

**RETHINKING UNITED STATES FOREIGN POLICY
TOWARD THE DEVELOPING WORLD**

**HEARINGS
BEFORE THE
COMMITTEE ON
INTERNATIONAL RELATIONS
AND ITS
SUBCOMMITTEE ON
INTERNATIONAL DEVELOPMENT
HOUSE OF REPRESENTATIVES
NINETY-FIFTH CONGRESS
FIRST SESSION**

**A Critical Review of AID
Briefing on Certain Executive Branch Activities in the
Foreign Aid Field**

The Brookings Institution Report

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RETHINKING UNITED STATES FOREIGN POLICY TOWARD THE DEVELOPING WORLD

A Critical Review of AID

THURSDAY, AUGUST 4, 1977

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT,
Washington, D.C.

The subcommittee met at 2:30 p.m. in room 2255, Rayburn House Office Building, Hon. Michael J. Harrington (chairman of the subcommittee) presiding.

Mr. HARRINGTON. I think, if it is agreeable, having presumed upon Governor Gilligan's time for the better part of a half hour, that we will begin. We have Mr. Winn, the ranking minority member, and Mr. Solarz, who is not a member of the subcommittee, with us.

I would like to say briefly in opening, Jack, what I told you informally, that we appreciate your forbearance in this oft-delayed effort to have someone who has that warily imposed mandate to make sense of this program area willing to come before us and share thoughts that not only were of interest to us when the mandate was first given, but that are of greater interest now in terms of the President's designation of you as the person in the administration responsible for making recommendations for the revision and direction of the whole foreign policy initiative.

We have had a series of hearings earlier, as you know, dealing with facets of the problem of growing debt levels incurred by less developed countries, in an effort to begin to find a way to popularize and broaden the awareness of this and a number of other issues which are, in the eyes of some of us, of increasing and crucial importance.

I understand that you do have a prepared statement this afternoon. Any way that you would like to use it would be fine. We really would like to get your views and would like to have a chance to share some concerns that we have in various areas of the foreign assistance program.

Let me ask at this point, Mr. Winn, if you have anything to add?

Mr. WINN. Thank you, Mr. Chairman. I have no statement. I would like to point out that Governor Gilligan does have a recent connection with the State of Kansas and we are glad to point that out.

STATEMENT OF HON. JOHN J. GILLIGAN, ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

John J. Gilligan was sworn in as Administrator of the Agency for International Development in ceremonies held Wednesday, March 30, in the Rose Garden of the White House. President Carter introduced Mr. Gilligan as a man who demonstrates "superb management capabilities" and who has a "sensitivity about the needs of human beings."

Attorney General Griffin B. Bell administered the oath of office jointly to Mr. Gilligan and Robert S. Strauss, Special Representative for Trade Negotiations.

Mr. Gilligan, former Governor of Ohio, and Member of Congress, succeeds Daniel Parker, who resigned January 19. The Senate confirmed President Carter's appointment of Mr. Gilligan by a voice vote on March 23.

In the White House ceremony President Carter recalled his first meeting with the new Administrator when the two became governors of their respective states—Mr. Carter of Georgia and Mr. Gilligan of Ohio.

The President noted that of all the governors at the time he regarded Mr. Gilligan as "the best one in dealing with complicated subjects, demonstrating superb management capabilities and having sensitivity about the needs of human beings."

Mr. Gilligan, 56, was Governor of Ohio from 1971 to 1975. During his tenure he gained national prominence for his efforts to improve public education. He proposed the Ohio Plan, which made it possible for graduates of public universities and colleges to repay the state for their education when they had begun to make a living.

He was among the first governors in the United States to propose a state department to oversee environmental and pollution problems.

At his appearance before the Senate Foreign Relations Committee for confirmation, Governor Gilligan said he viewed the foreign assistance program administered by AID as "a joint venture in economic development" with poorer nations.

Mr. Gilligan served in the U.S. House of Representatives for the First Ohio District from 1964 to 1966 and was a member of the Committee on Interstate and Foreign Commerce. Among other initiatives, he was instrumental in a State Department-sponsored overseas tour of the Cincinnati Symphony.

Prior to his term in Congress, Mr. Gilligan served six terms as a member of the Cincinnati City Council. He was the Democratic candidate for the U.S. Senate in 1968.

Mr. Gilligan was appointed a Fellow of the John F. Kennedy Institute of Politics at Harvard University in 1969 and served an 18-month appointment in 1975-76 as a Fellow at the Woodrow Wilson International Center for Scholars.

He also has served as Chairman of the Committee on National Priorities and Resources and was Chairman of the National Democratic Forum. He was a member of the Mikulski Commission for reform of delegate selection in the Democratic Party in 1973 and secretary of the Platform Committee of the 1976 Democratic National Convention.

Following his discharge from the Navy as a Lieutenant, Mr. Gilligan attended the University of Cincinnati where he received an M.S. degree in literature. He then taught literature at Xavier University from 1947 to 1953, when he was elected to his first term as a city councilman.

Mr. Gilligan has been active in other areas of the Cincinnati community. He served on the boards of the Central Psychiatric Clinic and the Playhouse-in-the-Park and was an advisor to the Better Housing League. He is a member of the Bentley Post of the American Legion.

Mr. Gilligan is married to the former Mary Kathryn Dixon and they have four children, Donald, Kathleen Sebelius, John and Ellen.

Mr. GILLIGAN. Thank you, Mr. Chairman and Congressman Winn.

We have a current interest in Kansas with the presence of our daughter in Topeka, who is married to one of your colleague's sons, that is, to the son of Keith Sebelius.

Mr. WINN. That's right.

Mr. GILLIGAN. Mr. Chairman, I am delighted to have this opportunity to come before your committee and to discuss these matters of mutual concern.

You met a few moments ago my colleague, Ted Van Dyk, who is an Assistant Administrator of the Agency for International Development, running the International and Intergovernmental Affairs Bureau.

Let me begin with the threshold question, one that has been put to me in every committee appearance that I have made since assuming my

present position 6 months ago: What is the purpose of foreign economic assistance? Why should the United States be involved in such an effort at all?

In answering this question, it is useful to consider what a proper development program is not and should not be in today's world.

It is not a Marshall plan program for rebuilding the war-torn industrial base of highly developed, highly sophisticated societies.

It is not a point four or mutual assistance program to shore up governments like those of Greece and Turkey in the early fifties which were threatened with Communist subversion and domination.

It is not the kind of program that poured money and material into Southeast Asia, into Vietnam and Laos and Cambodia to support our war effort in that area of the world.

It is not, or should not be, a program simply to secure rental of military bases in friendly countries, or to provide economic sweeteners for political negotiations and arrangements.

The Carter administration believes that a wise and sound program for the United States in the field of foreign economic development can be, and should be, a carefully designed and practical effort to use some portion of the vast resources of this country to assist the "poor majority" of people in those developing countries which are willing to commit themselves to sensible, effective self-help.

We want to assist in the building of economically viable, stable societies, in which the principles of economic equity, political justice, and fundamental human decency and dignity are given a chance to become reality.

We want to help these people to help themselves in securing a better living standard—at the very least one which will meet such basic human needs as those of food, clothing, and shelter.

And, in so doing, we want to add to the well-being and security of the United States.

Now, if we have learned anything in the years since World War II, we have learned that there is no way to convert the world into a global replica of the United States.

There are no quick fixes or pat formulas which can overcome the complex economic, political, and social problems which beset the poor countries.

Some thoughtful people would counsel us to withdraw from this area altogether, in the face of what they regard to be overwhelming obstacles.

But the fact is—and both the Carter administration and the Congress have recognized it—that we have a strong interest in the future of developing countries.

To begin with, we have a strong economic stake.

More than 11 percent of our gross national product comes from our export trade. It was less than 3 percent in 1960 when this Agency was established. And, almost 30 percent of this export trade is with the developing countries, not including the oil producers. This percentage is larger than our exports to Europe.

American private investment in less developed countries is valued at over \$35 billion. That is approximately 25 percent of our total direct investment abroad.

Mexico is already the fourth largest U.S. market, following Canada, Japan, and Germany.

Brazil is the seventh largest, ahead of France and Italy.

If we leave out the oil-producing countries, we find that for the past two decades the United States has consistently enjoyed a trade surplus with the less developed world.

Let us look at this economic interdependence in another way.

Today we import 45 percent of the petroleum we use, as compared to 30 percent only 4 years ago.

Today we are dependent upon foreign sources, most of them in the Third World, for the major portion of seven other strategic raw materials that are essential to the stability and successful operation of our industrial economy.

Jamaica, for example, provides 54 percent of our bauxite imports. Peru and Chile supply over 50 percent of our copper. Brazil and Gabon supply over 66 percent of our manganese.

Let us turn to another stake we have in international development—a strong political stake.

It is increasingly evident that American security and prosperity can only be adversely affected by tensions arising from global economic disparity, both among and within countries.

It is also evident that a growing number of developing countries want to share in political, as well as economic, power.

We have to be concerned about nations that may wish to develop nuclear weapons, nations that may try to form cartels around their basic products, nations that may seek to dominate their neighbors, or those that may assume postures directly hostile to American interests.

Many in the industrialized world are disturbed by the growing clamor of developing countries for a new international economic order.

To be sure, those who call for a new world economic order often are unrealistic in their demands.

But there is no denying that the present order gives less than 20 percent of the world's population two-thirds of the world's wealth. And, despite 15 or 20 years of experience with foreign assistance, despite record growth rates in some developing countries, the number of destitute people in the world has grown, in both actual and relative terms.

So we need not be surprised at the intensity of some of the demands that are made upon us, however unrealistic they may be at times.

This administration, recognizing the political and economic stakes involved, has taken initiatives to build a healthier relationship with the developing world.

President Carter's addresses at the United Nations and at Notre Dame outlined new U.S. objectives toward the Third World.

Secretary Vance's statements at CIEC and OECD spelled out our objectives in more detail.

At CIEC, specific U.S. commitments were made toward: Substantial increases in U.S. economic assistance over the next 5 years, with, of course, the approval and support of Congress; equitable treatment for developing country exports in the multilateral trade negotiations; efforts to reach a successful agreement on a common fund and further commodity arrangements; agreement on a system of nationally held food reserves.

Subsequently, at the Development Assistance Committee of the OECD, we gained acceptance of a basic human needs working program to be undertaken by the Western industrialized countries.

By these actions, we have signaled the developing countries of our desire to help them reach their economic goals, although not necessarily by some of the means they advocate or by their timetable for reaching them.

To overcome some of their suspicions, however, we must continue to support our rhetoric with action.

In this regard, the President has directed the Development Co-ordination Committee, which I chair, to undertake a complete review of all foreign assistance programs, bilateral and multilateral, by September 1.

In this review, it has become increasingly clear that we shall have to pay attention not only to the poorest nations, but also to emerging powers which are still comparatively poor, and others which have already reached "middle-income" status.

Our relationships with some of these countries inevitably will focus less on development assistance than on trade, investment, technology transfer, and monetary policies.

For others, U.S. development assistance will remain important.

It is clear that we will need a range of strategies tailored to the individual needs of countries.

Any new development approach, it seems to me, should place strong emphasis on the concept of equity—the equitable distribution of the benefits of economic growth throughout the societies.

This equity, as we know, has often been missing in post-World War II preoccupation with growth.

A growth-with-equity development strategy must be carefully defined so that host countries fully understand our commitment to their long-term development.

If Third World governments know we are prepared to stick it out through a long and difficult transition period, they will be much more likely to adopt a development strategy offering greater equity.

Now let us turn to another important issue which must be addressed, that of the administration of security related economic assistance, what we call security supporting assistance.

This category of aid goes to countries for strategic or political reasons. In many past cases, the relationship of such aid to economic development has been minimal or even nonexistent.

AID is a development agency. Where economic development is a major consideration in supporting assistance, AID should administer the program.

But, where assistance is offered in return for military base rights, it is not at all clear that AID should be administering such a program.

It should also be noted that AID has little voice in setting levels for security supporting assistance.

The composition, character, and administration of this program are all under review.

Another important issue concerns the relationship of our development assistance programs to our international economic policies.

The North-South dialog has shown us how important our international economic policies are to the developing countries, especially those which are emerging into more mature participation in the global economy.

Although many of these countries will still require development assistance, they are anxious to pay their own way. To do so, they will

need fair access for their exports to the markets of the industrialized world.

We must be prepared to make politically difficult decisions in order to practice the open international market philosophy which we preach.

We cannot on the one hand encourage economic progress in the developing countries and on the other hand restrict access of their exports to our markets.

We cannot be "free traders" when it comes to American goods, and protectionists when it comes to the products of the developing countries.

At the same time we have a priority interest in the well-being of American workers and industries which can be affected by changing trade patterns.

Another question before us concerns the relationship of military assistance to our development efforts.

As we all know, the purchase of arms by the developing countries often represents a significant claim on their resources.

We cannot deny developing countries their legitimate rights to build military forces sufficient to protect themselves against immediate threats. The question is, should we give economic assistance to countries which acquire military equipment, particularly sophisticated hardware, beyond their security needs? This is not a simple question, because countries perceive their own security needs quite differently than these might be perceived by us; and second, we have had no standard for determining when our economic assistance inordinately "underwrites" such military expenditures.

This problem is also under review.

Yet another aspect of our study is the relationship between development assistance and human rights.

The President has spoken out repeatedly of American's concern for human rights. Human rights include not only political rights but basic economic rights as well.

By meeting basic human needs, by supporting growth with equity, we protect and enhance human rights.

In our development assistance program we have a special opportunity to address both economic and political rights. There are also a number of institutional implications in the foreign aid study now underway.

We must seek greater efficiency and coordination in development programs carried out by the various agencies of the U.S. Government.

We must continue our efforts to obtain greater coordination, burden sharing, and efficiency in development efforts undertaken by the OECD partners, by the United Nations, by the international financial institutions, and regional institutions.

We must require greater effectiveness and efficiency in the management of resources by the developing countries themselves.

There may be no immediate international political payoffs for our new efforts. We may sometimes be rebuffed by those we seek to help. But we should know, as we approach these efforts, that we are not talking about a dramatic 100-yard dash, but rather a long, arduous challenge requiring patience and endurance.

Mr. Chairman, I would be happy to try to respond to any questions which you or your distinguished colleagues may have.

Mr. HARRINGTON. Jack, I have a couple that deal basically with the same theme.

I believe it was Ronald Steele, author and revisionist critic of American foreign policy, who suggested that the degree to which we are credible as a government to our own people will be the degree to which we are credible, in large measure, to the rest of the world. Having in mind the congressional perception of foreign aid and available public opinion data, what is the relevance of these international considerations without equal attention being given to the need to make our foreign assistance program relevant to our own people in a way that does not have us surreptitiously discharging our obligation in the way that has been the case in recent years?

Mr. GILLIGAN. Mr. Chairman, I think it is fair to say that the U.S. Government cannot very long nor very successfully operate any program in the domestic or international arena without at least the tacit support of a working majority of the American people. I think it is true in this instance that we are never going to be able to do the kinds of things which the United States is capable of doing, and in my judgment should be doing, in the international arena unless and until we are able to present to them a program which makes sense, which is coherent, which relates to their moral sensibilities and their practical sense of what is achievable, and which makes sense, as well, to their elected Representatives in the Congress.

What we have underway now is an intensive reexamination on an interagency basis involving several of the major departments of the executive branch together with representatives from the Office of Management and Budget, the National Security Council, and several other independent agencies, attempting to take a fresh look at our foreign aid programs and to relate these various programs one to the other, and to the overall concerns of the American people and the Congress.

After the President has had a chance to review these findings, recommendations, and proposals, and to make his decisions upon them, then we will have the opportunity and the obligation to come to the American people and the Members of Congress and say that these are the kinds of things we think we ought to be doing and should be doing in the future, and we ask your understanding and support. But I think it is fair to say that we are not going to be able to repackage an old product and fool the consumers with it, either in Congress or in the general American public. It has to be a straightforward, candid, and convincing explanation of what we are up to and why.

Mr. HARRINGTON. Is that something that will receive the same kind of attention as the programmatic initiatives that were covered here and that, by inference, would be the scope of the things with which you are concerning yourself in your report to the President?

Mr. GILLIGAN. Yes.

Mr. HARRINGTON. I am just attempting to give you my sense of what I think the coequal priority is, which is as much attention paid to what the public has been saying on this and a variety of issues for some time when it comes to reshaping our foreign assistance program.

Mr. GILLIGAN. Mr. Chairman, I believe very strongly and I have for most of the time that I have spent in public office, that the Congress usually reflects with frightening accuracy the attitudes and insights of the the American people. I think it is not unfair to say that the kind of reception which these programs have had in recent years on Capitol Hill is a pretty good reflection of what the American people think foreign aid is all about and of how much they are willing to devote to the promotion of an economic development program.

I know that the President has in general terms some basic concerns in this area and has said, both publicly and privately since taking office, that he believes the kinds of decisions which the United States makes in terms of our relationship with these developing countries over the span of the next 20 years will have more to do with the kind of world our children and grandchildren live in by the year 2000 than virtually any other thing that our Government is going to do during that period of time.

I happen to share that belief. I also believe that we have to be able to come to the people with a fresh approach with clean hands and lay it on the table for their examination. That will take place, that presentation to the American people and the Congress, some time from mid-fall on into the budget process of next year. The budget for fiscal year 1979, after all, will be the first true Carter administration budget and will reflect the President's and his administration's order of priorities and concerns. That is why this exercise is being conducted within a rather rigorous time schedule.

Mr. HARRINGTON. We do appreciate that, and I did not, by omission, mean to suggest that there was not a willingness to certainly reflect on the fact that much of what we had to deal with was an inherited legacy and understandably something that would have to have time to be dealt with. But there is an area that I think does give me pause.

In mid-May, the President issued a statement dealing with efforts to engage in a serious study or evaluation of restrictions or reduction on arms sales. But then we find a confession, in at least the subsequent reports that I saw, of a rather restricted ability to alter the course fundamentally that this country was pursuing as far as arms sales. We have seen as recently as last week proposed sales to Somalia, to the Sudan, to Egypt; and as recently as a week ago today, Congress was debating the question of sophisticated AWACS systems being available to Iran.

I asked the Secretary of State the question I would ask you: How can one fail to appreciate the relatively recent lessons of history when it comes to credibility that is first developed or enhanced by an expectation, whether it be in restricting arms sales or in stressing human rights, only to find that we find ourselves adopting traditional rationales which result in our not altering fundamentally, or to any great extent, the course that was generally perceived to have been followed in the past? How do you find yourself at least approaching that problem so you avoid those same pitfalls and don't find yourself with the prospect of coming before this or similar committees looking for exceptions to justify a continuation of the status quo?

Mr. GILLIGAN. Mr. Chairman, I think the question is an appropriate one to the kind of study which we are presently undertaking.

I think it is important to recognize that the President specifically included arms sales and transfers within the scope of this interagency review. Up to now on all too many occasions these two aspects of America's relations with the developing countries have been separated, as though they had no connection with our development programs.

This administration has shown a determination to address the paradoxical conflict between these two policies which so often occurs around the world, and straightforwardly to come up with some decisions which will then be shared with the Congress in the instances that you cite. For instance, Somalia is an example. I think what has been going on, at least in the public press, recently is that appeals have been made for help and what the developing nations perceive to be help; and that the Secretary of State has attempted to respond reassuringly that we are interested in helping them.

But I think we have to look more carefully at the contrast between what has actually transpired in terms of arms shipments and so forth and what might be considered reassuring rhetoric.

Mr. HARRINGTON. I hope it is going to be of paramount concern that the rhetoric used early-on is not something that becomes a very embarrassing burden to defend at a later point in time in terms of the expectations engendered in basic areas like arms sales and human rights.

Mr. Winn.

Mr. WINN. Thank you, Mr. Chairman.

Governor, in a recent issue of "Newsweek," you were reported as saying that you were considering recommending that AID be completely restructured. Is the report accurate, and if so, what did you have in mind? Are these studies that you are making at the present time going to play an important part in that restructuring?

Mr. GILLIGAN. I think the magazine report was reasonably accurate. There are two parallel efforts going forward. One is the interagency, interdepartmental study ordered by the President. At the same time, we are conducting within the Agency itself a very rigorous and strenuous reexamination of our whole internal structure, our procedures, the way we handle the resources made available to us by the Congress, and so forth and so on.

Mr. WINN. Does this include operations, too?

Mr. GILLIGAN. Absolutely, yes, sir.

This Agency was created by Executive order of the President in 1961. The program which the Congress has directed us to undertake today is considerably different than it was in 1961 in terms of the countries we deal with, the amounts of money involved, the objectives laid out for us by the Congress. It is a totally different world than it was in 1961 in many respects. We want to be able to come to the Congress and to the American people with an agency that is structured to operate efficiently and economically and to carry out the mandate given us by the Congress effectively.

We have some real problems in accomplishing that, but that is what we are out to do.

I might give you one quick example of what I am talking about.

As late as 1968 and 1969, there were 16,000 direct hire people employed by AID, about 3,000 of them in Washington and about 13,000

of them overseas. Following the shutdown of activities in Southeast Asia and so forth, we went through a couple of reductions in force so that today we have 6,000 direct hire people, not 16,000. But we still have 2,500 in Washington.

Obviously that suggests some structural anomalies, it seems to me, that would require attention. They are getting that kind of attention.

Mr. WINN. Are you optimistic about doing much about the part in Washington?

Mr. GILLIGAN. It depends on which side of the bed I get up from. [General laughter.]

Congressman, yes, I remain optimistic that we can do it. Our in-house study involves all parts of the thing, including the structure of the Agency. We are undertaking a review of the management of programs, of our direct AID grants and contracts—a great amount of the work that we do is with agencies of various kinds. We reviewed every single one of the grants and contracts that are outstanding or currently being processed. The dollar amounts involved in those grants and contracts financed in Washington and currently in effect is approximately \$500 million.

Mr. WINN. Speaking of contracts, in the same "Newsweek" article, it said that you have discovered that most of the contracts awarded by AID were awarded noncompetitively. Is that true?

Mr. GILLIGAN. Yes, sir.

Mr. WINN. Do you have numbers and money figures on which contracts were awarded noncompetitively?

Mr. GILLIGAN. We do, sir. I will be happy to send them to your office as I do not have them here with me.

Mr. WINN. Send them to the committee, please.

[The information follows:]

QUANTITY AND VALUE OF CONTRACTS AWARDED NONCOMPETITIVELY

Of those contracts awarded in AID/W and currently in effect, some 317 were awarded to U.S. universities, private voluntary organizations, foundations, consulting firms, and individuals under authorized non-competitive selection regulations and procedures. The value of these contracts totalled \$216.7 million.

Mr. GILLIGAN. Let me add another word of explanation on that. A lot of these contracts are in terms of personal or professional service, and I would be the first to admit that it is not always easy to let these on a competitive basis. But in my judgment too frequently these contracts over the years have been entered into by this Agency and then simply extended, renewed, and so on, so that we have built in in some instances a very long-time relationship with some agencies, universities, research institutes, and others that reach back beyond the institutional memory of the Agency itself. Any alteration that is suggested in any of those relationships suddenly becomes an earthquake.

Mr. WINN. Under that philosophy, then, it would well pay to be the low bidder, or lower than the low bidder for the first time out anyway, wouldn't it?

Mr. GILLIGAN. It just might be, sir.

Mr. WINN. It would get you to call them back later on.

Mr. GILLIGAN. That's about it.

Mr. WINN. In your restructuring study, have you considered at this stage the possibility of including the Peace Corps in AID?

Mr. GILLIGAN. We have had discussions that range everywhere from incorporating the Peace Corps into AID to developing a much stronger and cooperative working relationship in the field with Peace Corps missions than we have had in recent years.

The Peace Corps is an enormous resource to the United States and to our activities in foreign fields. I don't believe that in the past we have successfully used that resource as effectively as we might have, and we are examining various ways of altering that working relationship so that we can derive maximum benefit from it.

Mr. WINN. It is a little tough, though, when you have some pretty highly paid people and they have comparative low-paid volunteers.

Mr. GILLIGAN. That is not all bad, and it drives a few points home from time to time. Of course, we have largely career people, some of whom have spent 15 or 20 years in these mission activities overseas, whereas a Peace Corps volunteer serves his or her 2 years on a volunteer basis living in pretty primitive circumstances from time to time, but then is out.

There are now over 57,000 Peace Corps alumni in this country, some really marvellous people. We would like to be able to avail ourselves of their talents and to bring them in as regular employees of AID. We do have some very real problems in doing that, though, because of restrictions on employment and civil service regulations and lots of other things. But we are exploring that one, too.

Mr. WINN. To change directions a little bit, if I may, are there any nations now receiving U.S. development assistance whose record with respect to human rights is viewed as serious enough that AID has contemplated a reduction or even a termination of our assistance?

Mr. GILLIGAN. Yes, sir. There are some whose records in the field of human rights and in other areas are considered to be spotty enough that we are reviewing the wisdom of going forward with the relationships we have developed with them. Most recently, we have recommended that certain loans that were contemplated for Chile be withheld, and they were. So far as I am aware, this is the first time that these considerations were introduced into a decision like that. There were actions taken in earlier years to cut off in places like Uganda. We have under review a couple of other countries at the present time.

Mr. WINN. Would it embarrass you in any way if you were to submit the names of those countries that you are considering to this committee?

Mr. GILLIGAN. No, sir, it would not.

Mr. WINN. May we have that for our record?

Mr. GILLIGAN. Yes, sir. I would be happy to send that up to you as well.

[The information was subsequently supplied.]

Mr. WINN. Thank you.

I think it would be helpful in many ways for future programs, not only AID-type programs but future dealings with the full Committee on International Relations, and it might give us a chance to have a better understanding of some of the problems that you face

and some of the things that you are looking at in the human rights field for us to have this information.

Mr. GILLIGAN. Certainly, Mr. Winn.

Mr. WINN. Mr. Chairman, I have only one more question, if I may ask it of the Governor at this time?

Mr. HARRINGTON. [Nods affirmatively.]

Mr. WINN. Governor, would you tell us how successful or effective you believe the developing countries perceive U.S. AID programs to be by comparison to the assistance offered by other donors?

In the few travels that I have taken overseas, everybody mentions a percentage of the GNP. Of course, practically every country figures its GNP differently, so percentages really do not mean a lot. But that is one way, I am sure, that some of the developing countries do look at our aid compared to some of the other donors which are becoming aware of the problems, too.

Mr. GILLIGAN. Yes, sir. I know that that is an argument that is made frequently, most recently at the so-called CIEC meetings in Paris, where the Group of 77 representatives repeated the demand that is embodied in a U.N. resolution that the developed countries devote 0.7 percent of GNP to official development assistance.

I think there is general agreement, at least among the donor countries, that there are various ways of calculating such assistance, and that quite often that figure can be deceptive.

How recipient countries regard our assistance relative to that they get from other countries is not always easy to assess. In most instances they express their gratitude and friendship to the United States. I am sure when representatives of other countries come shopping around that they do the same thing.

I think there is a game of global grantsmanship being played where some of the recipient countries, like some of our States and municipalities have learned how to play the game pretty well and how to write out applications for assistance and so forth, and to play off one donor against another. That is why I think—and Mr. Van Dyk is in charge of a bureau that has been reorganized within our department in terms of intergovernmental and international affairs—that the wave of the future in this area is going to involve a much closer working relationship between the donor nations so that we are working in a consortium context with the recipients, so that we are not being whipsawed and so that we are all agreed that we are supporting a sound and viable economic development and not just playing with individual projects which may or may not have anything to do with the overall development of a country.

In Africa, for instance, we are a relatively small player in the game. The European nations are on a much higher note than we are. Nevertheless, American technology is generally ranked higher than any other in the world, and these people look to Americans for educational and technological expertise. Many times our products, machine products and so forth, are significantly more costly than are their European counterparts. But we have had one African nation recently initiate discussions with us because they want to send 10,000 students to American universities, and they want to pay the way.

Mr. WINN. That's new.

Mr. GILLIGAN. Yes, sir, it is new. They are undertaking that right now. The first 500 of them will be here this fall. We have a team of eight people working in that country right now screening the applicants. There will be another 1,500 in the spring. I don't know whether we will ever be able to screen 10,000 of them, but it is of enormous importance, it seems to me, to the United States and its future relationships with this country that we have the opportunity to give advanced training to these students.

So, there is that kind of reaction that we get generally around the world to American technology and expertise. That is one of our very strong suits.

Mr. WINN. I think it is very, very important, but I am afraid that the only way that many people in the United States and many people in Congress judge the score of the ball game is by votes in the United Nations.

Mr. GILLIGAN. Yes, sir.

Mr. WINN. That is still very important to public reaction and to Members of Congress with regards to support of your programs.

Mr. GILLIGAN. Yes, sir, I understand that. I think it is well to recognize that in this North-South dialog, you have in the so-called Group of 77—which is really about a group of 123—nations of all sorts, with all sorts of different interests, at many different stages of economic development, with different political structures, background, and so on. But they hang in there united on one objective, and that is to tell the industrialized world at the top of their lungs that they are wholly dissatisfied with the global economic structure that we have today, and that they demand some changes in it. It is really something to see at a conference table representatives of some of the OPEC nations sitting next to those from some of the least developed countries in the world, both of them pounding the same table, using the same rhetoric, and saying the same thing.

Behind what seems to be from time to time a facade of absolute unanimity on some of these questions that come up for debate in the United Nations, for instance, there is a good deal more diversity than even they are willing to admit, and I think that will emerge in the years ahead.

Mr. WINN. Thank you, Governor, for some very straight forward answers, and thank you, Mr. Chairman. I am sorry that I took more than my time.

Mr. HARRINGTON. Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman. I would like to welcome my friend and distinguished fellow Ohioan and to let him know, if he doesn't know already, that the delay in the start of this hearing was due to a couple of votes, which proves that new taxes are no more popular in Washington than they were in Ohio. [General laughter.]

We were struggling together in 1971.

Mr. HARRINGTON. Does he really need a reminder of that, I wonder?

Mr. PEASE. I suspect that the experience was so indelibly put into his psyche in the year 1971, and subsequently in 1974, that he really needs no reminder. [General laughter.]

I would like to direct your attention, Governor Gilligan, to the question of security supporting assistance (SSA) and to where that fits into our program of foreign aid.

I was interested in your recitation at the opening of your statement about what our aid program is not and should not be. You said in each case that it is not this, it is not that, and when you got to security supporting assistance, you said that it is not, or it should not be, a program simply to secure rental of military bases or to provide economic sweeteners for political negotiations and arrangements.

We have been told previously that the chief justification for a very large amount of security supporting assistance going to the Middle East is to provide the political climate within which we might work out a Middle East settlement. Of course, if the climate proves right and if the settlement is reached, that could turn out to be a very small investment on our part. But it certainly does raise the question about what role security supporting assistance has in an aid program and how it can be rationalized in terms of our commitment to the poorest nations in the world and to helping the poorest people.

So, I am interested in your views on rationalizing that. Also, I am interested in your views that AID does not have a great deal of authority in setting SSA levels and it is not clear who should be administering such a program.

Who does set the levels for SSA and who does administer them?

Mr. GILLIGAN. To begin with your last question first, Congressman, and to use the example which you suggested, the security supporting assistance in the Near East, I will say this much to you.

In the budget for fiscal 1978, we have in bilateral development assistance about \$1.4 billion, which is to be spent in approximately 50 nations, with a total population of maybe a billion people.

We have in security supporting assistance about \$1.7 billion, which will be spent in eight nations—in fact, \$1.5 billion will be spent in two nations, Egypt and Israel. They have a combined population of approximately 40 million. So, we will be spending significantly more money in those two nations than in all of the Third and Fourth Worlds put together. That is a fact that is totally evident to all of the people in those developing nations. We publish all of our budget figures; we publish the congressional hearings; we spread out the rationale for what we are doing, and they all read English and they read it very carefully.

So, when we assure them of our concerns about their struggles to win a better form of life for their people and so forth, they look at the numbers and they say, "Yes, sure."

Now I certainly would not be one to argue that the money and resources that we pour into maintaining a peace and into achieving a final peace in the Middle East is not worth it. I think it may very well be money very well spent. But part of the problem is that it confuses the issue of economic development here in the Congress, among the general public, and worldwide when we lump the two programs under AID. We have been discussing within the administration ways and means of distinguishing those programs clearly for the Congress, for the American people, and for everybody else, so that if we are renting bases, if we are securing a political settlement, we are paying cash for it, if you will, or however else we are making the arrangements, but that that does not have anything to do with our economic development programs.

Who sets those amounts? Essentially, in the past they were established by the State Department with the concurrence of the President and the final approval of the Congress. Secretary Kissinger, for instance, negotiated a peace in the Middle East, and he assigned certain amounts of money of American support to those nations in order to encourage them to leave the battlefield. The next problem is to get them to the conference table and to achieve a final peace agreement.

But in other such situations around the world, this has essentially been an exercise carried forward by the State Department. The problem is that there has been very little relationship in the numbers they use to the kinds of numbers that we deal with in the Agency for International Development.

Again, the defense situation which I used earlier has been compartmentalized with one arm of the Federal Establishment doing its own thing with little or no regard for what was going on in the other departments in the international arena. That is part of what we are attempting to come to grips with in the review ordered by the President this year.

Now, regarding those security supporting assistance programs, once they are in place, the Agency for International Development is asked to work up an economic development program within that total dollar amount and to make it as practical and feasible as it can. We attempt to do our best to do that. But I think it is fair to say that in many instances, if it were left to us, we would not come up with that dollar total. We would come up with something far more modest and far more reasonable. It has caused some problems in the past and it may cause some in the future, but we hope to be able to take a somewhat more rational approach to this problem than we have in the recent past.

Mr. PEASE. Thank you. I am pleased to learn that that is part of your review procedure.

I would like to direct your attention now to an interesting article and a letter from you in "The New Republic" recently on the subject of appropriate technology. Probably too much attention has been devoted to whether appropriate technology internationally is or is not a boondoggle. Let me just ask you in a broader sense what your own attitudes are toward the application of what is known as appropriate technology to our aid programs?

Mr. GILLIGAN. I think there are very few considerations that are more important to the successful economic development of some of these countries than to attempt to arrange for them or to assist them in the development of a technology which is appropriate to their stage of development, which is appropriate to the educational levels obtained by their people at this time in history, to their total resources, to their ability to command foreign exchange, and so forth.

There are any number of instances in which we, with the best of intentions, went into relatively primitive economies—I am not talking about cultures here, but about economies—and encouraged and in some cases built for them industrial complexes and then gave them to them to run. They had neither the technological resources nor the financial resources to maintain and to operate them correctly. They found that in going out to buy the fuel, let's say, to operate them, or the raw materials, and whatever else, that they lacked the resources to do this.

They found that what had been represented to them and what our Government had thought would be a great boon to them at the time turned out to be a millstone around their necks.

Now we think that we have to be a good deal more sophisticated and knowledgeable about what we are giving them in terms of technology. I might say that it ranges all the way down to an experience I had a couple of months ago in the Sahel region of Africa, where I watched them building by hand steel plows to convert the agricultural economy of that area through the technological revolution of animal traction, so that for the first time they would pull plows in the area with oxen rather than with their wives. [General laughter.]

Now they are going to quadruple their agricultural production through the introduction of a steel plow, and I think this is enormously important. I was sorry that the article appeared in a fashion where one sentence in it suggested that I regarded the whole field of appropriate technology as a boondoggle. I obviously do not. I was concerned about one institution in the field possibly turning into a boondoggle.

Mr. PEASE. I would like to have your comments on the direction of our aid program. I am new on the committee, but as I understand it, the emphasis has been on the poorest of the poor.

I was interested in your comment that we may have to broaden that somewhat to go into those developing countries which are willing to commit themselves to sensible, effective self-help and which are probably a little bit above the level of the poorest of the poor.

I guess I am sympathetic to that. I have had the feeling in concentrating on the poorest of the poor that once a nation got out of that category, that it was pretty much on its own, though it would really be hardly able to make it on its own and though we might well spend our aid money on intermediate economies as well, but still concentrate on the poor people within those economies.

What is your feeling about where our aid dollars should be concentrated, both as to nations and within the nations that we do target?

Mr. GILLIGAN. Congressman, let me say that I agree with and subscribe to the objectives laid out in the so-called "New Directions" legislation passed by the Congress some years ago, in which it redirected and refocused American efforts in terms of foreign economic development away from the capital-intensive glamor projects of former years which turned out to be so inappropriate for the economies with which we were attempting to deal. It directed our attention to the least developed nations in the world and the poor majority of people within those nations.

A phrase crept into the rhetoric surrounding the whole movement, "the poorest of the poor." That has been interpreted in our Agency, I think mistakenly, as a directive that we were to attend only the needs of those at the very bottom of the economic ladder and in effect to run something approaching a worldwide welfare program. That is not our objective, as I understand the mandate of the Congress and the wishes of the President. It is to run a sensible and reasonable program of assisting people in the poor nations to develop an economy which will be of benefit to the poor majorities within those countries. As you have pointed out, there are some nations that on a graph showing per capita income or per capita gross domestic product will look pretty good, a

lot of them, for instance, in Latin America. But we also know that there are enormous economic problems throughout the nations of Latin America and enormous social problems of poverty and so forth.

For us to simply look at such nations and walk away from them at this critical juncture in their developmental process I don't believe serves this country's interests or theirs. So, it seems to me that we have to take a somewhat broader view than some views that have been expressed in the past on this and that we have to develop a program that is flexible enough to meet the needs of the various countries at various levels in their evolutionary process.

Mr. PEASE. Mr. Chairman, do I have time for one more question, please?

Mr. HARRINGTON. Go right ahead.

Mr. PEASE. Thank you.

This is a brief question, Governor.

I am curious to know your own attitude toward the relative emphasis that ought to be placed on multilateral aid versus bilateral aid.

Mr. GILLIGAN. I think that multilateral aid programs are an enormously important part of the overall picture and program of transfer of resources. These multilateral programs are, after all, an American invention. They were developed by Americans essentially to encourage other developed nations to get into the act which we, at one time, totally monopolized.

It has resulted in the fact that through these multilateral institutions now, for every American dollar that flows, there are three other dollars coming from other sources which would not have been there had we not developed these enterprises. They can do certain things because of the amounts of capital that they command, as well as for a lot of other reasons, that we cannot successfully do with bilateral programs. At the same time, we can, and in my view, should be doing certain things with the bilateral programs that are impossible to the multilaterals.

So, they are complementary. In no sense can one be regarded, in my judgment, as an adequate substitute for the other. They become part of a vast panoply of programs and activities.

For instance, trade policies, tariff policies, are also an increasingly important part of this picture. So, we are beginning to discover in our relationships with Latin America, our immigration policies, export-import codicils and arrangements of various kinds. The picture is much broader than people are led to believe who see international assistance as being simply a giveaway program which amounts to us giving a handout to impoverished people around the world. We have to be able to harmonize these various elements of this very broad program in a sensible and rational way.

Mr. PEASE. Looking at traditional development aid, do you see the balance as being about right, now, historically between multilateral aid and bilateral aid, or would you want to tilt it a little more in one direction or the other?

Mr. GILLIGAN. I think in the last year you have seen what on the charts and in the tables of statistics would represent a substantial and startling increase in multilateral aid. That is largely because we have caught up with some previous pledges for replenishments for the world institutions and that put in a little bulge.

I would say that that represents some disproportion, that our bilateral programs ought to be somewhat more in balance. I think our bilateral efforts ought to be stronger than, larger than, our contributions to the multilateral. But it is a matter of gradation and degree.

