was closed. That abrupt closure always stayed with me. We had never prepared for this eventuality, and Columbia was very much on my mind later on when I began to think about phasing out Costa Rica. We needed to have a plan, not just let it happen to us or them because of some spur of the moment event or circumstance.. That's why I conceived the foundation idea. This is especially true for large programs where AID's impact is meaningful.

Q: *Why were we making such a big operation there prior to that point?*

VENEZIA: Well Colombia was a leader in the Alliance for Progress. You have to understand the environment. I had lunch once with Larry somebody to discuss our program in Haiti. He was a key legislative aide on the Hill and had actually written the new initiatives in the 1972 legislation. I can't remember his name now. I came back from my lunch and I wrote a note to Herman Kleine because I just felt I had to tell somebody. In the middle of the lunch the guy had said, "you know the Latin American Bureau is the best AID Agency in the world", and I thought that was worth repeating because, one, I was very proud and, two, I didn't think it was that far off the mark. We had excellent people, we had a strong back to back relationship with the State Department, we were in the midst with foreign policy and we could get things done. We were a machine. We could do things. Well, this machine was operating with a vengeance and you know if you tell AID to spend money, it'll spend money, so we were working like crazy and the world was changing under our feet and the Colombians, well Colombia was growing quite rapidly. Their non traditional exports were zooming through the ceiling and they were going through their own process of economic growth

and transformation and our program was simply grinding out the money. We had our own reasons for keeping levels up and it simply got out of sync. It didn't take long at those levels. Three hundred million bucks sounds like a lot of money but when you are pumping in three, four, five million bucks a year, it only takes about a year and a half or two years for the thing to get out of sync and it did. So the Colombians closed us down. They said...

Q: You weren't concerned about that money? Particularly about its developmental ...

VENEZIA: Oh, no, you have to understand, the developmental aspect of this thing was grinding on. The annual budgets were increasing but they were not increasing in terms of keeping up with inflation. But the Colombians were booming ahead and building schools and training teachers and opening up hospitals and building homes, this was all happening. But it was not happening at the level we were putting in. The Central Bank took the dollars, it was a cash transfer. We didn't call it that in those days. If we did I don't think we would have been able to do it. But, the money was delivered to the Central Bank in dollars. The Central Bank would just take the money and say thank you very much.

Q: Nobody was tracking the local currency in relationship to the loan?

VENEZIA: No, because it had become an entitlement and the mission, and it was a good lesson, the mission which had been a premier mission, lost its good people. Once the transfer became routine, the good people who had designed this program moved on. The real architect was a guy called Len Kornfield, he's dead now, he died of lung cancer. He was the force behind this instrument and he had come to Washington every year and he would personally present the proposals which he had personally negotiated with the Colombians. He left. He had all kinds of friends and enemies in AID/W, in the Bureau, the commodity import office, the lawyers, etc. He was a very strong individual and he was pretty smart and he knew his stuff. But he obviously ran rough shod. In a meeting, and he was asked a lot of questions, he understood perfectly well the principle that a meeting can only go on for so long before people leave, and so he would take first of all a long puff on his cigarette before he'd begin to answer your question and would drone out his answers and he would never give you a straight answer and he knew pretty well he was going to get the money. Then he left and anybody who wanted to get even with Colombia came in and the program just lost its edge and people even lost the original

idea and it became captured by the idea of spending the money. That happens. Money corrupts.

Q: *And was there political pressures just the same?*

VENEZIA: Oh, the State Department which was in those days wasn't typically interested in the mechanics, was interested in the levels of Colombia. That was the political issue, we had to keep the levels up and you know that happens even today in Russia, Egypt, Cyprus.....

Q: *Why was Colombia so important to the State Department?*

VENEZIA: Colombia was a key country in Latin America. It's a very large country, it's a dynamic country, it was a democratic country, you know in those days democracies in Latin American were few and very far between.

Q: *But it had internal unrest?*

VENEZIA: Yes, they had internal violence - I think they still do, there's still a tremendous amount of violence in the country on any given day of the year. but there was an insurgency which I think had a Castro connection and you know that's all you needed in those days.

Q: *Most of these programs, apart from the money transfer process you talked about, were not for development?*

VENEZIA: Oh, no, much of what we did had a tremendous impact.

Q: *Could you characterize the impact on the country?*

VENEZIA: Oh, I think clearly the investment into the social sector in Colombia increased dramatically. It's a large country anyway, and you know it's hard to measure cause and effect but I think if someone like C.D.I.E. goes back and looks at the level of public expenditures in basic services of education, health, and agriculture they would find in the period of the early late 60's early 70's a dramatic expansion of these services to Colombia. I think Colombia had a major reform of its education system. Not as

probably as profound as what happened in Brazil in the 1950s but much of it, Colombia, today is a modern country.

Q: Did AID people have a role in defining the strategy in the sector, the policy for education and the policy for agriculture?

VENEZIA: Yes and no. Colombians set their own cap to these issues. Meanwhile, AID had this enormous sector study office which financed studies, much like CDIE today. These studies used U.S. and Columbian professional researchers and produced volumes. To what effect, I don't know. The Colombians are very clever and well trained. The Colombians knew what had to be done, and did it. The education budget, it was put together by Colombians. The AID mission played a role as to what you call today policy dialogue or engaged the Colombians in pushing them into one direction or another but the Colombians knew what had to be done, ...

Q: Did they have much technical assistance from you?

VENEZIA: Ah, the Colombian program was never characterized by, at least when I knew it the late 60's early 70's by a program that had 20 people in agriculture running around putting in corn plots.

Q: Was there any institutional development?

VENEZIA: Well there was an institutional dimension of the programs but it was largely a policy driven program in which the dialogue took place at the policy level and then the Colombians executed it and they put in money.

Q: That was really the key to the new initiative wasn't it?

VENEZIA: Very much so, it was a decision that we agreed that you need to extend your investment here, you tell us what you want to do, we'll comment on that, obviously give you our opinion maybe make some suggestions but in fact it's your education budget, because that what we wanted. It was passed by their Congress.

Q: And they had the level of expertise too.

VENEZIA: Yes, very much.

Q: *The plan to carry it out.*

VENEZIA: The Colombians, the professionals in Colombia were totally capable of carrying it through. In areas like in housing they would pick up on a lot of the institutions and developments in the United States in urban development for example. There was a lot of transfer of ideas and techniques but the Colombians were and are, I think, a very clever bunch of people.