Mr. PEASE. Thank you very much, Mr. Chairman.

I repeat what I said when the Governor first appeared before our full committee, and that is that I have a great deal of confidence in his ability and I am delighted to have him at this position.

Mr. GILLIGAN. Thank you.

Mr. HARRINGTON. Mr. Gilman.

Mr. GILMAN. Thank you, Mr. Chairman.

Governor, we have been listening with a great deal of interest to your discussion of AID program. What is the total fund for the coming year that AID will be distributing?

Mr. GILLIGAN. It is broken into several component parts. I will use round numbers for a moment. It is about \$1.4 billion.

Mr. GILMAN. Does that include operating expenses?

Mr. GILLIGAN. Yes, sir.

Mr. GILMAN. How much of that \$1.4 billion would be operating expenses?

Mr. GILLIGAN. About \$220 million, depending upon what the Senate Appropriations Committee does to us this afternoon and tomorrow and what happens in conference; but it is something on the order of \$220 million.

Mr. GILMAN. In the restructuring, do you have any thoughts about evaluating the effectiveness of the programs and doing a better job of evaluation?

Mr. GILLIGAN. Yes, sir.

I think this is one of the most important aspects of the program, particularly since we have gotten away from the capital intensive projects. When one is building bridges, factories, or other physical facilities, it is easy enough to say when the job is done—that is when it is completed, when the facility is open and functioning—and whether or not it is a success and whether you got your money's worth.

When we are engaged in the kinds of programs that we are today in the fields of agricultural productivity, education, family planning, and so forth, these, first, are much longer-term projects and programs. Second, it is not always easy to measure with such degrees quantitatively how successful we have been, what return we are getting for the buck. So we have to develop much more intensive evaluation procedures than we have employed in the past if we are to come up with a realistic assessment as to what we are doing right and where we are are going wrong, and what is successful and what is unsuccessful.

We have not done that adequately, I believe, in the past. That is one of the things that we are going to underline very strongly in the future.

Mr. GILMAN. How do you propose to do it more effectively?

Mr. GILLIGAN. There are a number of ways of doing it.

We have cut out by order of my office about 40 percent of the paperwork flow between the field missions and Washington. We are delegating to the field missions far more authority than they had in

the past. They had to have 27 clearances on everything before they did anything before. We have attempted to reduce that.

At the same time we are deploying people into the field, knowledgeable people who have had wide field experience as well as theoretical experience, both in AID, the World Bank, and other international institutions, to look at the way the programs are being conducted, and to come back with very candid reports on exactly what is happening, how successful it is and whether or not it seems to be going forward.

Those people who do that kind of work for us are talking not just to the AID people, but to the Embassy people, to the recipient countries' government people, to private individuals in the area. We are developing some other techniques within the regional bureaus and in various parts of the organizational structure to have a continuing evaluation procedure going on.

Mr. GILMAN. Since you have taken office have you discontinued any of the programs because of their being ineffective?

Mr. GILLIGAN. Yes; we have discontinued some. We have stricken some contracts. There was a rather grandiose proposal to set up an International Industrialization Institute which would have involved a continuing expenditure of millions of dollars in the hopes that this Institute could somehow be of service in teaching other countries how to develop an industrialized economy. We looked that one over carefully and the kinds of initial efforts that were made to establish its operation and it seemed to us to be a bottomless pit. So, we shut it down.

We are intensively reviewing now, and the field directors have been told that we expect a reevaluation by the end of this fiscal year, programs that they have currently underway. On the grounds of those evaluations and others that we get, we will be going into their programs and striking out certain things and encouraging them to go ahead in other areas.

Mr. GILMAN. Do you have any independent group within your Agency that goes out to evaluate these programs, or is it the field director himself who does this?

Mr. GILLIGAN. No, sir.

We have an Auditor General's Office. There are four regional offices of that Office posted around the world. There are 88 people on the Auditor General's staff. It has been their responsibility to go out and conduct evaluations of these programs in the field.

Mr. GILMAN. How many of those 88 are field investigators?

Mr. GILLIGAN. In the field we now have 16 permanently posted, and another 25 who go out on temporary assignments into the field who may spend as much as 50 percent of their working time on assignments out in the field.

I have looked through that procedure and I looked through a lot of those reports. I compared a lot of those reports to, for example, some of the investigations done by the GAO and other such organizations in the Federal Government. I came to the conclusion that our Auditor General's operation was little more than a statistical exercise in which they were adding up all the numbers in a program and if the arithmetic was right, they signed off on it and said the program was in good shape.

We are, therefore, making some changes at the top level in that Agency, and it is going to be restructured from top to bottom.

Mr. GILMAN. How many countries are involved in the coming year's program?

Mr. GILLIGAN. In total security supporting assistance and the others?

Mr. GILMAN. Yes.

Mr. GILLIGAN. I think 73.

Mr. GILMAN. How many projects are spread out over those 73 countries?

Mr. GILLIGAN. Hundreds.

Mr. GILMAN. With only 41 people to do the oversight?

Mr. GILLIGAN. That's right, that portion of it, as well as our regular field mission people and so forth.

Let me say that one of the things that causes us problems—you asked me a question about our operating expenditures. I know that the Congress has a continuing concern which is expressed in their insistence that we separate out from project money operating expenses, which is considered to be overhead. The Appropriations Committees, in their desire to achieve efficiency within the agency, say, all right, now, we are going to take—as they recently did—\$12 million out of your operating account, and that will produce efficiency. What it really does do is cause us, in many instances, to not be able to bring the people aboard in these oversight positions which are so essential to produce an efficient and effective program.

So, a well intentioned move in the direction of what seems to be economy winds up rendering it very difficult indeed to exert adequate management over these farflung enterprises in every corner of the world.

Mr. GILMAN. To what extent is the biggest chunk of your \$200 million in expenses directed?

Mr. GILLIGAN. Salaries, and that includes the whole Washington staff plus any direct hire people we have in the field. Our desire is to get more people in the field and have less people in Washington, as I indicated before. The problem is that it costs twice as much money to maintain a man in the field as it does in Washington—\$85,000 to \$90,000 a year. That is tough, especially when they cut down on our operating expenses.

Mr. GILMAN. Will you tell us a little more about the contracting process and its objectives?

Mr. GILLIGAN. There are many uses of the contract procedure. Because of the expressed desire of the Congress to reduce the permanent, full-time work complement of AID, specific jobs in the fields of research, consultation, and actual implementation of programs have been farmed out to short-term contractors. They may sign a contract for 1 year, 2 years, or 3 years to get a specific piece of work done. When they are finished, supposedly the contract terminates and they are not riding the Federal payroll for the next 25 years. A great deal of our work is now done in that way.

I can give you a quick example. I saw over in Mali an effort that we are promoting to develop a livestock industry and to introduce, at least on an experimental basis, some of the techniques of American livestock production, including feedlots and so forth. A firm was

hired in Oklahoma which has had long experience in running feedlots to go over and run a feedlot operation for 3 years to see whether it was economically feasible, et cetera. The firm should go in, do the job, and when it is through with it, presumably it will go away.

So, we have in our various agencies and bureaus, in the regional bureaus, in the Technical Assistance Bureau, in the Population and Humanitarian Assistance Bureau, projects which come up from time to time in the field of research, consultation, or actual implementation. They develop programs. They are submitted to the Congress in our congressional presentation. The Congress looks at them, decides whether or not these seem to be reasonable and good things to do, and if so, it gives us its approval and we do them. A great deal of it is done, as I said, by contract.

Mr. GILMAN. I know that my time is running out, but I have just one more question, Governor.

Who sets the policy within your agency to recommend the programs, the criteria, the standards? Who is responsible for policymaking in your agency?

Mr. GILLIGAN. In the policymaking level, we have a deputy administrator and 10 assistant administrators—in the parlance of Washington, they are at the level of assistant secretaries. Four are in the regional bureaus. We have regional bureaus for Africa, the Near East, Latin America, and Asia. Also we have Mr. Van Dyk in his capacity in the Bureau for Intergovernmental and International Affairs, our Policy and Program Coordination Bureau, our Bureau for Management Services, the logistic and support services for the Agency. I cannot remember the rest of the organizational chart at the moment.

Essentially we make up an executive group made up of those Assistant Administrators, plus probably half a dozen other people who head various offices in the Agency. This represents the policymaking organization.

Mr. GILMAN. How do you interface with the White House?

Mr. GILLIGAN. We do so only essentially through the process known as the EPG process in the National Security Council and the White House when on interagency problems. We have participation in the process if foreign economic assistance is involved in the question under consideration. We participate, have our input, and then the matters go before the President in their final form. We carry on a very close working relationship, of course, with the State Department, and through the State Department to the President directly.

Mr. GILMAN. In making up your proposal for each year concerning which countries are going to get aid and the amount, do you look to the White House for recommendations?

Mr. GILLIGAN. I cannot say what has happened in previous administrations. We have had no signals or instructions from the White House at the present time on where we should go.

Our effort has been to interpret and implement the congressional mandate, essentially the "New Directions" thrust of it—to go to the poorer nations, to deal with the poorer people, and to deal in programs of agriculture, health, population planning, and so forth.

I firmly believe—and we are in the process of attempting to do this—that we have to come up with a procedure which will start out with

some global strategy of where our resources ought to go; that that ought to be closely coordinated with the State Department's general views on foreign aid; and that on a regional basis we should spell it out down the line from there.

Mr. GILMAN. Who makes those decisions, decisions on the global strategy to be adopted?

Mr. GILLIGAN. They aren't being made at the present time. It is just sort of happening. That is one of the things that I am interested in doing.

I might say to you, sir, that the Congress several years ago, when confronted with the maze of Federal departments that were involved in one fashion or another in this field of foreign affairs and foreign economic activities, established by law the Development Coordinating Committee. This has representation on it from some of the major line departments, such as State, Treasury, Commerce, Labor, Agriculture, the National Security Council, OMB, et cetera. By law the Administrator of AID is the chairman of that committee.

Its function is to coordinate the various activities in this field of international relations. It had not met for some time, but it has been resurrected and reconstituted, and it is meeting now. It is under the aegis of that Development Coordinating Committee that the President's study and review of foreign assistance is presently being carried out.

Mr. GILMAN. When did that group start meeting again?

Mr. GILLIGAN. This spring.

Mr. GILMAN. How many meetings has it had?

Mr. GILLIGAN. It has met monthly. During the period that we have been carrying on this review, which began in mid-June, it has been meeting at least weekly. Mr. Van Dyk heads the operation and is in charge of the overall review procedure. He works with a steering committee made up of representatives from those various departments that meets several times a week.

Mr. GILMAN. Just so that I am clear about this in my mind, there really is no global strategy, this sort of happens along, you fill in as you go, is that it?

Mr. GILLIGAN. So far as I am able to divine it, that has been about what has been happening.

Mr. GILMAN. Thank you, Mr. Chairman.

Mr. HARRINGTON. I don't know if I ought to interrupt that climax. [General laughter.]

Let me, if I may, ask one question about mechanics.

Would it be useful to you to have a longer period of uninterrupted activity free of the need to spend an appreciable part of your time justifying, defending, exhorting, et cetera, in the forums which we provide you?

Mr. GILLIGAN. Mr. Chairman, I welcome the opportunity to come to Congress and to discuss in any detail that anyone cares to listen to the kinds of problems and considerations that we are presently wrestling with. I would say to you, as I did at the outset of this hearing, that it is my conviction that nothing of any significance or moment in the field of public affairs goes forward very successfully or very long without a strong base of support and understanding in

the Congress. While other departments and other programs have vast constituencies in the American general electorate, our constituency for this program really numbers about 535 people, and unless they understand what we are doing and what we are trying to do and give us their guidance, criticism and support, I feel we are not going to go anywhere very fast or very far.

I think I might be able to talk to you in somewhat more specific terms when this review that is currently underway has been completed, around September 1, and when the President has had a chance to consider the policy options that will be placed before him and make some decisions of his own. But in the actual implementation of whatever direction the President decides that we ought to go, we are going to have to be in constant contact with committees like this one and with their members in the hope that we can have a mutual understanding as to where we are going, how we propose to get there, what the costs are, what the tradeoffs are, and what all the other mechanics are.

I would add that while this intensive portion of restudying of foreign assistance is going on, while we will continue to meet in the Development Coordinating Committee to attempt to achieve a coordinated implementation of these various programs, other initiatives in the area, other policy considerations, will be making their way to the President's desk through the normal National Security Council procedures.

Mr. HARRINGTON. Let me ask whether you have arrived personally at either tentative or conclusive observations about the desirability of a greater degree of control or oversight on the part of the public sector of private banking activity in the developmental affairs of a good number of countries to which you have alluded this afternoon. But my biases aside, what is your own view of what Government policy ought to be toward the phenomenal growth in commercial lending to the developing countries?

Mr. GILLIGAN. I don't know, Mr. Chairman, that I do have any final judgments on that matter. I think that there are some areas of great concern, both to the United States and to the people of the developing world, that have to do with the operations of some of our private institutions, whether they be banks, multinational corporations, and so on.

From one aspect the activities of those private institutions in the developing countries are of enormous importance to their economic development. Our multinational corporations not only have vast financial resources, but technological resources which are desperately needed by the people in these developing countries. At the same time, I think it is fair to say that because of their vast power and their ability to operate on a global scale, there goes with it a measure of responsibility which not always has been clearly recognized by the management of those firms.

I think the same thing is true in the field of the banks, and that nothing could more rapidly undo whatever good the American Government is able to do in these areas than careless and heedless use of that vast power by either our private banking or multinational corporations. It can undo in a fortnight what it takes us a decade to develop.

At the same time, we both recognize that moving into the area of attempted governmental control of the activities of these private institutions is at best a delicate and difficult business. I am not ready, at this moment at least, to write any prescriptions for it.

Mr. Chairman, I wonder if it would be agreeable if we could return to Mr. Gilman's question for just a moment and let Mr. Van Dyk add a comment, which he is busting to tell you.

Mr. HARRINGTON. Surely.

STATEMENT OF HON. FREDERICK VAN DYK, ASSISTANT ADMINISTRATOR FOR INTRAGOVERNMENTAL AND INTERNATIONAL AFFAIRS, AGENCY FOR INTERNATIONAL DEVELOPMENT

Frederick (Ted) Van Dyk, 42, is nominated for the position of Assistant Administrator, Intragovernmental and International Affairs, AID.

Mr. Van Dyk was born in 1934 in Bellingham, Wash., and was graduated in 1955 from the University of Washington, where he edited the student daily newspaper. He received an m.s. degree in 1956 from the Columbia University Graduate School of Journalism. While a graduate student, he worked as a reporter for the Long Island Press. He subsequently worked as a reporter and editor for the Seattle Times and United Press, and in private business in Boston and New York. After military service (Army Intelligence) in Washington, D.C., he served from 1962-64 as a public affairs and information representative there on behalf of the European Communities (Common Market, Euratom, Coal and Steel Community). His duties included interpretation of U.S. policy and events to Common Market officials and serving as staff assistant and speechwriter to leaders of the European unity movement such as Jean Monnet, Walter Hallstein, Robert Marjolin, and Sicco Mansholt when they traveled in the United States. From 1964-68, he was assistant to Senator and Vice President Humphrey, with a wide range of responsibilities.

In 1968-69, Mr. Van Dyk served as vice president for public affairs at Columbia University. In late 1969 he returned to Washington to found Van Dyk Associates, Inc., a public and governmental affairs consulting firm serving corporations, trade associations, and public-interest groups.

Mr. Van Dyk also has served as a member of the Democratic Policy Council, the 50-man body charged with making Democratic Party policy (1969-72); as director of issues and research of the 1972 McGovern-Shriver campaign; as a principal author of the 1968, 1972, and 1976 Democratic Platforms; as an adviser to the 1976 Carter-Mondale campaign and transition; and as an informal adviser to a number of public-service organizations. He chaired the Domestic Affairs session of the National Democratic Issues Conference in 1975 and is vice chairman of the National Democratic Forum, a group of Democratic officeholders and officials involved in policymaking. His periodic essays on government and politics have been published in the Wall Street Journal, Newsweek ("My Turn"), Washington Monthly, Washington Sunday Star, Washington Post, Christian Science Monitor, Democratic Review, and elsewhere. He is married, has four children, and resides in Potomac, Md.

Mr. VAN DYK. Mr. Congressman, you asked a question about coordination of policy, where strategy was made, and of what it consisted.

I think it is fair to say that the Development Coordination Committee itself was by Executive order created in 1975. It is fair to say that in the last 2 years of the previous administration, it was not utilized. It met in desultory fashion very infrequently. With the change of administration and perhaps because of the lack of institutional memory, we have operated the committee in a very active way. I think it is fair to say that most major questions involving the developing world have passed through the committee in the past few months and received a systematic review.

Beyond that, we have in Secretary Vance a Secretary who is greatly committed to many of the general concepts which Governor Gilligan expressed a moment ago. That has resulted in, among other things, a lack of offhand State Department commitment of such things as security supporting assistance in a random way to various countries where political favor was sought on a short-term basis.

Going through the White House, as you read in Evans and Novak daily, there are a series of Presidential review memorandums, called PRM's by us bureaucrats who have been around for a long time. Those memorandums are being examined in a very orderly fashion by what is called a Presidential review committee. The Governor and I were present at one of those sessions the other day.

Out of that, I think it is fair to say that during the first months of this administration, when that process is complete, there will be a global strategy in the truest sense for just about all aspects of American policy. So, we would not want the conclusion to be reached that there is no strategy and that everything is ad hoc. That is far from the case.

We will be, in our September 1 study, presenting to the President some very specific proposals for changes in review procedures and policy formulation vis-a-vis the Third World. When those recommendations are made, and if he accepts them, we will be quite happy to come up here to examine them with you in committee.

But I think what the Governor has said is quite true. There has been in the past a great lack of that kind of coordination. There has often been an ad hoc commitment of foreign aid without forethought. Too often policy has been made in the pocket of the traveling Secretary of State.

We don't have that kind of Secretary of State now, one who makes policy in that fashion, and there is underway in the White House a very systematic review of all aspects of policy.

Mr. WINN. You weren't really saying that we don't have a traveling Secretary of State, were you?

Mr. VAN DYK. I am saying that we have a traveling Secretary of State who does not make policy in his pocket.

Mr. GILMAN. Mr. Van Dyk, are you suggesting that we did not have a global strategy in the past administration with regard to AID?

Mr. VAN DYK. I think it is fair to say, Congressman, that AID was often treated by Secretary Kissinger as a bank balance upon which to draw when commitments were to be made. We don't take that view, nor does Secretary Vance.

Mr. GILMAN. Have you recommended a global strategy to the administration?

Mr. VAN DYK. We will, in our September 1 study, make a comprehensive policy recommendation, yes.

Mr. GILMAN. What have we been doing in the past 7 months? How do we dole out the funds?

Mr. VAN DYK. Well, one could or could not describe the allocation of funds as "doling them out."

We are still operating under the budget of the last administration, so you will not find from us a spirited defense of all of the allocations of money. You will, however, find that in the 1979 budget which will

be presented and which will reflect the review we have undertaken that we will stand on that budget, we will stand on those allocations, and we will stand on those policies.

Mr. GILMAN. Have you presented the new budget to the Appropriations Committee?

Mr. VAN DYK. No, sir.

Mr. GILLIGAN. Let me fill in a word on that, please.

For good and sufficient reasons the Congress decided some years ago in writing the new legislation that AID would no longer come to the Congress and ask for large sums of appropriations to be spent doing good things in various parts of the world. We are required to submit a program that is specific not only in terms of geographic regions or even countries, but project by project. Every project is described and has its price tag, and so forth. All of these are put forth in something called the congressional presentation which quite literally is that thick [indicating].

That presentation for the budget of the current fiscal year was made a long time ago and was adopted that way. If we attempt to change any one of the items in that budget presentation, we have to go before the Appropriations Committee and inform them 15 days in advance of any change that we want to make in any one of those single projects. So, the program which we are carrying out today is one essentially that was fixed into place by that congressional presentation process quite a long time before this administration took office.

Mr. GILMAN. Governor, wasn't the new administration involved in this year's budget preparations?

Mr. GILLIGAN. Yes, sir, it was.

The President presented a modification of the budget that Mr. Ford had submitted to the Congress, as he was required to by law just before he left office. So the budget for fiscal year 1978, which will begin on October 1, represented some small changes that could be introduced in the space of about 3 weeks that President Carter was in office before he sent that budget up. That is why we said a little earlier that the budget that will be submitted next January to the Congress for fiscal year 1979 will be in all respects the first true Carter budget.

Mr. GILMAN. You will have adopted a world strategy, a global strategy, by September, isn't that what you said?

Mr. GILLIGAN. We will have recommendations made to the President by September 1. He will in due course make his decisions. Those decisions will be embodied in certain recommendations which will be made to the people putting the budget together. That budget will take shape during the fall and will be presented formally to the Congress next January.

Mr. GILMAN. Mr. Chairman, I would hope that some time in the fall we could arrange for further hearings to examine the major aspects of that global strategy.

Mr. GILLIGAN. We will be here, sir.

Mr. WINN. Mr. Chairman, I also hope that they get it up here faster than they did the request for the Romanian disaster relief appropriation.

Mr. GILLIGAN. Yes, sir. [General laughter.]

Mr. HARRINGTON. Congressman Pease.

Mr. PEASE. Mr. Chairman, I would like to second the suggestion that we try to get Governor Gilligan to come back as soon as that

review is finished and before the actual budget is put on our desks next year so that we will have some time to open hearings and have some discussion about the directions of our new policy.

I was very pleased, Governor Gilligan, at your recognition that aid to countries involves much more than direct development aid, that trade policy is important, also that what private corporations and private lending institutions do is very important.

Do you see a role for AID or is there a statutory role for it now in trying to coordinate all of these different elements involved in our relations with particular nations?

Mr. GILLIGAN. I think, Congressman, that if we were to assume for a moment—and I do—that AID will continue to be what it is now, an independent agency with special ties and relationships to the State Department, in all likelihood the Development Coordination Committee will be the vehicle that will be used on a continuing basis, perhaps with some structural and procedural changes to coordinate all of these multifarious activities in the field of foreign affairs.

In one of our changes in putting together the bureau that Mr. Van Dyk presently heads we have an enormous job to do in terms of coordinating our efforts, not only within the Federal Establishment, but with the various special agencies of the United Nations and with the other donor countries which are organized into what is called DAC, the Development Assistance Committee of OECD. There are any number of these international organizations, each more or less in its own orbit today. Our ability to interact and interrelate with them can be a very significant matter in terms of whether or not our programs are really effective in carrying out the will of the people and the will of the Congress. So that is an area which has been long neglected which we intend to deal with.

Mr. PEASE. As Chairman of the Development Coordination Committee, do you intend to try to use the committee for this purpose?

Mr. GILLIGAN. Exactly. Yes, sir, I certainly do, until I am told to stop.

Mr. PEASE. I am also interested and pleased by your recognition of the importance of public support and underlying support in the Congress for our AID programs, especially if we are thinking in terms of increasing our commitment over the next several years.

I guess I am wondering who it is who is going to reach out to the public to explain and, if you will, promote this new policy that we hopefully will adopt this fall? Who will defend it to the American public? Who is responsible for that?

Mr. GILLIGAN. Well, after a number of sessions with this committee and others, I would hope that they would become spokesmen for the new policy. [General laughter.]

But beyond that I think we all know that the President of the United States is essentially the spokesman for his own administration and it is his voice to which the American people listen. He will be the chief spokesman for whatever initiatives he decides are in the national interest in this area of foreign assistance. Members of his Cabinet and others in his administration will attempt to add a note or two in the supporting chorus, but he is ultimately the soloist.

Mr. PEASE. Is there or should there be within AID any sort of a public relations operations which should attempt to explain AID goals and programs to the American public?

Mr. GILLIGAN. Yes, sir. There can, there is, and there will be, we hope, a more effective and improved operation of that kind. I must say again to you what you already recognize, and that is that many in the legislative branch put a wary budgetary eye on the activities of the executive branch departments, on the kinds of money they spend on staff, and so forth, for public information programs. It can be overdone. It can be abused. But I think it is an essential element of any ongoing public program.

Mr. PEASE. Thank you, Mr. Chairman. That is all I have.

Mr. HARRINGTON. I will trespass as delicately as I can, Jack, in this area that I am about to enter. Has the practice that we are aware of historically of AID programs and personnel being used as a cover for certain kinds of intelligence activities been discontinued in full?

Mr. GILLIGAN. Has it been discontinued?

Mr. HARRINGTON. Yes.

Mr. GILLIGAN. Yes, sir, absolutely. I think I can say to you without any fear of contradiction that there is absolutely no possibility of that happening in the future.

Mr. HARRINGTON. Thank you.

Thank you all for your patience.

Mr. GILLIGAN. I look forward to an encore. Thank you, Mr. Chairman.

Mr. HARRINGTON. This subcommittee stands adjourned.

[Whereupon, at 4:09 p.m., the subcommittee adjourned, subject to the call of the Chair.]

RETHINKING UNITED STATES FOREIGN POLICY TOWARD THE DEVELOPING WORLD

Administration Activities in the Foreign Aid Field

WEDNESDAY, OCTOBER 12, 1977

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, D.C.

The committee met at 10 a.m., in room 2172, Rayburn House Office Building, Hon. Clement J. Zablocki (chairman of the committee) presiding.

Chairman ZABLOCKI. The committee will please come to order.

INTRODUCTION

We welcome you again, Governor.

Governor Gilligan is here today to brief members on certain aspects of the administration's activities in the foreign aid field.

The meeting is convened as a briefing at AID's suggestion rather than as a formal hearing, so as to allow maximum flexibility for discussion on matters which the administration has not yet reached a decision.

We have asked the Governor to speak to us about the aid policy studies which are underway or which have been completed, AID reorganization, implementation of our fiscal year 1978 legislation and plans for next year's aid authorization legislation.

In connection with the latter, that is next year's authorization, the Chair will note for members that more than 1 year ago AID counsel was requested to undertake a technical rewrite of the 1961 Foreign Assistance Act. The idea was to update and shorten the act without, of course, changing any of its substance, so this could be an option if the members wished to consider it when we deal with the authorizing legislation next year. This technical job, as I understand it, is still in process and nothing has been decided, of course. That will be up to the committee when it turns its attention to the fiscal 1979 bill.

As far as the administration is concerned, I understand that various policy options have been considered in its review. We will look forward to the Governor's briefing on this, on AID reorganization, and on the other matters.

Some of us have had an opportunity to discuss with the Governor some of the options being considered by the administration. We look forward now, Governor, to hearing you present your case to the full committee.

You may proceed.

**STATEMENT OF HON. JOHN GILLIGAN, ADMINISTRATOR, AGENCY
FOR INTERNATIONAL DEVELOPMENT**

Mr. GILLIGAN. Thank you, Mr. Chairman and members of the committee. I will take full advantage of your observations, Mr. Chairman. This is a briefing as opposed to a formal hearing or presentation of testimony, and my comments will be, therefore, somewhat impromptu and off the cuff.

I hope to cover the points you have outlined, and I will welcome questions or interventions at any point along the line that any of the members of the committee think might be helpful.

**DEVELOPMENT COORDINATION COMMITTEE AND BROOKINGS INSTITUTION
STUDIES OF U.S. FOREIGN ECONOMIC DEVELOPMENT PROGRAMS**

First, I would like to review briefly with the members of the committee the two studies that have been underway throughout these past summer months, which have recently been brought to conclusion.

The study by the Development Coordination Committee, and one by the Brookings Institution, of our foreign economic development programs, of their present state, their past history, their degree of effectiveness, and some recommendations for the future.

GROWTH OF LESS DEVELOPED COUNTRIES

First, the Development Coordination Committee study examined the multiple U.S. interests, political, security, economic, and humanitarian, that exist in the developing world, and recommended a comprehensive and flexible assistance strategy which will advance these interests, but found that accelerating LDC growth is basic to the realization of these interests, to addressing global economic problems, and to participation of the LDC's in an expanding international economic system.

It found that given the diversity of the less developed countries, the growth requires a comprehensive U.S. strategy which includes trade liberalization, greater access to capital markets, and increased levels of foreign assistance.

DCC ENDORSED NEW DIRECTIONS LEGISLATION

I would say, Mr. Chairman, in general the findings of the Development Coordination Committee, which, as you know, includes representation from the Departments of State, Commerce, Treasury, Agriculture, as well as the OMB, the National Security Council, and other agencies of Government, strongly endorsed the new directions legislation of the Congress, agreed that the thrust of that legislation and its mandate is exactly what seems needed by the less developed countries of this world, and renewed the definition to follow that general prescription in the foreign assistance programs of the U.S. Government in the years ahead.

RECOMMENDED OPTIONS IN DCC REPORT

In discussing the various strategies that might be followed, a number of options were outlined for a recommendation that eventually will go to the President.

The five strategic options were:

First, to concentrate on a limited number of key countries, key in the sense of their strategic or political importance.

Secondly, to concentrate on a limited number of global problems, such as hunger, or health, or population growth, through a global effort by all countries.

The third strategy was to concentrate on poor countries, using an integrated basic human needs approach covering several key sectors, such as agriculture and food production, population, and health, with the per capita income of the country as the main determinant of need.

The fourth option was to concentrate on poor people rather than poor countries. This would permit a support of basic human needs activities in middle-income countries with large pockets of poor people.

The fifth option was a multipurpose, multiobjective approach which would permit a combination of all the strategic objectives listed above with less specific emphasis on any single objective.

Most members of the Development Coordination Committee favored option 3, the concentration on poor countries, as being the one which most closely resembled the mandate of the Congress in the new directions legislation, but urged at the same time that some wider latitude in interpretation of the congressional mandate be given to permit the United States to maintain bilateral operations in some middle-income countries which needed additional help because of pockets of poverty or developmental problems of various kinds. Many of these countries would be found in the Latin American region, for instance.

FUNDING LEVELS FOR THE PROGRAM

The second range of questions approached by the Development Coordination Committee in its study, was proposed funding levels for the future of the program. There were again three options outlined for the DCC decision and recommendation.

Incidentally, in terms of strategic approaches to foreign assistance and funding levels, there turned out to be a remarkable similarity between the DCC study and the Brookings Institution study, although the two were conducted separately and approached the problem from different points of view.

EXTENSION OF FISCAL YEAR 1978 FUNDING LEVELS

In terms of funding levels, the first option offered was a straight-line extension of fiscal 1978 levels in real terms; in other words, allowing only for the impact of inflation and extending that impact over a period of about 4 years. This would apply essentially to the concessional assistance programs of the U.S. Government.

The effect, of course, would be, since our GNP and our Federal budget are going to rise rather substantially during the next 4 years, if we straight-line the budget allocations for foreign assistance, our effort in this field as measured by percentage of GNP or of the Federal budget, will decline.

INCREASE FUNDING ACCORDING TO PERCENTAGE OF GNP

The second option was one that might be called a moderate increase in funding aimed at bringing the U.S. effort in terms of percentage of GNP up close to, although not equivalent to, the average effort made by the donor nations, included within DAC, within the OECD.

This level of effort would amount to bringing us from a present 0.28 percent of GNP to about 0.35 percent of GNP. It would have the effect of increasing quite substantially the budget request to be made to the Congress. As a matter of fact, over a period of 4 years, it would involve doubling those budget requests.

INCREASE FUNDING TO THE LEVEL CHARACTERIZED IN THE 1960'S

The third option might be considered a high-level option designed to reestablish U.S. preeminence in the field of foreign economic development. It would put the United States back to the level of effort that characterized our activities in the field of foreign assistance during the early part of the decade of the sixties. This would ultimately, by fiscal 1982, raise the efforts of the U.S. assistance efforts to about 0.5 percent of GNP. It should be noted that while some of these figures get to box-car size, there are estimates that by 1982 the gross national product of the United States could approach \$3 trillion and the Federal budget expenditures could be in the neighborhood of \$600 billion. So the difference in the dollars between the second and third options, between the moderate and the major increase turns out to be in the neighborhood of \$4 billion by 1982, which is two-thirds of 1 percent of the Federal budget.

Now, I would be the first to acknowledge that there is available an infinite number of variations on these funding levels and on the internal mixes between the bilateral and multilateral programs, Public Law 480, security supporting assistance, and so on and so forth. It is really impossible to play out all those variations and one has to make certain assumptions and simply project those. That is what was done within the DCC report.

The DCC, the Development Coordination Committee, did not choose a funding option, but left that decision ultimately for the President.

THE BROOKINGS' STUDY STRATEGY

The Brookings study, as I said, came up with approximately the same sorts of strategic options, came out about where the DCC did in terms of endorsing the new directions legislation and mandate and the concentration on poor countries and poor people for our programs, for our concessional aid programs.

In funding levels, they also offered three. The first two were higher than the ones proposed in the DCC study. The third was somewhat

lower than the option provided in the DCC study. They made a contingent recommendation. They recommended the high level of spending if certain organizational changes, which they proposed, were undertaken first. Since these organizational changes were in the Brookings study, not in the DCC study, it might be well to touch upon them, at least briefly.

ORGANIZATIONAL CHANGES RECOMMENDED BY THE BROOKINGS STUDY

The Brookings study recommended that the Agency for International Development should be replaced by a Development Cooperation Agency which would carry out existing aid functions and whose creation could be the occasion for needed legislative, procedural, and personnel changes.

Second, an International Development Foundation guided by a board of public and private members to define and support research, development and training programs.

The second recommendation was that security supporting assistance should be administered by the new Development Cooperation Agency but it would be funded and justified to the Congress by the State Department except for those amounts going for rent for military facilities which would be developed by the Department of Defense.

The third recommendation was that a coordinator for international development policy should be appointed to insure that the different types of assistance, bilateral development aid, IFI's, Public Law 480, et cetera, fitted together in a coherent program and to join the Office of Management and Budget in reviewing the budgetary requests for international development. The point, of course, being that this newly created coordinator would act in the capacity of a special assistant to the President, and would in many respects replace the DCC in that office and, in that individual, would be lodged the coordinating functions which are presently in the Development Coordinating Committee.

Those two studies were reviewed yesterday at a Cabinet level meeting at the White House and no final judgments were made on the various recommendations but rather it was decided a small working group would be appointed by the CRC mechanism to further define these choices and to submit them to the President in a few weeks for his review and his decision.

The second matter that I wanted to——

DIFFERENCES BETWEEN EXECUTIVE BRANCH REORGANIZATION PLANS AND DCC AND BROOKINGS STUDY RECOMMENDATIONS

Chairman ZABLOCKI. Governor, before leaving this, at this point I think it would be very interesting if you would indicate any recommendation on institutional arrangements which your study has made, in comparison to the institutional arrangements recommended by the Brookings study.

Mr. GILLIGAN. The Development Coordination Committee deliberately stayed away from any consideration of organizational changes. We have, as you know, conducted our own internal reorganization study and are in the process of implementing that at the present time. But the DCC, made up of a number of agencies and departments and

governments thought it inappropriate for them to address themselves to this kind of reorganizational scheme.

Chairman ZABLOCKI. Did the DCC evaluate the recommendations of the Brookings study, and can you share with us your views on this?

Mr. GILLIGAN. No, sir, we first saw the Brookings study at the end of last week after the DCC had completed its work. The findings of the Brookings study were before the Presidential Review Committee in the White House yesterday. They did not come before the DCC.

Chairman ZABLOCKI. Did you have an opportunity to study the recommendations over the weekend and what was your reaction?

Mr. GILLIGAN. Yes, sir, I have some real reservations about some of the proposals, although I understand what motivates them. I think there is some real reason to look at the creation of an independent research agency which would operate as outlined by the Brookings report in conjunction with, but separate from, the programmatic management function of AID. I think that deserves a good deal of scrutiny, examination and discussion.

I think that to rename AID might have some benefits but isn't going to accomplish an awful lot. The creation of a coordinator as a special assistant to the President, I am dubious about that. I am not certain in the real world of the relationship between the legislative and executive branches in this field of foreign assistance, that this would be a very helpful move to make. But I am ready to consider it further and discuss it further with the members of this committee or anybody else interested in it.

There is evidence in the Brookings report. I must say, a stream of comment and criticism about what is regarded as the undue interference by the legislative branch in the activities of AID and its ongoing program. I think there are some modifications of the way that we carry out our congressional presentation and report to the committees, but I don't believe that it is realistic to think, as some of the authors of the Brookings report evidently think, that we can draw a very sharp line or build a wall between the two institutions in this very important field. I don't think the Congress is ready to withdraw from its oversight abilities.

Chairman ZABLOCKI. No way.

CABINET LEVEL CONSIDERATION

Mr. GILLIGAN. I would be happy to respond if there are other members with questions on these two reports. The only thing I can say is at the present time they are under review and will be for the next few weeks at the Cabinet level and White House level and there will be decisions made. The President will presumably respond in two fashions before too much more time is past. One, in terms of approving budgetary recommendations for fiscal year 1979, which will go into his budget message in January. Second, if the President so determines, there may be some reaction in terms of legislation to change the structure of the program, but I can't speculate much further about what those decisions will be.

Chairman ZABLOCKI. I am sure we will have further questions on this when we get further along.

AID IMPROVEMENT AND REORGANIZATION

Mr. GILLIGAN. The second matter on which I would like to comment for a moment to the committee is the efforts made to reorganize the Agency for International Development and to improve its operating efficiency.

The effort has been in four areas:

The first, to simplify and improve our programing system and our ability to implement programs once they are designed and approved.

Second, and related to the first, to decentralize decisionmaking to the maximum possible extent; in other words, to reduce as far as possible the flow of paperwork back and forth from the field missions into Washington to the point that, frequently, 4 years elapse between the time that a problem is identified and a solution to that problem is proposed and the final implementation of that program in the field, by which time the problem frequently has changed or vanished.

I have sometimes said that if the Navy were run the way AID is run we would have the whole fleet on the beach before we got permission from Washington for a change of course.

The third area of concern was the consolidation within the agencies to increase effectiveness and to increase efficiency.

And, fourth, an effort to review and to modify the life style of the missions and the people serving in the missions overseas to make them more appropriate to the general mission of the Agency. We had underway in the Agency this summer what has become known as the Babb study, conducted by a group of about six people who were released from other activities and other responsibilities within the Agency and assigned the task of reviewing all the operational and structural facets of a rather complex Agency. We came up with a number of conclusions, among them that we were strangled with paperwork; second, that the employment profile of the Agency was inappropriate to the mission assigned us by Congress, which had changed quite dramatically with the new directions legislation, and that we needed different kinds of people with different kinds of talents and skills than we once had in the Agency and we needed the ability to deploy these people into the field missions where they were needed and when they were needed.

We needed to delegate to the field missions and to the regional bureaus more authority than they had exercised in the recent past in the design and implementation of programs and to provide, at the same time, to them the kind of skilled people for both the design and implementation work.

We recognized a great deal of the work in the Agency in the future will be carried on in the field by contract personnel rather than by direct-hire people and we think that is a good way of operating if we have proper evaluation and oversight procedures so we can determine whether or not the work is being carried out as well as it should be.

CONCLUSION OF AID EFFICIENCY STUDY

My own conclusion, at the end of the study, was that while we presently have a force in Washington, an employment level of about 2,350 people, that the work of the Agency could be carried out effectively by 1,800 to 1,900 people in Washington if we have the right

people and if we have the ability to place those people in an organization structure that will function properly.

I determined as well that the Agency has lacked, evidently for years, what might be regarded as the rudimentary management tools necessary to operate an agency of this size with a budget of this size.