COSTA RICA - First Phase Out Ended for Political Reasons
Second "Soft Landing" Planned - 1990-1993

Excerpt taken from an interview with Ronald Venezia

VENEZIA: There was the equivalent of about a half a billion dollars of local currency still in the control of the AID Director, plus when I got there, there was an ESF program for 90 million dollars. I signed an ESF Program the following year for 25 or 40 million dollars. There was still big money flowing into the country, it went down very quickly but at this time there was still an enormous amount of money flowing into the country. There was about 250 or 300 people in the mission, including local employees.

Q: I think you mentioned this before but maybe you could review it again, why was this such an extraordinarily large scale operation for a relatively small country?

VENEZIA: Well when Larry Harrison had arrived in Costa Rica, remember Larry was going to do the "golden handshake", I think I described that earlier.

Q: Yes, I remember you talked about that.

VENEZIA: Larry was going to make the last loan to Costa Rica, the "golden parachute" and we were going to say goodbye. Well he did and the program then began to dwindle. I visited on occasion from Guatemala in 1976 to 1979 when it was getting ready to close. The Mission, in fact, had moved into the Embassy; it was a small upstairs room that was the old Consulate that had about eight or ten offices in it and that was the AID Mission. They were cleaning things up. Dan Chaj had been sent in as mission director to do some things and he was sitting there when the roof fell in when the Sandinistas took over Nicaragua. The Reagan Administration decided that they were going to make a stand in Central America. Costa Rica became the equivalent of a front line state. The Carazo Government which ended in 1980 had openly sponsored the Sandinistas from the Costa Rican side of the border and in effect turned Guanacasti province, which is up on the border, into an aircraft carrier. The equivalent of what we did in Honduras. They had closed off the area and turned it over to the Sandinistas who were using the Liberia airport for setting up air drops and setting up air support and were using it as a safe haven to come back and forth to escape the Sandinista government troops. The accusation is

that many of the Carazo Government were deeply engaged in arms trafficking and making personal fortunes out of that.

Q: *Was there another entity, the Cubans or Russians?*

VENEZIA: I don't know enough about that side of it, I presume the Cubans were involved because they were strongly supporting the Sandinistas. Although that supposedly increased as their chances to win became greater, the Cubans became more and more involved. The Costa Ricans were more than aiding and abetting, they were rooting for the Sandinistas.

Carazo who considered himself, and still today considers himself an economist, was his own economist, which was the wrong thing to happen, and unfortunately he made every single wrong economic decision that was possible. I could tell you a lot of stories that I heard when I got there. In effect he committed suicide. The country experienced a massive devaluation within one month. The Colon which had been more or less fighting inflation (it was an artificial level anyway but it was manageable) it was about eight and a half to the dollar and within a month shot to 55, if you can imagine that. The Costa Ricans who were used to a standard of living far better than their Central American colleagues, found themselves within a month facing circumstances where their money wouldn't buy anything. It was a seven or eight fold devaluation. So simply put, the country went bankrupt. It defaulted on its foreign debt and it just came apart. Monje came in and replaced Carazo and he was someone that we could do business with and he obviously did not like the Sandinistas, or at least he understood them.

I've got a story that I heard from a good friend of mine who was Minister of Economy under Carazo. When the Sandinistas came in, Costa Rica gave foreign aid to Nicaragua. The Costa Rica Central Bank bought ten million dollars worth of Nicaraguan currency. In other words they gave Nicaragua ten million dollars and took their currency in return, they never got it back. Claudio Gonzales, as sitting Minister of Economy, talked about going up to Nicaragua and sitting in one of the Commandante's offices, probably his counterpart and having a meeting with a guy who had a gun on the table that was aimed at him. And being at a cocktail party and the Sandinistas saying something to the effect of that the Costa Ricans have done so much for them that they really felt Nicaragua owed them something, so they were going to do something for them. Nicaragua would export the revolution to Costa Rica. This was the mentality; Sandinistas were kind of

crazy. They did almost anything that they could to commit suicide over a ten year period and take their country with them.

So the realization began to dawn on the Costa Ricans that they had invited somebody "home to dinner" that was somebody that they really couldn't live with. So Monje and the Reagan Administration (I wasn't there but this is what I understand) agreed that they had to save the country, they had to resolve the economic crisis which was serious and devastating to the only Central American democracy and at that time, one of few democracies in the hemisphere in 1979. So a deal was a deal and we decided to put some money in, and boy did it come. By 1982, they were up to about 200 million dollars a year. In 1982, 1983, or 1984, I'm not sure of the date, Costa Rica was the second highest per capita recipient of foreign assistance in the world after Israel, that's the point that it got to. The money just came in and there wasn't a loan among it. There were a couple of loans to set up some banks, but mostly it was just grants. This generated the local currency. There were some projects, there was a loan for a bank and a couple of other things, but it was mostly for balance of payments.

Q: Was there commodity aid or just cash transfers?

VENEZIA: Cash transfers. Commodity imports would not have worked. So there we were, pumping this money in. There was a time when I was told that we controlled 25% of the money supply to the country. This had never happened before in this magnitude of aid, so there was absolutely no guidance available anywhere on what to do with this money. Dan is a very clever guy, he's also very smart and he's also got some good developmental instincts. It turned out that he and Monje were just soul mates. So he began to have lunch alone with Monje once a week and the two of them alone would sit there and cut deals. I'm sure that Dan was keeping the Ambassador informed, in his own way, but Dan became a figura in Costa Rica over the years. There is hardly an aspect of Costa Rican life today that has not been touched in some way by the AID program of 1980 and early 1990's.

Q: Mostly local currency?

VENEZIA: Yes, clearly. On the macroeconomic side in terms of the Brady Plan and restoring the Costa Ricans' credit rating around the world, getting the other donors back into the game, which they did, and of course our money facilitated. Just the whole

question of breaking inflation and bringing some normalcy back to the economy did affect clearly, everybody in the country. From privatization, unraveling an enormous web of state industries under a holding company called CODESA which was a major operation, to the introduction of methods and programs and money for the development of nontraditional exports. Costa Rica in the late 1980's was growing in nontraditional exports at the rate of 30% to 35% a year.

Q: But the expenditures of such massive amounts of local currency, was this through a budget mechanism?

VENEZIA: The deal was between Dan and Monje and I presume that the Central Bank under Eduardo Lizano was made aware of this issue. The decision was made that they had to keep it out of the budget. In another words if it went into the budget then it had to be processed through the legislative assembly and God knows what would happen when it hit. These enormous sums of money going through the Congress. So the deal that was struck was that the Costa Ricans said, "It's not our money, it's your money." Your money meaning the U.S. Government. "You brought this money in, you bought these Colones so it's your money." It was kept inside the Central Bank and programmed through the Central Bank mechanism. So it never went in through the budget. That existed the day I got there and it exists today. It's still not part of the budget. It was our money, so we got interest on it. I guess there have been a couple of cases before where AID has not collected interest and it had been criticized so Dan said we'll get interest on this. Interest rates were very high because of the inflation. All of a sudden we began to capitalize this money, it got to a point where when Arias came in, in 1986 he pointed out to whoever came down that fully 25% of his public sector debt was paying interest on the bonds to AID. An easy way to solve this fiscal problem was to cut that out, so there was a deal struck. Some money would be monetized, some would pushed off and the new money coming in would not gain interest.

Q: Was the IMF involved in this at all?

VENEZIA: I'm sure the IMF was involved in discussions. And the Brady Plan was signed in 1988, and the IMF was deeply involved in that. The U.S. Government was clearly in the saddle. The IMF was involved but we were the IMF. Just like we were in Israel.

Q: Wasn't there a concern that, that much extra budgetary money could generate an inflationary problem again?

ENEZIA: Well, depending on how it was spent. A lot of the money went into bonds and the bonds were then placed as leverage in various things. The Earth School for example was created with a grant from ROCAP. Are you going to interview Dan?

Q: We're going to try to.

ENEZIA: Dan will give you a much better view of this than I can. What I saw when I got there was that Dan had apparently done was cut a deal. CATIE was sitting out there in Turrialba and didn't have any money. ROCAP worked with CATIE, they were the clients. ROCAP was running out of money for CATIE, so Dan said something along the lines of "Look, I'll cut a deal where you do a dollar grant to build the EARTH school in Costa Rica and I'll arrange a Costa Rican colon fund for CATIE". It was a clear trade off and it worked. Meanwhile a certain sum of money which today is currently worth about 90 million dollars was set aside to create a trust fund for EARTH. The idea was that the grant would build the school and run it for five years, pay all of the bills and let this trust fund build and when the grant ended the trust fund would kick in. Which is exactly what has happened over the last year and a half or two years.

Q: These were Costa Rican bonds?

ENEZIA: Costa Rican bonds sitting in the Central Bank. There was an other trust fund set up for FINTRA, which was a very innovative thing. It was a private corporation and it would buy a State bankrupt organization, transform it, sell it, or close it. It did this company by company. I think Dan designed that, very brilliant and it worked. There were trust funds for something that was called the Omar Dengo Foundation which was to put computers in all of the schools, which has its trust fund today. There must be 10 or 20 of these funds around. In effect, a lot of the money was sterilized inside the Central Bank, but in the form of bonds. When I got there I was astonished, you can imagine. I was just agape at what I saw. From what I left and what I came back to see. I had the perspective that said this is crazy, so when I got off of the plane, the first question I was asked by the press was "Are aid levels to Costa Rica going down?" All of a sudden I again encountered this entitlement mentality and I said "Absolutely not." and they said

"What do you mean?" and I said "They're returning to normal." [laughter] And that ended the conversation.

In effect, I was saying that when I last left this country you were going to close and you've had this crazy blip of resources but that's not normal. We've been with you for 45 years and if you look at the history of things, there's this crazy blip here which is not the normal part of our program, well we're going back to normal. That was the first thing that I coined in Costa Rica, back to normal. That got us over the hump. My strategy for Costa Rica was simple, I realized that we were going to go back to something much, much less than where we were and I said "There has to be a soft landing here." The effect that we were having on the country, we were engaged in everything. The AID program had funded all kinds of things. I went out to see the Opus Dei dormitory for the National University that was financed and it was a magnificent dormitory. The trust funds were running the AID mission. We had an OE (Operating Expense fund) of about four million dollars a year of which we were getting maybe one million from AID; the rest was coming from the interest in our trust funds from the Central Bank.

The program mentality had been shaped by events that people lived with and I guess the outer edge of that mentality was, from what I was told, a 'safety expense". I said "What's that?" and they said that the AID mission was about five blocks away from the American Embassy and to get there you had to down an avenue and you had to cross a major boulevard and it was a dangerous intersection. The boulevard was four lanes with a median and it was a little difficult to get through that intersection. So they went to the municipality and they said "Can you please put a traffic signal here?" and they said "We don't have any money." So AID went out and bought a traffic signal array that would grace an intersection in Virginia and installed it and paid for it. The rationale was that this was to ensure the safety of our driver's that were driving back and forth to the American Embassy. I'm sure it made sense when they did it and I'm sure that it saved somebody's life, but that's the extent to which we were spending money in that country.

[Carl Leonard] came in after the Dan Chaij parade and ran things, quietly with Doug Tinsler as his Deputy. Then he moved on to Bolivia. Well, Carl was known in the country, I think he was respected and the people that knew him liked him, but he kept an extraordinary low profile. Which probably made sense.

Well, I hit the country with a bang. I gave a press conference and it was handled by USIS and it was in the USIS Director's house and I was interviewed by the magazine Rumbo, which was their version of Time magazine. Then I decided to give a speech, we had an economic forum and we were doing a lot of macroeconomic stuff, so we were working with academia, we were publishing a lot of economic stuff and it was a major economic conference. They said "Would you like to say something?" and I said "Yes." I had already done my bit about going back to normal which had stunned them. I had given several press conferences where I had said we have to bring this thing back to normal and I was getting to be known and people knew me from before.

In thinking about giving the speech I began to work with Ginger Waddel who was the Assistant Program Officer and I began to give her some ideas and it was a retrospective. Twenty years ago I was here and now I come back to find this. I had discovered free market economics and this is where my exposure in the Asia/Near East Bureau really came home. I had seen the Indonesian experience, I had seen the Thai experience, I had been working with Ed Harrell on reviving the private sector in the west bank. I had become enamored of the whole open market approach to development. I began to work on a theme saying that Costa Rica needed to think about it, and do much more than it had been doing. I crafted a speech, I was the last person on the agenda and there were about 150 people in the room, and everyone kind of expected a kind of glad to be here kind of thing and I gave a highly critical speech of Costa Rica's missing out on what was the biggest opportunity they were ever going to get in a long while. It was a critical speech, respectful but critical. The room went silent. People were sitting there. This was the country's leading economists, head of Central Bank and that kind of stuff. I finished the speech and there was long sustained applause. The speech became a cause celeb. There was an editorial two days later that quoted the speech and used it as a bandera, and Rumbo then came out with a big article on me. Calling me a "diplomat who speaks his mind."