The third determination was that our personnel system needs, virtually, a complete overhaul.

We have begun, therefore, to reorganize the Agency, office by office, and bureau by bureau, reassigning responsibilities and determining what kind of people with what kinds of skill we need in each of those bureaus and offices and attempting to rewrite, where necessary, the job descriptions so that we can bring in the kinds of people we need or reassign them within the Agency and that we can get ultimately more people with better skills into the regional bureaus and out into the field.

PERSONNEL PROBLEMS ENCOUNTERED IN REORGANIZATION

We are confronted by a number of very difficult problems, especially in the personnel field. With the present civil service regulations and Foreign Service regulations, I would say to you very candidly, Mr. Chairman, it makes it difficult, to the point of impossibility, to carry out the job of reassigning people where we need them and when we need them with the skills that are needed, but we are going to do the best we can within the limitations of that system and we hope that we are going to be able to produce within the next 6 to 8 months a leaner and more effective and more responsive and more efficient organization than the one we had at the beginning of the year.

Again, I would be more than pleased to attempt to answer any questions about the reorganization or where we stand with it or what our immediate future plans are.

I would add one final comment. While we want to put people into the field, while the Congress has handed to us additional responsibilities for fiscal 1978 and 1979, the new program in the Sudan, Somalia, southern Africa and India, among other things, one of the things that comes home very sharply is that it costs the agency three to four times as much to maintain a person in the field as it does in Washington. So, in a sense, to build up the field forces to any degree at all within the same number of dollars in the operating expense accounts means that we have to trade off on a 3-to-1 to 4-to-1 basis on those jobs overseas. That is a very difficult undertaking.

Chairman ZABLOCKI. Thank you.

COST OF MAINTAINING AID PERSONNEL OVERSEAS

In reference to your last comment, that it costs three times as much to maintain AID personnel overseas, and your statement that in your reorganization effort you are seeking to review and modify AID mission lifestyle to make it more appropriate: there was a criticism in the paper this morning in a story by Susanna McBee indicating that if the mission directors are not living in high style, high on the hog, they won't cost as much. It said one director spent \$1,700 for silver tableware; the Director in Cairo was leasing a home at \$38,000 a year. Is this what you intend to correct in the reorganization of AID?

You are quoted as saying that your bureaucracy is overage, overpaid, overranked and over here.

Mr. GILLIGAN. Yes, sir.

Well, essentially on the last point that comes out of the automatic operation of the civil service and Foreign Service laws and regulations.

Two very dramatic reductions in work force were undertaken by this Agency in the last 8 years. We came from a direct-hire level of something like 16,000 people to 6,000 in terms of American nationals from about 12,500 to about 4,000.

What happened was when it was announced there was going to be a reduction in force, the civil service regulations take over and the more senior people use that seniority to bump the junior people so you wind up with a program profile of people who are older, have the higher rank and higher year pay and lost the younger people at the higher levels. That is what winds up in this distortion in our pattern. That is why instead of walking in and saying we will reduce by 15 percent or 20 percent, whatever, here those mechanical procedures would take over again. We are attempting to go the much more painful and painstaking route of identifying the skills we need, writing those in the job descriptions, getting those people in there and regarding those superfluous skills, which the Agency no longer needs, regarding them as dispensable. That is a long job-by-job way to get out.

TIMETABLE FOR IMPLEMENTING REORGANIZATION

Chairman ZABLOCKI. What is your timetable for implementing the reorganization? I perceive you will do it by transfusion, by amputation, by chemotherapy, rather than killing the AID program, killing AID and giving birth to a new creature, as has been recommended by some, which would be the faster way of implementing the reorganization.

Mr. GILLIGAN. The problem with killing the Agency as it presently exists is we have 56 field missions out there and, if you amputate the center of the creature back here, what happens to them while you are reorganizing?

Chairman ZABLOCKI. Do it by osmosis.

Mr. GILLIGAN. Perhaps so, but we expect to come back to the Congress early next year. But what we have been able to accomplish in the reduction and redeployment of personnel in the Agency, we go with the recognition that under the civil service laws if you don't get rid of a person within the first 6 months of the fiscal year, it costs you more to get rid of him than it does to keep him because of severance pay and so forth.

For the coming fiscal year, the year we have already embarked upon, what isn't accomplished by March 1 cannot be economically accomplished within the balance of the year. So the basic work we are going to do will have to be done within that 6-month span.

AID CONTRACT PERSONNEL

Chairman ZABLOCKI. In your four points on the reorganization of AID, you recommended more contract personnel in the field provid-

ing there is the proper oversight and evaluation procedures. How will these contract personnel be hired? Will all contracts be on a bid basis?

Mr. GILLIGAN. Insofar as possible, Mr. Chairman, we want to go back to bidding procedures within the Agency so we get to review several competing offers from contract people to carry out certain kinds of work. Over the years it has become the custom to grant contracts to the same firms and the same educational institutions and research organizations and they tend to be repeaters. I am not sure that we have had the kind of evaluation procedures or the techniques for inviting competition into the field that is needed to revitalize and to freshen the program.

Now, I know that there is a lot to be gained from using experienced people and reusing them. But at the same time, it seems we need a more judicious balance between just using the same contractors over and over again and that of bringing new people into the field, new installations and new organization that up to now have not had a chance to do it.

But that puts a very special burden on the managers who are charged with the responsibility of selecting, overseeing, and evaluating the performance of those contractors. They have been, in my judgment—I won't say lax—but the signoff and approval of the level of service has been altogether too routine and we intend to put a good deal more pressure on the managers at the mission level and at the regional level to require them to do a tough evaluation of whether or not we are getting our money's worth out of the contractors for the work done in the field or the work in the laboratories or libraries and universities of this country.

Chairman ZABLOCKI. I have umpteen questions about the DCC, but my time has expired. For example, the multiyear authorization, for 2, 3, or 4 years, but I am sure my colleagues will pursue these questions.

Mr. Winn.

Mr. WINN. Thank you, Mr. Chairman.

NEED FOR ASSISTANCE TO FUNCTIONAL CATEGORIES OF AID

Governor, has your review of the foreign assistance programs indicated any need to give assistance on functional categories of AID, for instance, agricultural production, or population planning?

Mr. GILLIGAN. Congressman, I think the present balance we have in the program, given the resources which the Congress has allowed to us for the implementation of these programs is just about right. In other words, something like 55 percent of our programmatic funding goes into agricultural and nutritional programs. About 18 percent goes into the population program and so forth, so I think the balance is about correct.

Mr. WINN. Would the same be true of population planning?

Mr. GILLIGAN. Yes, sir, I think we have a pretty good and reasonable balance.

Now, if we were to substantially increase the levels of funding, there might well be other activities which we would get into which presently we cannot get into because of the funding under which we operate, but given the resources that the Congress has made available to us, I think our program is about where it ought to be.

WORLD BANK SUPPORT OF AGRICULTURAL PROJECTS

Mr. WINN. It is my understanding that the World Bank's third annual review of project performance and audit noted the results of the World Bank's supporting of agricultural projects were generally disappointing compared to other types of development projects that it financed.

Mr. GILLIGAN. Yes, sir.

Mr. WINN. Has AID experienced similar results?

Mr. GILLIGAN. I have gone over these reports of the World Bank and their evaluation procedures—incidentally, they sent people to us to learn how to do the evaluations, I don't know how much we helped them, but that was part of the picture. It is true that if your resources are going in the direction of large capital intensive programs, you are building dams, steel mills, airports, and things like that, at the very least you have a quantitative measurement at the end of the program of what you have achieved with the expenditure and the money. You can count the bricks, say the project is finished, it is satisfactory and it is signed off by the engineers and so forth. Getting into the problem of increasing agricultural productivity is a far more complex, far more difficult kind of a program to undertake, especially when one realizes that we are not just out to increase agricultural productivity for its own sake, but to move more food into the markets of the economy and into the mouths of hungry people within those societies.

Incidentally, that raises the question not of just new seeds, fertilizers, irrigation, farm machinery, and so forth, but credit systems, market systems, cooperatives, infrastructure like farm-to-market roads, a whole complex area suddenly comes into view.

Now, that makes for a much more difficult program to design, to implement, and to evaluate and the results are quite often not as clear-cut, not as easily defined and measured as in the more familiar capital intensive programs. So I think we experience the same sort of difficulties that the World Bank has identified in terms of measuring the effectiveness of these programs.

SHARING OF INFORMATION ON SUCCESSFUL DEVELOPMENT TECHNIQUES

Mr. WINN. I have always been kind of interested in what kind of information on successful development techniques that there might be among the various institutions involved in international development, the ones you just mentioned.

Mr. GILLIGAN. Well, there is a good deal of exchange of information on those matters between the various institutions and, in my opinion, there is going to be even more in the future because I think one of the things that is going to become more paramount in the whole field of foreign economic development is a much closer working relationship between the independent banks, the various donor countries, perhaps on the basis of the Sahel program, but a far greater and higher degree of cooperation among donors and recipient countries and that is going to necessitate the exchange of the kinds of information that has not been necessary in the past.

Mr. WINN. My time is up. I will follow that up with questions in writing because I would like more detail if possible on the kinds of information that you do exchange.

Thank you, Mr. Chairman.

Mr. GILLIGAN. I will be happy to supply it.

Chairman ZABLOCKI. Mr. Hamilton.

Mr. HAMILTON. Thank you, Mr. Chairman.

Governor Gilligan, we are very pleased to have you before us today and we appreciate the work you are doing to reorganize the Agency. I think many of us here will be supportive of your efforts.

FUNDING FOR MORE SUBSTANTIAL FOREIGN AID PROGRAMS

I first want to simply make a comment. You talk about some of the reorganization problems you confront and also at the same time talk about the possibility of increased funding. I know that the President has indicated that he wants to develop more substantial foreign aid programs, or, at least, he did several months ago.

It seems to me there is a relationship between those two, and from where I sit, at least, it looks to me as if your priority concentration ought to be first on the question of reorganization and second on the question of increased funding.

You will recall that we reduced the aid levels in the bill this year and I think there is a sense in the House that we really have to get these programs on track, reorganized, pared down, get our thinking a little clearer as to what we wish to accomplish before we begin authorizing more funds. It seems to me it is very important you concentrate on the reorganization proposals first and the funding levels second. I will go so far as to say if you don't do that you will run into serious difficulties in the Congress.

Mr. GILLIGAN. I hear you.

RELATIONSHIP OF SECURITY ASSISTANCE PROGRAMS TO DEVELOPMENT ASSISTANCE PROGRAMS

Mr. HAMILTON. Second, a more specific question. How do you think we ought to deal with the security supporting assistance programs? Are they really a part of our development assistance program? Should they be in the economic AID package or not?

Mr. GILLIGAN. Congressman, it both is and it is not. The basic motivation, as all of us recognize, for the security supporting assistance program which is today about twice the size of our regular development program, the basic motivation is political or strategic and the resource transfer is measured in terms of its ability to produce other kinds of results than economic, to keep an area tranquil, or to shore up a government under pressure, whatever it happens to be.

But the Congress has said to us in the Foreign Assistance Act that insofar as possible, once the program is adopted and once the resources are made available, insofar as possible they would like to see security supporting assistance programs carried out in a fashion to maximize the economic benefit, especially to the poor people in the recipient country.

I think there are limits as to how far we can go in that direction. At times the resource is so great that we as an agency would never come forward to the Congress and say we need this much money to carry out a kind of economic development program.

But I think at the same time it is the responsibility, should be the responsibility of the Departments of Defense and State to come before the Congress and justify the magnitude of the resources to be transferred, following which, if the request is made of us, as I am sure it will be by the Congress if nobody else, that if we do whatever possible to convert those resource programs into economic programs, we will do the best we can with it. As long as we get it on that basis, I think the security assistance program folks in the Foreign Assistance Act and this Agency is willing to carry out its portion of that responsibility. But we can't justify these programs in political terms, that has been our problem in the past.

PROBLEMS OF SECURITY SUPPORTING ASSISTANCE AND DEVELOPMENT
ASSISTANCE IN THE SAME COUNTRY

Mr. HAMILTON. What about security supporting assistance and development programs in the same country? Do you have any problems on that point?

Mr. GILLIGAN. Not specifically, so long as it is understood by the members of the committees in the Congress and by the people in the State Department as to which are apples and which are oranges. The real problem is when they start to get confused and the congressional apprehension of what is going on downtown.

COMPLAINTS ABOUT THE CIVIL SERVICE SYSTEM

Mr. HAMILTON. I noted your complaints about the Civil Service System and the burden on you as an Administrator. Is anything being done in the Civil Service Commission and among the administrators of government to try to permit managers to manage in governments today? Are we tackling that problem in any manner?

Mr. GILLIGAN. Yes, sir. Mr. Allen Campbell, Dean Allen Campbell, formerly of the Maxwell School at Syracuse University, he has launched a whole raft of studies into the kinds of things that might be done to change and modify existing regulations to permit, if you will, a higher and better degree of management to enter the situation. This will be, I think you also recognize, extraordinarily difficult but fundamentally necessary, not only for this Agency but every agency in the Federal Government.

Mr. HAMILTON. It is pervasive.

Thank you, Mr. Chairman.

Chairman ZABLOCKI. Mrs. Meyner.

Mr. MEYNER. Thank you, Mr. Chairman.

Governor Gilligan, I will join my other colleagues and say that many of us here in Congress are very pleased with the efforts you are making to improve the administration of AID and we understand that the problems are indeed enormous.

ROLE OF PRIVATE ORGANIZATIONS

I have been very supportive of the role of the private voluntary organizations in our aid program during my tenure here in Congress and I understand that the Brookings report will or has recommended

the establishment of a quasi-governmental foundation to channel our contributions to the PVO's in order to protect them from political interference. Do you think this idea has any merit or will it complicate the situation further?

Mr. GILLIGAN. I think it has some merit, Mrs. Meyner. I think like everything else one attempts in this area, they are tradeoffs, you win a little, lose a little. But the independent agency recommended by the Brookings study would have a couple of responsibilities; as a matter of fact, it would be to oversee all the research that is conducted by the Agency or virtually all of it as well as the operation of the private voluntary agencies.

Now, the operation of those private voluntary agencies is a very large part of our overseas activity.

Just a few years ago the amount of money handled by those private voluntary agencies approached \$1 billion. That is a lot of action. They do some things far better than any Government agency could do; at the same time, they are dealing with amounts of money of that magnitude, they require very close supervision by the Government agency responsible to the public and the Congress for those funds.

So I think the Brookings proposal deserves further examination and study and discussion and it may very well be that we would wind up with something like that.

DISPROPORTIONATE CONTRIBUTIONS TO PRIVATE VOLUNTARY ORGANIZATIONS

Mrs. MEYNER. It seems to me—I could be wrong—that our contribution to the PVO's have gone disproportionately to a few large private voluntary organizations when, as we know, there are some smaller PVO's with excellent track records and innovative approaches that are perhaps being neglected.

Is it your intention to examine distribution of our PVO contributions as part of your overall review?

Mr. GILLIGAN. Yes, this is in a sense the same question posed earlier by the chairman about how we award contracts and so on. It is easy to slide into a path of using the same organizations over and over until they become semiofficial. It is more difficult, and it does entail more risk on the part of the manufacturers, to try somebody new occasionally, but I think we need to do it in order to be sure that we are getting the best level of performance possible, so I think it is something we have to do even though from time to time it may entail some risk.

Mrs. MEYNER. Thank you.

Chairman ZABLOCKI. Mr. Bonker.

Mr. BONKER. Thank you, Mr. Chairman.

PEACE CORPS

I suppose one of the real problems is how one retains the vitality and commitment in an agency when it becomes so institutionalized and bureaucratized that it takes on a different mode altogether. One of our subcommittees has been conducting hearings on the Peace Corps. It was really an interesting expression of American commitment abroad. Especially during the Nixon years there was an attempt to deemphasize the organization by placing it under ACTION. Now, almost every-

body who has testified before that subcommittee has endorsed the notion that the Peace Corps has lost its vitality and its sense of direction.

I will be introducing a bill later this month that will make the Peace Corps a public corporation. I don't know if that is going to solve the problems that now face this particular organization, but you have made some statements before on the need to have AID personnel more directly involved with poor countries and a more basic commitment to the poor.

Do you think this is really possible if what you say about the Agency being overaged, overpaid, overranked and over here continues to be a basic characterization?

Mr. GILLIGAN. There constantly are comparisons offered between AID and the Peace Corps, but I think while useful, sometimes some important distinctions are overlooked.

Most of the people in the Peace Corps out in the field serve a 2-year assignment and then return to their civilian pursuits. Most of our people overseas are long-term career people now. You win a little, lose a little. You gain a great deal in the field by these people's knowledge, experience and dedication. I have met people who have served overseas for 18 or 20 years, served some of the predecessor agencies to AID. Their skills, their knowledge, their dedication are beyond challenge. Something you could not find in the Peace Corps because of the different organizational and different operational patterns that they follow.

At the same time you also tend to pick up people who have perhaps lost their enthusiasm and their interest and who are serving out their time waiting for retirement. To that degree the agency is burdened by such people. Or, for instance, you have people whose skills were more useful in a day in which we were doing different kinds of programs in Vietnam, Laos, and Cambodia 10 years ago. We are not now operating those programs and those skills are obsolete. We want to select out people whose skills and abilities are no longer of use to the Agency.

REMOVING POLITICAL OBJECTIVES FROM ASSISTANCE PROGRAMS

Mr. BONKER. We had a greater commitment to Southeast Asia during the years we were involved there; which raises a second point; that is, the possibility of removing political objectives from the program entirely. I am fascinated with the idea of developing an aid program to countries in Africa that would be completely removed from political alignments and objectives and would emphasize economic and humanitarian aid to those countries based on need and not on whether or not they are U.S. allies or adversaries.

Again, as long as AID is part of the State Department under the administration, I think it will be in effect an instrument of our policy—our established political objectives. The security supporting assistance effort is a new objective of the political part of those programs. If we were to have programs established by the United States not unlike what we do with the multinational lending institutions, then it would be based solely on need and not political objectives in those countries.

Mr. GILLIGAN. I don't think establishing a public corporation would achieve your goals and objectives. Essentially, and finally, the decision

as to which programs will be funded, and to what level they will be funded, that will be made in the Congress of the United States. There will never be a time that I can foresee that the Congress will act in these areas of overseas economic development without some concern for the political ramifications of the program.

Mr. BONKER. Is not the idea of supporting world lending institutions to take political considerations out of it?

Mr. GILLIGAN. And the reason the security assistance program is now tied in knots is because the House is unwilling to withdraw from all political situations even as they apply to international institutions. So that being the case, I find it very difficult to believe they would back off our own homegrown institutions.

Mr. BONKER. I guess Congress is a political institution.

No further questions.

Chairman ZABLOCKI. The House will look at that question today.

Mr. GILLIGAN. Yes, sir; I can hardly wait.

Chairman ZABLOCKI. We will very likely recommit the conference report with instructions.

Mr. Studds, the Chair wishes to apologize. I should have called you earlier. In compensation I will give you more time.

Mr. STUDDS. No apology necessary.

I am not sure what to do with a subject of this immensity in a few minutes.

Congressman Hamilton put his finger on the beast. One is the administration, with which you are wrestling. The other is the rationale and nature of the programs. I am beginning to think I am incapable of understanding either the administration of your beast or security supporting assistance.

Fifteen years ago when I was in the Foreign Service, I could not understand AID nor could I find anyone in the Department of State or AID who could and I gather there have been significant administrative changes and I don't understand those either. You are not a statutory agency. You exist under Executive order; is that correct?

Mr. GILLIGAN. Yes, sir.

RELATIONSHIP OF AID TO THE DEPARTMENT OF STATE

Mr. STUDDS. What is your formal relationship to the Department of State?

Mr. GILLIGAN. AID is established, as any agency in the Department of State, by Executive order, first signed by President Kennedy in 1961. It is charged with certain responsibilities pursuant to Department of State Delegation of Authority No. 104, as amended.

The Agency reports to the President through the Secretary of State. We have, therefore, submitted our budget proposals for fiscal 1979 to the Secretary of State for his review before they go on to OMB. Any other communications we carry on with the President are carried through the Secretary of State. There is a very close working relationship. We even occupy space in the State Department Building for most of our offices. There is that kind of close working relationship between our Agency and State which does not exist with any of the other agencies or departments of the Federal Government.

Mr. STUDDS. Are you directly responsible to the Secretary or to the President?

Mr. GILLIGAN. The delegation of authority implies that I report to the President through the Secretary of State. The law, section 622 of the Foreign Assistance Act, requires the Secretary of State to coordinate all U.S. economic assistance. Now, you can put your own interpretation on it.

INFLUENCE OF THE SECRETARY OF STATE ON AID DECISIONMAKING

Mr. STUDDS. Does the Secretary of State or any of his minions involve themselves in decisionmaking with respect to your Agency, or do they simply serve as a conduit to get your paper to the White House?

Mr. GILLIGAN. No, sir, their opinions and attitudes influence our policies. We have made an effort in the past 6 or 7 months to advance our own criteria for program funding levels, and so forth and so on, dealing in the terms the Congress has laid upon us in the Foreign Assistance Act and in effect telling our colleagues and friends in the State Department that there are certain things which were done in the past using AID funds which are no longer possible because of the clearly expressed will of the Congress. We have made such decisions stick.

Mr. STUDDS. So you are sort of independent?

Mr. GILLIGAN. Sort of.

CLASSIFICATION OF AID PERSONNEL

Mr. STUDDS. As I recall 15 years ago, most of the personnel at AID when originally created were Foreign Service staff officers or Foreign Service Reserve officers. What are they now?

Mr. GILLIGAN. Something like 40 percent of our total complement are Foreign Service Reserve; they are not the same as the Foreign Service of the State Department, but it is a Foreign Service operation; that is, here in Washington. All our people overseas are Foreign Service Reserve people. The rest of them, GS, Civil Service people here in Washington.

Mr. STUDDS. Is it still the case, as it used to be, that Foreign Service assignments are temporary, it is not a career level as Foreign Service appointments are?

Mr. GILLIGAN. We have FSRL's. That means a limited period. When the "L" is removed, he has certain rights.

Mr. STUDDS. Is your FSR non-"L" a main Foreign Service career person? Does that follow 8 through 1 at the same pay levels?

Mr. GILLIGAN. Yes, sir.

Mr. STUDDS. You have essentially the same animals with different titles?

Mr. GILLIGAN. Yes, sir.

PROCEDURES FOR ENTERING THE FOREIGN SERVICE RESERVE

Mr. STUDDS. What is the entrance procedure to become an FSR? Is it the same set as to become an FSO?

Mr. GILLIGAN. Not the same. For example, we have a program where we take in a number of interns every year. Sometimes when we are lucky and have the operating money to do it, two classes a year of 35 or 50. We have as many as 5,000 applicants for those slots.

Mr. STUDDS. These are people applying for AID as opposed to the State Department?

Mr. GILLIGAN. Yes.

Mr. STUDDS. You have your own set of unique requirements?

Mr. GILLIGAN. For this program there is a 2-year probationary period of on-the-job training.

Mr. STUDDS. How long has that been the case?

Mr. GILLIGAN. Eight or ten years, I think.

Mr. STUDDS. I assume you still have a large proportion of your people who did not enter that way?

Mr. GILLIGAN. Yes, sir.

Mr. STUDDS. They become FSR non-"L" in an administration fashion?

Mr. GILLIGAN. Yes, sir.

Mr. STUDDS. Do you have any idea how it breaks between people entering in a competitive fashion in the beginning and people who were there and have sort of become part of the structure?

Mr. GILLIGAN. No; I do not, but I think we could probably track it out for you and get you a response.

[The information supplied by AID follows:]

Requirements for AID Foreign Service personnel are met from a variety of sources. These sources include civil service employees within AID and other federal agencies, including the Peace Corps, from colleges and universities, and from private organizations.

The Foreign Service of AID is an excepted service; i.e., excepted from the competitive civil service procedures and regulations.

The processes for entry into the AID Foreign Service, however, are competitive in nature. The Agency has established qualifications criteria against which candidates are measured and evaluated and Selection Panels, consisting of experienced professional employees, review and evaluate applications and conduct interviews in order to select the best qualified candidates. Selected candidates serve under time-limited appointments until converted to Foreign Service appointments or terminated. Such conversion is made under specific criteria, which include requirements for effective performance.

During the last few years a significant proportion of our new appointments to the Foreign Service have been through the International Development Intern program. This program, highly competitive and selective, has resulted in bringing in over half of our new Foreign Service appointments during the fiscal year 1975-77 period. These interns are, similar to other Foreign Service new hires, given initial time-limited (FSRL) appointments, and are converted to career FSR status after meeting regular criteria for conversion.

Mr. STUDDS. I know those are detailed questions. As I say, the only thing that is clear to me is why I was confused. It is an unusual beast. You have a mixture of problems, I think, that are greater than someone dealing with the Civil Service.

Mr. GILLIGAN. Yes, sir, we do.

RELATIONSHIP OF SECURITY SUPPORTING ASSISTANCE PROGRAM TO AID

Mr. STUDDS. Security supporting assistance, I think we talked about this once before when you were here. In many ways, at least in the earlier days of the program, it has seemed to me to constitute a

euphemism for military assistance or at least a means whereby we can quite intentionally free up local resources in the recipient country for military expenditures by doing other things that otherwise they would have to do themselves. It is, as you have said and is known, essentially a political as opposed to a developmental program.

How do you view it in the broadest sense of the word? What in the world is it doing in the same legislation and same agency when its objectives are so different? I know you have been asked that question before, but I would like to phrase it in the broadest possible way. It bothers me a great deal. I don't know what to make of it. I don't think anybody knows what security supporting assistance means. You are as apt to have a general testifying on that as you are someone from AID or the Department of State. It seems to be an ill-defined animal, I expect intentionally.

Mr. GILLIGAN. As I tried to say earlier, the basic motivation underlying the security supporting assistance program is military or strategic. In that sense you will hear from time to time from the State Department as to why certain resources of a certain magnitude ought to be transferred to some foreign country to persuade them to do something—to rent a base, for instance—to conclude a treaty, to keep peace, to do a lot of other things we think are good and necessary to do.

Our agency becomes involved only when, at the direction of the Congress—if it were just a check-writing operation, if Congress simply agreed that amount of money ought to go to that country for that period of time and somebody in the State Department or Defense program wrote out a check, we would not get involved. Only to the degree Congress said we want as much of this money converted into economic developments as possible do we get involved. It is a mixed bag.

Yes, because the underlying motives are different and it will remain so. The programs vary widely. You are perfectly correct when you say in some instances the transfer of sums frees up money in those countries to be spent for other programs that are not development, military or whatever. That is a fact of life and is the cause of real concern to us.

Mr. STODDS. Thank you.

My time is up.

Thank you and good luck.

Chairman ZABLOCKI. Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman.

I would like to welcome again my good friend John Gilligan to our committee.

TIMETABLE FOR FINAL ACCOMPLISHMENT OF AID REORGANIZATION

I was interested in Lee Hamilton's comment before that you had found a good deal of support in Congress for your efforts to reorganize AID. I think that is true. I must say I have some worries about how that is going to turn out, and it really goes to the complexity of the task and to the time that has been taken so far. It has been 9 months since the new administration has been in.

You have cited the many difficulties, and throughout your presentation you use phrases like "while we want to put more people in the

field" and that leads me to suspect it will be a while before you do put more people in the field.

I guess I see a worry about this stretching out over a long period of time, and the effort to reorganize running out of steam down the road and cut off at some uncompleted state.

My question is, what timetable do you see for the final accomplishment of your reorganization goals and what is the likelihood that you and your colleagues will be able to stick with your determination and to see it to conclusion?

Mr. GILLIGAN. Our timetable, Congressman, is to achieve everything achievable in the way of this reorganization within the fiscal year 1978, but a second point is that the bulk of it, at least so far as it applies to personnel, will have to be accomplished in the first 6 months of fiscal year 1978 because after that point it costs more to get rid of an employee than it does to keep him on the payroll. It is one of the economic disincentives built into the system which makes it very difficult to deal with. Beyond that I know that we are never going to be able to get the support and the funding from the Congress that we need to carry out the programs in the field until this agency is able to come back before this committee and the other committees of the Congress that are concerned with our activities and to show them in black and white exactly what we have done and exactly what has been achieved and exactly why our situation is better than it was and why we deserve to get the kind of funding we need in order to implement our program. That is why we are not going to lose interest, because until we can pursue to the bitter end these reorganization efforts we are going to be hamstrung by the kind of operating strait-jacket in which this Agency presently exists.

Mr. PEASE. I am interested still in your view of when the bitter end will come. You mention you would like to accomplish everything achievable, to use your words, in fiscal 1978. Obviously you won't be able to make all the personnel changes you want in the first 6 months. When will you be able to complete, in your view, the final reorganization?

Mr. GILLIGAN. If we get the Agency trimmed down to what it ought to be in the first 6 months, I would look forward in the second 6 months to some liberalization in the operating expense accounts which might enable us to start bringing aboard some of the talents we need to manage these new programs in the field and to do a better job. So one blends right into the other. But a year from today, if we have not for all practical purposes done the job, I will be ready to throw in the towel and say we failed.

CUTBACK OF AID PERSONNEL

Mr. PEASE. In terms of trying to put more people in the field, you pointed out it costs three to four times as much to maintain a person in the field as in Washington. Your view is that you have more people than you need in Washington. If there are a thousand people too many in Washington, what objection is there to putting 250 or 350 more people in the field?

Mr. GILLIGAN. The numbers are not quite that large. I would say we could get along, I believe, with maybe 400 less people than we have

at the present time in Washington. The point is if we simply announce we are going to get rid of 400 people, as I said earlier, the civil service procedures take over and grind out automatically so you would lose all the young people.

Let me give a quick example of what that might mean in terms of equal employment opportunities, in terms of being able to retain the skills of the young interns whom we have brought through the process of training for field assignments and so forth. They would be the first to go, minorities, women, and so forth, under the procedures of the civil service and you might wind up with an agency employment profile even more distressing than the one we look at today in terms of age, rank, pay scale, and so forth. So to bring aboard, retain and develop the skills needed for this program is a much more difficult, long-term punishing process, but that is the one we have to go through in my opinion.

Mr. PEASE. Thank you very much.

Chairman ZABLOCKI. Mr. Beilenson.

Mr. BEILENSEN. No questions, Mr. Chairman.

MULTIYEAR AUTHORIZATION

Chairman ZABLOCKI. I had expected one of my colleagues to deal with the question of multiyear authorization. I understand some people in AID are proposing a 3-year authorization. If my memory serves me correctly, you mentioned a 4-year program.

How is a 3-year or 4-year authorization practical? There are hundreds of funding changes from the time of the congressional presentation for a 1-year program and the time of the implementation of those projects. How can the Agency make even half accurate allocations of funding levels in countries in project programs for 3 years in advance? I am saying you are going to have a heck of a time selling that 3-year program.

Mr. GILLIGAN. I appreciate the reluctance of the committee to talk in longer terms than, say, a 2-year authorization. If that is to be your ultimate judgment, we will live with it.

I think the rationale behind the longer authorization exists essentially in the fact that the kind of economic development programs in which we are presently involved are long-term propositions and we have to have, I believe, the ability to go to the recipient countries and to go to our other donor nations in such organizations and DAC and be able to say the United States is committed at this level or organization over this period of time and, therefore, you can have a certain confidence we are going to be there over the long pull and be there in support of these necessarily long-range programs.

Now, one does not necessarily involve the other. I suppose that we can make this kind of rhetorical pledge saying we are going to be with you, we will hang in there and these are the levels of efforts which we are going to operate. But it would assist us, I believe, greatly and it would encourage people of the recipient nations and some of the other donor nations if we make longer term commitments than the ones we do now.

Now, obviously, that does not mean every project because, as you correctly point out, those switch in turn, but in broad terminology and

broad concept, the longer the commitment we can make, the better off it is for us.

Chairman ZABLOCKI. Governor, you have been one of us and I am sure you have not forgotten how Congress operates. We have a political problem if we come in with a several billion dollar, multiyear authorization. Isn't it better to authorize on an annual or 2-year plan with a lesser figure? Certainly a 4-year program will be debated on the floor of the House. Isn't it more advantageous to have a comfortable support rather than a bare majority.

Mr. GILLIGAN. I would say that would certainly be the way we would want to go.

I would point out one other thing. Under the Budget Reform Act the agencies of the executive arm of the Government are required to project their programmatic figures for 4 to 5 years anyway, so in a sense we get the worst of both worlds. People can look down the road and see where we intend to go, but we only get a piece of it at a time. However, I think we can live with it and we will. If it is a 2-year appropriation we will do our best with it.

Chairman ZABLOCKI. It is comforting to know that you are fully expectant of the results in advance.

ESTABLISHING AID AS A STATUTORY AGENCY

It was mentioned that you now operate under Executive order. Do you see any benefit to establishing AID as a statutory agency rather than continuing its existence under Executive order?

Mr. GILLIGAN. Yes, sir, I do and I think the Congress might very well consider doing just exactly that, to give the Agency and its program some greater degree of permanence, even at the time that President Kennedy was in office and brought that Agency into being, I think there was abroad in the land a feeling that maybe these activities in foreign economic development might have to go on for a few years, but then they would all be behind us and all our problems would be solved.

I think it is abundantly clear by now the United States and other industrialized nations are going to have to be involved on a massive scale in the areas of foreign economic developments for 25 or 50 years. We might as well recognize that institutionally by setting up the structures in our Government to carry out such programs over that span of time.

Chairman ZABLOCKI. Of course, you realize some in Congress feel that in 20 or 30 years we will need an aid program in this country.

Mr. GILLIGAN. I can believe it.

AID REVIEW AND EVALUATION OF ITS PROGRAMS

Chairman ZABLOCKI. On another subject, do you think AID effectively uses its research capabilities to evaluate its programs? What has AID research done in-house and with outside consultant groups?

Mr. GILLIGAN. In answer to the first question, if I understand it correctly, our ability to evaluate our own programs seems to me inadequate and it is one of the things that we are attempting to come to grips within terms of this reorganizational effort.

It is due to a lot of factors. It is due to the fact so much time in the Agency is spent in designing and implementing new programs that we fail adequately, it seems to me, to go back and review the real results of older programs and come to some determinations as to whether they were well done, whether they reached their objectives and so forth and so on. That is going to be beefed up considerably.

In terms of research, the great bulk, the vast bulk of the research is done under contract by outside agencies and individuals. Relatively little is done in-house. I can get you the specific figures if you would like.

[The information follows:]

AID RESEARCH PROGRAM

In fiscal year 1978, the proposed Research Program to be carried out by U.S. Universities, other Government agencies and private institutions, is \$28.2 million, including \$8.1 million in Food and Nutrition, \$11.1 million in Population Planning, \$2.6 million in Health, \$1.3 million in Education and Human Resources Development, and \$5.1 million in Selected Development Activities. In addition, AID proposes to provide in fiscal year 1978 \$24 million for the contributions to the International Agricultural Research Centers and \$6 million for Collaborative Research Grants under Title XII.

Chairman ZABLOCKI. That would be very helpful.

COMPETITIVE BIDDING FOR AID CONTRACTS

Governor, you mentioned contracts again. You have announced you are tightening procedures to rely more extensively on competitive bidding for AID contracts. What percentage of AID contracts are currently let out on a competitive bidding basis?

Mr. GILLIGAN. I prefer to get the factual answer in writing, Mr. Chairman, but a relatively small percentage of our contract work now is let by competitive bids. That is as opposed to procurement in terms of supply and so forth, that is virtually all by competitive bid. But in terms of contract, work, very little of it in recent years has been by competitive bidding.

Chairman ZABLOCKI. It is also my understanding that if you are going to competitive bidding a much longer leadtime will have to be built into the project planning to allow for this kind of bidding. How much leadtime do you anticipate will be necessary?

Mr. GILLIGAN. I have heard objections raised to the competitive bidding proposal and I don't believe that it will extend very greatly any of the project time or the project preparation time. I think very frequently such arguments are advanced simply to avoid going through the procedure. I don't think it is a substantive objective.

Chairman ZABLOCKI. Thank you very much.

Any further questions I will send you to supply answers for the record.

Although this is an informal meeting, not a hearing, we appreciate it. I look upon this meeting as AID seeking the advice and counsel of Congress. I hope you have read us well on some of our points.

Mr. GILLIGAN. I hope so. I will be back from time to time to advise you further where we are going.

Chairman ZABLOCKI. Mr. Cavanaugh.

Mr. CAVANAUGH. Thank you.

No questions, Mr. Chairman.

Chairman ZABLOCKI. Thank you. My colleagues and I all wish you well.

Mr. GILLIGAN. Thank you.

Chairman ZABLOCKI. The committee stands adjourned, subject to the call of the Chair.

[Whereupon, at 11 :53 a.m., the committee adjourned, subject to the call of the Chair.]

RETHINKING U.S. FOREIGN POLICY TOWARD THE DEVELOPING WORLD

The Brookings Institution Report

TUESDAY, NOVEMBER 1, 1977

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT,
Washington, D.C.

The subcommittee met at 2 p.m., in room 2255, Rayburn House Office Building, Hon. Michael Harrington (chairman of the subcommittee) presiding.

Mr. HARRINGTON. If we could, Mr. Gordon and those here in attendance, I would like to start now. I have indicated, in a private conversation, that in addition to having 14 suspensions, which are likely to frustrate the most patient of participants, once that process of voting begins, there is another meeting at 3 p.m., at which I have to be.

I would like to give you as much uninterrupted time as possible in discussing the report you have recently authored for the Brookings Institution. The report joins those prepared by John Gilligan and others within the administration concerned with the direction and structure of AID. This general review of our foreign aid program has been undertaken in response to statements made earlier this year by the President, which indicate his interest in rethinking and expanding foreign assistance during his administration.

I would like you to proceed, Mr. Gordon, in any fashion useful to you, either using the text you have provided us or summarizing it in any way you feel is useful. Your prepared statement will be made part of the record.

Mr. Winn and I are here and we hope to be joined by others of the subcommittee but I think you can appreciate we have been formally adjourned for the year and it will be difficult to insure a wide audience.

STATEMENT OF LESTER E. GORDON, DIRECTOR, HARVARD INSTITUTE FOR INTERNATIONAL DEVELOPMENT, CAMBRIDGE, MASS.

Mr. GORDON. I will not read my statement but I will explain that the statement is a condensation of what is a condensation of a report that has not yet been published. This interim report is available, and the limit on the copies, I think, is simply the amount of times the State Department and Brookings want to run a copy machine.

This report was an interim report, hurried up, so to speak, to meet the executive branch's need so that it would hit the executive branch roughly simultaneously with the completion of its own internal study.

We are readying for consideration by Brookings, hopefully, a published document which will have about nine chapters. What you see here is the interim report which will be, effectively, the summary.

Mr. HARRINGTON. When do you expect to have that done?

Mr. GORDON. Although Brookings has to make an independent decision, I suspect it will be available early in the year. As I say, I will touch on my statement, on the assumption that the statement will be in the record. I will not read it.

Let me address just a few things that I tried to stress in this brief statement. Our scope was a very particular one. We were asked by the executive branch to discuss and recommend all alternative development assistance strategies for the foreseeable future. It was that broad.

Consequently, the scope of our concerns was not with the full range of relationships with developing countries, nor with the full range of economic activity. We did focus on development assistance, which I define in the paper.