We had an enormous dialogue for about a year and a half. I still had a lot of money and I felt that I had a cause. There were several causes that I had. One was to give them a "wake up call" and another was to do what I called the "soft landing". I developed the concept of the soft landing in that we had taken off in 1980 and had soared and we were heading down very fast.

Q: You're talking about the AID Program?

VENEZIA: The AID Program and AID money. I said "Think of it as an airplane, (a landing of an airplane which is what we had to do with this thing, we had to bring it in for some kind of landing), a landing is really a controlled crash. If you take your hands off of the wheel the plane crashes, so you have to bring the plane in, you control it." I decided on this concept of the soft landing, which meant that we had to manage this thing down and then I thought of the next concept which was the "passing of the baton" and these were things that actually showed up in our program documents to Washington. They were my concepts of what we had to do with the program and what guided me. The passing of the baton meant that the last ESF agreement that we were going to sign, had to be signed in such a way that we could pass it along. We had this marvelous policy dialogue going on and we were accomplishing things but I felt that if we just stopped the Costa Ricans might just walk away. So we had to pass off the baton to the IDB and the World Bank. We began to work very closely on an shared agenda and shared policy and the last ESF agreement that I signed I said "This is it." If we got something the next year it would be 25 million and it was clearly the last time we were going to be a major player at the table. So I did several things. I decided that we would switch from covenants to conditions which had been a real tradition in the country. The covenants had been honored in the breach, and I was confronted with a real choice when I got to Costa Rica.

There had been a major push on the private sector and the creation of FUNDEX which was another of these trusts by the way, but this was to create an export promotion fund. They endowed it with an enormous amount of money to begin with, 30 or 40 million dollars of local currency, (I'm not sure about that figure) but the idea was that the next year's ESF would do the same thing. I got up there and I was faced with a crossroad. Ken Lanza, a good guy, had taken over for Dick Rosenberg as head of the private sector office. He was a very assertive, aggressive guy with a lot of experience in the private sector and had a lot of good ideas. He was pushing, and when I got there in the summer we were putting together our Program Recommendations. Our question was, what do say our next ESF agreement is for? Ken made the case that FUNDEX was the designated recipient. So that was the question that was on the table. Juan Belt, the AID economist said "Look, I have these ideas." and he put forward the whole question of the open markets and financial reform package. Basically a fiscal and foreign exchange reform package with some aspects of government reform and tax policies, but laying the basis for a public sector reform program. Two very different visions. I had to make a decision, which to me was easy, I said "Look, I can understand the thrust on the private sector side, but this is today's agenda so that we need to follow this." so the ESF agreement that I put

together had a whole new area, picking up some of the stuff that had come earlier especially on pension reform and a few things like that. But also introducing tariff reduction and beginning of independence for the Central Bank. These things had conditions which were negotiated with the government and they bought into it because they were learning themselves, it was a brand new government. But they believed in these things, they really did.

Q: Had there been a process proceeding this to engage them into understanding these issues?

VENEZIA: The President didn't know anything about this stuff. He was a good politician, a good guy but not an economist. Some would even question whether he was a good lawyer. But he ran a tight campaign, but had no program when he came in. His economic team however, had a lot of people in it who were free market economists and who wanted to move along this track. They were easy to talk to on this issue, they were convinced themselves and they had to convince the government of. The head of the Central Bank was a very strong free market economist who by the way, in my first meeting with him at the office of the Vice-President, he walked into the meeting late and introduced himself and he said "You don't remember me do you?" and I said "No, I don't." and he said "Twenty years ago you gave me my scholarship to go to Harvard to study tax policies." I remembered that I had. I was the head of institutional development, and he had come in as a young student and interviewed and I said this is a guy that should go, I picked him and he went to Harvard and then came back and was now the head of the Central Bank. Interesting, that's Costa Rica for you.

There were big issues at stake, I felt that we were deeply involved in the countries strategy, we had wonderful relations with the government. I was never quite sure who was using who, but it seemed to be working out. Finally, as I reflect on the whole Costa Rican experience, the next thing I wanted to do was to create a foundation. I came with the idea of a foundation again from my Asia/Near East experience. I had been exposed to the Luso-American Foundation in Portugal which had been created by AID cash transfers as a means to continue cooperation after the closure of the AID Mission there. I had seen it operate and I knew the way that it was structured and I thought that's the way to end the program. I began to think in my mind about the structure of a foundation. About a year and a half after I was in I could see the down sizing trend emerging, I got more seriously involved. I brought in Larry Harrison to work on the side of what a foundation might do

and I had my own ideas. I felt very strongly that it should continue to work on scholarships and public sector reform which was something I think Costa Ricans will need for the next millennium, and export promotion, to continue the things that we were talking about and still provide some way for the Costa Ricans to still have a U.S. connection. So Larry staffed that out, he was skeptical at first, but eventually he came on board. Then I asked Don Finburg to come in (he had run the Luso-American Foundation) for his ideas on how to structure. I put together a report and a basic structure of what I thought would work and the essence of it was the local currency because we had to find a way to get the local currency off of our back onto something. I developed an approach that was probably a mistake on my part, but I felt very strongly about it. I felt very strongly that if we were going to call it the Costa Rican - U.S. Foundation that there ought to be some U.S. money in it. I felt strongly that I had to have some dollars involved for if nothing else to hedge against inflation.

Into my second year, I put together a proposal and took it to Washington and I thought it was the best thing going since sliced bread. I have never encountered such short sighted, narrow minded attitudes as I encountered in the planning office of the L.A. Bureau. Joe Stephanick who had spent most of his life in Africa and who was on a vacation in Latin America, because he never really engaged as far as I can tell, took it in his mind to say that this was a ridiculous idea and I couldn't for the life of me figure out why. But he was the head of DP and the rest of the bureau looked at it as if it we were trying to extend the AID Program. It was seen as something strange, as something out there on the moon. I was asking for U.S. dollars and they said "Are you crazy? To just park somewhere and pay interest so that you guys can have a foundation?" I said "Yes, I'm glad you finally understand it. The answer is yes. And this is what it's going to do and this is an exit strategy for AID." Remember what I said about the plane? You bring the plane in for a landing, you don't take your hands off the wheel and that means you put some money in. I told them ""We can talk about the cash flow, five million dollars a year for the next five years or do it all at once, there's all kinds of formulas and amounts, but let's talk about the substance." The only answer I got was "See if you can make it work with local currency." and I said "Let me make sure that you understand my point here, my point is that it's a Costa Rican - U.S. Foundation. The U.S. puts in money." they said "There isn't any money." I said "Then there is no foundation." And I just stopped, I thought I was perhaps making a point but they had not made a decision to close the AID Mission at that point so I figured there was enough time. I had talked to Arnaldo, and I had cleared this with the government and made sure that the government knew and Arnaldo thought it