We did find, however, as one might expect, that one really cannot even focus on development assistance without thinking about its relationship to other instruments available to the U.S. Government which led us to one of the conclusions I will mention in a few moments.

I stress the conclusions that I do in the summary statement, partly because the press reports, such as they have been, have stressed somewhat, I think, inaccurately another aspect of the report, the recent headline that the Brookings study recommends abolition of AID really does not represent accurately the thrust of the report.

While reconstitution might have been a better word, I can realize why a newspaper headline writer might have found abolition more palatable, in addition to the fact that it is shorter.

In order to understand what we mean by reconstitution of AID, one has to consider the whole framework of the report. One realizes that even that reconstitution is one part of a much larger picture.

Our basic recommendation, which I mentioned in this statement, is one from which all the others tend to flow. That recommendation is that we believe that this country has now reached the time where it is in its own interest to join other donor nations in a major longrange commitment to help reduce or make a major advance against the worst aspects of poverty in the poor countries.

There is one thing in this report I do not stress in my statement that I should here: it is very important to the whole report. When we talked about development assistance, we are talking about so-called concessional aid. We are not talking about the loans made by international financial institutions, which we support, such as the World Bank, or near market terms.

We are talking about, in effect, subsidized aid, aid at less than market terms.

We took the very strong position that this aid should be focused exclusively on the poor countries for two reasons. One, no matter how large it becomes, within some realistic range of possibility, it is always going to be short, so it will have to be rationed.

Rationing, for those who need it most, seems to be sensible, but even more important than that, we believe that a principle for administering this kind of aid, has developed over time, which ought to be continued.

That is, one of the purposes of this kind of aid is to, among other things, help countries get to the point where they will no longer need it. Therefore, once a country, which has received concessional aid gets to the point where it can continue to grow with its trade, with private investment, with resort to the hard loan, the international institutions, it ought to be encouraged to do so and we should not provide a disincentive to do so by continuing concessional aid.

There are those who would argue that is all very well but if our concern is with poor people, there are substantial numbers of poor people in some of the what we might call middle income countries, those who have already graduated from concessional aid. Brazil might be an example.

Our response to that is the observation is certainly correct, but given the amount of concessional aid that is likely to be available, and given the reasons those poor people exist in those countries, a certain amount of concessional aid to large, relatively wealthy countries, such as that, is unlikely to do very much.

Furthermore, if it becomes very substantial, it is likely to discourage the kind of economic policies which would enable it to survive on its own. So we would, and did, urge a rather hard line on this policy.

One of the recommendations that we thought was quite important was the one which suggested that there be established what we call an international development foundation. This has not been discussed very much, but taking the long look at the problem, I personally tend to think that the problem it is intended to address, namely technological collaboration with the poorer countries over the next 2½ decades, may involve the most important kind of collaboration of contribution and development, on their part, that one can think of.

In many cases, it will be as important as the natural resources that are available. When we think of research and development and research, I know, and justifiably, there is skepticism in many parts of the country and in many parts of the Congress about using Government funds for research. It doesn't have a clear-cut payout; in fact, the payout is often unknown.

Some of the problems addressed are kind of strange but the fact remains, we, as a nation, spend a lot on research and development. When one looks around the world at the total amount that is spent outside of the Communist countries, I don't have the figures, of course it runs into billions, but 98 percent of it is in the industrialized countries and 2 percent in the less developed countries.

The consequence is obvious. Most of the research is done on rich country problems. One of the things we have discovered is that, while a lot of the technology we have is certainly useful in manufacturing and so forth, increasingly we are discovering that substantial amounts of it are inappropriate and there are substantial amounts of technology for certain kinds of problems which simply do not exist in less developed countries.

Looking, first, at the inappropriate part of it, the fact remains, and it irks a lot of us, because it means that goods can be produced

more cheaply in less developed countries but the fact remains that labor, in strict and sensible economic terms, is cheaper in less developed countries.

In short, the endowment of labor as compared to capital, is more abundant so it really does not make much sense, in strict economic efficiency terms, for these countries to adopt highly capital intensive activity when it has so much cheap labor.

Since a lot of our technology essentially is so capital intensive, so much of it is inappropriate for these countries. There is a constant search, even by multinational corporations, when they go into less developed countries, for, if not the invention of more labor intensive technology, the adaptation of the technology they do have in local conditions.

There are a lot of studies, for example, Korea, Taiwan, Mexico, of companies which have moved to these locales and have had to use the equipment they have used traditionally but have adapted, so that more labor is used.

For example, they may use the same machines but they will not use the movement, the mechanisms, the machines that move goods or inputs from one machine to another. They will just have people carrying them.

The inappropriateness of a lot of our technology shows up particularly on the farm where tractorization tends to lead to higher priced products and to a great deal of unemployment. This is a long story and I will not get into it but let me say that is one reason.

A second reason is that increasingly, and again, agriculture is a good example. They are encountering real technological barriers, problems that have to be broken if there is going to be an increase in productivity in food.

The recent world food and nutrition study, of the National Academy of Sciences, has a whole array of examples along these lines. For example, we have seen, starting in Mexico, with the Rockefeller Foundation's support in the fifties, an effort to develop a new kind of wheat strain, with which you are all familiar, that would be more productive in an environment which did not have very productive wheat strains.

They succeeded and this was extended to the Philippines. Now it is very much in fashion and, in fact, the AID agency is supporting it, to support crop, essentially, seed experimentation stations for new crops, new seeds, and for old crops in Africa, Latin America and other parts of Asia. That is one example.

That kind of activity is going on but there are many other kinds of activity not going on. For example, the major problem is the growing cost of fertilizer. The National Academy estimates that, given food requirements, at the end of the century, some substitute for chemical fertilizer will have to be found if food needs are to be met, not only in the United States and less developed countries.

In effect, there is a much more basic kind of research needed. This is one of those areas where we have a mutuality of interests. There are many that can be cited. What is needed, they feel, is some very basic research of a genetic kind, which will make possible the biological fixation of nitrogen by the plant itself.

One can cite a whole range of technological questions. We feel it is terribly important for the reasons that I mentioned earlier in my paper, having to do with the importance of these countries to us, that we help the less developed countries improve their capability for performing R. & D. on their own problems.

This means very frequently, and mostly, having the R. & D. done in those locales because their conditions are quite different from ours and quite different from each other, in many cases. For a time, and a long time, they will need our help to, in effect, establish their R. & D. institutions.

One of the problems we observe is, over the years, there has been a tension in the AID agencies between two separate missions. One mission is to get the job done and to get quick results. The other, essentially, is to try to understand what will work and what will not work, what the problems are.

The pressures, invariably, are biased in the form of direction, and, as a result, while we have seen an increase, I gather, in very recent years, in the amount of funds spent on research, essentially, it is—a lot of it is in limited areas, where people are excited about the immediate problem or by recent success.

I cite, as an example, population and crop research, which I have talked about. We do not see a strong focus on developing institutions in the less developed countries with local personnel capable of carrying on their own R. & D. in the future.

Another thing that has happened is the base in this country, which is really a vast one, when you think about it, available for this kind of technological collaboration has never been fully exploited.

This has to do with both the contracting practices of the AID agency, but more than that, it has to do with the bias toward getting the immediate job done. There are a lot of resources in the executive branch for example, whether HEW or Agriculture, which could be turned in this direction.

One of the problems in turning people in this direction is you cannot send people into this field for 2 years and expect them to accomplish something. What is really required is not only a high level of technical expertise, but a keen sensitivity to what local problems are, because adaptation and technology are equal parts of the problems.

Some long-term exposure and institutional commitment, whether it is for an agricultural service in the USDA or some part of HEW, or a private university, whatever, these kinds of bases are required.

That is a very short description of a very big problem and we felt, given the problems that have existed, and given—one other problem I ought to mention is a quasi-autonomous, you might say, Government foundation focusing on the establishment of R. & D. institutions abroad should be established.

The other problem I want to mention, to which the foundation would be directed, is the problem of what happens in our collaboration with countries once they graduate from the concessional aid program, and many have.

It is our feeling that, and we can go into this, it is in our interests to maintain some kind of technological collaboration with the countries that want it. In order to do this, we need a mechanism that is

technically qualified and able to help them link up with U.S. technological bases.

Frequently, this will be on a reimbursable basis or a cost-sharing basis, depending upon how much it is in our interest. We can see this aspect of a foundation's activity being very long lasting and, in the very long range U.S. interest with these graduated countries.

I have gone too long on that point. Let me just mention a few other points quickly.

I mentioned briefly, in the beginning of my remarks that we realize that while our focus is on development aid, one could not discuss it outside the context overall of the economic policy instruments the United States has at its disposal for dealing with the less developed countries.

As we looked at all of these instruments, we were struck, as many others have been struck, with the fact that responsibility for them is spread throughout the Government, even with concessional aid responsibilities spread throughout the Government, despite efforts in the legislation to provide mechanisms for pulling things together.

AID really handles development grants and loans. It administers security supporting assistance but is not really the decisionmaking body, when push comes to shove. On that kind of activity, Public Law 480, is effectively controlled by the Department of Agriculture's contribution to soft loan lenders.

The international agencies are controlled, basically, by the Treasury Department. Then, when one leaves AID, the contribution to the hard loan lenders of the international institutions are, of course, controlled by Treasury. The Office of the Special Trade Representative handles the trade policy; commodity policy, in the State Department, and on, and on, and on.

Every one of these impacts in some significant sense, but in different ways and different, less-developed countries. The question, simply put, is does the left hand always know what the right hand is doing?

We think there ought to be some way, not of concentrating decision-making powers on all of these issues in one spot, but of orchestrating things a little better.

We looked at a number of options; where should some kind of coordinating force be? We looked within the State Department. One wild thought was a department that oversees development. We did not think the executive branch of the Congress was ready for that, if ever they will be, and I am not sure it is a good idea, even if they were.

The Treasury Department has its flaws and we finally concluded that an appropriate spot would be the Executive Office of the President. We thought of the Office of Development Policy, with a director who would have sufficient status, more say, than the present Development Coordination Committee, which is established by legislation.

He would have a range of powers, each with somewhat different force. With respect to concessional aid, he would, along with the Office of Management and Budget, have some say in recommendations to the President. That would be his clearest-cut power.

With respect to tariff policy and commodity policy, it would be made clear that he is to have a voice when decisions are being made. With respect to Public Law 480, "Surplus Foods", it may well be this is one

area where he could really coordinate, where interagency coordination by a third party seems, in our judgment, most clearly called for.

With respect to financing by international institutions, there may well be some division of function that ought to be thought about, say, with respect to the World Bank and the Inter-American Bank.

One has to acknowledge, it seems to me, that the Treasury Department has a legitimate and important interest, a primary interest, in matters other than the impact of these appropriations or guarantee levels of these institutions in less developed countries. It would be derelict if it did not consider the impact on U.S. dollars or the U.S. monetary system as primary.

The question is, where is the voice in these deliberations that says, well, we must factor in this kind of impact on less developed countries. We think an office of development policy, which would be very small and full of high-power professionals, which could pull its information analysis from all parts of the Government, could be such a voice in such matters.

I realize, as I say, this is not a determinant solution to a very difficult problem. Perhaps it is the least bad of many.

Finally, and I am going on too long, I would simply like to stress our view, which we heard echoed by a number of Members of the House and Senate to whom we talked, that perhaps the time has come to revise the foreign economic assistance legislation. I am not quite sure how many pages the legislation encompasses.

Our report says 100. I counted 185. I just read a document that said 133, but it is certainly more than the 2-page order and council that the Canadians have for a program roughly comparable to our development and loans program, roughly \$1 billion.

Let me conclude at this point. I hope you have had a chance to glance at the statement and I would be glad to answer your questions.

[Mr. Gordon's prepared statement follows:]

PREPARED STATEMENT OF LESTER E. GORDON, DIRECTOR, HARVARD INSTITUTE FOR INTERNATIONAL DEVELOPMENT, CAMBRIDGE, MASS.

I welcome the opportunity you afford me today to clarify the report by the Brookings Institution entitled "An Assessment of Development Assistance Strategies." An interim version of that report was delivered to the Executive Branch on October 6 in accordance with the terms of a grant from the Department of State. As the principal investigator of the study, I am responsible for the interim report; its views should not be attributed to the trustees, officers and other staff members of the Brookings Institution.

Let me try to summarize briefly what is itself a fifty-three page summary and then turn to a few of the report's recommendations which my colleagues and I regard as particularly important. I should note at the outset that our charter was to study development assistance. We therefore looked primarily at economic aid falling within the Development Assistance Committee's (DAC's) definition of Official Development Assistance (ODA): Development Loans and Grants, Public Law 480, Supporting Assistance, and contributions to the "soft-loan" windows of multilateral finance institutions. Since we were asked to look at strategies, we concerned ourselves with major policy, procedural and organizational issues.

Our examination of almost a generation of such assistance and where it has brought us led to our major conclusion: That the United States should now make a long-term commitment to help the developing countries achieve a major advance against the worst aspects of poverty by the end of this century.

Our look at recent history yielded the following conclusions:

1. Development has worked, in the sense that aggregate economic growth in the developing countries since 1950 has been the highest in recorded history, even

when compared to the developed countries during the same period or at the beginning of the Industrial Revolution.

2. Economic assistance was an important ingredient in this record.

3. Poverty remains widespread. More than 700 million people still live in absolute poverty, most of them in the 57 poorest countries having a per capita annual income below \$520.

4. Diversity has become so widespread that the label "developing" no longer describes, if ever it did, a homogeneous income group. The progress of many countries has led to their graduation from concessional aid. Further progress by the graduates depends, among other things, on their capacity to expand exports, attract private capital and obtain credit on market or near-market terms.

5. Development occurs over many decades. The countries that were relatively well off in 1950 generally grew more rapidly; they had already installed the requisite base of institutions, technology, skills, and policies on which to build. We now face many poor countries that are still building that base.

6. The process of development requires the continuous development of new knowledge. This ingredient of development has been perhaps the least recognized and least supported in the history of development assistance programs. There remains a large and continuing need for research and development on technology and related institutions directed to particular conditions in developing countries.

7. While growth has been reasonably well served, basic human needs have not. It should now be possible, without sacrificing growth, to serve the needs of the poor majority better than in the past.

8. Nationalism is a growing force which we can ignore only at very high cost. As development becomes the centerpiece of nationalistic politics in the developing nations, the style of our assistance organizations must be adjusted. A posture which appears to be interventionist will be increasingly unwise.

9. Decisions on development should not be based on their imagined impact on negotiations related to the New International Economic Order because it is not clear what their impact will be.

10. Human rights and basic human needs are not only related but in some cases might be in competition with each other. Both must be given weight in the allocation of development aid.

11. Alleviating poverty among the poor majority in the developing world is in the U.S. interest for economic reasons, because of increasing interdependence with respect to numerous social problems, because of a growing imperative to arrange for the orderly use of the global commons and for reasons of simple morality.

To carry out the major commitment we recommend, a substantial increase in financing and more effective programs will be required. We estimate that an approximate doubling of all economic aid by 1982 would, with appropriate self-help by the poor countries, make possible a modest rate of per capita growth, make significant inroads on basic human needs and be within their capacity to absorb. I should note that a doubling overall of development aid, in our view, should entail a doubling roughly of our contributions to the soft-loan windows of international financial institutions and of Public Law 480 surplus foods, a slight reduction in real terms of Security Supporting Assistance and a rise by about two and a half times of the Development Loans and Grants now administered by AID.

Most of our report, however, deals with ways to make development aid more effective. Our concern is with policies, procedures and organizations. Because twenty-nine separate recommendations are involved I cannot discuss all of them in a brief statement. What I should like to address instead are five areas of concern which have not been stressed in press reports of the study but to which we attach some importance.

First, we recommend the establishment of an International Development Foundation. Its purpose would be to help expand knowledge for development by establishing and strengthening research and development and training capabilities in the developing nations. It would be an agency governed by a board with public and private members and its staff would be small and highly qualified. The Foundation would turn to qualified U.S. governmental and private organizations to carry out its assistance and other activities. Specifically, its functions would be the following:

1. It would serve as a central source of knowledge concerning research needs and priorities on selected development problems.

2. It would help to guide and support U.S. Government research facilities working on development problems.

3. It would strengthen the contribution of U.S. universities and private research and training facilities to the solution of key development problems.

4. It would help to build capacity in the developing countries for research, training and experimentation.

5. The Foundation would help to improve access to U.S. training and research facilities by developing nations.

6. The Foundation would support U.S. participation in international programs intended to develop new knowledge about development problems.

7. It would help public and private foundations and private and voluntary organizations to become more effective.

8. The Foundation's help would be available to all nations of the developing world, not just the poorest. The middle-income or high-income nations would share or fully reimburse costs. A government agency charged with maintaining such technological linkages after a nation has graduated from concessional aid would be very much in the U.S. interest. Increasingly, we find common problems calling for collaborative effort. The recent World Food and Nutrition Study of the National Academy of Sciences cites several examples in that field.

The reasons for assigning these responsibilities to a new agency are several. There is a tension in American aid agencies which goes back many years between officials committed to quick results and those concerned about our lack of knowledge for achieving such results. The former resist the use of resources for long-term and uncertain payoffs. Both orientations are needed, but the necessarily operational orientation of any agency such as AID discourages the long and deep look and risk-taking, yet unless this is done on an expanded scale we may find ourselves in such fields as food and health facing little-understood barriers to further progress in the very near future. We therefore feel that the development of new knowledge is not likely to be given the priority it deserves unless it becomes the responsibility of a separate organization.

A second organizational recommendation I would like to stress is the establishment of an Office of Development Policy in the Executive Office of the President. Concessional aid is only one of many instruments available to and used by the U.S. which affects the economic progress of the developing world. In addition, there are tariff, commodity, foreign investment policies; support of the "hard" loan windows of the international financial institutions; contributions to the United Nations; and international monetary policy. Responsibility for these activities is spread throughout the government. Even concessional aid is broken up among different agencies: AID, the Department of Agriculture, the Treasury Department and the Department of State. Nonetheless, all these activities are inter-related and their interaction shapes prospects for development. It follows that inconsistencies among them should be minimized, gaps avoided, competition repressed and a voice for development heard where it might be ignored. All should be treated, in short, as parts of a whole. Within the U.S. Government a focus and structure is needed. Within such a structure there could be control of some activities, a voice for greater attention to development with respect to others and a vehicle to bring together discussion and decision-making on all.

The jurisdiction of the Development Coordination Committee, established by legislation, is limited to development aid. Furthermore, the status of its principals seems to us to be insufficiently high in the hierarchy to bring about the coordination that seems necessary. We therefore analysed several options. Location of the responsibility in the Executive Office seems to us to offer the greatest prospect for success.

Another set of recommendations which I should like to stress relates to the implementation of the "New Directions" legislated by the Congress in 1973 and the effort to respond to basic human needs. We concluded that three problems have arisen which warrant correction.

The first is a tendency to equate these new and legitimate imperatives with an "anti-growth" policy. We believe that economic growth remains the underlying means by which satisfaction of human needs is made possible. Simply put, the problem is how large can and should assistance be for the direct provision of social services. We believe that their size should be limited by each country's capacity in the long run to generate the revenues needed to sustain them. That capacity will be largely the result of the productive activities that are initiated. While the expenditure for the direct provision of benefits to the poor can undoubtedly be expanded in many countries, we would urge that priority be given to the expansion of employment opportunities and the redirection of health, education and other social programs away from a high technology, urban and elite

orientation toward low cost service to the rural masses. The legislation seems to encourage both and we detect the presence of strong polar attitudes on this subject in the Congress and the Executive Branch.

A second problem we perceive is a tendency to carry out the mandate through projects which directly service the poor masses. The poor are a part of an interdependent economy. They depend on markets and roads to sell their products, on research to produce productive seeds and on fertilizer factories to increase their yields. An effective approach to basic human needs calls for flexible aid policies and instruments.

We also discovered a tendency to carry out the New Directions through small projects. Perhaps this is because of the emphasis on providing benefits to the poor directly. We see several dangers in this exaggerated response. Assistance becomes very labor intensive in terms of U.S. personnel, both in Washington and abroad. Since highly competent technical people are scarce, their impact is reduced.

Furthermore, local technicians have less reason to assume responsibility. As a consequence of the above, we have recommended that policies and legislative history be relaxed to permit support of sectoral or regional programs that promote growth with equity, greater reliance on local intermediaries for project identification and development and the support of projects which may benefit the poor indirectly as well as directly.

A final recommendation I should like to stress is that the existing foreign economic assistance legislation be rewritten. The more than 180 pages in which the legislation now reposes is the accretion of 16 years of annual additions—very little subtraction. The result, as you are well aware, is a stunningly complex document with a bewildering array of criteria for using money. The main beneficiaries are the lawyers. Simplification in the form of new legislation would not only permit the Congress to take a current look at provisions that may no longer be relevant, but it should also increase its control by resolving apparent inconsistencies.

New legislation could also afford an opportunity to consider certain of our other recommendations:

1. Replacement of AID with an agency of roughly similar function, but with more flexible personnel policies, greater distance from the State Department and a new name.

2. A revision of the Security Supporting Assistance authority to tighten the criteria under which it is administered and place its responsibility clearly on the Departments of State and Defense, as appropriate.

3. A revision of Public Law 480 authority so as to establish a clear development purpose for its use and encourage more collaborative effort between the Department of Agriculture and the aid agency in the preparation abroad and in Washington of new Food for Development Programs.

In an effort to condense what is already a condensed report, the foregoing will inevitably raise more questions than it answers. My only options are to refer to the full report and to respond today to any questions you might have.

Mr. WINN. Thank you, Mr. Chairman. Mr. Gordon, do you have a chance, in the upcoming report, to get into the political aspects of an international development foundation; what we might run into as far as the variation of political philosophies of other nations, compared to ours?

Mr. GORDON. I am not certain what you have in mind, Mr. Winn. Any different than the political problems we have with the current development program?

Mr. WINN. No. The same problems, but how do we break some of those barriers? You talk about technical barriers to break down. How do we break down political barriers we run into in some of the foreign countries we are trying to help?

Mr. GORDON. I see your question. It seems to me this problem has two aspects, one of which we will cover under the shorthand of human rights and another aspect which really deals with how the political structure of the countries, about which we are talking, are likely to respond to change in various countries.

I do not think there is any simple answer. I think we have to accept the fact that we are dealing with a wide range of countries with political systems, by and large, very different from ours.

The question is, in each particular case, whether the particular kinds of things we want to do, they are likely to be able to, and want to do politically over a period of time. It very much depends on the country and what we want them to do.

There is a tone, as well as some specific language in our report, which says, in the final analysis, what happens is what policy the country adopts. The clear implication—well, I might be able to find an explicit statement in some part of the report—is that where there is a policy environment, if it or when it is simply not conducive to the kind of growth with equity program we simply should lay back. This relates to the scale of what we are interested in doing, as well as the kinds of things we are interested in doing.

For an example, a country which has a set of economic policies which is not biased towards capital intensity, which may have a large landholding problem and is moving to, in effect, break up landholdings, or a lot of other things for the small farmer, this is—this kind of country, it seems to me, is the kind where we would do well to consider broad support of their activities, betting strongly on their policies and the direction in which they are going.

Another alternative, which I regret to say seems to characterize the approach for almost all countries now, is to lay back and handle individual projects at a time, making absolutely certain that each project is precisely going to fulfill a particular objective.

Some of the consequences of this I dwell on in my remarks and there is more of it in the report, but this is a very slow way of going. It is a very U.S. technician, labor-intensive way of going and it does not give the kind of support that a country pushing on all fronts could use effectively.

Rather, it is more appropriate in a case where we are really not sure and want to keep our eyes on a very narrow kind of thing.

Mr. WINN. How do we develop a true understanding of all of the different political philosophies? I keep in mind a program a few years ago where the one Asian country wanted help on agricultural problems. Perhaps they originated it, or perhaps we tried to stick it down their throats. I don't know. We talked about certain numbers of tractors and certain numbers of teams of operators or farmers, including a team that was volunteered, or organized, I should say, in Kansas, wheat farmers and mechanics who could show them how to maintain their equipment.

We got all of these teams put together and all of this organization, but we did not send the tractors over there. The country's leaders said, My God, don't do that to us. We have people coming out of our ears. We have to have them do all of the things that your equipment and technology will do. We must have the people doing that; that is the only way we can keep them busy. How do we break through something like that?

It would almost take a superb group of experts to analyze every country and exactly what they wanted, of course. How do we set that up first? To me, that is the top barrier before we get into the technical barriers. Second, take their soil, in many cases, as you stated, it is lousy

compared to ours. You can only get one crop where we get two and sometimes three. They do not have, as you mentioned, substitutes for fertilizer. Their ground is often not very fertile.

Mr. GORDON. You tempt me to become very didactic, as we are in parts of our report, in justifying this Foundation, for which I think you have just given very good justification.

Mr. WINN. This is the International Development Foundation?

Mr. GORDON. Right. We note that the so-called developing countries have grown very unevenly since 1950. The disparity is really so great now that it is hard to call them all developing.

If you look at who progressed more rapidly and who progressed more slowly, you find the countries that were relatively rich in 1950 progressed more rapidly than those that were relatively poor. If you look a little more at those countries, you will find that the rich countries really had a kind of base to work with.

This was some base of a workable technology. It involved some base of institutions, whether university institutions, governmental institutions, you can name them, essentially working to get problems done or business institutions or farmers institutions a base of skills and either had then, or developed a set of policies which promoted growth in those cases and in some cases, equity.

The appropriate technologies, institutions, and so forth, are not obvious, in the general bases. Just as I pointed out technologies have to vary because of soils, because of water conditions, because of climates, because of different health conditions and whatever, some institutions have to vary and they are as much a problem that has to be looked into in a local environment and developed as technologies are, and policies too.

It seems to me the answer is to develop institutions in these countries and help develop them. The question is, how can we help to do it because it is so different? Their technologies are different; the needed technologies are different and so forth. They are different from what we have here.

The fact is we have something they do not have and that is, analytic skills, highly trained people with analytic skills. The analytic skills are very different from the solution. There are ways of getting at solutions.

One of the problems I think AID and the World Bank has had, is taking westerners and sending them abroad, people with highly honed technical skills who try to transfer the solutions with which they are familiar back home and things bomb as they did in China. They should have; they were not appropriate to the circumstances.

To repeat slightly what I said before, it seems to me that what a foundation like this can do, in order to make possible the kinds of adaptive changes about which we are talking, is help develop bases in this country, in the Government and outside, of groups of highly trained people who, not only have the analytic skill, but have sufficient longevity in this kind of involvement so that they begin to understand the need to adapt and what adaptation means.

In other words, they use their skills on the problems of the other countries and develop solutions appropriate to those countries. They do not use their skills to simply transfer solutions. That requires in-

stitutional bases and institutional bases are created only over the long term.

Mr. WINN. I have one more question, Mr. Chairman, if I may because I think it is important to the whole gist of these hearings.

I get the uncomfortable impression, from the report, that just about the only role that you see for Congress is to provide the money for increasingly large, long-term aid commitments and to shield development research experts and assistance technocrats from the heat of adverse public sentiment and skepticism.

Mr. GORDON. On the contrary.

Mr. WINN. No? Then what oversight role do you see for the Congress?

Mr. GORDON. I would say the Congress ought to set the criteria under which the AID agency operates and monitor its performance. My suggestion, with respect to the legislation, is not motivated by any notion that Congress should not control to the extent present legislation permits.

On the contrary, I would argue that because of the contradictions, many contradictions in the legislation, because of its very confusing nature, frankly, control is very difficult. To state a very cynical view what happens is the net result—is a tremendous amount of time spent on paperwork to apparently satisfy all the criteria of the Congress.

It is very difficult to judge, because of the extent of contradictions in the legislation, the extent to which criteria are being met.

Mr. WINN. How can we have more oversight and less paperwork—

Mr. GORDON. I would say by clarifying legislation, removing contradictions.

Mr. WINN. Do you address that in the report?

Mr. GORDON. Yes.

Mr. WINN. OK.

Mr. GORDON. Eliminating so-called barnacles from one decade ago. There were special circumstances then which seem not to apply now, although that is Congress judgment. Essentially I would also say this, not concentrating so much on individual projects because I think that it is not simply that this slows down a program, and it is not simply—you will pardon me—I do not think that Congress has the competence to look at individual projects, it is an illusion, I think, to think by looking to individual projects, you will control the program.

Mr. WINN. Thank you very much. Thank you, Mr. Chairman.

Mr. HARRINGTON. Mr. Pease?

Mr. PEASE. Thank you very much, Mr. Chairman. I am pleased for this opportunity to ask questions of Mr. Gordon.

Mr. Gordon, I am interested in your recommendation that AID be phased out and in its place, we develop a DCA, aid development coordination agency. I always have some reluctance to change agencies.

I am wondering if the same goals could be accomplished within the present AID structure. Another way to put the question, I guess, is, what advantages do you see to a new agency that could not be accomplished within AID?

Mr. GORDON. I think that is a very close thing and I see one principal advantage. I admit it is only a possible advantage, and if it is not an advantage, then I really do not think change is worth it.

That possible advantage, under new legislation, is some greater flexibility in dealing with what I think, and many people in AID would agree, is a major personnel problem. It is a problem, basically, of not having enough technically qualified people to carry out the new directions of the Congress, at even its present scale.

Mr. Gilman has acknowledged this and a lot of the leadership in AID. AID's inability is, in part, a budgetary inability but, and I would add, however, that AID is not a very attractive place for highly qualified people to work these days, partly because of recent history. They have great difficulty in hiring people.

It may well be, if there were a substantial tripling of the budget, for example, it would become a dramatic overture to the same agency and people might find it a better place to be. I don't know, but there is also the problem that a number of people, and I have no idea how many, everyone in and out of the agency to whom we have talked, said there are people who essentially were very effective in another kind of program, but simply are not appropriate for the kind of program that has been legislated by Congress and the new directions.

Now you find something like almost two-thirds of the staff in Washington. We do not argue that everyone ought to be in the field. Far from it, we argue for lean missions rather than big missions, but I daresay part of that problem is that there is no appropriate place for these people.

It is very difficult, I think, for a new administrator to look at his agency as a kind of tabularasa and reorganize it in the way he wants. If there is a new legislation and a new agency is born, that opportunity may be a little bit easier. I realize there are Civil Service regulations, as Mr. Gilman says. There are collective bargaining agreements with the union. These may be inseparable; it may not be a soluble problem.

Mr. PEASE. Mr. Chairman and Mr. Gordon, that was my real concern, if you could start a new agency and begin from scratch, so that none of the existing employees has any vested rights, then it seems to me, what you want to accomplish with a new agency can be accomplished.

I am just wondering if you have anything to suggest that you could create a new agency without bringing into the new agency all of the people from the old agency and therefore, have the same problems?

Mr. GORDON. I am, by no means, an expert on this. I was in the Government in 1961 though and we did go through this. At that time, it was possible, without legislation, by Executive order, to create a new agency and release all of the people in the old agency and only hire into the new agency, the new people that fit the jobs.

The fact was something like over 400 people, I think, were then identified for not being hired by the new agency. Despite that identification, my understanding is only about 100 were eventually not hired. It had nothing to do with Civil Service regulations. It had to do with pressures on the agency to keep certain people.

Mr. PEASE. Mr. Gordon, I understand, from glancing at the materials with which we have been provided, that you are generally supportive of the notion of going to the poor countries, poor people within those countries, and would counsel against the concessional aid going to the middle range countries.

My question is, what happens to the really poor people in those middle range countries? Is there no way we can be helpful to them in improving their lot?

Mr. GORDON. We can certainly use our influence through the multi-lateral institutions, such as the World Bank and Inter-American Bank, which provide far more funds through their hard loan lenders than we are likely to provide through our concessional aid.

In fact, I would say that would be the main possible line of leverage that we could use, because that is where a lot of money is and it is sensible that it ought to be there, but I would say, and I repeat, that I am not too sanguine about what can be done about the very poor in some of these countries, particularly the countries which are growing very well and you find the standard of living of 40 percent is not changing very much.

There is not much, I think, that can be done by the outside unless we can influence the international institutions somehow to condition their aid on some policy changes. I forgot the figure, but I heard the proportion that World Bank loans are of total external resources, that is foreign investment and trade earnings in Brazil. It was minuscule, even though it is a large World Bank client, it is very small in the Brazilian context, which raises a question of how influential it could be.

Mr. PEASE. Apparently you feel that aid going to those middle range countries would not reach the really poor people in those countries very effectively. I am wondering what it is about the poorest nations which makes it any more likely that the aid will go to the poorest people in those poorest nations?

If there are social inequities existent in those very poor countries, how can we channel our aid so that it goes to the poorest people rather than just being distributed over the range of social classes within such a nation?

Mr. GORDON. Before I answer your question, Mr. Pease, let me clarify our view on one matter about which you are talking. We do feel that concessional aid ought to go to the poorer countries. As a matter of convenience, say countries the International Bank uses as a cutoff for the IDA loans, at \$500 per capita. We do not think as a general rule that concessional aid ought to go directly to poor people in the less developed countries. We feel, to put it strongly, it is an illusion to think that is the way to help them.

We have language in the report that explains this. The basic argument is that poor people, like anyone else, are part of an interdependent economy and they do depend upon other things happening.

If you can be sure in country X, through its own resources and other institutions, the roads are being built, the fertilizer factories are being built, the rural electrification systems are being built, and all that is left is for us to make sure the small farmer gets a credit or seeds, that's fine, but you cannot be sure of this all of the time, so we would argue that there would be more attention, not so much to projects that directly help poor people, but to comprehensive programs in the poor countries that help them directly and indirectly.

I know this runs counter to a lot of the biases that have developed in the Congress over the years, but this is what we argue.

Mr. PEASE. One final question, if I may, Mr. Chairman. Your report states:

In assessing a level at which to make our aid contributions, regarding capital needed by an underdeveloped country, based upon various assumptions, these estimates yield an annual U.S. concessional aid requirement in 1982 of \$7.8 billion to \$10.2 billion, if the U.S. share is 25 percent of the total.

Then at another point, the report states:

The development loans and grants now administered by AID could more than double in real terms by 1982, if efficient procedures, new legislation, new organization and substantial personnel strengthening were undertaken.

Those are a lot of ifs.

To get a doubling of our development loans and grants through AID, that doubling would bring it up to the range of about \$2 billion; would it not?

Mr. GORDON. In real terms, actually our table shows the range. If you take what we would guess to be the 1978 figure of \$1.2 billion, we get the Development Cooperation Agency up to as high as \$2.5 billion.

The International Development Foundation, which I mentioned is up to \$700 million. That becomes, together, about 2½ times which AID is now—

Mr. PEASE. But that would be far short of the \$7.8 billion to \$10.2 billion which you say would be the U.S. share. Are you conceding, in those two different sets of figures, that we are unlikely to get anywhere near \$7.8 billion?

Mr. GORDON. No. There are other elements in that higher figure than AID or development grants and loans. There are our transfers to concessional windows of the international banks, international development, association and so forth.

Looking at those possibilities, we project that—let me see—our estimate for 1978 was \$1.1 billion. We project an increase up to about \$1.6 billion, a 50 percent increase in those. That includes Public Law 480, which we estimate, in 1978, would be \$1.4 billion. I really do not know how close that is to reality.

We estimate that it could go up and we have a long section on Public Law 480 to perhaps \$2.4 billion, a doubling there, roughly, and then an increase in UN and DP; security supporting assistance is also in that category.

We recommend slight stagnation. Finally, there is a modest amount of paid-in capital to the hard loan windows which, if it comes along at all, if we continue rather than just ignore paid-in capital, that would be a small amount and that comes up to a range, when you add up all of those things, a top range of \$9.9 billion. The bottom of the range is \$7.5 billion.

Mr. PEASE. Thank you, Mr. Chairman.

Mr. HARRINGTON. Mr. Gilman, before you start, I will have to excuse myself. I assure you, Mr. Gordon, that the members here have a great many questions. Mr. Bonker has agreed to take over. I appreciate your willingness to come and hope that I can get back.

Mr. GILMAN. Thank you, Mr. Chairman. Mr. Gordon, we welcome the opportunity to examine where we have been and where we should be going with regard to international development assistance. It seems, of late, that we are doing quite a bit of musical chairs in Government,

putting new name plates on some old doors and shifting some desks around and saying we have reorganized.

I question if maybe we are doing somewhat the same thing in what you are suggesting here, taking the Interagency Committee and the AID and putting a new name plate on it and calling it the Development Coordination Agency and also by creating an International Development Foundation.

Are we really accomplishing what we are trying to do, making our program more effective in reaching out and getting the dollars to where they should be doing the most important work? Do we accomplish that merely by restructuring at the executive level in this fashion?

Essentially, what did you accomplish by the proposal to dismantle the Interagency Committee and replace it with a coordinating committee? Is that not, essentially, the same mechanism in the executive branch?

Mr. GORDON. I do not think so. If any recommendation we have, might come close to playing musical chairs, the one I think that does possibly come close is changing AID to the Development Coordination Agency.

As I just said, unless that change makes possible a substantial increase in flexibility for hiring and getting rid of personnel, then I see not much point to it.

As far as the coordinating committee is concerned, it is my view that it has not worked and it cannot work. The reason is, despite excellent intentions on the part of the present administrator, the chairman has lacked sufficient status in the administration.

A lot of the issues—well, there are two problems; one, the Development Coordination Committee is limited now to AID issues, which as I pointed out, we think is just one of the many ways of which we have to affect the economies of poor countries.

Even for the AID issues, that includes appropriations for the concessional windows of the international institutions which presently control Public Law 480 security support and assistance, et cetera.

When an issue is really important in the Washington bureaucracy, it escalates right to the Secretary's level. Someone at the Secretary's level has to be able to cope with it. That is simply impossible.

My guess is, despite the best efforts of the present chairman, the Development Coordination Committee will not be able to deal with the important issues that are sufficiently important to grab the attention of the Secretary.

We think the only way to do this is to—short of having a Department of Development with the Secretary—have an office in the White House. This, I might add, is by no means a guarantee that you will get coordination. There have been many offices in the White House. It is just a little better assurance.

Our look at past histories suggest that the essential requirement, if you do have an office in the White House, is that the Director have access to the President and everyone involved knows he has access to the President.

There was a history, some years ago, of an Under Secretary of State playing a modest but important coordinating function. That was Under Secretary Dillon in the late Eisenhower years. That worked,

not because he was in the White House, which he was not, but because everyone knew he had access to the President.

Mr. GILMAN. Mr. Gordon, if I might interrupt, are you not essentially saying, in order to be effective, everyone has to be in the White House? [Laughter.]

Mr. GORDON. No.

Mr. GILMAN. Let me point out a bad example. We have been going through Presidential Reorganization Plan No. 1, and I have been involved in battling this plan, in an effort to prevent the dissolution of the Office of Drug Abuse Policy (ODAP).

Congress passed legislation, reflecting its position that there should be a separate Office of Drug Abuse Policy; a unit somewhat analogous to what you have suggested here in the case of development aid. The Office of Management and Budget arbitrarily decided that it would be more effective to place ODAP's functions under the auspices of the Domestic Council because it will have the ear of the President.

The administration is now dismantling ODAP, even though Congress initially had felt that there should be a separate entity so that group could do the vital policy planning work which has to be done to coordinate the vast fragmented drug effort in Federal agencies.

We are now confronted with the same proposal here; essentially that you are trying to fold an agency into the executive level, and avoid having an organization out there that can and should be able to do the work, a department that can focus attention and utilize the necessary personnel to explore new avenues for undertaking the objectives of development and providing the assistance sorely needed throughout the world by bringing the agency closer to the President and meshing it in with the myriad number of special consultants and all of the Domestic Council people and everyone else who works on these matters in the White House.

It would seem to me you would be losing the effectiveness of what you are trying to do.

Mr. GORDON. Our proposal would not eliminate or reduce the authority of the AID agency, the Foundation, the Secretary of State or security supporting assistance, except when budget times come and when policy conflicts arise.

With all of these estimates spread throughout the Government, there would be a force to bring them together. I must say, as I said before, I think there is a real problem. I acknowledge that there are many other problems the Government faces, that many different parts of the Government address, and there have been many proposals in the past that, in order to pull them together, there ought to be an office in the White House. I am fully aware of that.

The question of whether the Executive Office is the right place for that activity essentially depends upon one, how important you think it is, and second, is there any other way it can possibly be done?

I must say, in looking at this problem, we just were not convinced there was any other way.

Mr. GILMAN. Mr. Gordon, if that is your primary objective to be close to the President to avoid the wielding of the OMB ax, I think you had better take a look at some of the prior examples. Even those close to the President have difficulty getting his ear through OMB and fall victim to OMB's continual oversight.

As a matter of fact, I hope Brookings and Harvard will take a look at how OMB has suddenly become the policymaker rather than the management voice in Government.

Mr. GORDON. No. Imposing a force between the President and OMB was farthest from our intentions.

Mr. GILMAN. I thought you stated, in order to make certain, there is enough budgetary authority, that they should be closer to the President.

Mr. GORDON. I did not put it that way. My point is, in order to have some impact on policy, to make programs consistent with each other, budgetary programs, concessional aid budgetary programs, we think that the way to do this is to influence policy. One way through is affecting the budget and the only way we know by which all of the different concessional aid programs—the only place someone can apply some analysis and bring some views to bear on the budgetary programs is in the Executive Office.

It is unwise and impossible to derogate from the Office of Management and Budget's views, but as the Office of Management and Budget turns to other offices in the Executive Office, they have expertise on particular programs at budget time. For their views, they would turn to the Office of Development Policy on the concessional aid appropriations request.

The Office would be able to apply an expertise, not just to the AID or DCA program, not just to the Foundation, but Public Law 480, the Treasury's recommendation to the national organizations, to what the State Department proposes about security supporting assistance, but even that would be just one part of its responsibility.

Mr. GILMAN. How does that differ from the present authority? Cannot AID do that with OMB at the present time?

Mr. GORDON. No. Well, I imagine if they had to request the authority, there would be an interesting reaction in the Government because I do not think the Treasury would like AID getting in on its proposals.

Mr. GILMAN. I don't quite follow you. Do you mean at the time OMB reviews the budget of AID, AID has no voice in its budgetary analysis?

Mr. GORDON. Oh, no, I am sorry. What I was commenting on was AID having a voice on other agencies' concessional aid because concessional aid is in at least four different areas of the Government at this point.

AID would submit its own proposal; Treasury would submit its proposal for the international institutions, Agriculture. In Public Law 480, there may be some AID comment on Agriculture's proposals since it has some say there. I do not think, and perhaps I could be corrected on this, but I do not think that the Development Coordination Committee, which was established by legislation, goes through a formal budgetary review process for all the agencies.

Mr. GILMAN. Doesn't all of this come together within the foreign assistance package and isn't there an opportunity for AID coordinated review?

Mr. GORDON. To the extent that OMB does not.

Mr. GILMAN. But each agency within the package has an opportunity to have their voice heard.

Mr. GORDON. On their own appropriation, of course.

Mr. GILMAN. And State has an opportunity to try to coordinate everything.

Mr. GORDON. I am not certain.

Mr. GILMAN. I would hope it is concerned with coordinating these programs.

Mr. GORDON. Well, there may be a difference. I do not know what the authority is but my impression is that State might well have some ability to comment, say, on Treasury's request for contributions, I am sure that they do, contributions to the international organizations.

It may well be now that a subcommittee of the National Security Council may be looking at appropriations across the board over the long run. I am not aware of that but I would imagine, if that were the case, this would be very broad brush.

Mr. GILMAN. Are you saying to us you do not feel there is an adequate analysis by the State Department of the whole foreign aid program?

Mr. GORDON. I do not know what the State Department's analytic capabilities are. I cannot imagine that it would have, no matter what the analysis is. I do not imagine it could be other than another voice but it may or may not want to express with respect to the Treasury Department's appropriations or to Public Law 480.

If it, in fact, does have a voice, it might well be in National Security Council deliberations, but I would imagine, as I have said, that they are very broad brush. My strong impression is that, while the State Department and the Secretary of State has a very strong say over what AID's appropriations are, and maybe if an issue becomes clear, they might broker out Public Law 480 issues with the Secretary of Agriculture. Maybe if issues become clear, he might broker out with the Secretary of Treasury.

There is no formal process, as I understand it, with clearcut authority for pulling this all together, short of the OMB's budgetary process. I am sure people downtown could say if I am wrong.

Mr. GILMAN. I think maybe it is worthwhile exploring a little further. I know my time is running. Mr. Chairman, if I might, just one more question.

There are too few democratic countries left in the world. I guess we have some 24 or 26 in the family of nations today. They make up a relatively small percentage of all of the nations. Do the developing nations perceive democratic institutions as unable or unsuitable to solving their development problems?

Mr. GORDON. I think one would have to say yes because very few of them are democratic. The statement, "There are very few left" presumes there were really more at one time and there have not been many in history.

Mr. GILMAN. I think we have a smaller number today than we had say 10 or 15 years ago.

Mr. GORDON. I can think of some that have gone down the drain, but my point is, on the continents we are talking about, there is no historical democratic tradition, as we talk about it, and it seems to me we ought to accept this as a fact of life, which does not mean we have to like it or support regimes that are increasingly repressive, but merely accept the fact that different cultures change in different ways.

Mr. GILMAN. If there is such a perception then, are we able really to do very much through development programs and foreign aid programs to change this perception without appearing to be heavyhanded?

Mr. GORDON. To change what perceptions, sir?

Mr. GILMAN. The perception of the democratic form of government being something unacceptable to most of these nations?

Mr. GORDON. When one talks about the democratic form of government, it is important to be clear about what one is talking. We have our own particular set of institutions which involve a free press and elected representatives, and so forth in particular forms and it is highly participatory.

You will find other countries that do not seem, by our standards, to be democratic, but in varying different ways, have some participatory activity at the local level. Who is to say that a tribal kind of government, whose chieftainship is not inherited, as for example are some of the tribes in Ghana, is not democratic?

Once the chief is in power he runs the show. Certainly a lot of countries, particularly new countries, have strong elements within them that look to the United States as a model to aspire to later on. However, even some of the most ardent democrats say some of the countries in Africa realize that it will take a long time to bring their people around to both assume the responsibilities for being democratic, in some sense, and to appreciate its value. It is a very difficult question.

If your question is how we use our influence to make them more democratic, clearly we must have some sense of where they have been and where they might go, and furthermore, some sense of how they will react to what appears to be our interference.

Mr. GILMAN. I noted, with particular interest, the recent meeting in Athens of some of the leading governmental leaders and for others who have been concerned with development problems, in which thoughts were expressed about what the United States had been doing and what other nations had been doing in development.

I quote from the article:

Apart from the small handful, the prevailing theme was that the United States reflects democracy's moral degradation and its multinational corporations are spreading a virulent disease throughout the world.

These were leaders that had come together from nations throughout the world expressing their thoughts about the benefits of some of the development programs. What is your comment concerning these contentions?

Mr. GORDON. My comment is, you can pull together leaders to say almost anything you want. [Laughter.]

Mr. BONKER [presiding]. Thank you.

Mr. Ryan.

Mr. RYAN. I just have one line of questioning here. I thank the chairman and members of the committee for allowing me to ask the questions as I am not a member of this subcommittee.

The report you have put out has raised a good many questions. I think your report reflects some of my own feelings that this Congress and Government is pretty good at developing short range goals.

We can plan for the next 2, 3, or maybe even 4 years, but beyond that, we are simply incapable and probably even uncaring. I have thought often that perhaps one of the ways to get around that would be to pass a new rule in the Congress requiring a majority of those

making decisions in foreign policy to be under 25 years old, since they are the ones who will inherit the stupidities that will exist from the conclusions that are drawn now. I think of the country closest to us, Mexico, with a population growth rate of 3.2 percent per year. By the time some of these youngsters who are here in the audience are my age, and I do not think I am that ancient yet, the population of Mexico will have more than doubled, and that is just one country.

Admittedly 3.2—what is that, a doubling about every 15 or 16 years, somewhere in there?

Mr. GORDON. I think it is every 25 years, more than that.

Mr. RYAN. Anyway, whatever it is; it is too much. My question is, in relation to this particular report. I am wondering what has been done? Was there any effort made to project what might have occurred on a worldwide basis, on a country by country basis, what the rise in the standard of living might be throughout the world, if there had been no population growth rate to consider?

Of course, the reason I ask that question is, because the following question becomes more obvious. Are we not, at least partially, fueling the very fire we are trying to put out?

You say, on page 2, number 3, "Poverty remains widespread, more than 700 million people still live in absolute poverty". Will we be saying the same thing 20 years from now when we have taken care of this 700 million and in the meantime, have put together another 1 billion people who are still unfed? The faster you run, the further behind you get.

To what extent does feeding, supporting, and assisting encourage more rapid growth rate?

Mr. GORDON. First, I have to say that the answers to your questions are, by no means, absolutely clear, but there are some, I think, good guesses that one can make. It seems to me that the reason for the large increase in population is not an increase in fertility but a decline in mortality rates since the end of World War II, a precipitous decline.

Now one can say, quite accurately that is due to the development that occurred. Sanitation improved, certain diseases were repressed through inoculation; malaria through spraying or whatever.

However, it is not clear, and I would argue that this poverty would have occurred without any development assistance, because what has happened in the world essentially is a communications revolution and economic revolution in which ideas are simply spreading.

It took very little really, when you get right down to it, to bring this drop in mortality rates, some simple changes in sanitation, maybe some large disease control programs, like cholera, but the big drop in mortality started long before the cholera began to have some impact.

There was just something in the air, communications and economic interchanges, that have led to this big drop in mortality.

Mr. RYAN. The simple distribution of knowledge, I suppose. Don't put your animal stockade next door to the water supply. In Murabai, we do not have quite as many deaths anymore.

Mr. GORDON. Exactly. The problem is how to bring the fertility rate down. There is a lot of evidence, and to be honest, it is not incontrovertible, but it is very strong, that suggests, to use a cliché, as the basic needs of very poor people are improved, they tend to lower their fertility rate.

In other words, in very rough terms, as development progresses, and to the extent that it is fairly equitable and spread out among a lot of people, the fertility rate tends to decline.

Mr. RYAN. Why does that not happen in India then?

Mr. GORDON. Primarily because the poor, over 40 percent of the population, has not improved its lot very much of the past 20 years. Some people will argue it has declined. India does not have that good a growth rate compared to other countries.

Mr. RYAN. Does your report go into the problem or the anomaly of farmers in Iowa, in South Dakota, in Wisconsin and Minnesota organizing to go on strike and produce nothing next year because the bottom has dropped out of the price of wheat, the price of corn, and so on.

At the same time the bottom has dropped out here, there is not enough food to go around. We have been doing that for two generations that I know of and I'm still no closer to an answer. I guess I wish there had been, in your report, more bite to it. Someone has to begin to blow the whistle and say there are some basic policies that are wrong, if only because they are not producing the results we want.

The United States is supposed to be good to everybody. We like the image of ourselves being good to everyone, but, in the process of being good, what is the result, from a population standpoint? I think it is frightening.

We talk about the United States being one of the two significant exporters of food products in the world since the end of World War II. Surely if we have not done any more than we have on the distribution of food, where do we go from here on that?

If your development assistance strategies, and strategy involves long range planning, going off in new directions, what has your report to say about that?

Mr. GORDON. We do have a considerable amount to say on food. It is our view that, with Public Law 480 legislation that has multiple purposes, including the development of new markets, there is strong tendency to press for unloading our commodities on countries in such a way that prices are repressed in those countries and the incentive for their farmers to produce more is depressed. There are a lot of examples of that.

This can be gotten around, but it takes clearcut legislation that says development is essentially a guiding purpose in a set of countries. It takes an organization in the field between USDA and the AID agency that is able to prepare, with the country, food for development programs that will avoid the disincentive effects.

Mr. RYAN. Could I take it, at that point there? Let us take a country like Haiti, with an average of \$40 per capita annual income. My God, they are not in the market for food. I cannot understand why we cannot work out something where, below a certain level of per capita income, the Haitian people, who are at \$40 per year, are not in the market for buying food or are they?

Mr. GORDON. I don't know the Haitian situation.

Mr. RYAN. Well, let's take any other country. When you get below a particular level of per capita income, and I don't know that much about agricultural economics, but it would seem to me that they would

not be a part of the world market for any particular commodity that is up for sale, would they?

Mr. GORDON. That is absolutely true. One of the big problems is that these countries have so many poor people, they don't have a large effective demand for buying food. This relates to the point I was making before.

If we want to develop programs of food disposal that will not be a disincentive to the local farmer abroad to produce, but will, in fact, help increase his productive capacity, the answer is basically to increase the effective demand of the people who buy food in those countries. There are many ways of doing that.

For the very poor people, about which you are talking, there are, and these are very difficult to set up, but they have been set up in Mexico and other places, fair price shops. India is another example where, by locating shops in certain places, and discounting the price of food fairly, you, in effect, create a new market.

You can also use the food to create productive facilities by using the food to pay labor. There have been a lot of problems in many countries with carrying out these activities but they can be done when handled properly.

There are a variety of different ways in which you can use food to increase effective demand and, as a result, the net effect is not to depress the price of food in the foreign country.

It takes careful working out with the host country. You simply do not enter sales agreements in order to develop a new market because then it just flows into the system like all other food and tends to depress prices.

Mr. RYAN, Let me conclude by asking for some reassurance. Are you saying then that increased aid does not lead to a higher standard of living? This is not true, true or false, that increased standards of living, by way of increased aid, do not produce higher population growth?

Mr. GORDON. With a slight modification.

Mr. RYAN. All right.

Mr. GORDON. If the aid helps to improve the absolute level of living of the poorest people in the country, it will tend, in time, to decrease fertility rates.

Mr. RYAN. What do you mean by "in time"?

Mr. GORDON. Well—

Mr. RYAN. What is the reasonable expectation, 5 years or 15?

Mr. GORDON. In some countries, it could be in 5 years. It took the Western nations, I believe, about—well, I'm a little weak on this but basically the less developed countries seem to be halving the time to go through the population.

The demographic change in which the fertility rate began to fall after the mortality rate had fallen, it seems to be accelerating in the poorer countries, according to the data we now see.

Mr. RYAN. Thank you, Mr. Chairman.

Mr. BONKER. Thank you, Mr. Ryan. Thank you for coming to this hearing. Mr. Gordon, I just have a few quick questions. Your report

was obviously provocative which is good in a hearing. I suspect the provocative nature of this report is due, in part, to the problems and the overall AID program, even with its emphasis on new directions.

I read recently where the new AID director said that the problem with that agency is that it is overpaid, overranked, overaged and over here. Would you care to comment on that?

Mr. GORDON. I told him he should not have said it.

Mr. BONKER. You disagree that it is overpaid, overranked, overaged, and over here.

Mr. GORDON. I really have no knowledge about rank. It is true that two-thirds of it is over here. I have no knowledge about its pay scales as compared to Government wage scales generally, and the only comment I could make about Government wage scales, I think, would be irrelevant.

Mr. BONKER. You don't care to comment on it in general?

Mr. GORDON. I prefer not to.

Mr. BONKER. On page 3 of your testimony you said that your recommendations, among other things, would call for a substantial increase in AID financing, including doubling of all economic aid by 1982, doubling all contributions to international financial institutions and Public Law 480 surplus food programs, and increasing by 2½ times the amount of developmental loans and grants.

Did you ever total up the amount to see what that represents?

Mr. GORDON. Yes. If I may, in looking at this now, I did make an error in describing it on page 4. It would amount to roughly a 50-percent increase in contributions to soft loan lenders of international financial institutions

In response to your question, I might say what we did was we did not want to play a shell game and say these are the needs and that is it. We looked at various different ways for estimating these levels. We looked at needs, both in terms of various estimates that have been made about capital requirements for alternative levels of growth and looked at some estimates that various people have made about capital needs to meet basic human needs, however defined.

We looked at absorptive capacities according to a range of measures. We looked at what the burden might be on the United States as a percentage of GNP and made some judgments about realism there. Then we looked at the individual channels, particularly the multilateral channels and tried to make a judgment as to how large they could increase, given the attitudes of other countries and their own capacity for expansion.

For each window you might see of development aid, we estimated a range of three stopping points in that range. When you add it all up, in fiscal 1978, and we obviously had to make some guesses about what appropriations would be there, we come to a total of about \$6.2 billion.

Mr. BONKER. That is what is now being authorized for—

Mr. GORDON. We estimated that is what would be appropriated in fiscal 1978.

Mr. BONKER. With your recommendations?

Mr. GORDON. Our recommendation is for 1982, what the increase should be then. We have a range of up to \$9.2 billion, \$10 billion roughly. This would roughly double what the loan was in 1957.

Mr. BONKER. I agree with your comments about new directions and the need for a more diversified AID program, but I was a little surprised at your several references to security supporting assistance.

You recommend a slight reduction in this program. Also on page 8 you say that security supporting assistance should be administered directly by the State Department and the Department of Defense under their appropriations.

Do you know how this whole concept of security supporting assistance has evolved in recent years, and how we can even justify or defend that form of assistance to the select countries who are recipients?

Mr. GORDON. How we justify it to those countries?

Mr. BONKER. How it has evolved? It is a recent component of our overall AID program.

Mr. GORDON. It is an old component under a slightly different name. There was something like it that went back to the early 1950's, basically economic aid, given to countries for our political or security purposes.

Mr. BONKER. Do you now think that, under former Secretary of State Kissinger, it was an attempt to provide a form of assistance to countries involved in negotiated settlements, in other words, the Middle East where most of it is located?

In negotiating the Sinai Pact agreement, a portion was allocated to Egypt, so much to Jordan, so much to Israel, so much to Syria. Now we find it is an ongoing extension of our foreign aid program. The same had evolved in the Cyprus dispute.

I am just not sure we can really rationalize and support that form of assistance. It is really contrary to the whole philosophy of our foreign aid program.

Mr. GORDON. It is really the centerpiece of the foreign aid program now because it is the largest component. I sympathize very much with what you are saying. I hope we did not say we recommend a slight reduction.

Mr. BONKER. That is what you said.

Mr. GORDON. In that case, I would like to amend it. What we really mean is we see no way of forecasting what the U.S. Government will use this kind of economic assistance for. In the body of the report, we said this is fraught with certain problems.

First, in some cases, it is not clear what the security or political purpose would be or how economic aid would, in fact, help to achieve that purpose. In some glaring cases, where it is really used to buy friendship, we have long since learned that buying friendship is an annual thing. We should have no illusions about this.

To the extent that it seems really important, say in the Middle East, and we did not want to second guess that particular case, it struck us there seems to be no procedure in the Government by which a determination is made that there is a political problem arising from economic circumstances that needs aid, economic circumstances are such and such, and this is the amount of aid that will do it. This simply does not occur. It is a political judgment whereas we are using economic aid which deals with economic problems, first of all.

Mr. BONKER. To achieve political objectives?

Mr. GORDON. Yes. At minimum, we suggest there ought to be a standard procedure by which the economic problems can be analyzed and the aid related to economic problems. I am a veteran, many years ago, of similar programs before the most recent problem in Indochina, of Korea and Taiwan in the fifties.

They were very similar. There were really no tenable economic standards for administering them.

Mr. BONKER. That really bothers me because, as you point out, it is the centerpiece now of our foreign aid program. We are providing \$700 million or \$800 million to Egypt alone, yet we do not know whether this money is being used for economic development. We know that the Egyptians have severe financial problems, and if we provide \$800 million, they can build the money into their domestic budget, allowing more money for the purchase of arms.

There are no strings, no guidelines. We can go through the whole AID package and pretty much establish how our money is being spent in all of the other countries, except when we come to the case of security supporting assistance. We have no idea how that money will be allocated.

Mr. Gilman, did you have another question?

Mr. GILMAN. Just one more question. I note throughout your testimony, on your report, that you talk about the fact we should be a wholesaler rather than a retailer and that we should utilize such agencies as the development banks in other countries for distribution of funds.

Yet, in revising the whole foreign aid concept about 1 or 2 years ago, the Congress tried to find ways to get the dollars to where it would do the most good and try to put greater emphasis, for example, on developing the infrastructure in the recipient country, making certain that we were assisting a farmer marketing his product and not just building ditches and irrigation.

Prior to this a farmer was producing more, but found no way of marketing his produce. It almost appears that you are being critical of that kind of objectivity, and trying to develop a method of giving chunks of dollars to the foreign nation and letting them make the distribution. Is that what you are suggesting?

Mr. GORDON. No. That was not our intention. The two things you mention, I think, are consistent but what we are saying is that the small projects, and the retailing of the small projects by us, is a highly U.S. labor intensive activity, aside from the fact it is very costly in terms of scarce people.

It is not a way of getting these countries to undergo the experience and learn how to develop these projects themselves. There are ways we could establish controls and criteria. There is a long history, some good and some bad, of using intermediaries. Development banks are one example.

If one can figure out how to develop say agricultural credit institutions that were locally run and monitored according to certain criteria, that would make credit available to small farmers. This would be the kind of thing we have in mind.

If we could, for example, get behind an irrigation department in a country that had a charge to develop a number of small irrigation fa-

cilities in certain parts of the country, and they had or could get adequate engineering. I would see no reason why we should "projectize" every one of those small irrigation projects, but rather, we might support that group of projects.

One could even think, where the policies are right, in terms of getting things to the small farmer, of supporting a provincial program in some countries that was rather comprehensive.

Mr. GILMAN. Is there not a great danger of the diversion of those funds when we abdicate our responsibility of seeing that the funds get down to the lowest level?

Mr. GORDON. There is always some danger, just as there is in this country, but there are ways of minimizing it, but there are costs too of following every penny precisely to its ultimate beneficiary. The cost is very much smaller effect than impact.

Mr. GILMAN. Thank you, Mr. Chairman. Thank you, Mr. Gordon.

Mr. BONKER. Thank you, Mr. Gilman. I think counsel, Mr. Jefferson, has one question.

Mr. JEFFERSON. I would just like to try to elaborate on a question Mr. Pease asked earlier in hopes of a fuller answer. It seems that Mr. Pease was alluding to the case of middle-income countries with a large poverty sector, which might reflect the existence of a set of political and economic structural conditions which inhibit a broader based distribution of income.

The case which comes to mind is the Dominican Republic, which, according to the fiscal year 1978 AID congressional presentation, has a per capita income of \$650 and yet, the majority of the population in the rural sector has a per capita income of only \$70. Some 75 percent of the preschool children in that country suffer from some sort of malnutrition.

Mr. Pease alluded to what I believe was the report's recommendation that, in a case like the Dominican Republic, or other countries which would have a per capita income in excess of \$520, as of 1975, our bilateral program would not provide concessional aid in order to try to deal with those circumstances.

Then it seemed to me, Mr. Pease was asking the question, about the instance of low income countries which might manifest a similar set of political and economic circumstances which inhibit the evolution of a pattern of income with a fair distribution.

In that case, I suppose the extreme condition is that of Bangladesh, which, I understand, has twice the cultivated land of Taiwan on a per capita basis and among the best crop lands and growing climate in the world.

The question is, in the absence of any sort of exacting conditions, which would require carrying out the basic structural changes in order to provide for a better distribution of income, productivity, wealth, and landownership in a country like Bangladesh, how can we be assured that a doubling of our economic assistance, over the next 5 years, is not going to merely lead to the transformation of countries like Bangladesh into countries like the Dominican Republic in which there would be a fairly narrow economic elite and there would still be a relatively neglected poor majority?

Mr. GORDON. It seems to me that there are at least two questions there. The first has to do with—perhaps you were not following Mr.

Pease's question to clarify his, which was, originally, if we simply confine concessional aid to lower income countries, what about the Dominican Republic, where we won't be giving aid. Are you not concerned with that?

MR. JEFFERSON. Not so much. I am mostly concerned with the structural conditions which exist in low income countries and which are likely to continue as these countries develop into middle-income countries.

MR. GORDON. Throughout our report, we stress constantly that the outcome is a function of the policies and institutions in these countries. Our report has been characterized by some people as a throwback to the days when we used to condition our aid program on changes in less developed countries. We don't say that explicitly but the strong implication in the report is, we ought to keep some of these things in mind.

The difference between what we are saying now and what was done, and said, say in the middle and early sixties, is twofold. We do not recommend specific bilateral efforts; we recommend essentially trying to use international organizations to bring about a change.

Second, we talk much more about equity, not just growth. I might say, as a footnote. I think I would take some exception to your analysis to the Bangladesh situation, but that might be another session. I do get the point.

MR. JEFFERSON. Just postulating the conditions I mentioned, what would you suggest our bilateral aid posture ought to be toward Bangladesh? Ought we to exact those conditions of internal reform or ought we to expect that an emphasis on credit, electrification and market road programs in fact will bring about the sort of distribution of nutritional requirements that is contemplated by new directions?

MR. GORDON. Without referring to just Bangladesh, but just a hypothetical situation which meets your conditions, our position is that the world has changed to the point where bilateral leverage on major issues of economic policy are just very difficult and counterproductive.

This means we have to play a much more active role in the international forum. I do not think we can simply be a passive member of say World Bank consortia because all of the other bilateral donors are passive. This puts a lot of political burdens on the World Bank. We have to play a more active role.

I think this is one more argument for having some better coordination of development policy in the Executive Office or wherever it will work because, under the present arrangement, it is very difficult, I think, to instruct our executive directors of international institutions on substantive issues, unless there is a clearcut congressional recommendation or unless it is a financial matter that is clearly of concern to the Treasury.

If it is a rather settled question of economic policy internally, the Treasury really is not equipped to go into a country's internal economic structure as well as a development oriented staff would.

MR. JEFFERSON. Thank you.

MR. BONKER. Thank you. Thank you, Mr. Gordon, for your appearance today. At this time, we will conclude the subcommittee's meeting. [Whereupon, the subcommittee adjourned at 3:50 p.m.]

APPENDIX 1

QUESTIONS SUBMITTED BY CHAIRMAN ZABLOCKI AND RESPONSES BY THE AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Zablocki. There is an ongoing debate over whether the New Directions permit AID to engage in only human resource projects or also in infrastructure projects. Section 103(c) includes among the list of activities permitted "local farm-to-market roads, land improvement, energy, and storage facilities." Do you feel this authority is too restrictive, that it prohibits AID from undertaking certain infrastructure projects which are consistent with the New Directions? Which are the types of projects that would seem to be prohibited by this language?

Mr. Cilligan. While AID has legal authority under the Foreign Assistance Act to undertake most kinds of infrastructure projects, it is clear that the emphasis of the "new directions" is to discourage AID funding of large infrastructure projects such as power plants, high dams, superhighways, port facilities, etc., especially insofar as they are intended to serve modern industry and major metropolitan areas rather than the rural poor. Within that overall approach, section 103(c) is suggestive of the kinds of infrastructure that the Congress has specifically approved for Agency funding, but is not an exclusive and exhaustive list to which the Agency must be

strictly held. Nevertheless, the Agency has generally looked to section 103(c) for guidance in undertaking infrastructure projects in rural areas. In addition, of course, the legislative history of both the Foreign Assistance Act of 1973 and the International Development and Food Assistance Act of 1975 make it clear that infrastructure aimed at improving the well-being of the poor was considered by the Congress as an essential element of the new directions approach.

In general, therefore, it is our view that the new directions not only permit but encourage us to finance the kinds of infrastructure that are most necessary, in the words of section 103(c), "to increase the productivity and income of the rural poor."

As a general rule, this infrastructure will consist mainly of the smaller-scale facilities, such as farm-to-market roads, secondary irrigation canals, facilities to distribute electricity to rural areas, and the like, that are required to bring the benefits of infrastructure within reach of poor people. These "access networks," if they cover large areas, may be quite extensive. Occasionally,

larger projects may be useful in carefully specified circumstances, provided, again, that the projects benefit the poor.

However, the language of section 103(c) is rather general in nature and does not purport to define all infrastructure projects that are authorized. There has been disagreement on occasion on the kinds of infrastructure that the Agency ought to finance. We are anxious to work with you and others in the Congress to clarify Congressional intent with regard to our financing of infrastructure projects.

Mr. Zablocki. What is your assessment of the reimbursable development program (Section 661)? Has it been a step-child within the Agency, by being restricted to those countries in which the bilateral assistance program is not active? Can it be made into a more useful program?

Mr. Gilligan. A.I.D.'s Reimbursable Development Program (RDP), as a relatively new governmental activity coordinated at the senior management level, provides some exciting opportunities for forging development assistance programs toward the oil-rich and so-called second order powers of the Third World. We are speaking here of Nigeria, Saudi Arabia, Iran, Venezuela, Brazil and others which are still very much developing countries. Although RDP is primarily geared toward selling technical assistance on hard, businesslike terms--and is therefore not within the A.I.D. new directions' mainstream--it nevertheless represents an important program tool within our overall U.S. foreign assistance program complement. Clearly, new programs like RDP

take time to evolve and gain momentum of their own. They also need top level management support, adequate staffing, and carefully defined objectives and implementation plans. We, at A.I.D., are developing RDP along these lines and are exploring various prospects for increasing the program's operational flexibility and program performance (i.e., through middle-income countries and trilateral development activities in such countries as the Sudan, where U.S. technical assistance could be wedded with Arab financial support and Sudanese development programs for mutual benefit). We believe RDP can be made into a more useful program and we would welcome any suggestions from you and your colleagues toward this end.

- Mr. Zablocki. How would the Office of Population be affected by the proposed reorganization of the Agency?
- Mr. Gilligan. The Office of Population will be maintained as an office in a new Development Support Bureau which will contain technical offices for each of the major development disciplines (agriculture, health, rural development, human resource development, nutrition, etc.). The major functions of this new bureau will be to provide high quality technical backstopping to mission and regional bureau development programs and to manage for the Agency inter-regional research and development and field service activities. Consistent with the goal of decentralization, management of country-specific projects, including population, will be transferred from central technical offices to counterpart offices in the regional bureaus.
- Mr. Zablocki. Does your thinking on the organization of AID population programs include consideration of the new policy language stressing the interrelationship between population growth and overall development?
- Mr. Gilligan. Yes. The new Section 104(d) was a key consideration in our decision to locate the central Office of

Population in the same bureau with other AID/W technical fields and to give the regional bureaus the same authorities for country population activities as they have for other country activities. We have assigned to our central policy bureau, PPC, the principal responsibility for coordinating and directing our Agency-wide response to 104(d), since it involves policy and program implications that cut across all sectors. PPC will work in conjunction with the Regional Bureaus and the Development Support Bureau to be sure AID's programs do reflect this new provision of the Foreign Assistance Act. Thus, A.I.D. will maintain its leadership position in efforts to provide family planning services while implementing these programs in a manner which takes into account important linkages among development activities. And the Agency will give real attention to the impact on fertility of programs in other sectors -- education, agriculture, health, etc.

Mr. Zablocki.

What would be the function of the country desks and regional bureaus in developing country programs for population planning?

Mr. Cilligan.

Generally, the country desks, which are in the

regional bureaus, act as the point of coordination in Washington for all matters concerning their respective overseas field mission.

Population programs will be developed by the overseas field missions on the basis of general policy guidance from AID/W, as a practical matter in close consultation with the desks that provide continual backstopping, e.g., by arranging for needed technical support from appropriate offices within their respective regional bureau or from the Office of Population, which would be located in the new Development Support Bureau and which would provide additional needed technical support or capability that would not be available in the regional bureaus.

Mr. Zablocki.

Is consideration being given to a closer relationship in the field between A.I.D. and Peace Corps personnel in project implementation?

Mr. Gilligan.

Yes. The recent ACTION reorganization plan called for the Peace Corps activities and programs to focus on the basic human needs areas. Our development objectives are coming closer together. I am hopeful that ways will be developed that will,

where appropriate, foster closer working relationships between the two organizations as programs are carried out overseas. For example, in the case of health, we and the Peace Corps have agreed that many opportunities exist for cooperation, especially at the village level.

Mr. Zablocki: Among the new provisions in the International Development and Food Assistance Act of 1977 were amendments giving particular attention to the impact of all programs on population growth (Sec. 104 d) and to the integration of women into national economies (Sec. 108), earmarking at least \$750,000 for studies and programs encouraging human rights, and authorizing assistance for energy production and conservation (Sec. 119).
What actions are underway to implement these provisions?

Mr. Gilligan: The following actions are underway to implement these provisions:
Impact of all Programs on Population Growth (104 d)
This new section of the legislation requires A.I.D. to consider the impact on fertility of all activities funded under Chapter 1 and to design appropriate programs to build motivation for smaller families. A.I.D. is carefully planning increased capacity to meet effectively this requirement, to which we give very high priority. As you know, A.I.D. has

undertaken a few activities in the past that convinced us of the importance of establishing this new section. We have called on all parts of the Agency to fulfill section 104 d and are focussing activities in four areas:

- a) analysis of what economic, social, or cultural conditions or programs most affect age of marriage and parents' views on how many children they want;
- b) providing information about these "fertility determinants";
- c) assistance to LDCs interested in exploring the fertility impact of development programs and;
- d) assistance in designing projects motivating smaller families.

Generally speaking, programs to improve education and income-earning opportunities for women, thus reducing their economic and cultural dependence on children, tend to encourage smaller families.

So do programs that improve the health of existing children, by persuading parents that they need fewer births to ensure the survival of two or three children.

A.I.D. is supporting research to refine our understanding of these relationships (e.g., studies of the linkages between fertility and female employment, education, and family planning services in Nicaragua and Malaysia, a study of the impact on fertility of different levels and types of education in Jamaica). On the basis of what we already know, we are working with interested governments and private organizations to design projects for maternal and child health, basic education benefitting increasing numbers of girls and women, and small enterprise development aimed at providing improved employment opportunities for women, especially in rural areas. The Nepal mission has requested a substantial project starting in FY 79 to a) better identify social and economic influences on fertility; b) initiate social/economic programs explicitly designed with a view to lowering fertility; c) train personnel needed for faster progress in this new field. After research indicating that 4-6 years of education for girls had a marked impact on their subsequent fertility, the El Salvador mission has proposed a project to expand school curricula past three years in the many rural schools where three years is now the upper limit. While these two projects are only a start, we expect many more to follow.

Integration of Women into National Economies

The first priority of the Women in Development Office (WID)--and a useful exercise in assessing the past efforts and planning for the future--is preparing the major report which the President will present to the Congress on the Agency's total women in development efforts as required by Section 108. The draft report will be ready January 31, 1978 with the final report in June. Currently WID has a contractor making an inventory of data base sources, the breakdown of data by sex and the data gaps, in accordance with Section 113(b)(1). The Women in Development Office is also meeting with representatives from the geographic bureaus and the functional offices who, in conjunction with the missions, are working on an assessment of the programs, projects and activities relating to women in development. The evaluation of the effectiveness of data base information gathering and of project implementation are a part of the current activities and will be included in the draft and final reports.

A second priority is preparing a report aimed at carrying out the provisions of Section 118 of the 1977 International Development and Food Assistance

Act which amends Section 305 of the Foreign Assistance Act of 1961 concerning U.S. contributions to international organizations. A draft report, to be ready March 1, 1978 will look at the progress or lack of progress of such organizations in both the integration of women in the national economies of recipient countries and into professional and policymaking positions within those international organizations. The Women in Development Office has been working with State's International Organizations Office to assure that the U.S. contribution to the U.N. Voluntary Fund for the Decade for Women, recently authorized and appropriated by Congress, will promote the integration of women in both policy and program of the regional commissions of the United Nations. The final report due September 1, 1978, will detail activities of the international organizations.

Current WID projects include a three-country study on developing a methodology for identifying the roles and responsibilities of rural women in Nicaragua, Kenya and Indonesia which might be replicated by other A.I.D. missions. Suggestions for more adequate data collection are expected from this study. A pilot

study of the statistics and literature on female-headed households, a growing phenomenon in LDCs with direct implications for economic development, is underway. Further studies are anticipated and publications expected to result. A publication resulting from interviews with Third World women is expected early in 1978. Studies of women's legal rights and constraints and their impact on economic development will be undertaken with the aim of producing data and suggestions for missions to continue such projects on a country basis. A conference on women's organizations and educations is being held in conjunction with the U.S. conference at Houston November 19-21 and an AID/Women in Development exhibit will be on display at Houston and available for future use. A second conference scheduled for January, 1978, will deal with women and food to suggest designs for projects demonstrating women's contribution to meeting food needs. Identifying women researchers and potential consultants will be a part of both conferences. An International Directory of Women's Development Organizations, published and funded by the Technical Assistance Bureau, is being distributed on request by the WID Office with plans for revision and updating a future project.

Earmarking for Studies and Programs Encouraging
Human Rights

A.I.D. has little experience with activities explicitly designed to deal with political and civil rights, and we shall move cautiously in this sensitive area to make sure that what we do will help rather than hinder the causes of human rights. We are working closely with the State Department on the formulation of Human Rights strategies in individual countries around the world. In the meantime, we are proposing projects to utilize the \$750,000 earmarked. Examples under consideration are: legal aid projects for farmers and women, studies on developing the perspective of political and civil rights as viewed from individual countries, creation of a U.S. advisory group on human rights and economic development and preparing an analysis of the influences of the international donors' actions on political and civil rights in the less developed countries.

A.I.D. is ready to respond positively to requests for assistance from governments who have proposed projects in the area of political and civil rights. In addition, I believe that help for non-governmental groups and individuals must be an important part of any positive U.S. program aimed at the promotion of political and civil rights.

Assistance for Energy Production and Conservation

Many A.I.D. projects will cut across many aspects of the energy problem. In the Philippines A.I.D. is developing a large loan project that will include studies, training, enhancing institutional capability, and demonstrations of decentralized energy technologies for rural development. In Nepal, where small-scale hydro-power potential is abundant, and destruction of the forests is creating serious erosion problems, A.I.D. is now developing an integrated rural development project that includes an energy component to address the problem. In the Sahel, where direct sunlight is plentiful, the Overseas Development Council will identify specific activities during a visit this fall with host countries which are truly enthusiastic about creating options to petroleum dependency. This should lead to significant solar energy projects in the Sahel.

In addition, A.I.D. has financed projects to examine the following:

Solar Cookers. A survey was made of solar cooking, including construction and testing of cookers, and field testing is now planned in Haiti to introduce the technology to people and determine its suitability.

Methane Generation. A.I.D. is working with the Peace Corps in Nepal on an application project. People will be trained in Nepal and in India, which has extensive experience with GOBAR (methane generation) plants.

Solar Drying. A.I.D. has completed a feasibility study of the use of solar energy to dry lumber in the Philippines, and is considering implementation of the project.