was a marvelous idea. He talked to the President about it and the President thought it was a good idea. I said "You have to understand that we're talking about this as a repository for the local currency, you have to agree." they said "Don't worry about it, we see the benefit of this and we are with you. You can say that we support this." So the government was on board. But it never went anywhere while I was there. While I was there, the last basic presentation I made was to the new AA for Latin America, a Clinton appointee. He came to Miami just after he was appointed and I had a half hour meeting with him and I tried to brief him on it and I saw his eyes glaze over, his only interest was in going back to El Salvador where he had been a Peace Corps Volunteer (he had been highly opposed to the Reagan administration policies in El Salvador) and going back and kicking the hell out of that program and making sure that they did things his way. Since he's been in the Bureau I think he's focused almost inclusively on Salvador and Haiti, which most people have anyway. I could not get any interest out of him. Aaron Williams was intrigued with it, tried to say that we should do just local currency.

Aaron Williams was the Deputy in the L.A. Bureau and then moved up and is now the Executive Secretary. He was intrigued with it. I couldn't get anywhere so I left it on the table and it was on the table when I left. Still there, it was picked up and now it's moving along very quickly.

Q: Do you understand what the subsequent objection was or what the real issue was? Was it just lack of interest or were there some technical issues?

VENEZIA: I never understood Joe Stephanic.

Q: Well, apart from him?

VENEZIA: But he led the opposition in the bureau. The money was getting scarce, the money was very scarce. Jim Michel had moved up to be Deputy so Aaron was Acting and he was being pulled in many directions. Aaron is very rarely the first one out of the trenches. He is a very solid, but relatively cautious guy. It couldn't get to his level, I couldn't get through the staff. The desk was absolutely no support whatsoever.

Q: The State Department?

VENEZIA: The State Department was intrigued but didn't see it as their fight. We had an Ambassador who was a political appointee, a good guy but not a guy who was going to go to bat for this kind of thing. It was not something that he saw as something for him to do.

Q: *This could be one of the most important things he might do.*

VENEZIA: He thought it was a good idea, but it was not going to be something that he was going to put his hand in the fire for.

Q: *Did it ever get onto the Hill or did anybody on the Hill know about it?*

VENEZIA: No. I tried to sell it around, but I never went to the Hill. I never had the contacts on the Hill and it would have been rough for me to do. I wouldn't have known where to go on the Hill to be very frank. And I wasn't being advised on this. It just sat there, so I worked on other things. It was clear that I was up for the TIC (Time in Class) renewal, so I was getting signals that I was heading into my last year or whatever. I could see my own self winding down in the command.

Actually the last agreement that I signed in Costa Rica just before I left was the Supreme Court Modernization Project and I'm told that it's going extremely well. It's designed in a way that they did the work. Even the TA was going to be done electronically, the guys who designed it said "These guys are smart enough to do what has to be done, they just need some material assistance and some occasional outside assistance, which we can handle by telephone or fax and occasional visit." That's the way it worked and I'm told by Rich Weldon, the current Director, that the project has done very well and it's just soaring. And Edgar is still personally involved. That was fun.

I got interested in the scholarship program and I became convinced that the best thing that AID has as an impact on a country is the people. We probably trained outside the country between 3000-4000 Costa Ricans at all levels. I'm talking about Ph.D.'s and Master's level down to 4-H teenagers. These people are going to come back and hopefully have a major impact. They're beginning to flood back into the country now. I was visited by the Academia people who were worried about if the government changed, they were worried about the impact on free market economics and they might return to the economics of the past which Liberacion was famous for. They were afraid that AID

contracts were going to dry up because AID money was slowing down. They asked me for an endowment, and I told them that we don't do that anymore and that I was sorry. I went home and I thought about it, I came back the next day and I called them up and I said, "Look, I can't talk to you about an endowment because I don't want to talk to you about an endowment, but I want to talk to you about something that I think is necessary, that I think you guys can do." We had a whole bunch of people out studying in Masters and Ph.D. levels and mostly economists, free market economists are studying in Chile, Argentina, Mexico and if they do well there we send them on to Stanford and Chicago. And there were dozens that were out there. A few of them had come back and clearly the employment opportunity for a Ph.D. in economy in Costa Rica is not all that great so this guy had gone back and helped his father run his chicken farm. I said, "We're not going to make this investment and have these people come back and go to work with their families, which is where the money is, how are we going to keep them engaged? I would like you to think about setting up a program of basically, continuing education, where you set up a series of periodic sessions where these guys, as they drift away into doing business or the academic world can still come back and do economics and there will be a place where they can read economic manuals, they can come to the literature and they can be tested and they can continue to be involved and maybe even work as consultants." They said that they would like to do that.

Now we had to talk about how to set it up. We would set it up and we wouldn't call it an endowment because it wasn't, but we set up our famous little scheme. Which was a small project (it was only \$130,000) for three years to run a series of seminars, keep a library, when people were coming through set up sessions and invite people in and have a part time coordinator. And while you're doing that for three years, here's a half a million dollars of local currency which we will set aside and let grow for a period of three years and when that \$130,000 is gone this will kick in and the income stream will continue the program. That program is currently underway. Hopefully it will continue. These are some things that I feel good about, they were small things but they were I think, key things. I thought it was quite innovative.

In the area of public sector reform, Doug handled most of the day to day work. It was a major program which Doug was clearly interested in and took the lead on and that was in the area of fiscal reform and tax reform. I got involved in the aspects that affected trade and investment, which would be dealing with the Ministry of Economy on new law of consumer protection. Which meant removing price controls. The private sector office did most of the work on the export function side and I didn't have to touch that. I could

oversee it, but it was moving along. I got involved in the putting up of a laboratory for exports which I understand is not going well at all. Also, I brokered the introduction of internet into Costa Rica, the first Central American, maybe the first Latin American country, to link up.

Q: What about some of the areas of AID interests in the health program, the population and the environment and all of those kinds of things, we're they part of your program?