Pyrolytic Conversion. A.I.D. has financed a feasibility study by Georgia Institute of Technology for construction of pyrolytic converters in Ghana. The process of pyrolytic conversion (heating in an oxygen-depleted atmosphere) is the traditional method of making charcoal. The improved techniques will permit greater efficiency in charcoal manufacture, but more importantly can utilize existing wood wastes (sawdust, cocoonut husks, peanut shells) as the raw material for char, combustible gas, and heavy combustible oil. A.I.D. has already financed construction of a prototype for Ghana, which has far-ranging applications if the system proves feasible in actual usage.

Agreement in principle has been reached on a small Title III program for Honduras which had been proposed under the earlier loan forgiveness provisions of P.L. 480. The Government of Honduras proposes to establish a separate institution for grain stabilization and marketing facilities; Title III local currency proceeds will be used to repair storage facilities, purchase of new equipment and grain. We hope to authorize negotiation of the agreement shortly.

Mr. Zabłoeki. What are the plans for a U.S. bilateral program in India under the \$60 million authorized for storage or other food and nutrition projects?

Governor Gilligan. We have had a number of discussions with Indian officials in Washington and New Delhi on a program for 1978 and 1979. We are exploring project possibilities in the fields of agriculture, rural development and malaria control.

The Government of India has expressed an interest in receiving assistance to increase the food storage capacity of the Food Corporation of India. However, it has just signed an agreement with the International Development Association for an ambitious program to expand its storage and handling facilities. This will mean that future construction with U.S. funding could not start until late 1980. Such a project would be proposed, therefore, for FY 1979 rather than FY 1978 funding.

In regard to food storage, we have some difficulties with the request that we assist with foreign exchange costs. The project we are discussing would finance some U.S. equipment but most of the expenditures would be in local currency for construction of storage and handling facilities from materials produced in India. We trust that this will not pose a problem.

We are also exploring a number of other project possibilities for FY 1978 and FY 1979 funding. These include proposals to increase agricultural production and raise rural incomes through improving irrigation, promoting rural electrification, and extending medium to long-term agricultural investment credit. Other possibilities include collaboration in (1) science and technology activities within the "New Direction" areas, such as appropriate technology and alternative energy sources and (2) control programs to combat resurgence of malaria.

When we have a full agreement with the Government of India on the highest priority mix of projects to be proposed in FY 1978, we will notify the appropriate committees. For FY 1979 our proposal will be part of the annual Congressional Presentation.

Congressman Zablocki: Three years ago the Congress authorized a new program in appropriate technology, which is being carried out through a non-profit private organization called Appropriate Technology International. What, if anything, has been done to introduce the concept into the regular A.I.D. program and policy process?

Governor Gilligan: Pursuant to the Proposal for a Program in Appropriate Technology transmitted to the Congress on June 30, 1976, there has been established within A.I.D.'s Technical Assistance Bureau an Appropriate Technology Liaison Office, whose dual functions are to maintain liaison with A.T. International (our external appropriate technology program) and our regional bureaus and field missions (our internal appropriate technology program). To facilitate closer communication and coordination with the internal aspects of our appropriate technology program, the Administrator has

also established a Work Group on Appropriate Technology, consisting of representatives of all bureaus within A.I.D. The Work Group meets regularly with the Appropriate Technology Liaison Office, both to keep informed of the activities of the Liaison Office, and to work with that Office in the preparation of policy statements and information for our A.I.D. missions.

Within each of the regional bureaus, their representative in the Work Group on Appropriate Technology has responsibility for keeping track of appropriate technology projects in the field. While so far this compilation has been a statistical exercise, we are hopeful that within time it will develop into a means of measuring the degree of emphasis being placed on appropriate technology as well as a measure of what additional effort might be required.

There have been direct communications from AID/Washington to our field missions urging closer attention to appropriate

technology concepts. In addition, there is now in preparation a Policy Determination document instructing field missions on the need to give closer attention to appropriate technology.

We have also been giving consideration to the possibility of increasing awareness and understanding of appropriate technology in our field missions, and perhaps in certain host-country governments, by holding seminars on this subject in certain key countries. However, for the moment budget and personnel limitations have delayed execution of these efforts.

Mr. Zablocki. . . There has been a lot of talk about the so-called "Basic Human Needs" strategy. What is that, and is there any difference between that and the New Directions?

Mr. Gilligan. Concern about "basic needs"--enough food to eat, good health, basic education, adequate shelter--has always been a major feature of our efforts to deal with poverty at home and abroad and is, of course, central to the "new directions" in development assistance as articulated in recent development assistance legislation. The "basic human needs" strategy, which was put forward by the International Labor Office at its 1976 World Employment Conference, and which has since been elaborated by others including the World Bank and the OECD, systematizes these concerns into a coherent approach to the satisfaction of basic needs through more equitable growth. What distinguishes the basic needs approach from other "equitable growth" approaches is more a matter of degree and emphasis than any fundamental differences.

One description of the difference between the new directions and the basic needs strategy presented

at the World Employment Conference is contained in a staff report on the Conference prepared for this Committee, which suggested that while the two were founded on the same principles, the basic needs strategy emphasizes more explicitly the satisfaction of basic needs as the ultimate goal, the creation of employment as a means of generating the income needed by the poor to satisfy their basic needs, and the role of redistribution of income and wealth in the creation of employment for the poor.

Beyond that, a distinguishing feature of the basic needs approach is emphasis on the alleviation of absolute poverty, in addition to such other equity-oriented objectives as reduction in relative poverty (improvements in income distribution) and increases in productive employment (through more labor-intensive processes). The basic human needs approach assumes that more rapid and more labor-intensive growth is a precondition to the alleviation of absolute poverty within the next generation, and that income distribution will tend to become more equal as basic needs are met. The relative emphasis on absolute poverty, however, permits concentration on the ultimate goal of development--the welfare of the

individual--and encourages the establishment of broadly agreed targets and indicators that are directly relevant to individual well-being. The establishment of easily-understood goals (in terms of availability of food, health services, education, etc.) helps in forming a consensus on development objectives, assessing priorities, and mobilizing effort and resources. In addition, certain elements of development strategies tend to be highlighted when basic needs are used as an organizing principle. For example, a basic needs approach tends to sharpen the focus on the need to invest in what economists call "human capital" in order to have a more productive labor force as well as improving the quality of peoples' lives directly. It also forces greater attention on the production, the availability, and the consumption of the goods and services needed to satisfy basic needs (in addition to the emphasis of all equitable growth strategies on raising the income of the poor to enable them to acquire those goods and services).

In short, the basic human needs approach is fully consistent with the new directions. In a sense it provides the objectives that will measure our success in moving along the path indicated by the

new directions. The new directions show us which way we should be heading, and the basic human needs approach tells us where we're going and where we'll be when we've arrived. It also reminds us that the journey is a long one and that the effort must be substantial and sustained if we are to have any hope of achieving our goals.

RELATIVE PRIORITY OF BILATERAL DEVELOPMENT ASSISTANCE
AND
OTHER INTERNATIONAL ECONOMIC POLICY INSTRUMENTS

- Mr. Zablocki: What priority does bilateral development assistance have on U.S. policy in relation to trade, investment, Export-Import Bank financing, and other U.S. foreign economic activities?
- Mr. Gilligan: Bilateral development assistance is one of a number of major policy instruments available to the U.S. to promote its long run economic and foreign policy objectives in the developing world. Development assistance helps to facilitate and accelerate the development process and improve the living standards in developing countries. It is particularly important where the objective is not only to achieve economic growth in low income countries but also to insure that the benefits of that progress have a direct impact on the economic welfare of the poor within these countries. In this sense, bilateral development assistance has a high priority in pursuing our objectives with developing countries. Of course, trade activities and policies including the financing provided by the Export-Import Bank, private investment flows, multilateral flows and other economic activities whether it be international monetary policy or the transfer of technology also have major roles to play in our economic relations with developing countries.

These activities supplement or are complementary to not only our bilateral development assistance program but also to each other. The role and priority of these activities in our economic relations with individual developing countries are, however, necessarily dependent on the level of economic development of the country in question, its economic structure, and the nature of our relationship with them. For example, domestic growth and international trade policy by the developed countries is well recognized to be crucial to the long-run economic performance of the LDCs since exports account for over 70% of LDC foreign exchange receipts and the developed countries represent the major market for developing countries' products.

Nevertheless in order for low income countries to effectively accelerate their economic performance, they must depend heavily on external assistance on concessional terms because of their limited infrastructure, their chronically low living standards, their difficulties in obtaining or servicing commercial debt and their limited capability to rapidly expand exports. As countries reach higher levels of development, although their need for resources in absolute terms may, in fact, increase, their need for concessional assistance will decline as they are better able to obtain nonconcessional financing, attract private investment, as well as to more actively participate in international trade.

Congressman Zablocki:

What is the relationship between the U.S. bilateral assistance program and multilateral and other bilateral assistance programs?

Governor Gilligan:

Of the \$18.6 billion disbursed to all LDCs from bilateral and multilateral assistance sources (less principal repayments) in 1975, \$12.8 billion was provided bilaterally and \$5.8 billion came from multilateral agencies. U.S. net bilateral disbursements, at \$2.9 billion, were under 16% of the total.

U.S. bilateral assistance is complementary to other bilateral and multilateral assistance in several ways. It is more heavily concentrated in countries of specific political interest to the U.S. (e.g., the Middle East), and is aimed more directly at fulfilling basic human needs in the four priority areas of the 1973 mandate. Multilateral assistance is more flexible in both areas of concentration and in terms. On one hand, multilateral assistance can aid larger public works projects that are necessary to growth and

equity, and also to making U.S. bilateral efforts effective. On the other, much multilateral assistance is financed by sale of bonds in commercial markets, and can be furnished on terms suitable only for better off developing countries.

Most of the world's development effort is undertaken by the LDCs themselves, but it takes efforts from all donors, bilateral and multilateral, to help the LDCs plan programs and policies that will make these efforts effective and to provide the additional resources which are often critical to success. Bilateral donors join in consortia and other coordinating efforts to this end, and multilateral agencies have established a proven record of effectiveness in supporting effective LDC policies.

Both types of programs have their strengths in meeting particular developmental needs; they are complementary elements of our overall foreign assistance effort.

Mr. Zablocki: What kind of exchange of information on successful development techniques is there between A.I.D. and the various other institutions, both U.S. and multilateral, involved in international development? In particular:

- (a) What specific procedures are there for coordination in this area?
- (b) What specific types of information are exchanged?
- (c) How frequent are such exchanges?
- (d) Is there any attempt to avoid excessive duplication of efforts by development institutions?

Mr. Gilligan: An extensive catalogue of exchanges might be cited in response to your question. However, let me outline in general the categories of information exchanged by A.I.D. and international institutions.

First, there are formal exchanges of information on a regular/routine basis which take place by virtue of U.S. membership in these institutions, e.g., the international financial institutions, UN specialized agencies/institutions, etc. Through U.S. membership

we receive documents/reports on development research, evaluations, and planning activities. Such information is reviewed by A.I.D. and is fed into our planning. In turn, A.I.D. published information is widely circulated to development institutions.

We respond to a considerable number of specific information requests from institutions on questions ranging from country programs to sectorial/technical items.

Personal exchanges are held on an official as well as on a professional staff counterpart basis. These vary from discussion of country or regional programs to specific projects and programming techniques. Meetings are held in Washington and at various institutional headquarters. A.I.D. field missions are consulted by visiting teams from financial institutions engaged in project preparation or evaluation.

Consultative groups provide a mechanism to coordinate respective efforts and thus avoid duplication and overlapping activities. A.I.D., along with other USG agencies, has an active role in U.S. membership in these consultative groups which cover both individual countries and regions and the coordination of

sectoral activities--the Consultative Group on International Agriculture Research is an example of the latter type of mechanism which facilitates information exchanges from a wide variety of sources.

In addition to the exchange of evaluation reports with institutions, field activities of UN agencies are reviewed annually by U.S. missions in developing countries.

To the extent that funds permit, A.I.D. staff members participate in international seminars and symposia concerned with development programs and strategies. Such meetings afford the opportunity of further dissemination of U.S. experience and also to learn from the efforts of international institutions.

While our information activities are considerable, there is room for improvement. A new A.I.D. division is being organized to assess the socio-economic impact of development projects and programs. The division will make considerable use of information available from international institutions in its assessments. A.I.D. also has established a Development Information Service which has held discussions with various institutions on how we might regularize the exchange of project information.

Congressman Zablocki:

What role should human rights play in our development assistance program?

Governor Gilligan:

The Administration is committed to the active promotion of fundamental human rights throughout the world. This commitment was made by the President in his Inaugural Address. It has remained a key goal of the Administration as we have begun to assign a far higher priority for human rights in foreign policy decision-making than in the past.

An integral part of this policy, in accordance with our obligations under the U.N. Charter and the Universal Declaration on Human Rights, involves the support and promotion of basic economic and social rights. These include the right to be free from government action or inaction which either obstructs the individual's efforts

to fulfill his vital needs for food, shelter, health care and education; or fails to adequately support the individual in meeting basic human needs.

The U.S. foreign assistance program, in working to assist the poor throughout the developing world, strengthens our commitment to encourage the respect for fundamental economic and social rights. AID's primary contribution to this commitment is to provide support for these rights by meeting the needs of the poor in developing countries, even those where serious human rights problems exist. This policy is also directed by the Foreign Assistance Act, which provides that AID programs should continue in countries with serious human rights violations, if the assistance "will directly benefit the needy people."

As a result of the "New Directions" in development assistance, the focus of regular U.S. bilateral economic assistance has increasingly been directed to meeting the basic human needs of the poor majority in

the developing countries. These needs include better nutrition, health care, education and human resource development. These programs help the poor in developing countries gain access to participation in decisions which shape their lives, strongly and independently promote economic rights, and create a climate supportive of a broader observance of political and civil rights.

AID now withholds some forms of assistance when it is believed that such an action will encourage a government to improve its efforts to respect human rights, or when the continuation of an aid program would indicate U. S. support for repressive practices and identify the United States and its people with a repressive regime.

In addition, AID works to ensure that in its development of projects in poor countries, full consideration is given both to the impact of the program on the observance of human rights in that country and whether a program would be seen as supporting a government's human rights practices. When

the Agency makes its annual budget proposals for bilateral economic assistance, it reviews the proposed country allocation of these funds so that they reflect the United States human rights policy. Countries which deserve American support most are those whose governments are committed to policies which encourage economic development and equitable sharing of that progress.

Finally AID has established a program of "new initiatives in human rights." It focuses on efforts -- such as support for local legal aid activities -- which help the urban and rural poor in developing countries obtain the rights and protections to which they are entitled.

Mr. Zablocki. What type of development assistance program should the U.S. have in middle-income developing countries?

Mr. Gilligan. The issue of U.S. development assistance for middle-income countries is a difficult one which we have not fully resolved as yet. If we look at the whole range of U.S. relationships with the developing world, we see that the middle-income countries (which we may define as those with a per capita GNP above \$520 in 1975 prices) are in a much better position to take advantage of non-concessional financing, trade relationships, and so on. Furthermore, they are not as dependent on concessional financing to make significant progress in alleviating poverty on a sustained basis: their own resources are relatively greater, their GNP growth rates are often higher, and smaller percentages of their populations are suffering from hunger, disease, lack of education, unemployment and underemployment, and below-subsistence incomes. On the other hand, some middle-income countries contain quite sizable

concentrations of people below the poverty line, and could make more rapid advances in meeting basic needs if they had access to concessional technical and financial assistance. Moreover, they are facing a number of problems (development of science and technology, urbanization, pollution, energy) for which they look to the U.S., with its depth of technical expertise in many areas, for help in finding solutions. A number of countries (the oil exporters in particular) are now able to purchase the necessary expertise commercially or on a fully reimbursable basis, but many middle-income countries may not yet be in a position to do this.

These considerations clearly pose some very difficult choices for the U.S., given that concessional assistance is a very scarce resource. Our interests in working constructively with developing countries to alleviate poverty and to deal effectively with our common problems require that the U.S. maintain some sort of assistance relationship with many countries with relatively higher per capita incomes. Indeed, we should remember that per capita income can sometimes be

misleading as a true indicator of development. One component of this assistance should be oriented to meeting basic human needs, and should be allocated on a scale commensurate with the extent of the poverty problem and the middle-income country's own commitment and resources. The other component should be designed to contribute to equitable growth in the middle-income countries by facilitating the transfer of technologies in critical fields and encouraging the development of a local capacity to generate new or adapted technologies appropriate to the country's own human, financial and other resources. Because much of the basic physical and institutional infrastructure is in place in the middle-income countries, U.S. development assistance for the middle-income countries should generally be somewhat narrower and more specialized than assistance for low-income countries.

We would normally make AID resources available to middle-income countries on somewhat harder terms than our most concessional terms.

The difficulty, of course, comes in deciding how much of this type of assistance the U.S. should provide relative to assistance to low-income countries. As I mentioned, this is a question we are struggling with and have not yet fully resolved.

Mr. Zablocki. Are there any types of programs outside the "New Directions" which AID would like to undertake?

Mr. Gilligan. I believe that the "New Directions" provide an adequate basis for an AID program supportive of equitable growth and alleviation of poverty, and this in my opinion is the appropriate basis for our concessional development aid program. The development strategy that underlies the "New Directions" is broadly speaking the same as the basic human needs strategy of development which we have adopted as the focus of our policy. There may be specific instances in the future where we believe a program outside of these guidelines may be warranted, but in these cases we would make a specific request with full justification for it.

Mr. Zablocki. Within AID, what procedures are being followed to assure that a development specialist in 1977 is aware of programs initiated and problems encountered in prior years so that we benefit from past experiences and do not repeat past mistakes? With the turnover of personnel, it is important that people newly assigned to a post have available in some form, historical information that bears upon current objectives and programs.

Mr. Gilligan. You have identified a critical problem for us. While AID has initiated a number of efforts over the years to increase the general learning from development experience, I believe we have taken some recent steps which should increase learning from experience at the country specific level.

At the general level, our auditor staff has served an invaluable function by conducting independent appraisals of country programs for the AID

Administrator. In addition, several major reviews have been held since the late sixties to evaluate past project experience in such fields as crop production programs, land reform, small farmer credit and rural roads. AID has supported research projects designed to evaluate systematically such programs as low cost health delivery systems, various approaches to family planning, and rural works construction. Cross country comparisons of experience in AID's major sectors of assistance have been made for the Latin American region. State-of-the-art papers dealing with critical problems in rural development have been prepared and more are planned. The results of these reviews and studies have been widely disseminated to field missions and are incorporated into policy guidance.

An important related activity is an on-going twelve week Development Studies Program designed to bring AID professional staff up-to-date with the latest thinking in development, including evaluation of past experience.

At the country specific level there is inevitably some information loss about development experience

in that country as field staff turnover occurs. This loss can be reduced by reducing turnover although I also believe that healthy cross-fertilization of experience occurs through periodic rotation of staff among countries. Overlapping the tours of incoming and outgoing staff for a given country reduces information loss, but this is often difficult to arrange.

Readily accessible and relevant files of country project and development experience would also be of great benefit to new personnel. I attach a great deal of importance to two recent steps we have taken to improve the quality and accessibility of such information. First, we have established a Development Information Service (DIS) which is currently analyzing and abstracting all projects active from 1974 to the present, as well as selected projects terminated prior to 1974 that are relevant to AID's current activities, such as health, agricultural credit, and so on. Analysis of the successes, failures and consequences of projects is stressed. The main function of the DIS is to respond to inquiries from AID field missions with summaries of Agency and other experience and

evaluation as well as technical material and professional articles relevant to projects or problems being considered. DIS staff are available to pursue detailed questions resulting from follow-up inquiries and to brief consultants and experts before they visit countries. Over 150 inquiries have been processed to date.

Second, we are setting up a new special studies division to conduct analytical and evaluative case studies of on-going and previous projects. This division will have a strong policy orientation; we will use it to get a better fix on what works and what doesn't and why, so that AID policies and program design and implementation can be adjusted to the latest field experience.

I intend to see that these and other efforts are vigorously pursued to address your concern. They are critical to increasing our effectiveness.

APPENDIX 2

TEXT OF LETTER DATED NOVEMBER 8, 1977, SENT TO DISTINGUISHED ANALYSTS AND PRACTITIONERS IN THE DEVELOPMENT FIELD FROM HON. MICHAEL J. HARRINGTON. INVITING THEIR EVALUATION OF THE BROOKINGS REPORT

Earlier this month, the House International Development Subcommittee heard testimony from Lester Gordon, principal author of the Brookings Report, an interim report entitled "An Assessment of Development Assistance Strategies." This report and a study prepared by the Administration's Development Coordination Committee have recently been submitted to the President for his review and decision concerning reform and expansion of our country's foreign aid program.

Unfortunately, because the House of Representatives has temporarily recessed, the Subcommittee is unable to continue its hearing during this critical period when the future of our aid program is under executive review. In lieu of these congressional hearings, I am writing to you and other distinguished analysts and practitioners in the development field to invite your evaluation of the Brookings Report, which unlike that of the DCC is available for public review and comment. So that your views can be shared with the public and the Executive Branch, your written evaluation will be incorporated into the Subcommittee's hearing record and published as soon as possible.

You should feel free to address virtually any issue relating to the reform and reorganization of our aid program, since the President has requested a comprehensive review of this effort. However, in order to assemble a record of critical commentary on the core of the Brookings Report, I would particularly appreciate your evaluation of its following elements:

(1) Its stated acceptance of the existing New Directions and human rights legislative mandates and its definition and interpretation of these mandates. Does the Report provide the best interpretation of "New Directions" and "basic needs?" Are the Report's recommendations consistent with this interpretation?

(2) Its suggestion that "in present circumstances a non-interventionist style of assistance makes sense -- one that would let eligible countries know what aid is offered according to what criteria, and under what conditions, but which would not press programs or projects that are not initiated by the host country." Is this approach feasible and desirable? If you believe that it is, what policy criteria and conditions should be established, and to what extent can they be standardized and uniform? What might be the implications of this recommended style of aid-giving with respect to the proportion of existing country recipients which would qualify, changes in the levels of demand for U.S. bilateral assistance, quality of project design and implementation, and changes in existing institutional procedures?

(3) Its recommendations for institutional reform: (a) creation of an independent foundation responsible for administering research, development and training programs; (b) reconstitution of AID with its successor agency responsible for operational programs and reporting directly to the President; and (c) creation of a coordinator for international development policy situated within the Executive Office. Do these recommendations address the existing institutional weakness of our aid program? In your view, what basic institutional reforms ought the President and the Congress to consider?

(4) Its recommendations for "a large increase in concessional aid over the next five years" and its conditional support for a doubling of our bilateral aid in real terms by 1982. Do you believe that the conditions which the Report places on its recommendation to expand aid are necessary or adequate? From the Congress' perspective, what minimal conditions would you require prior to entertaining a "large increase" in our foreign aid appropriations?

I sincerely appreciate your willingness to share your views on these issues. So that the Subcommittee might assemble and publish your contributions in a timely fashion, I would appreciate the submission of your statement for the record by Monday, November 28. Statements may be sent directly to the Subcommittee office, Room 703 House Annex #1, Washington, D.C. 20515.

Thank you for your cooperation.

Yours sincerely,



Michael J. Harrington
Chairman, Subcommittee on
International Development

APPENDIX 3

RESPONSES TO CONGRESSMAN HARRINGTON'S LETTER OF NOVEMBER 8

A. RESPONSE OF WILLIAM M. DYAL, JR., PRESIDENT, INTER-AMERICAN FOUNDATION, ROSSLYN, VA.

The field of foreign assistance is replete with "givens" or basic assumptions which are seldom seriously considered. Yet any meaningful discussion of the future of U.S. foreign assistance must begin with a reference to them. Our own experience in development assistance serves as the major reservoir within which these basic assumptions have surfaced for us and from which we feel a certain competence to comment on the presuppositions of the report. One fundamental tenet of any new approach to U.S. foreign assistance must be the basic value and dignity of each human being. While this axiom is employed in the rationale for just about every assistance program in existence, its actual integration into their operation is rare. For inherent in such a concern must be the recognition that the client population or recipients of assistance are capable of designing and executing solutions to their own problems. The concept demands a responsive approach to assistance which avoids the imposition of the donors' concepts of how best to solve the problems. The Inter-American Foundation's grantees have urged us to view ourselves as a mere thread in the fabric of change and not the solver of problems. This non-directive posture, however, does not impede an active role for the funder consonant with his own values. The process of selecting which programs to fund inherently involves the funder as an active agent in the process of change.

The Brookings Institution's report pays homage to this supportive non-directive role of the funder. It emphasizes the limits of foreign assistance institutions to direct the dynamic of change in other countries

and argues that development is an indigenous phenomenon ultimately the responsibility of the people and their leaders. Yet in their set of recommendations for an alternative structure of foreign aid, the report authors seem to lose sight of these assumptions. The report's reliance on indirect approaches to ameliorating the problems of the poor by channeling aid through host governments and the insistence on providing a significant role for American universities and private voluntary organizations contradict this ostensive respect for indigenous solutions to underdevelopment. The experience of the Alliance for Progress and other attempts to direct U.S. aid primarily through established governmental channels has resulted in both a diversion of the funds away from those most desperately in need of assistance and has further weakened the freedom and control of the populace over their own governments. The simultaneous inclusion of those domestic U.S. institutions which historically have profited most from our concern to help other nations only increases the risk of a continued interjection of North American models of development and further insensitivity to native solutions.

A second basic tenet upon which our future foreign assistance program should be founded is a concern for the processes of change as much as the physical products of development. The support of new infrastructures of development such as roads, dams, houses, etc., is certainly a valid concern of our foreign assistance. Yet it can result in little long-range impact (and it may even be negative) if it is not accompanied by a concern for improving the processes by which people participate in their own development. Since people are the basic building blocks upon

which development is founded, U.S. foreign assistance must make major efforts to promote those indigenous institutions and community-responsive intermediary groups particularly of a non-governmental nature which assure popular participation and protect the peoples' rights to make decisions about their individual and collective destinies.

The Brookings report, on the contrary, places little emphasis on people-building. Instead it eschews direct contact with beneficiaries in favor of an indirect impact through the support of government-sponsored projects designed to produce jobs and or social services. It also discards any direct support of smaller scale community projects in favor of large funding conduits where administration of funds is simplified and evaluation easier. Inherent in this orientation is the report's commitment to "basic needs" as the major objective of U.S. foreign assistance. By defining basic needs in primarily economic terms and addressing their satisfaction in primarily welfare terms, the report ignores the social and political components of development which make possible an equitable distribution of the fruits of development. Such preconditions of democracy as institution building and leadership and citizenship training are subordinated in favor of the physical manifestations of development.

Implicit in this line of thought is a faith in the ability of government to foster those indigenous community groups so essential to the promotion of economic self-sufficiency and political participation of the population. Yet experience reveals that indigenous voluntary groups and community responsive intermediary institutions often represent an alternative to governmental efforts to centralize power and authority in their country. A new approach to U.S. foreign assistance, therefore,

which does not recognize the need to promote small scale development through the non-governmental sector is failing to address the most serious deficiency in other aid programs to date.

The much heralded concern for human rights as a basic tenet of our foreign assistance policy is reiterated in the Brookings report. The authors seem to concur with the granting and withdrawal of aid to encourage respect for human rights. While cautioning for a case by case approach in the application of this instrument, they still ignore the fundamental weaknesses of using non-military foreign assistance as a tool of foreign policy. One failing is its tendency to harm the most those individual citizens most in need of assistance. Additionally, it has proven to be an unwieldy instrument of policy prone to inconsistent application and ineffectiveness.

A more viable and coherent approach to the promotion of human rights through foreign assistance might be a positive rather than negative or sanction oriented policy. Such an approach would stress that funding be done openly of those legitimate and recognized non-governmental institutions within an oppressed nation which serve as alternatives to the centralization of authority and control over a population. The people rarely participate with power in their governments. They increasingly express themselves not through their governments but through local political, economic and social organizations. These are peasant leagues and federations, labor unions, worker-managed enterprises, cultural awareness movements, women's movements, cooperatives, community organizations, housing associations and religious institutions. These are the real seedbeds of change and the authentic vehicles of the people. A foreign assistance program

which recognized the need to support the emergence of autonomous local community groups with economic and political independence would be doing more in the long run to contribute to the promotion of human rights in a country than all the threats of withdrawing foreign assistance from its government. Such an outcome is only possible, however, with a commitment to funding of large numbers of smaller scale endeavors in each country.

The Brookings report makes several specific recommendations for the restructuring of U.S. foreign assistance which merit individual comment. The following five Brookings recommendations summarized from the body of the report require specific comments and alternatives:

1. U.S. bilateral foreign aid should be reoriented from the support of smaller projects in which funds directly impact on recipients ("retailing" foreign assistance) to more wholesale assistance of larger projects with more indirect impact on the people.

The recommendation is in keeping with the dominant trend among both bilateral and multilateral foreign assistance organizations to opt for larger projects to fund preferably through the host governments. Fundamental to this approach is the assumption that the improvement of large institutional and physical infrastructures ultimately will produce a more rapid improvement of the populations standard of living. Ignored, however, in this presupposition is the inability of the poorer segments of the populace to have access to these institutional resources and receive their fair share of the fruits of this assistance. Time and again U.S. aid has been dissipated in a sea of bureaucracy and corruption never to reach its intended recipients.

Because of the practice of international financial institutions of emphasizing macro approaches of foreign assistance and the transmission of aid through host governments, it is essential that U.S. foreign assistance increase its support of smaller scale efforts aimed at developing indigenous organizational networks among the client population. Only by strengthening these grass roots organs of citizen participation can a countervailing force be maintained to resist the increasing centralization of power and decision-making which is reenforced by foreign assistance and private investment in each country. Since both the international financial institutions and private banking and investment interests contribute to this anti-democratic trend of concentration of power and wealth, the United States Government constitutes the most viable source of support of the non-governmental sector in these countries.

2. Multilateral funding institutions such as the World Bank should provide an increasing share of large-scale capital intensive development assistance.

The Brookings report's endorsement of increasing specialization by international funders in the provision of macro development assistance constitutes a call to reverse their gradually increasing sensitivity to alternative approaches to development aid other than capital intensive assistance. In just the past few years these institutions have become more conscious of the need to support institutional development at the local level and to take more responsibility for the social and political implications of their long-standing commitment to capital intensive macro projects. While this awareness has yet to be translated into any significant funding of local level indigenous development groups, the potential for an expanded commitment to the non-governmental sector

exists. The position of the U.S. Government toward this tendency, therefore, is crucial to its survival. Contrary to the report's recommendation, our Government ought to encourage the international financial institutions to devote a larger share of their resources to those indigenous community based institutions which assure popular participation in the process of development. Such a posture would relieve the U.S. Government from carrying the primary burden for support of the poor within so-called "middle income" countries since this new dimension of the multilateral institutions' programs represents a redefinition of their basic needs orientation. It is also consistent with this country's commitment to its historic relationships with other areas of the world such as Latin America.

3. Private Investment and International Private Bank Lending should be considered in the formulation of strategies of U.S. foreign assistance.

While the private financial sector has a definite role to play in the developmental processes of most Third World countries, it is dangerous to include their activities as integral parts of our foreign aid strategy. The foreign debt of the developing countries has risen to over \$200 billion with roughly \$50 billion owed to U.S. banks. The pressure this places on our Government to intervene in the internal affairs of other nations to protect these investors would only increase with the integration of private banking activities into the policies of U.S. foreign assistance.

Because of the increasing role the banks and investors play in the development of other nations, some attention by Congress to these private actions may be essential to assure that their practices are

consonant with the development plans of each nation and do not further aggravate the existing social injustices and economic inequities.

4. The key benchmarks of U.S. foreign assistance should be the creation of new jobs and the provision of social services to the needy through support of related host government sponsored programs.

This emphasis on new jobs and social services through government related programs can result in a form of "welfarism" which promotes dependency relationships between the populace and their government. If this relationship is not offset by simultaneous assistance to the non-governmental sector, local initiative and the drive of the populace toward political and economic self-determination will be hampered severely. It is puzzling that the Brookings report recognizes the weakness of current social service structures within most developing countries but still advocates transmitting macro assistance through them in the hope that they may become more responsive to their people. Additionally, the report calls for broadening productive employment opportunities but fails to address what kind of employment is to be generated. It fails to ask whether these new employment sources will increase or reduce workers' dependency on an economic system over which they have no control. Lastly, it skirts the fundamental question whether "indirect" assistance through infrastructure development will actually result in more permanent new jobs or merely lead to further capital intensive investments and profiteering by the privileged few.

5. Restructure the U.S. Foreign Assistance Program into two new administrative organs - the International Development Foundation (IDF) and the Development Cooperation Agency (DCA)

The reorganization of the aid structure seems to present little substantive change in the approach to foreign assistance, but merely to

continue the same policies under the guise of new bureaucratic structures. In some ways, this new setup with its independent agency status makes the foreign assistance program even more vulnerable to potential manipulation by external groups such as the American universities and private voluntary organizations. The creation of an independent aid organ with multi-year funding, however, is not the issue. It is rather the report's recommendation that assistance continue to be funneled in great part through these outside U.S. institutions in the form of technical assistance, etc. The missing emphasis seems to be the development of indigenous capability in the countries.

Possible alternatives for U.S. bilateral foreign assistance might include a range of approaches: (1) Political economic assistance could be provided for foreign policy purposes directly through and by the State Department to foreign governments. The advantage would obviously be to relieve the rest of our development assistance program from the political pressure to conform to U.S. short-term policy considerations. (2) A "restructured AID" could provide economic assistance in a government-to-government approach and also provide larger scale credit funding to the emerging non-governmental facilitator institutions which provide credit and technical assistance to the poor populations. It could also fund foreign governments' development of research and technical assistance capability through and with U.S. PVOs and educational institutions, but with the accent on indigenous capability. (3) A series of regional foundations, functioning autonomously in the manner of the Inter-American Foundation, could be established to provide the bulk of U.S. assistance

to the non-governmental institutions, both small and large, which are participatory and responsive. These foundations could also fund the development of non-governmental research and technical assistance capability in the countries, including funding non-governmental institutional need for outside technical assistance, as required by them. The U.S. regional foundations (an African Development Foundation is under consideration now by the Congress) could work with the agency mentioned here under (2), and with the international financial institutions to identify and support the organizations capable of utilizing larger funding than had heretofore been provided by the foundations.

Concluding Comment

Our experience in the Inter-American Foundation suggests that external assistance is most powerfully constructive when directed toward qualitative rather than quantitative results. Thus, a new consciousness of options for self-determination in a particular community is likely to be more useful in the long run than even a new industry or any new infrastructure. Social change can as easily produce a net loss in human fulfillment as a net gain, but social choice is the essence of human dignity.

It is, therefore, our view that changes in perception, in perspective, and in awareness are at the heart of social change processes we have sought to encourage. Individuals must come to see themselves in a different, more dynamic relationship to their societies. Without the catalytic force of a new vision of their own potential for problem solving among the members of a community, they will continue to be prisoners of inertia in an unjust social and economic system.

B. RESPONSE OF MILTON J. ESMAN, DIRECTOR AND JOHN S. KNIGHT, PROFESSOR OF
INTERNATIONAL STUDIES, CORNELL UNIVERSITY, ITHACA, N.Y.

Honorable Michael J. Harrington
Subcommittee on International Development
Committee on International Relations
Room 703, House Annex #1
Washington, D.C. 20515

Dear Mr. Harrington,

This is in reply to your letter of November 10th inviting my views on the Brookings Report on "Development Assistance Strategies." I find myself in agreement with most of the Report's recommendations, many of which have been advocated by students of development assistance for several years.

On the question of organization, however, my views depart from those expressed in the Report. I start from the premise, based on my experience and knowledge of the reorganizations of AID's predecessors in 1953-54 and 1961-62, that reorganization and the threat of reorganization are extraordinarily deleterious to staff morale and productivity. Major reorganization should be undertaken only when there is compelling evidence that it is necessary and should be implemented and completed as quickly as possible. The Brookings Report does not, in my opinion, make a convincing case for splitting AID into two organizations. This is not a new idea, having been proposed and rejected in the early 1970s.

Speaking politically, I do not believe there is a sufficient public constituency for foreign aid to support two agencies. The result might well be competition for funds and influence, thus fragmenting and weakening what at best is a minimally effective constituency. Speaking organizationally, experience with R & D indicates that, except for pure research of the NSF type, the most effective R & D is done in close organizational contact with prospective users. I agree with the Report on the importance of a

considerably expanded research and development effort to provide a more solid base for foreign assistance activities oriented to the priorities of the new mandate. Splitting AID, however, would be detrimental to that purpose. With all the problems the research function has experienced in AID, this link has been valuable in orienting research to relevant questions and relating it to potential users. Recently there has been pressure from some of the regional bureaus and missions to support only research which is in direct support of operations and which is likely to yield short-term payoffs. This pressure, in my opinion, can be contained by administrative leadership that is sensitive to the need for new knowledge and for action-research projects to support the innovative activities required by current legislation. Encouragement and reinforcement in this direction by members of Congress who are interested in and influential on foreign aid questions would also help. The pressure for immediate payoff research is a lesser problem, I believe, than the dangers of organizational fragmentation and conflict to which I have already referred.

On the question of whether the U.S. assistance agency should assume a more or less "interventionist" posture in relation to cooperating countries, I believe the Brookings Report misconstrues the problem. The financial magnitudes of U.S. assistance are nowhere sufficient to provide the "leverage" on macroeconomic policy which some economists in the early 1960s naively believed was possible in the days of large U.S. bilateral programs. But Congress has mandated important new directions for U.S. assistance that cannot be effective unless cooperating governments, in turn, are prepared to modify their development strategies and priorities. U.S. aid missions and the highly qualified and motivated personnel whom we hope will staff them cannot and should not sit back passively and wait for governments to present projects that may be compatible with the new directions. A certain amount of encouragement and persuasion will be necessary and quite appropriate, if done tactfully. There is a clear distinction between obtrusive pressure and diplomatic persuasion. If the latter constitutes "intervention," so be it. We cannot expect to influence development strategies in the direction of helping the rural poor or enhancing human rights without the will to engage in such persuasive negotiation.

I would like to make an observation on strategy that is not directly addressed in the Report. There appears to be an impression among international development agencies and governments that the rural poor consist primarily of small owner-cultivators and that help to the poor majority should consist of measures that increase the productivity and the welfare of this group.' Research which we are now completing indicates that in many ldc's the majority of the rural poor are not small owner-cultivators, but rather landless and near-landless workers and tenants. They are the poorest groups in rural areas, often desperately poor, and their numbers are increasing rapidly in absolute and relative terms. Small owner-cultivators are often poor and need assistance, but a development strategy that purports to attack rural poverty must take specifically into account the landless and near-landless who are the majority in many rural areas and focus policies and resources on the very difficult task of increasing their productivity and welfare. Very few assistance agencies or governments have faced up to the implications of this situation or assigned priority to meeting this challenge.

Sincerely,



Milton J. Esman
John S. Knight Professor
of International Studies
Director

C. RESPONSE BY KWAME D. FORDWOR, PRESIDENT, AFRICAN DEVELOPMENT BANK,
ABIDJAN, IVORY COAST, AFRICA

REMARKS ON "AN ASSESSMENT OF DEVELOPMENT
ASSISTANCE STRATEGIES"

I. New Directions in Development Assistance

One of the central issues confronting the developing nations to-day is the allocation of resources as between present and future welfare. This is in a sense a new pre-occupation. Two or three decades ago, it was taken for granted that the developing nations had to give priority to laying the foundations of future growth. Among other things, this was to be done by investing in transportation, power, industry, irrigation works, mineral exploration and exploitation, and by effecting institutional reforms aimed at fundamental economic transformation. A prominent case of institutional reform was that which aimed at improving systems of land tenure. Administrative reform was another case. It was widely understood that the benefits of these endeavours would be gradual. And practically everyone accepted this implication. Indeed to invest in the future (for the benefit of one's children as it were) almost became a slogan in many a developing country. This approach went well with one of the principal pre-occupations of the times - i. e. nation building.

A shift of emphasis has taken place over the years towards the 'present generation'. There is more interest in programmes and schemes that tend to bring immediate benefits. Economic and social policy is more sensitive to the goal of equity, or a fairer distribution of incomes, and of services. There is a general awareness that one need not wait generations for the fruits of economic and social growth. The generation of today could enjoy, and has the right to enjoy, at least some of these benefits of development.

It is this phenomenon which the report alludes to on page 7. And it can be said that its interpretation of the "New Directions" in U. S. aid policy within this context is useful. There are, however, two problems which need to be borne in mind.

The Need for Balance

Section 6 of the report (pages 7 to 11) tends to give the impression that aid policy should in future concentrate primarily on more immediate "basic needs" and that aid to programmes and projects which have a longer time horizon should be de-emphasized. Admittedly, no explicit recommendation is made to that effect, and the report does make some specific references to the need for continuing aid to longer term undertakings. But the overall impression gained is as stated above.

On page 8, the statement which says "We believe that U.S. development assistance should have as a major objective the more rapid satisfaction of basic human needs", partly responsible for this. It appears to have the connotation that the pendulum is swinging away from those projects and programmes which are aimed at setting the process of growth in motion (or laying its foundation) to those which provide "basic needs." The pendulum might go to the extreme. If so, aid recipients would suffer. It seems to us that an even balance must be maintained between these two apparently conflicting but actually interdependent policy issues. If as in the past, attention is exclusively concentrated on building "a better tomorrow", the present generation would be needlessly deprived of certain immediate benefits of social and economic development. If, however, it is given secondary importance, there is a danger that aid receiving nations might fail in the task of creating self-sustained growth and might continue to depend on donors for financing their "basic needs." It is ultimately self-sustained growth which should enable developing nations to take care of these "basic needs" themselves. In view of this, it may perhaps be useful to amend the statement in such a way that aid policy would have the two major objectives of promoting self-sustained growth as well as of satisfying basic needs.

As noted earlier, and as spelled out in paragraph (d) of page 8, basic needs projects are interdependent with those in the area of self-sustained growth. It might be useful if that paragraph concludes with precisely this notion of interdependence rather than with a call for flexibility. And in this connection, the proposal to de-emphasize

university training and urban high technology health services might be reconsidered.

De-emphasizing university training in developing countries (especially those in Africa) has in certain instances provoked hostile public reaction. The contention has been made that such policies are a manifestation of a throwback to colonial policies, which aimed at restricting access by indigenous peoples to higher education. The point is not that such criticisms are valid, but that they render implementation of policy difficult. In addition, it could be said that universities have relevance to 'basic needs' projects. Universities in the developing nations of Africa in particular probably have not, with a few exceptions, demonstrated their usefulness in lending support to the overall development effort other than through their obvious contribution to providing trained man-power. What, for example, have they contributed to the task of forging appropriate technologies in order to speed up the process of industrial and agricultural transformation? Not much. And yet it should be one of their principal tasks to lend support and at times even lead the way towards a science-based agro-industrial transformation of the economies of their respective societies. Remote as it might seem, universities should have a role even in 'basic needs' projects. They could develop low-cost effective technologies for rural infrastructures (water supplies, small dams, small-scale industries, etc.). Rather than de-emphasizing university training, the call should be for making these institutions responsive to the new basic needs approach.

The same could be said of high technology urban health facilities. It cannot be suggested that these have reached a level (even in the relative sense) calling for de-emphasis. The question should rather be how these establishments could be made to better respond to the requirements of the rural as well as urban masses. The pediatric unit of a big hospital in an African capital has successfully developed a low-cost, simple technology diet for babies. Many a child has been saved from the debilitating effects of malnutrition. Could not urban hospitals do similar things in different areas?

There is then a case for linking or integrating 'basic needs' projects with the more conventional ones in various sectors of the economy. Integration, balance, etc. should be the objectives, rather than de-emphasizing one at the expense of the other.

The Ultimate Phasing Out of Aid

The second major problem to be kept in mind is that development assistance ought ultimately to be rendered unnecessary by the process of growth. Indeed, there is a brief statement to this effect at the top of page 18 of the report. But there is need to fully spell out the implications of this statement.

A principal implication is that 'basic needs' projects should as much as possible be subjected to the test of what may generally be called 'self-reliance'. Would such projects in time become an integral part of the economy of the aid receiving country, or would they continue to depend on donors? Would they in some measure promote self-sufficiency in certain lines of economy activity. For instance, a 'basic needs' project aimed at increasing the supply of food crops would meet this test if the project is conceived in terms of already existing producing units rather than in terms of a 'special project' with a higher level of organization, a better access of inputs and markets than existing producing units. Such a special project grafted on to the less developed domestic economy is bound to fall when aid is withdrawn.

This is in a sense one more argument for integrating basic needs projects with the rest of the economy. It is also another argument that, in order for developing economies to be ultimately self-reliant, aid should continue to go into the more long-term schemes and programmes which the report tends generally to de-emphasize.

II. Non-interventionist Style of Assistance

The report's advocacy of a non-interventionist approach in aid policy is probably in keeping with the desires of the aid recipients and hence is a reasonable recommendation. However well-intentioned,

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projects that are pushed by donors tend to provoke resentment, since they are often taken as an affront to the independence or non-aligned stance of the aid receiving country. It may be that in some instances the level of aid would be less as a result. But perhaps little is lost, in not having a donor's 'pet scheme', considering the difficulties these are bound to provoke. And in any case, the responsibility for decision is clearly a matter for the recipient which should accept the consequences, good or bad. In this regard, the statement made at the end of paragraph c on page 9 appears somewhat outside the main thrust of the recommendations.

III. Recommendations on Institutional Reform

Judgement on the recommended organizational changes requires knowledge of the relevant sections of U.S. Administration. Nevertheless, two remarks of a general nature can be made.

First, the idea of enhancing the autonomy of the aid giving agency is attractive. This would shield it from temporary changes in the political atmosphere and also improve its relation with aid receiving organizations and countries. The notion of an aid coordinator directly under the President also looks attractive.

Secondly, there is merit in creating a new organization for research and training. Given the right leadership and resources, the proposed International Development Foundation could lend valuable support to research work of the kind mentioned previously in relation to universities and urban health establishments.

IV. Increase in the Level of Concessional Aid

We are in full accord with the recommendation to increase the level of aid. Doubling the present level by 1982 may sound like a big step forward, but it is only a move to recover lost ground. As the report rightly points out, an increase of that magnitude would bring U.S. assistance to its relative level of 1965.

Indeed, conditions in the developing world (and especially in Africa) are such that aid levels in excess of that could easily be absorbed. Our experience as well as others in the field suggests that the idea of absorptive capacity (so much in vogue a few years ago) is now only of academic value. As for everything else, there may be an upper limit to the aid that flows from the developed to the developing countries. But that limit is determined less by the absorptive capacity of aid receivers (which is considerable) than by factors operating in the aid giving countries.

The African Development Bank is in a position to know. If it had resources, the Bank could easily commit two to three times its current annual lending programme.

V. Multilateral Development Assistance

The recommendations that strong support be provided to the international financial institutions and that efforts be made to insulate such support from legislative restrictions is eminently laudable. Though there is no doubt that the African Development Bank falls under this heading, its relatively more pressing need for additional support of this kind is perhaps not fully appreciated. This may be due, among other things, to the Bank's own limited efforts in making its problems known outside its immediate constituency. It may therefore be in order to draw attention to a few salient facts about the Bank.

Despite, thirteen years of operation, the Bank's lending at the end of 1976 was about 30 cents per head. The Inter-American Bank lent about \$2.50 per capita in the same period - a figure eight times bigger. Per capita lending in the Asian Development Bank was 3 times larger. At \$3.50 per head, World Bank lending in Africa was more than 11 times greater.

Yet, the relative concentration of absolute poverty in Africa is greater than the average for the developing world. Sub-Saharan Africa accounts for about 15% of the population of the developing world. But it accommodates 20% of those in absolute poverty. Out of the 28 least developed countries, 19 (68%) are members of the African Development Bank.

This contrast between performance and need cannot continue for long if absolute poverty is to be brought down to manageable levels. The African Development Bank has launched a five-year Action Programme aimed at raising per capita lending to about 90 cents by 1981. It is the hope of those in the Bank that acceptance of the recommendations would lend support to programmes of this type in the developing world.

D. RESPONSE BY JOHN FRIEDMAN, PROFESSOR, UNIVERSITY OF CALIFORNIA SCHOOL OF ARCHITECTURE AND URBAN PLANNING, LOS ANGELES, CALIF.

November 22, 1977

The Honorable Michael J. Harrington
Chairman, Subcommittee on
International Development
House of Representatives
Washington, D.C. 20515

Dear Mr. Harrington:

Thank you for your letter asking me to comment on the Brookings Report, "An Assessment of Development Assistance Strategies." As much as possible, I shall try to address the specific questions you pose.

1. New Directions/Basic Needs: During the past several years, congressional legislation, foreign aid programs, and academic opinion have generally favored approaches that would combine ameliorating poverty in developing countries with policies for accelerating their economic growth. Lester Gordon's Brookings Report follows this widely accepted doctrine. In view of this broad consensus, I think it important to enter a dissenting voice.

Terms like poverty and the poor suggest the wrong image. Criteria for inclusion in a "target population" are usually set so that they comprise less than a majority of a country's population: In the Brookings Report the cut-off point is 40 percent. The image projected by this practice suggests the context of social welfare programs. As social welfare, "investing in the poor" is regarded as a minor and temporary aspect of overall development policy which should continue to emphasize high rates of economic growth. What is generally left out of these discussions (and left out of the Brookings Report as well) is how sustained economic growth is to be achieved.

I cannot here go into the detailed prescriptions that are making the rounds of international agencies. Suffice it to say that it is policies for rapid economic growth which, divorced from other considerations, are responsible for producing the very conditions we are attempting to ameliorate. We could also say that what we are building up with the right hand we are trying to undo with the left--an unpromising enterprise, at best. The revealing language of the Brookings Report should be noted: "...two approaches can be taken within a framework of rapid growth to alleviate the worst aspects of poverty." (p. 7) Alleviating the worst aspects is a long way from eradicating poverty altogether.

It is because of its social welfare approach to poverty, that the Brookings Report declares that "support of basic human needs should be treated as a shift in emphasis, not a new strategy." (p. 8) My argument would be that so long as basic needs approaches to development are regarded as merely a "shift in emphasis" rather than as a radically new approach, poverty will continue to be generated and probably at faster rates than countervailing policies can hope to contain.

Most countries with a GNP/capita of less than \$520 are predominantly engaged in agricultural production. They are also the most likely candidates for a comprehensive strategy of basic needs. The object of this strategy would be to strengthen internal economic relations and to raise production across-the-board among rural people through the intensive development of local agricultural and secondary resources, including rural industries. Large-scale, urban-based industrialization would initially be subordinated to the primary goals of growing enough food to enable each country to feed its own population and at the same time to enlarge domestic markets for basic commodities. Large-scale industrialization would help to provide agricultural inputs and other intermediate products, as well as machinery and basic production goods. Eventually, some manufacturing would seek to penetrate external markets as well. In any case, large-scale industrialization should be planned initially so as not to compete with the development of indigenous, labor-intensive production for the internal market.

I do not have the time here to expand upon this model. Suffice it to say, however, that it is very different in conception to "poverty-redressal programs" of the sort now being followed and in various ways supported by the Brookings Report. Not all countries, obviously, would be able to embark on such a development. Latin American countries, for instance, represent a different perspective that requires separate treatment.

Summarizing my argument, I wish to emphasize the need for evolving development strategies that do not generate inequalities and therefore poverty but bring about equitable results without concentrated countervailing efforts to bring "the poor" up to some minimum standard (or poverty-line). U.S. aid policy should be designed to encourage an equal development process.

2. A Non-Interventionist Style of Assistance: In general terms, I support the conclusions of the Brookings Report. It seems to me, however, that its recommendations do not go far enough. For instance, Brookings does not abjure the project-approach to international assistance ("New Directions") which has made it all but impossible for AID effectively to carry out its mandate.

As an alternative to the project approach, I think it is feasible to work out a program that would provide block grants to governments in support of certain items in their development budgets. U.S. aid could then be tied to previously specified social and economic indicators of overall performance which would point towards the achievement of desired objectives (for instance, equal development).

I would strongly urge Congress to consider phasing out of the project business altogether. If a given country does not now have the technical capacity to design viable projects of rural development, for example, the U.S. could help to strengthen and expand existing capacity, but we should not substitute our own ingenuity and skills for those of indigenous planners. Development is a learning process, and this includes the making of mistakes. American aid programs should be devised to encourage social learning. Our primary interest should not be in the "success" of individual projects, many of which might indeed fail. It should rather be in the steady progress made towards a goal of equal development, for example, which in turn can be broken down into a series of subordinate objectives each of which could be measured by appropriate indicators.

3. Institutional Reform: The functional separation of grant administration on the one hand and research, development, and training on the other, seems like a reasonable proposal. And I agree that existing legislation governing bi-lateral aid needs to be drastically simplified. I am less certain that the Development Cooperation Agency needs to be taken out of the Department of State. All recipient countries know that our foreign aid is politically motivated. Shifting aid programs into the Executive Office of the President isn't likely to persuade many of our suddenly acquired disinterested benevolence. Similarly, I do not think that we need a general coordinator of international development policy.

We do, however, need a stripped-down version of AID with much more operational flexibility than at present and capable of efficiently administering a program of development grants and related activities, including P.L. 480 programs. Alongside such an agency, the proposal for an International Development Foundation makes a good deal of sense. I also agree with the shift of most SSA programs to Defense and/or to a separate office within the Department of State. Present AID responsibility for the administration of SSA programs has only contributed to undermining our remaining long-term commitments to socio-economic development and has compromised AID's overall effectiveness.

4. Aid Levels: I think that a reversal of the present declining trend in bilateral aid would be highly desirable. But aid levels are not independent of program content and administration. For instance, I

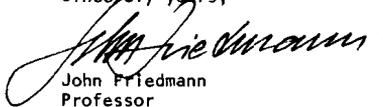
would oppose increasing development assistance for specific capital improvement projects ("New Directions"). On the other hand, I think that the so-called absorptive capacity of developing countries for block-grant assistance of the sort outlined in par. (2) above is certainly more than adequate to accommodate increases of the magnitude suggested by Brookings.

From the Congress' perspective, I should think that a "minimal condition" for increasing international aid appropriations is to hold down the administrative cost of aid to ensure that most of the appropriated aid actually reaches its intended beneficiaries. It seems to me that Congress could require separate reporting on administrative expenses by AID or its successor agencies. My guess is that the present cost is very high and that it can be substantially reduced. . . on the assumption, of course, that the basic legislation itself is simplified. Part of the attractiveness of block-grant programs is their relatively low administrative cost. Finally, Congress could insist on adequate reporting concerning progress towards equal development in aid-receiving countries. It could even specify the principal indicators that should be used to monitor the success of U.S. aid policy abroad. Control by broad but sensitive indicators is standard management practice and could be instituted as well in the management of the U.S. foreign aid.

I hope, Mr. Harrington, that these comments will be of help to your Committee. In the event you and your colleagues are interested, I am enclosing a recent review essay which critically dissects some of the major new policy proposals for "redistribution with growth."

With best wishes for the work of your Committee, I remain,

Sincerely yours,



John Friedmann
Professor

E. RESPONSE OF DOUG HELLENGER, STEVE HELLENGER, AND FRED O'REGAN, THE DEVELOPMENT GROUP FOR ALTERNATIVE POLICIES, WASHINGTON, D.C.

The Brookings Institution has released an interim report on the future prospects and strategies of U.S. foreign assistance. As it represents the work and viewpoints of well-known individuals and institutions, the report has generally been received, by non-developmentalists, as a competently prepared and important document. While the report raises some issues of obvious importance, such as the need to separate our foreign assistance program from the State Department and therefore from short-term foreign policy considerations, it also contains some rather glaring faults in detail, approach, and, subsequently, conclusions which should not go unchallenged.

Those conclusions stem from a strategy of development outlined by the Brookings Institution, a strategy whose reliability has not been sufficiently demonstrated. In fact, the report falls disappointingly short of incorporating into its analysis much of what has been learned through the experience and evaluation of foreign assistance over the past decade. Specifically, we believe that attention should be drawn to the following.

1. The authors begin with the basic assumption that development must take place within the context of rapid economic growth. While economic growth is, indeed, an important factor in the development process, its primacy in that process was long ago rejected by development thinkers, as reflected in the New Directions legislation. The report's further emphasis on two selected basic approaches to development -- employment generation and the provision of goods and services to the poor -- reflects an extremely narrow analysis of the problems of poverty and possible solutions in the Third World.

2. Unfortunately, little consideration is given to a developmental approach which, in a comprehensive fashion, builds upon and fosters local group efforts, skills, and resources to establish a self-sustaining development process. No treatment is given to the need to channel foreign assistance through appropriate governmental or non-governmental institutions which by incorporating the poor in decision-making and by generally eliciting their active participation can effectively respond to their needs and aspirations. As some of our own experimental efforts at foreign assistance, such as the Inter-American Foundation, have clearly demonstrated, working with and through representative and responsive groups and institutions enables us to assume a less directive posture in the delivery of our foreign assistance, while helping to lay the foundation for more equitable and self-sustaining development. These are fundamental insights that we have gained over the past several years, and it is both surprising and disappointing that Brookings has chosen not to deal with them in a substantial manner.
3. This inability or unwillingness to deal with the internal dynamics of development leads the authors to suggest a necessary complementarity and link between what they term "small and sometimes unrelated" projects, on the one hand, and large-scale, capital-intensive, and basically infra-structural programs, on the other. Little analysis is offered to substantiate this view. In fact, developmentalists have learned that the transfer of large sums of capital and sophisticated technologies through centralized mechanisms is always insufficient and frequently counterproductive to the establishment of equitable development patterns. How, for instance, a large, modern irrigation or hydroelectric program which leads to the concentration of landholdings complements the endeavors of small farmers is never addressed in the report. Herein lies a basic failing of the paper: it does not discuss the often inherent conflict

between the necessarily deliberate pace of indigenously initiated and controlled development and the distortional aspects of rapid and centralized modernization programs. The recommendation that multilateral banks increase their lending for large-scale capital-intensive projects should, in this light, be seriously questioned.

4. Similarly, the report assumes an interrelationship between international trade and investment, on the one hand, and U.S. foreign assistance, on the other, that leads to an equitable pattern of Third World development. Therefore, the recommendation is made to focus most of our bilateral assistance on the lower-income countries, while leaving trade and investment to generate most of the capital needed for development in middle-income countries. No analysis is offered as to how exactly these forms of capital transfer impact upon the economies at the local level. There is no reason to believe, given the rigid social and economic structures frequently found in the middle-income countries, that such transfers will benefit the poorest segments of the population.
5. The report calls for the reconstitution of U.S.A.I.D. into two agencies: A Development Co-operation Agency (DCA) and an International Development Foundation (IDF). The former agency would continue the economic, infrastructural and technical assistance functions of AID; the latter would address the research and training needs of developing countries with a heavy emphasis on the involvement of American universities and private agencies. As the report does not detail essentially new and innovative program operations -- as distinct from what already exists within AID -- the question arises as to why the Congress should be asked to create two new agencies to carry out what is already being done. Although the structure of an operating foundation, because of its inherent autonomy and flexibility, is a sound consideration in the delivery of foreign assistance, the

research and training objectives of the proposed IDF seem exactly similar to those of AID. If such a foundation is to be created, it would seem clearly appropriate that it be extended a mandate to directly assist development initiatives throughout the Third World, drawing upon and supporting learning experiences directly in the field.

6. In perhaps its most far-reaching and important recommendations, the report calls for the approximate doubling of our financial commitment to overseas development through both bilateral and multi-lateral channels. Although the magnitude of need throughout the Third World is enormous, our experience in foreign assistance strongly suggests that the effective fostering of equitable and sustained patterns of development most essentially entails the ability to directly reach and assist participatory development initiatives. By failing to address these considerations in a sufficient manner, the report does not provide reliable evidence that drastic increases in foreign assistance outlays will substantially foster a betterment in life among those who most need our assistance. On the contrary, the argument may indeed be made that to increase development assistance through conventional channels is to further retard the ability of the world's poor to gain access to desperately needed resources. It is somewhat surprising that a document of such purpose does not fundamentally address such considerations while recommending significantly larger expenditures on the part of the American taxpayer.

In conclusion, this report simply does not offer a fair and sufficiently inclusive treatment of the "state of the art" in the fields of development and the effective delivery of foreign assistance. Having been prepared a decade after Title IX of the Foreign Assistance Act mandated a new direction in development aid, the Brookings report

contributes to the ongoing supersedence of quantity over quality in our development thinking -- a misconception which continues to plague our foreign assistance policies and programming.

**F. RESPONSE OF THOMAS H. HEMPHILL, EXECUTIVE ASSOCIATE, CODEL, INC.,
NEW YORK, N.Y.**

November 28, 1977

Hon. Michael J. Harrington
Chairman, Subcommittee on
International Development
Room 703 House Annex #1
Washington, D. C. 20515

Dear Congressman Harrington:

Thank you for your letter of November 8, 1977. I shall be happy to assist the Subcommittee as they examine the recommendations of the Brookings Report regarding U.S. foreign aid policy. In so doing, my comments reflect my own views rather than those of my agency, as such.

Regarding your specific questions, I would prefer to address briefly sections (1) and (2), and to deal more completely with sections (3) and (4). Regarding the interpretation of the "New Directions" strategy, two questions arise:

- (a) The report does not define the methodology by which a sectoral or regional framework will succeed in promoting growth with equity. It is commonly accepted within the field of international development that benefits from funds expended on major infrastructural projects rarely "trickle down" to the poorest majority. It is correctly argued that the poor, as well as the rich, need the advantages of agricultural research and extension, improved networks of roadways and railways, major irrigation canals, etc. However, unless the project is specifically directed to benefit the poor, they normally remain untouched, or are worse off than before. The results of the past two decades of development efforts clearly demonstrate that the local elite have benefited far more by the provision of these infrastructural improvements than have the poor. Infrastructure-building without land reform, legal changes, and other social/economic/political reform have little chance of impacting the lives and livelihood of the poorest of the poor.
- (b) Although it may be correctly argued that it is a poor utilization of time and funds for AID to concentrate its attention on the processing of small projects, the solution proposed by the report—"packaging small projects into larger programs"—is inherently weak. Experience has shown that the poorest majority

are sufficiently disenfranchised in most cases so as to be largely excluded from the benefits provided in their name, unless the project is small, direct and carefully aimed at the problems and opportunities identified by the oppressed majority. Ergo, the larger the program, the less likelihood of identifiable benefits significantly affecting the future of the poorest of the poor. I suggest that the weakness in the present system is not the number or size of projects, but rather the two to three year process of preparation, screening, and approval prior to implementation. Unless a more expeditious process can be articulated and implemented, the potential benefit of U.S. Government development spending will continue to be severely handicapped, regardless of project size.

I strongly support the position that the U.S. government should adopt a stance of nonintervention; without such a position, development aid remains not an expression of the humanitarian commitment of a concerned nation, but rather another tool of U.S. dominance in international politics.

CODEL, a consortium of American Christian mission-sending societies and organizations, is heavily involved in training and coordination with development groups and organizations in Third World countries. We strive to be alert to the sensitivities, goals, and frustrations voiced by our Third World colleagues, and to direct our assistance as close to the grass roots as possible, in response to those goals. We would encourage the U.S. Government to be similarly sensitive to LDCs, spending more aid money on goods, services and personnel available within the Third World, rather than investing heavily in American staff, agricultural commodities and manufactured goods.

Regarding the recommendations for AID institutional reform, it is to a large extent academic whether AID is dissolved and replaced, or whether the IDF is created. The basic issue is not the existence of a specific organization, but of a system. Unless there is a reasonable likelihood that the AID replacement agency will be less bureaucratically entangled, more committed to people than to infrastructure, and more responsive to the needs and priorities articulated by the developing nations, an institutional rearrangement will hardly constitute "institutional reform".

CODEL received a Development Program Grant from AID three years ago. The conclusion of that grant, the evaluation of CODEL's utilization of the funds, and the approval process for another grant, are all presently entangled in bureaucratic procedures within AID. There is a strong likelihood that this agency, along with many other American voluntary agencies, will find itself in a financially difficult situation, due to the unreliability and changing priorities of AID funds. While a new bureaucratic agency such as the IDF might help, it would need to be structured to provide more continuity of funding, with fewer bureaucratic requirements. This is the issue which must be addressed.

For a significant improvement in the effectiveness of U.S. foreign aid to the developing world, I would urge two essential changes. First, that procedures and processes be streamlined in order to short-circuit the present confusion, or that alternatives be established for funding which circumvent the present process. This would include the establishment of clear procedural guidelines and priorities, which would be adhered to without the sudden radical shifts which are presently proving destructive to those agencies upon which AID relies to accomplish elements of its mission.

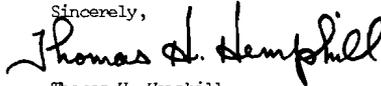
Secondly, a larger percentage of AID funds should be directed to flow smoothly through the American and international voluntary agency community. That these agencies have a recognized superiority in addressing and meeting the needs of the poorest of the poor is an established fact, acknowledged in the 1973 aid legislation of the U.S. Congress, and acknowledged as well by the United Nations system.

In spite of the above-mentioned legislation, AID procedures have made it extremely difficult and often demeaning for the American voluntary agencies to work with AID. (This is not a criticism of the individual AID staff with whom we work. They have been exceptionally sensitive, supportive, and helpful in building relationships and establishing commitments within the realm of our overlapping objectives. It is rather the AID system, of which they are small parts, that has beleaguered and stifled our mutual potential impact in the developing world.) It is interesting to note, as has the Overseas Development Council publication referred to in the Brookings Report, that AID's annual budget approximately equals that of the combined annual budgets of the American voluntary agencies (excluding funds channeled by AID through the voluntary agencies). Yet, in a recent 200-page reorganizational study published by an AID task force, only one page addresses AID's relationship with the private and voluntary organizations. An obvious conclusion is that AID, or IDP, or whatever government agency exists, needs to build relationships of mutual respect and sensitivity with the private and voluntary organizations, combined with a functional commitment to achieving common goals together.

We in the voluntary agencies welcome the interest and concern for basic human needs and human rights articulated in the Brookings Report, in the research of this Subcommittee, and in the thrust of this Administration. We encourage you in your study, and pray God's guidance upon your deliberations and decisions.

Please feel free to call upon me if I can be of any further assistance to you.

Sincerely,



Thomas H. Hemphill
Executive Associate

G. RESPONSE OF ELLIOTT R. MORSS, DIRECTOR OF RESEARCH, DEVELOPMENT
ALTERNATIVES, INC., WASHINGTON, D.C.

INTRODUCTION

Over the last five years, Development Alternatives, Inc. (DAI), has had the opportunity to do research, design and implement projects and conduct evaluations on behalf of the Agency for International Development (AID). This work, which was involved with attempting to fulfill the "New Directions" mandate, offered the opportunity to become intimately familiar with the Agency. Consequently, we are happy to have this opportunity to offer commentary on the reform and organization of the U.S. foreign assistance program.

Our comments will be organized in the following manner: firstly, some preliminary observations will be offered that relate directly to the role of Congress; secondly, we will turn to our view of the Agency and what needs to be done; and third, we will address certain parts of the Brookings report and finally conclusions.

PRELIMINARY OBSERVATIONS

Over the last decade, there have been a number of "overview" policy studies made of the U.S. foreign assistance program. The last one to have a significant impact on AID resulted in the "New Directions" legislation of 1973. This legislation constituted a significant departure from the past

in the sense that, for the first time, U.S. foreign assistance was to be targeted to assist the "poor majority" and in particular the rural poor of developing nations.

Since then, Congress has become increasingly impatient with AID and has passed more specific legislation concerning the implementation of "New Directions." This brings us to our first important observation. The 1973 legislation saddled AID with an extremely complex task, and Congressional impatience to "see results" has, for the most part, been premature.

One should remember what happened to the late President Kennedy's "war on poverty" efforts. Virtually all of the participants in and observers of that effort would agree today that too much was attempted too soon -- too soon in the sense of trying too much prior to taking the time to develop a meaningful set of implementation strategies. Congress has now tasked AID with a similar responsibility in countries with different cultures and political priorities where the economic bases are, by comparison with the United States, virtually nonexistent.

Policy changes as drastic as those called for in the 1973 legislation cannot be expected to happen overnight. Even with an efficiently run bureaucracy, time is needed to develop an implementation strategy; projects must then be designed to reflect this strategy, and time must then be allowed for proj-

ect implementation efforts and the inevitable resulting need to redesign the strategy as evidence from the first efforts to implement it comes in.

In this particular case, it would have been reasonable to allow AID two full years to develop an implementation strategy -- 1974 and 1975. In 1976, projects designed in accordance with the development strategy should have been developed, with implementation in 1977 and thereafter. Eyebrows might be raised over such a lengthy timetable, but let us consider some of the problems that had to be overcome. In 1973, DAI was awarded a contract to find a way to implement the "New Directions" -- in particular, to develop a strategy along which projects could be designed to benefit the rural poor. Rather than attempt to design a strategy on a deductive basis, DAI decided to look around the world for projects that were in fact benefiting the rural poor and attempt to develop a strategy in accordance with what was found. This led us to a fundamental problem -- while data were available on the numbers of people benefiting from development efforts, there were virtually no data available on who -- rich or poor -- were benefiting! The absence of these critical data was reasonable inasmuch as, until 1973, distributional effects had not been a primary concern. While understandable, this absence of data meant more time than had originally been anticipated was needed to collect these critical data.

In 1975, the DAI study was completed.¹ In essence, the study concluded that, if development assistance were to end up benefiting the rural poor in a manner that became self-sustaining, an evolutionary approach was called for:

- o Research on the rural poor in each setting was needed to identify the cultural, political, and economic constraints under which they operated.
- o The rural poor should be involved in project decisionmaking.
- o Large commitments of foreign assistance should be withheld until the rural poor had shown a willingness to make their own resource commitments to projects.

In short, it was concluded that the traditional approach to project development should be stood on its head: Instead of making a large resource commitment to projects at the outset, with information on how the resources should be spent spelled out in great detail, it was concluded that small resource commitments should be made at first with the details of the need for larger commitments developed as projects developed.

This approach initially ran up against a significant legal roadblock within AID. Specifically, Section 611(a)(1) of the Foreign Assistance Act calls for adequate planning to be completed prior to the disbursement of funds. The AID General

¹ Elliott R. Morss, John K. Hatch, Donald R. Mickelwait, and Charles F. Sweet, *Strategies for Small Farmer Development*, 2 vols. (Boulder, Co.: Westview Press, 1976).

Counsel interpreted this to mean that the recommended evolutionary approach could not serve as the basis for a project because inadequate detail was given on how future monies were to be spent. In short, legislation passed by Congress to insure taxpayers' monies were well-spent stood in the way of designing projects in a manner that had the best chance of fulfilling the "New Directions" mandate.

The DAI-recommended approach is but one of many that are being tried by AID to fulfill the "New Directions" mandate. Each has similar or even more severe impediments to overcome.

The important point for Congress and the Executive is that significantly new policies cannot be implemented overnight. Further, it is probable that more legislation to specify an implementation mode will impose such rigidities as to make them counterproductive. On this latter point, consider Congress' pro- "Basic Needs" and anti-infrastructure stance. There are situations in which implementation of "Basic Needs" will be sufficiently destructive of local initiative, and so burdensome fiscally on the host country government, to make it virtually impossible to implement the "New Directions" mandate, where the mandate is defined as equipping the poor farmer with the ability and self-reliance to help himself. As the Brookings report argues, there are cases in which some infrastructure is essential, short of resettlement, for any development to take place. These are but two instances of Congress having gotten so far into "implementation techniques" as to reduce AID's flexibility to implement the "New Directions" mandate.

On the other hand, AID is to blame for being unwilling to do anything more than assume a defensive stance. Rather than exploring in detail some of the problems in implementing the "New Directions," AID has attempted to placate its Congressional opponents with lists of accomplishments. In these latter efforts, AID has sometimes overstated its successes. Probably the worst fallout of this strategy is the sense it gives Congress that its mandates can be easily implemented.

Finally, it should be noted that, on a comparative basis, AID is not doing badly. The World Bank launched its own effort to target its development efforts on the rural poor at about the same time that AID did. And, despite the World Bank's ability to attract the best American development experts with higher salaries, our observations from examination of results in the field suggest that AID is doing better to date to help the rural poor than the World Bank.

RECENT AID EFFORTS

Under the new administration, the AID leadership has taken some constructive steps to improve its operations. Considerable authority has been delegated to field missions to approve projects. The approval process has been streamlined further by cutting out considerable paperwork in the review/approval proc-

ess that requires a Washington sign-off. The task force study to reorganize AID should offer further positive action.

However, one critical step remains to be addressed. Delegating authority to the field will not result in better projects unless it is accomplished by a switch in mission incentives. At present, mission directors who "move money" are most highly rewarded. When money is appropriated by Congress and is not spent, there is a natural tendency for Congress to respond by approving less money in the following year. This is not unique within AID; it is true in all government agencies. The problem within AID is that there is no countervailing power: There is no mechanism by which mission directors can be judged in terms of project success. Until now, an attempt has been made to insure project success through an intensive Washington review prior to project approval. This has failed for a number of reasons.

The important point is that with the delegation of power to the field, it is essential that AID/Washington establish an evaluation unit. Its responsibility would be to evaluate projects after, say, two years of operation. If the projects appear to hold little chance for success, they should be terminated. If such a process were set in motion, the understandable incentive to "program monies" would be at least partially mitigated by the realization that the mission would "stand accountable" for its efforts in later years.

Finally, a comment on AID personnel is warranted. The new AID leadership is on record as desiring to reduce Washington staff and increase staff abroad. It is also clear that the leadership would like to increase the quality of its personnel in certain areas. The problem in AID, as in other government agencies, is that unless the Civil Service Commission can be forced to stop acting as a union for federal employees and assume its legislated responsibility -- acting in the national interest -- it will not be possible to accomplish personnel changes that are clearly needed.

THE BROOKINGS REPORT

Introduction

There is much in the Brookings report that we heartily endorse. However, rather than attempting to improve upon the arguments made for the points we support, we will focus on issues where differences exist. They are research, reorganization, basic needs, human rights and "wholesaling" of projects.

First, a general point will be made concerning the focus of the report. Right now, two types of reflective work are needed: The first should focus on the nuts and bolts of how to implement the mandates Congress has already given AID. The second should attempt to take a look at U.S. foreign assistance in a broader context.

As to the former, what is needed is partially reflected in the title to the Brookings report -- "An Assessment of Development Assistance Strategies." However, before assessments can be done, we need to conceptualize alternative strategies. One attempt at conceptualization suggests there are at least ten ways in which AID could attempt to assist the rural poor.¹ With such a set of options in mind, we are able to determine what data are needed to assess alternative strategies. From the title of the Brookings report, one could have expected a detailed treatment of this sort. However, the report never gets to this level of detail.

As to the latter type of needed reflective work, a starting assumption should be that it takes from five to ten years to implement any new change in strategy. With this in mind, one should start from projections of what the development situation will be in five to ten years. Undoubtedly, there are going to be some dramatic changes. The World Bank is going to become much larger; voluntary organizations are moving their relative emphasis rapidly from relief and rehabilitation to development; the reserves of the oil countries are accumulating

¹ Elliott R. Morss, "Alternative Approaches to Assisting the Rural Poor," preliminary draft of paper to be presented at the Society for International Development meeting on Dec. 2, 1977.

at a rapid rate,¹ and what these countries do with their monies might significantly affect what level of foreign assistance the United States can afford. These and other factors should at least be considered prior to recommending any new direction for U.S. foreign assistance policy.

In regard to the two issues presented above, the Brookings report is "betwixt and between." It does not delve into the details of implementation alternatives nor does it present a future scenario and build on it. The result is a troubling degree of generalization on the one hand, and on the other, a worrisome set of recommendations that do not seem to be grounded in understanding of what is likely to happen in the next few years.

Research

The report argues for an independent research organization on grounds in part that research generates apparent frictions within AID now. We disagree strongly with this recommendation. It is almost inevitable that the operating arms of an agency will resist the research findings that call for changed procedures. But given that development research being discussed

¹ The International Monetary Fund estimates that the 1976 trade surplus of Saudi Arabia alone equalled nine percent of all international financial reserves!

is intended to assist the agency in implementing its Congressional directives, it is hard to see how removing the research arm from the agency would help. Indeed, if public administration research tells us anything, it is that such a removal will lead the research arm to become less policy oriented and the operating arm to become more of its own master. The Urban Institute offers a wonderful case study in the problems of an outside research arm having a direct impact on policy.

In the case of AID, such a move would be particularly inopportune at this point. The agency is now supporting a number of alternative approaches for implementing its "New Directions" mandate. These efforts should serve in some very real sense as a laboratory to determine what can work and what cannot. It is essential that the research arm be present to insist that certain data be collected so that such assessments can take place.

One of the major problems with AID research in the past has been that much of the policy research of the agency has been funded through the Technical Assistance Bureau. Rather than have a direct input into the policy of the organization, this bureau has attempted to "sell" its findings to AID's various operating arms. This has met with only moderate success. With the delegation of more authority to the field, this will probably meet with even less success in the future.

A more appropriate approach would be for policy research to go directly to the Office of the Administrator with appropriate field directives developed and sent out by him. If this were done the unsatisfactory arrangement, whereby one bureau had both the obligation to please the operating arms and at the same time do pathbreaking research, would be eliminated.

We have a second problem with the Brookings section on research. It states:

What is lacking are sufficient American institutional bases, in and out of government, to help develop research and development institutions in the developing nations and to carry out relevant research and training activity here.

We have, from our field experience, great difficulty with the existing activities of U.S. educational institutions, and before resources for their expansion are considered, the following problems should be addressed:

- o Self-serving research: On several occasions, we have observed examples of an American Ph.D. candidate, under AID funding, spending a year or more in a developing nation in research related to his Ph.D. topic. Instead of leaving the basic data (that were collected with the assistance of host country resources) behind with instructions on how it could be useful in developing policy, the student takes it back to the U.S. to be used solely in dissertation work. Too much research money, funded through U.S. educational institutions, is going to increase U.S. knowledge, and far too little is benefiting the developing nation.
- o Irrelevant and inappropriate training: With a few notable exceptions, the special training offered in this country for officials and students of developing nations is irrelevant to their needs. It is

irrelevant because it has not been developed in light of the resource constraints under which developing nations operate. The training is even more costly, in that it draws important officials away from their jobs, when they are frequently the only persons in the country qualified to carry them out.

Other Reorganization Recommendations

The Brookings report calls for establishing a new development assistance agency, independent of the State Department and responsible for operational programs. The arguments for this change are that:

- o The new agency would tend less "...to bias operations in favor of short-term political, as opposed to long-term developmental, goals..."
- o The new agency would be "the occasion for needed personnel improvements."
- o "New legislation establishing this agency would create the opportunity to eliminate unnecessarily restrictive provisions in the law."