ENEZIA: They sure were. Remember that I had overseen the population program within this institution development office that I had mentioned earlier. That's when we actually started and those were the days when the Bishop's of Costa Rica were railing against the introduction of family planning practices and we discovered that every time they made a speech or had a letter read from the pulpit the use of family planning went up. [laughter] They finally realized that what they were doing was giving the program advertising because most people were coming out of the church realizing that there was a way to do this. Those were the risky days. When I got there the second time the Family Planning Program had been incorporated into the Social Security System, the Social Security System had carried it as a regular service. Our main input was some technical assistance and some networking, going to various training courses and things of that nature and contraceptives. Betsy Murray explained to me the program and I said well contraceptives are where the money's going. We were putting a half a million dollars a year of contraceptives into the Social Security Institute so I asked her how long we were going to do that and she said that the contraceptives come forever. AID had this global contract and we order them and they come. And I said "Betsy, this is going to be a soft landing, it's been 20 years and the services are incorporated, we're going to have to find a way to cut this off." and she was somewhat shocked.

In my first meeting with the Executive Director of the Caja who was good friend of the President's and who I had met at a previous occasion so I knew him before I met with him, I said to him, "I've got good news and I've got bad news. The good news is that you guys are doing great, the bad news is that sooner or later we're going to be out of here and you've got to find a way to buy your own contraceptives; you just can't think that we're going to be here forever. So why don't we cut a deal? I'll give you three years, three years from today we'll be out of the business and you'll have three years to gear up for this." They had a big operation, it was mostly bureaucrats, and the condoms were listed

under the same kind of an import regulation as tires. I'm serious, they simply hadn't done the staff work that was required to bring in condoms in a massive way.

I said, "You get the staff work together but I want to tell you we're on a downward slope. This year we're going to sign something for a third less than we normally do with the expectation that you'll pick it up." He said, "No, give me a year." and I said, "Okay. Then next year we'll do it half and half; the next year and the third year it will be none." He said, "We can live with that," and we walked out. That was it. It became a self-sufficient program and the country could handle it.

Q: *What about the environment?*

ENEZIA: Heavy. There's an interesting foot note to that. I came in and discovered a program called FORESTA. It was a five year project which had taken the course that we all took. Here's a five year project to basically create a private NGO although with heavy links to the government in those days and we'll set aside an endowment and let that grow for five years and then when the money runs out the trust fund will kick in. This story I will warn you has a happy ending and it's a very personal happy ending. I took a look at the project and it was incredible. The project paper had been written by one person and the budget had been written by another person and these two people had never talked to each other. It was quite clear that the person who wrote the paper was writing for some kind of crazy environmental office in Washington that was going to approve this thing and the person who wrote the budget was talking to the people on the ground who wanted the goodies. There were saw mills, it was incredible, there was no relationship and the government thought that the project was there to pay for park guards. They came literally after the project was signed which was just before I got there and said "Where's our check to pay the guards for the park?" Now you have to understand that Costa Rica has a system of national parks that is probably one of the most advanced in the world; 13% of the entire country is under some kind of protection and maybe 27% of the country is under some kind of environmental management. They are very heavy into the environment, although the organization was a little screwed up. To make this project work, I used to use it as the classic example of nobody asked the questions "Does this make sense? Will it work and will it make a difference?" As far as I was concerned the answer to all three of these questions were no. There were immense problems with getting this thing off of the ground, tremendous misunderstandings with the government who had thought they signed one thing and they found that they had signed another and

we were not going to bend. Anne Lowendowski who was the Project Officer was personally engaged in this thing almost on a daily basis. Bill Balkum, chief of the ag office, would try and keep peace and they then would come to me, it was just a mess. It finally worked itself out. Little by little we would take on issue after issue and we would say this is what makes sense and I don't care what the project paper says, this is what makes sense and this is what we're going to do and we just held the line. We eventually prevailed and they set up this NGO called FUNDICOR which was the foundation for the protection of the central volcanic area which is all of these parks in the middle of the country which is what I called "the jewels in the crown" of the country. The country had this central volcanic ridge and the parks were all sitting up in the crown of the country, and they were the jewels. They were what the people came to look at, this was a tourists attraction. I called it the "Jewels in the Crown Project" the project moved along and began to gather steam. It is controversial because philosophically it takes for granted that you can have parks that you can prohibit anybody from cutting tropical forest but that there is a large part of these forests that people live in and you cannot simply close off forest resources. Their whole objective was to find a way to have forest management done in such a way that's that you can literally have people live and harvest a tropical forest and that's highly controversial. Some people say you can't do it so build a wall. Well they did do it, they developed all kinds of methodologies and as the project was winding down I was thinking about what to do with the endowment. I had been a member of the Board of Trustees of the Earth University and I had seen that work, there was a board of trustees that managed the trust and the board of directors of the school ran the school. I advised and counseled them that they needed to set up a similar arrangement where the money was kept apart from the people who spent the money. I negotiated long and hard with them on that issue and I was trying to get it into FUNDEX because I didn't have the U.S.-Costa Rican foundation which was really the ultimate goal, but that wasn't going anywhere. So I tried to push them into FUNDEX, which they didn't like and they resisted. So we negotiated a lot of the details but we couldn't close. When I left the country we still had not closed the deal. It went to my successors who continued the same arrangement. We had come up with an arrangement of a technical committee, we didn't want to call a board of trustees or a board of overseers, these were people that were very afraid of being usurped. They were tough negotiators, we had long, hard sessions. Most of which they won, I won some.

Q: *Who were these people?*

VENEZIA: They were FUNDICOR people. We were trying to set up the arrangement of how this thing was going to end up. After I left the basic approach continued with the idea being that they would no longer go into FUNDEX, they would control their own trust but it would be in the hands of a trustee, which was a bank who would control the money and AID would remain as a trustor and would eventually turn it over to somebody. But the money would be kept away from them and this technical committee would have to approve the annual budgets and serve as an evaluator of the program. As you know, yesterday was Sunday and I just returned from Costa Rica and I was coming back from the first meeting of the technical committee. I have been invited to be a member, I was invited by AID to be one of two AID appointees. They would appoint two people from the technical committee, FUNDICOR would appoint two and the government would appoint one. I was one of the two from AID, Anne Lowendowski was the other one by the way. The two people from the other side were a Costa Rican and an American who worked in tourism, plus a rep from the government. Their first meeting was this past weekend, I was invited in and full costs were paid for by FUNDICOR. The project is now ending, their picking up the endowment, their annual budget is 1.6 million dollars, the endowment is over ten million dollars. We met, I was elected President of this surrogate board of trustees and have a five year term. I will be going back to Costa Rica twice a year, paid for by FUNDICOR. There are no fees involved. Each trip is for about three days. In the January meeting we approved the annual budget and when we go in July we will be doing evaluation work and wandering around to see what they're doing.

FUNDICOR has turned out to be probably one of the state-of-the-art NGO's on forestry. One of the projects they're working on is carbon fixation; they developed a computerized model of carbon fixation, which has to be measured and certified because it involves the payment by, lets say a cement plant in Pittsburgh to, let's say, a farmer growing a tree in Costa Rica for the growth rate of this tree which is fixing carbon. When a tree grows it fixes carbon. It's scientific and the project that they developed and presented to the Carbon Fixation people is being used at the Harvard Business School as a case study on how to do this kind of thing. These are first class people. I was astonished at the level of sophistication. They have farm plans which they have computerized, they have 40 of these. The methodology allows them to identify the trees, you actually bring a picture of the trees on the farm, the various species, the average growth rate of each species and they can tell you the year that this tree will reach 60 centimeters and when it should be cut before it starts to rot. They then take that information down to the stock market and

will eventually sell futures on wood that says "There's this tree that's going to become available in this year, that will be available for this price." So they prepare the paperwork now and the farmer gets the money. It's amazing. It's hard to say whether this will actually work, but I must tell you that it's working at the moment. So I was very pleased. I'll end my Costa Rican story by saying that I will continue to have a Costa Rican connection with an area of the country which is of great importance to tourism, ecotourism and conservation and forestry. It's a wonderful thing to do in retirement.

Today the Agency is consumed by dealing with budget cuts and lack of any real vision of where Foreign Assistance is headed or should be heading. You know, the old saying about draining the swamp and dealing with alligators - alligators win. My attempt to start the foundation in Costa Rica was an example. Mindless downsizing is easy if you forget the longer haul. The Agency let the Costa Rican-U.S. Foundation happen, rather than see it as an opportunity to create some model for timely and appropriate disengagement from direct assistance - and create a link for continuing involvement of benefit to both countries. The feeling is that Costa Rica is a success story, and we can all go on to other things. Well, I have heard that before, not only with Costa Rica but Colombia. It took Costa Rica only two years of a Carazo administration to dig a hole that took ten years and several billion of outside assistance to repair. The roots of that crisis - fiscal irresponsibility, a dependent economy and policies tied to the past - are still there. Costa Rica's current stability is a thin veneer, but that's their problem now, I guess. What I don't understand is why AID is not interested in the success of the Foundation, if not by putting in some dollar cash and keeping a stake in its success, then at least by staying involved intellectually and maybe helping them to create links with U.S. foundations. It has been cast adrift, albeit with resources, but I would have argued that there was as much a challenge in making the Foundation really work, as a model, as was the previous program of direct assistance. It kind of depends where you set your frontier as a development professional. Obviously, this current bunch has a frontier that can't envision much beyond their immediate swamp. Too bad. I wish the Foundation - and Costa Rica - good luck, but let's see what the next twenty years brings. Maybe someone that worked in the Mission with me will have to go back as Mission Director for a similar twenty year reprise. I sincerely hope not.

MIDDLE EAST

LIBYA - Proposed Terminal Development Loan - 1959-1960

Excerpt taken from an interview with Samuel Butterfield

The late Joel Bernstein and Richard Cashin were asked at that time to analyze the situation in Libya for ICA and to prepare some proposals for how we might proceed to disengage as an aid agency. They wrote a paper which proposed a \$25 million Terminal Development Loan, a very interesting idea. It would have provided basically a cash transfer or at least a resource transfer in one way or another which, rather than a grant, would be a loan, which therefore eventually would return to the U.S. Treasury and which would provide in one exchange two and a half times what they had ever received at one time before.

As the desk officer, I put this proposal forward in our budget plans -- that is, the Europe and Africa Bureau's budget plans at that time -- for review by the Agency. There was quite a lot of discussion. I was the defender of the proposal at the oral review and it went quite well. People seemed to find it quite interesting. The proposal was then sent out to the mission and the mission put the proposition to the Embassy. This was before it was ever discussed with the Libyans because this was something that had to be sorted out carefully. I was sent out as desk officer to help with the discussions with the Embassy.

One point I should remember: We had changed the amount to \$50 million -- we had put forward the proposal as a \$50 million Terminal Development Loan. I may have misspoken when I said Bernstein and Cashin proposed \$25 million. They may have proposed \$50 million. This would be the equivalent of five years of grant aid all at once, but on a loan basis, withdrawing in effect as a major aid player in Libya to put our attention and resources elsewhere.

The ambassador in these discussions, Ambassador John Jones, thought the idea had merit, thought the analysis was absolutely right on and also thought that it probably wouldn't fly. He thought that it was possible that if it were made a grant, rather than a loan, that it might work. With that in mind, with that plan, I should say, he returned to Washington and the whole discussion took on a slightly different tack to see whether it

could be a Terminal Development grant. In any event, ultimately it did not make it. I think it never made it to the Libyans so far as I know. I believe that the State Department, which obviously had a substantial interest, both as coordinating aid and military and security interests, felt that it just ought not begin. But it was an interesting idea.

IRAN - Scaling Back - 1961-1963

Excerpt taken from an interview with Maurice Williams

WILLIAMS: Iran was still politically a high priority country for the United States. President Kennedy had set up a Task Force specifically to review our policy toward Iran; as a member of the Task Force I made a number of recommendations. As a result I was sent back as deputy director of the U.S.AID Mission.

Q: I see. Who were you working for at that time? Who was the mission director?

WILLIAMS: Harry Brenn was still there but he was at the end of his tour. Robert Macy, who had been head of the Budget Bureau, was scheduled to become Mission Director.

I found myself back in Iran with a good deal more authority than I had the first time around; it was more urgent than ever to reshape the program according to the new criteria - not entirely easy with such a large technical mission deeply embedded in on-going activities and unfinished projects.

Nevertheless, I began to reshape the technical assistance projects, sorting out which we would write off and which we would make a major effort to integrate into the Iranian Government, given their substantial oil revenues. It was essentially sectoral reprogramming since we were not going to put capital assistance into Iran. The objective was to scale back the Mission, lower its profile of involvement in the Iranian Government structure, and focus on fewer clear priorities.

Q: Did you make some decisions about the Master Joint Fund at that point?

WILLIAMS: We terminated it as we sought to reduce our operational involvement. There was a lot of sorting out with the Iranian Government, pressing them to take over important projects in the social sector, terminating others, and bringing down the size of the technical mission substantially. It did not make me popular, but finally I had the authority and experience to do what I believed needed to be done.

Q: What were you trying to do apart from bringing down the size? What was the developmental orientation you were trying to bring about?

WILLIAMS: The capital development was now with the Plan Organization so we were working very closely with them. The political priority was to integrate the populist elements of the U.S. aid program into the Iranian government in what we jointly agreed was "the Shah's white revolution." The white revolution involved stepping up the distribution of crown lands, dealing with rural development in a more populist way, getting to the smaller farmers and peasants, and improving their access to health clinics and the educational programs. Basically the thrust of the white revolution were the populist elements of the U.S. program integrated into the Iranian agencies.

Q: Was there a lot of emphasis on decentralization and the decentralized programs?

WILLIAMS: No, there was no opening for it. So we stayed with the priorities I just stated.

Q: Did you still have the regional offices?

WILLIAMS: Yes, because they were completing projects that needed to be completed. While their operations were cut back, we kept the structure of the regional offices to get the kind of turnaround we wanted in the program.

Vice President Johnson came to visit the AID mission in Iran. That was one of the high points. He cabled ahead of his arrival that he wanted to see villages before development had touched them, and after they had been improved by aid programs, so that he could see what progress was being made in the rural development. I went to the Minister of Agriculture, whom we worked with closely, and told him of this requirement. He replied "I can't show your Vice President areas that are totally undeveloped. I would lose my job if I did that."

Vice President Johnson demonstrated to the Iranians a new style of political campaigning, by mingling with the crowd and shaking many hands. The security people were not too pleased with that, but it was very effective and popular. If you ever encountered LBJ personally, you could feel his magnetic presence when he shook your hand.

Q: *What were his comments about some of the things he saw?*

WILLIAMS: He realized immediately that the villages he visited were not what he had asked for; too much white wash, potted plants, and ceremony. He didn't spend much time with that.

Q: *Did he make any comments about the program generally?*

WILLIAMS: Iran was a high priority for the U.S. and his interest was on the political side, commenting favorably on the Shah's white revolution and the importance of building popular support. There was an Iranian election coming up and LBJ's style of reaching out to people was much admired. Iranians spoke of "electioneering LBJ style". Iranian politicians took to waving to crowds and shaking hands; for awhile it was something of a cult.

We supported a change of prime ministers and there was a liberalizing influence at that time for the Shah's government, with land distribution, and more emphasis on development through the Plan Organization. And the emphasis on a white revolution had brought aid priorities to the fore.

Q: *What happened to the public administration program? Was that continued?*

WILLIAMS: It was cut back dramatically as a result of our assessment of which programs had taken hold and which hadn't.

Q: *What would you say was taking hold? Which ones were making some impact?*

WILLIAMS: Clearly those that were identified with the Shah's white revolution, particularly in public health and education.

The mission's public safety program also assumed importance since there were security problems in Tehran with sporadic mob demonstrations against the Shah. It was an uneasy political situation. In an earlier period the American aid office in Tehran had been wrecked by mob action. Consequently, contacts between the American public safety division with the Iranian security forces were maintained. There were periodic alerts for American families and school children to stay out of the central city. In one

instance a mob was moving on the American school and a force was dispatched to evacuate the children. These were trying times.

Q: But there was a ferment evolving in the country which manifested itself later.

WILLIAMS: There was a ferment developing in the country. The Shah was not popular despite our efforts with the white revolution, and the political and security situation was tenuous. But, serious manifestation of this did not emerge until much later.

Q: Were we providing balance of payments aid or PL480 assistance?

WILLIAMS: We were providing PL480 but not balance of payments assistance. Our military assistance was still a factor with the Shah. And a new approach was to engage the Iranian military in development projects. As part of the white revolution, military personnel, mostly young recruits, were sent to villages to teach literacy. The Shah fully backed the literacy campaign, but it is difficult to know its effect. At any rate, it was an effort to popularize the Shah and his army.

Q: Were there a lot of institutions that you helped create at that time?

WILLIAMS: It was a period of consolidation, of turning facilities and programs over to the Iranians.

Q: You mentioned agricultural colleges?

WILLIAMS: Yes, there had been important aid contributions to an agricultural college and an agricultural bank, as well as health clinics and hospital facilities. These were initiatives which continued to serve Iran well.

Q: Any of the institutions that were particularly strong and lasting?

WILLIAMS: We completed the many projects begun, strengthened some projects institutionally, and progressively integrated them into Iranian institutions. This constituted reasonable progress.

When you ask about "lasting" institutions, you seek a perspective that extends beyond my time, for I left Iran in 1963. The aid program had equipped schools, clinics and other facilities, but real strength and continuity depended on the quality and numbers of local personnel trained. It is here that we made our most important contribution, particularly in health, agriculture, education and perhaps public administration.

Q: How long were you in Iran?

WILLIAMS: I was in Iran from 1958 to 1960 and from 1961 to 1963. The year in between I was in Washington as NESAP program officer during the redirection of the aid program. In 1963, I went to Pakistan.

In summing up on Iran, I had made a reputation, in part, by recording my opposition to the U.S. policy of placing so much emphasis and resources on the Shah's ambitions for a large military establishment. That became the view of the Kennedy Administration.

Q: Why did you say we shouldn't be building up the Shah militarily? What was your reasoning for that?

WILLIAMS: An awful lot of resources were wasted on a military establishment that didn't have much purpose. Iran had tremendous human and economic potential which could have been realized. The combined economic programs of the Plan Organization and the U.S. AID sponsored program in health, education, agriculture and rural development had tremendous approval from the Iranian people and could have stabilized the country if they had received appropriate support. For a time it looked promising, but the Shah essentially gutted the development effort in favor of continued rearmament and related heavy industry.

The Shah believed he was divine, "the king of kings, the light of the world", these were his formal titles. Few people could influence such divinity. The American Ambassador, Julius Holmes, had a sense of what it took to influence the Shah, and to maintain a balanced supporting programs. Unfortunately, later U.S. ambassadors and administrations found it easier to pander to the Shah's military ambitions.

Q: This was because of Iran bordered on the Soviet Union?

WILLIAMS: No Iranian army was going to withstand a Soviet invasion, which in any case was unlikely. No purpose was served in overemphasizing arms at the expense of development.

An Iranian I admired was Abol Hassan Ebtehaj, the head of the Plan Organization. Ebtehaj objected strenuously when the Shah reduced the funds available to the Plan Organization in favor of the military establishment. That took courage; Ebtehaj was jailed for his efforts.

When I first met Eptahaj, he asked about my background. I said I had studied at the University of Chicago and was a development economist. He observed "How fortunate your country was to have developed before there were development economists." He was not only a man of principle but also of wit and humor.