We have considerable difficulty with this recommendation. There is an increasing sensitivity within the State Department, the military, and AID regarding the different primary missions of each entity. Foreign policy should be coordinated and development assistance is an important component of U.S. foreign policy. With the increasing sensitivity to the differing responsibilities of the three organizations already mentioned, we believe the arguments for coordination tend to support the existing arrangement.

The primary problems AID has encountered in recent years have had far less to do with the State Department than with the Congress. In this regard, it is naive to think that Congress is going to allow a new agency to carry out AID's responsibilities under legislation that is significantly less restrictive. It has to be recognized that most of the restrictions are supported by influential groups that will press for similar restrictions if new legislation is proposed.

We find the personnel argument also wanting. In light of the stronghold federal employees have on the system alluded to earlier, we seriously question whether the reorganization recommendations would result in anything more than a time consuming and costly game of musical chairs. In our view, a far more concrete and useful recommendation would be to remove the current obligation on AID to find jobs for a large number of Vietnam veterans. This requirement, which can only be avoided at tremendous cost, severely interferes with the agency's ability to seek out the people it really needs.

Basic Needs

The report argues that Basic Human Needs deserve more attention. While one can agree in general with this statement, it would be more satisfactory if it read "...deserves more critical attention." In development efforts, providing basic needs is no panacea. Two specific questions with this approach immediately come to mind:

- o How can one insure that provision of basic needs will not remove the critical incentive for the individual to help himself?¹ The issue is no different than the one revised in the Brookings report in discussion of the P.L. 480 program.
- o Who is going to pay for basic needs when the foreign assistance runs out? In theory, providing such assistance should lead to such an increase in productivity as to pay for itself. In reality, it is not clear that many developing nations will ever be able to pick up the tab once foreign assistance is withdrawn.

Human Rights

The Brookings conclusion that the human rights issue should be handled on a "case-by-case approach" is extremely troubling. Such an approach opens the United States up to the charge that the issue is being used on an *ad hoc* basis for political ends. What is needed is the adoption of a single definition that would lend itself to intercountry comparisons. This definition should go beyond the negative attributes of jailings and assassinations to include positive considerations of what each country has done to alleviate poverty. In short, we should push forward as far as possible to an agreed-upon uniform definition of human rights and then attempt to apply it consistently in our foreign policy deliberations.

¹ It is interesting to compare our concern with the incentive effects of domestic programs with our apparent lack of concern when it comes to foreign assistance programs.

"Wholesaling" of Projects

The Brookings report calls for a larger U.S. commitment to foreign assistance. In passing, it comments critically on AID's meager efforts to date to help the poor directly. It compares AID projects of \$2 to 3 million with World Bank efforts of \$30 million and says that AID must move in directions that the World Bank has followed.

In our view, such an approach would be extremely unwise. While there is room for infrastructure projects, the idea that projects intended to benefit the rural poor can be "wholesaled" in some manner through host country institutions verges on the unreal. There are only about a dozen developing nations that share our development priorities vis-à-vis the rural poor, and a smaller number organized to implement such efforts. Perhaps the toughest problem of all in the design of projects consistent with the "New Directions" mandate involves identifying the right set of administrative/organizational arrangements for project implementation. The problems of bureaucratic jealousies, personnel inadequacies, etc., that impede effective implementation of domestic programs are equally serious in developing nations. For AID to hand out resources to host country organizations in the manner suggested by Brookings would mean that AID has given up on attempting to implement its "New Directions" mandate.

Indeed, we would go one step further and argue that, until AID has a clearer understanding of how to implement the new mandate, a further increase in AID funding is unwarranted. At this stage, an increase in the amount of appropriated funds would only increase pressure for field missions to spend more monies and the consequence would probably be a plethora of badly designed projects.

The preceding comments are not meant to imply that it is inherently impossible to increase the size of projects designed to benefit the poor. The point is that, while we are groping and finding ways to do this more effectively, this is not the time to increase funding levels. Our recommendation would be to review carefully the implementation efforts of the next few years. If it then appears that we have had some success, some larger-scale projects should then be attempted on a pilot basis.

CONCLUSIONS

(1) The Congressional role should be to establish the general goals for our foreign assistance programs. Serious problems develop when Congress attempts to legislate implementation techniques.

(2) The mandates Congress has given AID to implement are complex and Congress cannot expect significant results on the "New Directions" mandates prior to the end of this decade. Efforts by Congress to speed things up will only force AID into "showy" projects that will not generate sustainable benefits.

(3) AID has not treated Congress with the respect it is due. Rather than report frankly on the problems and prospects of implementing Congressional wishes, AID has attempted to "please" Congress with alleged success stories.

(4) By delegating more authority to the field, the new AID leadership has taken a significant step towards eliminating much red tape. However, missions should be made more accountable for the results of the projects they initiate. This should be accomplished by establishing an evaluation unit in AID/ Washington with the power to recommend termination or expansion of AID funding on a project-by-project basis. Information collected by this unit could serve as the basis for more frank reporting to Congress as suggested is needed above.

(5) Development research should continue to be housed in AID, but the findings should be directed to the Office of the Administrator.

(6) A clearer understanding of the shortcomings of the Basic Human Needs approach is needed so that efforts to deal with them can be initiated.

(7) A clearer understanding of what is meant by "human rights" is needed so that it can be incorporated more systematically and fairly into foreign policy considerations.

(8) It is possible that funding for AID should be increased, but this should not be done until there is a clearer understanding on how to implement the new Congressional mandates.

(9) Extensive research should be undertaken to distinguish between the various methods proposed to realize the "New Directions" (e.g., generation of employment, fulfillment of basic needs, introduction of appropriate technologies, integration of rural development activities, etc.) and to determine measures of success or failure for each approach.

(10) In order to develop significant new policy directions for foreign assistance, a study should be undertaken to determine what the development situation will look like ten years from now.

H. RESPONSE OF EDGAR OWENS, A. T. INTERNATIONAL, WASHINGTON, D.C.

November 29, 1977

The Honorable Michael J. Harrington
Room 703
House Annex #1
Washington, D.C. 20515

Dear Congressman Harrington:

I very much appreciate the opportunity to comment on the Brookings Institution report, "An Assessment of Development Assistance Strategies," as requested in your letter of November 8.

I write as one who is convinced from numerous contacts with public affairs, academic and other groups around the country that many Americans:

- Are profoundly concerned about food, population, environmental and other problems of development, and their impact upon the United States.
- Believe our country and our government ought to play an important role in ameliorating these problems;
- Lack confidence in existing "foreign aid" programs;
- Would respond to a creative new approach to helping poor people in poor countries.

Rather than respond to all of your questions or comment on all of the Brookings report, I would prefer to concentrate on the key issue evolving out of the Debate about Development. What are the new ideas on development, that are variously known as "participation," "basic human needs" or "New Directions." What is the significance of these ideas for United States foreign policy?

The Brookings Report is not a creative new approach. Rather, and most unfortunately, it is yesterday's conventional wisdom on development stretched to accommodate some of the language and con-

cepts of the "basic needs" approach. It is unfortunate because a creative new approach to development does exist. Its existence offers the United States an unusual opportunity for international leadership that conforms with the best of the American tradition and with President Carter's emphasis on Human Rights. The opportunity lies in taking the lead in advocating the recently formulated and Congressionally approved "basic human needs" approach. This approach is increasingly regarded by development experts as the long-run solution to the world food and population problems and other aspects of economic development that command international compassion and attention.

"Revolutionary" is the word used by the eminent British economist Barbara Ward to describe the change in development theory that has been taking place in the 1970s. Much research on the new ideas in development and their formulations into a strategy was done by Americans, a point of which we can all be proud. I know many of these individuals personally and I know they would like nothing more than to help their government convert these ideas into action.

However, there is little sense of the search for better ideas on development in the Brookings Report. The change which Miss Ward judges to be "revolutionary" is described in the Report as nothing more than a shift in emphasis. Two examples:

First, in the third paragraph of the Report, Taiwan and Brazil are lumped together, apparently because both have achieved high growth rates. To begin with, GNP is no longer accepted as the sole measure of development performance or an indicator of how well the poor are faring. Indeed, it is arguable, for those who want a single statistical indicator of development performance, that either infant mortality or the birth rate would be a better choice than GNP.

Much more importantly, Taiwan, which is one of the most densely packed places in the world, and Brazil, which is not yet over-crowded, are each an outstanding example of two very different approaches to development. Taiwan is the non-communist world's outstanding example of "basic needs" or "New Directions" in action. The poor have more money, jobs, and food, better health and education, more control over their own lives, more hope and opportunity - the ways in which the poor are supposed to benefit from development and foreign aid. Infant mortality is as low as in the rich countries. The birth rate has been declining for twenty years. All this, even though Taiwan is twice as densely populated as Bangladesh, the country sometimes described as an "international basket case."

In Brazil, however, the rich are riding to the revolution in a Cadillac. Brazil is "trickle-down" in action. Her "economic miracle" (mid 1960s - mid 1970s) made no appreciable dent on her serious and worsening problem of un- and under- employment or other of the human problems of development. The poor, who are much the bigger half of Brazil's population, are no better off today than before the "miracle" began. But there are far more of them. The birth rate continues to be high, and so also infant mortality.

The second example: In the Report there are said to be two approaches to meeting "basic human needs" (pp. 7&8). The first, "efforts to broaden productive employment" is accurate as far as it goes. However, two aspects of increasing GNP are not mentioned, market development and "appropriate" technology. More importantly, there is no reference to participation and the "institutions of justice, sharing and solidarity" (more below). Yet, participation is the very heart of the new ideas on development.

However, what is described as the second approach to meeting basic human needs, "provision of basic services and commodities to the poor" is wholly unacceptable to those of us who have been involved in formulating the new approach to development.

There is a real danger that the concept of basic needs is degenerating into a kind of international welfare program. If the poor have no jobs, and tens of millions do not, some of the basic services and commodities would need to be subsidized. Leaving aside the question of who would finance the subsidies (the poor countries cannot afford it and American taxpayers would revolt), none of the rich countries and none of the recently successful countries have met basic needs for the bulk of their populations in this way. Further, the notion that "basic needs" consists of services and commodities ignores the self-evident point that, "man does not live by bread alone."

It is necessary here to explain briefly --

The Debate about Development

When "economic development," supported by foreign aid," became a kind of international imperative in the early 1950s, economists assumed that the poor countries would become "developed" primarily by increasing GNP. With rapidly rising GNP, the benefits of economic growth were supposed to "trickle down" to the poor. They would have jobs, more money, better health, more education, fewer children, and so forth. In addition, two decades ago, economists argued that the fastest way the low-income countries could increase GNP was to copy the big farm, big factory, big machine production systems used in the United States and other Western countries.

The results of this approach, however, have turned out very differently -- even though GNP in the poor countries has been rising twice as fast as it did in the Western countries in the 19th and 20th centuries. In most developing countries today, economic growth has been concentrated in a few big factories in the big cities and on the larger farms. The rich are richer, but hunger, malnutrition, rapid population growth, and other problems of poverty remain unresolved. This is Brazil and most developing countries.

The search for an approach to development that directly involves the mass of the poor has been going on almost as long as the "trickle down" approach has been in vogue. That search resulted, in the early 1970s, in the formulation of a strategy variously described as "participation," "people-oriented," "basic human needs," or the "New Directions."

The new approach recognizes that the developing world is overwhelmingly a world of small producers. Four-fifths of the farms are 12 acres or less. Most businesses and industries are equally small. Economists now understand that these small farms and enterprises can be efficient, but not by copying the Western "capital-using" modes of production. Rather, "labor-intensive," "capital-saving" production processes using "appropriate" technology (meaning tools and equipment which fit small farms, small businesses and small incomes) are now being emphasized. In addition, economists now generally recognize, contrary to their assumption in the 1950s and 1960s, that the poor can save and pay the cost of their own improvement.

The key point in the new approach is participation. The reason for this emphasis on involving the poor directly in their own improvement has been aptly expressed by Barbara Ward:

"A market system, wholly uncorrected by institutions of justice, sharing and solidarity, makes the strong stronger and the weak weaker. Markets as useful tools in a functioning social order have a positive and decentralizing role to play. Markets as masters of society enrich the rich and pauperize the poor."

Thus, the essence of the new approach is to create "the institutions of justice, sharing and solidarity" and to combine these institutions with economic incentives and appropriate technology.

The United States and the Poor of the Earth

How could the United States take the lead in advocating the basic needs approach to development?

To begin with, our government should explain in public the types of activities we are prepared to support through the bilateral assistance program and the reasons for our choice, something we have not done. The United States cannot, however, impose its preference on developing lands as a condition of foreign aid. The decisions about the future patterns of these societies, their organization, how they combine traditional and modern values, must and will be made by the countries themselves.

We can be more selective in the activities we support. Where the poor are being included in development, the United States can help, but rich America need feel no obligation to help countries which do not give their own villagers and slumdweller a chance to improve their lot in life, or, in different words, countries which still practice "trickle-down." Diplomatically, such a U.S. initiative could be softened by tying our proposals to United Nations Resolutions, which nowadays contain the code words of the basic needs approach - self-reliance, participation, decentralization, small farms, small business, market towns, appropriate technology, security of land tenure, local organizations, savings mobilization, and others.

The United States should also stress the importance of diversity, spontaneity and non-governmental initiative in development and foreign aid. The implicit political premise of government-to-government foreign aid is "statism." Through the years AID, the World Bank and other aid agencies have been widening the gap between government and people by increasing the capacity of national governments to plan for development without strengthening the capacity of people to participate in development.

Statism is contrary to our own tradition and values. It is also poor development. America would not be a rich land today if the development of our country had depended primarily upon bureaucrats in Washington. The world food problem cannot be solved by growing rice in government offices. Development should not be conceived as a bundle of technical subjects to be handled by experts, employed mostly by governments, but as millions of individual deeds by millions of individual people.

Apart from advocating the importance of non-governmental activity as an idea, more of official foreign aid could and should be channeled through the array of U.S. non-profit organizations already working in developing countries. In my judgment, many of these groups have already demonstrated their ability to work flexibly and imaginatively with both public and private groups overseas, and sometimes in ways that are inhibited by the official government-to-government character of most foreign aid. One reason for the success of these private efforts is a point which A.I.D. should emphasize much more. The private groups develop the close relationships which are essential if people of different nationalities and cultures are to work together and have confidence in each other.

Finally, U.S. support of the basic needs approach ties in with the Administration's concern for human rights, though here I think we need a broader conception of the subject than the traditional Western emphasis on civil liberties. The American people have never been hungry and our country was never a feudal society. In the low-income countries, however, some people are hungry and many are simply left out. "Marginal people have no names," a Brazilian slumdweller once wrote. Meeting the basic physical needs of people could turn out to be the first step in the evolution of more open and humane societies. The basic needs approach is not only a way for poor people to produce more themselves. It gives the poor some sense of dignity in that it gives them, for the first time, some direction over their own lives and their communities. For example, authoritarian Taiwan's highly successful "food first" policy includes some aspects of a rule of law with respect to such matters as land tenure, tenancy, and indebtedness. Could "food first" turn out to be the initial step in the loosening up of the political system?

In sum, our relationships with developing countries should be based more on the ideas on which our country was founded, less on the riches and military might we have acquired in recent generations. To support a development strategy which favors the rich is contrary to our tradition and also one of the causes of anti-Americanism in the low-income world. The new approach to development represents a policy the American people can support and the developing countries can respect. In a political sense, it is a non-violent approach to change which the Western world long has needed and has not had. It is an approach that can be supported by humanists and social justice-minded people everywhere.

The words of an Indian journalist friend suggest there are people in the developing countries who would welcome such a U.S. initiative.

"The reform of development should come from you people who thought of it in the first place (meaning Westerners). Best of all that it should come from the U.S., for your country is the natural leader of the Free World. If you Americans would take the lead, and would persevere, you would be surprised and delighted at how much could be accomplished in the course of a decade."

The Situation in AID

The New Directions or basic human needs can be divided into two parts; first, policy issues and certain services that are the proper function of central governments in any country, and, second, participation. AID's response to the first set of issues

has been energetic and effective. But not to the second set. The particular subjects involved in participation are regional planning for rural development, the characteristics of viable local organizations (which represent most of Barbara Ward's "institutions of justice, sharing and solidarity") and what is assuredly the most difficult problem of development, overcoming the apathy of the poor.

It is easy to criticize AID. But it is well to remember, as Lord Keynes once said, "the trouble with new ideas is getting the old ideas out of our heads." The 1970's appear to be the decade of transition in development theory. Conceptually, "trickle-down" is dead, though it is still being practiced. The world seems to be headed in the direction of the new ideas, which apparently are going to be called "basic needs," though we still know very little about how governments and foreign aid agencies will try to apply these ideas. The danger is that technocrats will try to apply them in a top-down way. To AID's credit, there are many within the Agency who want to apply the new ideas in the participatory manner represented by the New Directions, though they tend to be weak on knowledge and experience.

For all its faults, AID is the most people-oriented and socially sensitive and therefore the best of the big foreign aid agencies. The question now is whether AID can learn how to handle the new ideas, whether this much and unfairly, maligned agency can be insulated from geopolitical misuse and become what it ought to be - one of the outstanding public agencies of our time. I think it can.

Sincerely,



Edgar Owens

EO:dm

Note: Attached is a brief comparison of "trickle-down" and "basic human needs."

Important Characteristics of "Trickle-Down" and "Basic Needs" or "New Directions"

	<u>Trickle-Down</u>	<u>Basic Needs</u>
1. Concept of development	More GNP	More GNP + Participation
2. State of local institutions	Weak, little or no money	Strong, well-financed
3. Participation of poor in "modern" production system	Limited	High
4. Who has access to technology?	Rich	Rich and poor
5. Geography of economic growth	Concentrated in capital and other big cities and on larger farms	Widespread
6. Concept of efficiency		
A. Farming	Large more efficient than small	Small more efficient than large
B. Industry	Large more efficient than small	Small more efficient than large in many, though not all, types of industry
7. Can the poor save and pay the cost of their own improvement	No	Yes
8. Human Rights	Ignored	Possible
9. Performance		
A. Agriculture	Productivity low and static or rising slowly	Productivity high and rising persistently
B. Unemployment and underemployment	Rising persistently	Declining persistently
C. Infant mortality and the birth rate	High and static or declining slowly	High at the beginning declining steadily

I. RESPONSE OF ROY L. PROSTERMAN, PROFESSOR, AND CHARLES A. TAYLOR, RESEARCH CONSULTANT, UNIVERSITY OF WASHINGTON, SCHOOL OF LAW, SEATTLE, WASH.

To: Hon. Michael Harrington
Chairperson,
Subcommittee on International Development

From: Roy L. Prosterman
Charles A. Taylor
University of Washington

Re: Comments on the Brookings Institution Report, "An Assessment of Development Assistance Strategies".

In this memorandum, we will respond briefly to the specific questions asked in your letter of November 9, 1977.

1. We would not disagree with the Report's interpretation of the "New Directions' legislation, except to say that they have overlooked a major portion of it. Section 102 (e) already requires the President to develop standards to be used in the allocation of our bilateral assistance based on small farm productivity, reduced infant mortality, reduced population growth, improved income distribution, and reduced unemployment; and to urge their adoption by the multilateral organizations to which the United States contributes. We believe that this "standard setting" part of New Directions is as important as the "poor majority" concept, and that AID's consistent inattention to it constitutes a real violation of Congressional intent.

The Report seems to define basic human needs as potable water, health services, adequate shelter, food and education. It also implies that a permanent increase in the individual's capacity to meet these needs is the only strategy viable in the long-run, and accepts the validity of a "growth with equity" policy. But the Report offers little in the way of suggestions as to what the ingredients of such a policy might be. This, in effect, leaves the decisions concerning allocation of funds where it is now--in the Byzantine internal politics of AID and its multilateral equivalents.

The Report does suggest that appropriate projects within a "growth with equity" context might be "agricultural research, and extension, primary irrigation canals, small industry, rural electrification ...". It ignores, however, the plainest of all facts: that such projects abound in the LDC's, but in many cases have made the "poor majority" worse off, either absolutely or relative to other groups in the particular country. The effect of a project or program is largely determined by the setting in which it is carried out.

2. We feel that however sensible a "non-interventionist" approach may sound, its implementation by AID or its

successor would have to be very closely watched to avoid total disaster. We observed the "low profile" policy of the early 1970's as practiced by AID wherein senior Mission officials remained aloof in their air-conditioned offices waiting for the local government to come to them. Mission directors and senior Washington-based personnel should be moderately activist, particularly on income distribution issues.

With regard to standards according to which funds might be allocated, we would urge that close attention be paid to the land-tenure and small farmer support systems in a recipient country or project area. Where there are problems of distribution or tenancy, assistance should be withheld since most of the benefits will be siphoned off by large farmers or landlords. The fullest, most generous support possible should be given to governments contemplating or undertaking land reform programs. In countries where owner-operation is predominant, support should go to really basic farmer support systems. Beyond this the U.S. should support only grass-roots health and education projects and programs, and limits such as per-family-cost may be appropriate. We cannot too strongly urge program monitoring through random-sample methods.

3. We do not see the Development Cooperation Agency suggested in the Report as representing any real improvement over AID as presently constituted. In fact, we can see very little difference between it and AID. According to Civil Service and Foreign Service policies, the worst of the AID types would probably be hired by the new entity, and the only practical result would be to stop U.S. bilateral assistance altogether for at least six months.

As a better solution, we suggested a "Fund for Global Equity" some time ago. Briefly, it would be a fund allocating body operating within very strict legislative criteria, and reporting directly to the President.

It would have very clear standards as to what projects it could support, and would be free to contract with AID, the World Bank or other governments for project administration. We include as an Annex 1 a description of how such an entity might function in relation to food production problems. One of the FGE's goals would be to utilize AID's considerable expertise in carrying out programs when as the joke goes, "we have their attention."

4. The Report gives high marks to the performance of the multilateral organizations, and considers them to be

appropriate intermediaries for increased U.S. foreign assistance. We have conducted a project-by-project review of IDA and IDB programs, and find this conclusion to be without support. There is, it appears, a considerable gap between Mr. MacNamara's speeches, and IDA's performance. We attach this memorandum as Annex 2.

We believe that at a minimum, the U.S. should apply similar criteria--"participation of the poor majority" or "basic needs"--to IDA replenishments and bilateral assistance. There is nothing magical about IDA; from our examination, it is even less concerned about grass-roots development than AID, and far less responsive to Congressional concerns. At a minimum, we urge much closer monitoring of IDA by the Executive branch and Congress before an increase in funding is even considered.

J. RESPONSE OF JOHN G. SOMMER, FELLOW, OVERSEAS DEVELOPMENT COUNCIL,
WASHINGTON, D.C.

November 28, 1977

The Honorable Michael J. Harrington
United States House of Representatives
Washington, D. C. 20515

Dear Mr. Harrington:

I am happy to respond to your letter of November 8 asking for my personal evaluation of the interim Brookings Report entitled "An Assessment of Development Assistance Strategies." I believe we have a great opportunity as well as a great responsibility at this time to restructure our foreign assistance programs. In this context, I believe the Brookings Report has much to commend in it, though much to criticize, as well. I will try here to address within the context of the four questions in your letter the major problems that have been on my mind.

(1) While I am pleased to see the Report's stated acceptance of the existing New Directions and human rights legislative mandates, I am concerned that the Report has placed too much emphasis on growth through capital formation over growth from below through aid directly focused on the poorest groups. Of course capital formation and infrastructure are necessary for progress, and it may be that some people have leaped too quickly to criticize this approach in the zeal to promote aid for the "poorest of the poor;" there is also some reason to fear that the New Directions legislation will be interpreted by some to constitute a mandate for welfare doles as opposed to investment in self-sustaining developmental processes. My main fear, however, is that the Brookings Report takes us too far back in the direction of what has not worked in the past. Thus, instead of the strong emphasis on capital formation, I would like to see an equilibrium of approaches restored.

In terms of its interpretation of "basic needs", I think the Report falls somewhat flat. The Report purposely avoids setting targets by which to measure progress toward filling these needs because of fear of disappointment, and even abandonment of the effort, if for a variety of possible reasons the targets are not met. I sympathize with this concern and fear, myself, that the setting of targets could be counterproductive if too narrowly set and defined. On the other hand, I feel that if the global community -- not to mention the United States and individual Third World countries -- are to have a sense of where we are going and what we hope to accomplish with aid, a framework -- including some form of targeting -- is vital. Without it -- and I find this a major failure of the Report -- we are left without a goal and a purpose for our assistance efforts.

(2) In a theoretical sense, I am all in favor of "a non-interventionist style of assistance." However, I don't believe there is such a thing.

Assistance constitutes, by definition, an intervention into a host country's ongoing development process, and I would guess, based on my own experience, that if one waited for host countries to define all their own programs and projects, we would be giving eitherless aid or, in a number of cases, more aid that is less useful. Lest this appear an overly arrogant testimony to U.S. omniscience, let me explain:

It seems to me one must accept that a large part of "the development problem" is a political one in that poor people are prevented from improving their own lives by a variety of structural impediments. Because the elites and bureaucrats who generally frame aid requests from Third World countries are often not sensitive to this problem (or else choose to ignore it), it would be highly undesirable to undermine our U.S. ability to help shape the form of our aid so that it does indeed affect those root causes of poverty. Criteria established in advance might help, but because individual situations and political realities vary so much, I'm not sure one can really improve here on the existing New Directions criteria. Therefore, I would rather start from the assumption that we should intervene as diplomatically as at all possible (this would in itself be a major step forward) and negotiate in a real spirit of partnership what we can and cannot support through our aid. By way of example, I might refer here to the experience of the Inter-American Foundation which has performed admirably, by and large, in this connection. While I personally feel that the IAF underestimates the strength of its interventions, the IAF generally accomplishes its goals of social and economic change in a diplomatically acceptable way.

(3) It is in the area of institutional reforms that I most closely agree with the Brookings Report. I believe AID does need to be reconstituted, in large part because, as the Report's authors admit, a thorough personnel housecleaning is necessary. I also believe there is need for a coordinator for international development policy within the Executive Office of the President for the various reasons given in the Report. Finally, as I have advocated in my recent book, Beyond Charity, there is need for an independent foundation or institute that would engage the vast resources of the U.S. private sector for the research and training necessary to support development activities. My difference with the Brookings Report is that I would emphasize much less the academic community's role with such a foundation and much more the private and voluntary agencies' ability to promote what amounts to action research -- the kinds of relatively small-scale village or slum development projects that can point the way to larger efforts by other aid groups and local governments. For these kinds of efforts I believe it is essential to have a source of support that is not institutionally linked to the State Department (thus free from foreign policy control) and that is also relatively non-bureaucratic in style; while minimum accountability is always needed, this kind of freedom is necessary if one is to encourage the private sector to do what it does best and most

creatively. My original paper for the Brookings group grapples with this issue and I am thus enclosing it here.* (The paper was drawn on briefly for the Report but most of the background and rationale was omitted there in the interests of brevity.)

(4) I am cautiously in favor of a large increase in U.S. concessional aid as proposed by both the Brookings and DCC Reports. I say "cautiously" because I can see potential dangers in appropriating more monies that might have the effect of only exacerbating the problems we have recognized in our existing aid programs. If, however, we can establish a clear mission for our aid -- and I am inclined toward some kind of global agreement on a self-sustaining basic needs approach, as suggested in point (1) above -- and if we can cost out the amount required to begin to achieve the goals thus set -- then I am sure an increase would be called for. Two caveats here: 1) Absorptive capacity in the poorest countries is a problem (more than the Brookings Report suggests, I reluctantly conclude), and one would have to be careful not to overburden shaky structures either in the Third World or in our own aid apparatus, but rather to develop and nurture them carefully over a sufficient period of time. 2) We must be increasingly sensitive to local values in the countries we are assisting, a sensitivity we have often lacked in the past. Rather than expand here on this major point, I am attaching with this letter a copy of an ODC project on "building from indigenous values for development" which, on the basis of an earlier conversation we have had, I believe will interest you personally.

Finally, on the related point of attaching conditions for increasing aid, I think it is important that the Congress tread delicately. Obviously the New Directions and human rights conditions are highly desirable and important. I also believe that some legislative language is necessary to encourage AID to loosen the overly bureaucratic burdens it places on the private agencies it funds. However, too many legislative clauses can impede the effective conduct of aid programs, for development is essentially a vibrant and creative process that cannot proceed in the absence of some breathing space. Accountability, yes, but let's make it the minimum accountability necessary to achieve agreed program goals.

This has by now become a rather long testimony, though clearly not long enough to deal adequately with the large and complex issues raised in the Brookings Report and in your letter. If you feel any particular points would benefit from expansion, I will be happy to try to oblige. Meanwhile, let me say that I appreciate the interest you and the Subcommittee are taking on this set of issues, and I look forward to being kept posted as you move along in your consideration and in your legislative actions.

Sincerely yours,



John G. Sommer
Fellow

*This document is on file in the subcommittee office.

K. RESPONSES OF C. PETER TIMMER, PROFESSOR OF THE ECONOMICS OF FOOD AND AGRICULTURE, HARVARD UNIVERSITY, SCHOOL OF PUBLIC HEALTH, BOSTON, MASS.

November 28, 1977

Representative Michael J. Harrington
Chairman, Subcommittee on International
Development
Room 703 House Annex #1
Washington, D.C. 20515

Dear Representative Harrington,

Thank you for your invitation to evaluate the recent Brookings Report on USAID. As you no doubt know, Lester Gordon is a close colleague of mine at Harvard and I had several substantive discussions with him during the course of the Brookings Study. Consequently I am pleased to indicate my full agreement with the Report on all major substantive issues. For the record, however, I would also like to add my own perspective on several of these.

The Report is correct to emphasize the damage that can be done by blatantly using U.S. assistance to mold a country's policies to the liking of short-run U.S. foreign policy interests. Even with the "New Directions" it is by no means clear that U.S. interests will coincide with meaningful development for the poor in the third world. Further, even if concern for the poor were the only reason for trying to change a country's policy it is also not clear that we know enough to play such an arrogant role. The Brookings Report quite rightly argues that new knowledge is desperately needed about the mechanisms of involvement in a developing economic system for the poor. The poor are in fact a part of a larger system and aid targeted only for direct impact on the poor is almost certain to be a short-run palliative at best and counterproductive at worst. Surely we have learned from our own domestic experience that palliative programs for the poor do nothing to alter structural opportunities and rapidly become too expensive economically and politically even for a wealthy society. Such direct, palliative programs must be within the fiscal capacity of the host government to support. Outside funding may soothe our own consciences but will do little for the long-run potential of the poor to support themselves.

The support of basic human needs envisioned by the "New Directions" and by the Brookings Report must be implemented not by direct payments to the poor but by access to the production, and hence income generating, process. Such access is determined by a host of institutional, political, technical, and economic factors and policies over which the United States has limited, but varying control. I especially like the notion that the attitude of U.S. assistance should be one of being helpful. A country that desires help, both intellectual and financial, in moving in the "New Directions" could turn to the U.S. Countries that are not interested in bringing their poor more rapidly into the productive process would know not to turn to the U.S.

The obvious problem, which you raise in your letter, is the criteria to be used in judging whether a country is serious or not. No general rules can be laid down. One major function of an intellectually competent development assistance agency would be to judge on an individual basis each country's proposed program. All such programs should be judged relative to the constraints existing and what would be excellent progress in one context might be backsliding in another. It seems foolish to impose on all countries standards of conduct that the U.S. is now trying to live by but which were not necessarily part of our own development heritage. Much of the bitterness in the NIEO discussions stems from our newfound morality, concern for the fragility of the environment, role of women, and the like. Checklists mandated by Congress on each topic of concern will only hamstring a functioning development agency, as the Brookings Report highlights.

It is clear that USAID has been hamstrung, especially in the past few years. For what a personal testimony is worth, it has been an Agency with which it has been impossible to collaborate in any meaningful way. Even in research areas of recognized high importance, e.g. the nutritional impact among the poor of government development policies, the Agency has been unable to fund projects. It has, in fact, actively discouraged proposals from qualified researchers for fear they would subsequently be ineligible to do the research.

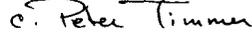
The Brookings proposal to reorganize the Agency into two bodies is one of what are no doubt several possible solutions. What is clear is that something drastic must be done. An Agency as hamstrung as AID cannot be freed by cutting one or two strings. Something new is needed and I am happy with the Brookings proposal.

There seems to be little doubt that a substantial increase in concessional aid could be spent productively. The problem for Congress is how to ensure that it is spent so. I endorse the Brookings enthusiasm for using multilateral agencies to make many of the "retail" aid discussions. Also, a more careful Congressional look at how Canadian, British, and Swedish aid are given might be revealing. What is clear is that a very large Agency containing many incompetent bureaucrats concerned only for protecting themselves with paperwork will not be the answer.

Time does not permit answering all of your questions in detail, even presuming that I were competent to do so. I have written in somewhat greater detail on some aspects of these issues and I am enclosing copies of two documents that you may find relevant. The first, "Food Aid and Malnutrition", was prepared for a USDA International Food Policy Conference this year. The second, "Food as Utopia", is a review of the Lappé and Collins book, Food First that I wrote for The Scientist magazine. I am sure you are aware of the Food First argument. My review does not attempt to rebut that argument point for point,

for much of what Lappé and Collins say is correct. However, they are frequently right for the wrong reasons and this seriously biases their proposed changes. I hope you will find the review interesting.

Yours sincerely,

A handwritten signature in cursive script that reads "C. Peter Timmer".

C. Peter Timmer
Professor of the Economics of
Food and Agriculture

L. RESPONSE OF ARPAD VON LAZAR, PROFESSOR, THE FLETCHER SCHOOL OF LAW AND
DIPLOMACY, TUFTS UNIVERSITY, MEDFORD, MASS.

M E M O R A N D U M

TO: The Honorable Michael J. Harrington, Chairman, Subcommittee on
International Development

FROM: Professor Arpad von Lazar *AVL*

DATE: November 29, 1977

RE: Comments on the Brookings Report

I will try to be brief. I assume praise and criticism of the Brookings Report on assessing the development assistance program will be readily forthcoming from all quarters. I also assume that a number of the critics will assert that the Report is merely old water under the bridge. Let me offer neither support nor criticism of this product: the old ideas in new guises, the organizational and institutional reorganization gimmicks and the litanies of self-serving righteousness combined with pompous castigations merely reaffirm the dominant impression this study makes on the reader: it is irrelevant! Its irrelevance rests at best on its (or the authors!) basic lack of innovativeness or at worst on the fundamental misreading of the essentials of a development assistance strategy and its policy implications.

Consider some of the following:

--In terms of "new directions" and the pressing demands of national development objectives in Third and Fourth World countries, equity distribution in income policies and accessibility of services is a primary goal; experience tells us that these goals can be attained only through the encouragement of (a) the growth of local/people level institutions and (b) the expansion of participation on all levels of rural and urban life through the encouragement of indigenous initiatives, appropriate technologies and the maximum utilization of local resources. Both (a) and (b) objectives remain "mystery items" in the Report, hidden behind the perfunctory genuflecting to the "human rights" criteria--which increasingly appears as the convenient burial ground of all participation-oriented strategy options.

--The approach to the "graduated" country cases carries with it the same conceptual fallacy: it is exactly in these environments (the Brazils, Mexicos and Colombias) where the enormous pools of poverty both necessitate and provide for an opportunity for infusing structural reform components into the attempts

to solve the practical problems of rural to urban migration, rural employment generation, land tenure and tax reform and an integrated urban service cum employment policy. It is exactly in the "just graduated" countries, where a bilateral assistance policy could have its greatest impact with the most significant redistributive effects. To give up on this option is to abandon both the goal of equity distribution and the potential benefits of strengthening local level/people's institutions in these countries.

--In terms of human resources the innovative strength and capability of AID personnel is undeniable, the structural and hierarchy inhibitive factors to exercising this innovative capacity are more than evident. To divide AID is fallacious. It also would not solve the dilemma of "innovation-mongering" in policy implementation. What we need are simple mechanisms for a personnel policy that would allow for innovators and risk-takers to rise to decision-maker and implementor positions. What we do not need is new formal structures, but rather a more efficient and effective utilization of existing manpower capabilities and talents! AID does have a "history"; what it lacks is a "memory", a capability to integrate into the policy formulation and implementation levels and experiences, evaluations and adjustments of the past. Thus I would not recommend the breakup of AID (and definitely not opt for the creation of an International Development Foundation. The R and D needs of a development assistance program could be well handled by a Development Institute that could be grafted into the present DSP program; in addition the provisions of Title XII already absorb much of the thrust of R and D).

--The total "white-wash" of the multilaterals, especially the World Bank, merits little comment. Still the Report's assumptions and recommendations are mind-boggling in the long run: an ever expanding lending policy in either (a) settings of presumed high absorptive capacity with proven institutional-structural and human resource capacity limitations (i.e. the poorest of the poor countries) or (b) lending to "middle-range" or "graduated" Third World countries assuming a growing institutional and budgetary debt-carrying capacity (concurrently hoping that several of these countries, for example Mexico, will not need to borrow within a few years) is merely compounding the silent mistakes of the past with fallacious projections for an unlikely future.

--And where are the best examples for the "new directions" policy applied, albeit inadvertently? For example, the experiences of the Inter-American Foundation in identifying and strengthening the "missing link" of development: indigenous participation and people's institutions? The Report's excuse rests on citing the small scale and of funds and operations involved as related to monumental country needs. Isn't it high time for Congress and the Executive Branch to recognize the marginal relevance of size and scale and signal commitment not by funds but by innovation and institutional daring? For such purposes we hardly need new artificial structures, but rather clear-cut Congressional directives and effective policy implementation. The rest remains in the realm of irrelevancies!

M. RESPONSE OF ROBERT F. MEAGHER, PROFESSOR OF INTERNATIONAL LAW, THE
FLETCHER SCHOOL OF LAW AND DIPLOMACY, TUFTS UNIVERSITY, MEDFORD, MASS.

The Brookings study follows well travelled roads. The options considered have been periodically discussed from the inception of U.S. aid. Should the aid agency be within the State Department or should it be an independent institution? Should the goal of foreign aid be long-term economic development or short-term political gains? Should aid be directed to countries approaching an economic "take-off" or those that are most needy? Over the years the U.S. has tried combinations of each of these options. The Brookings report reconsiders the options.

Amount of Aid

The report, after outlining the miserable state of a large proportion of the world population, suggests a doubling of U.S. aid over the next five years. In light of the problems this is an extremely modest proposal. It hardly befits the U.S. Government to contribute so little to this fundamental development problem.

It is true, as the report points out, that development is primarily an indigenous problem. However, aid can perform a vital catalytic function if sufficient resources are provided on a systemic basis, fashioned for specific economies. Administrative convenience and domestic political pressures have tended to encourage universal fads of the year i.e. development bank years, rural cooperative years, etc. What is needed are programs fashioned for each particular society in light of its needs. This requires people in the field for sufficient periods of times to understand the problems of any particular country.

In conclusion I believe that aid should be increased by at least the highest amount set forth in the report. One should remember that approximately 90 cents of each bilateral aid dollar is spent on U.S. goods and services, thus creating employment for American workers in a variety of economic sectors. Even today the U.S. exports more goods to developing countries than it does to Europe or Japan. In the future as these countries develop, the potential for even more U.S. exports is evident.

Organizational Matters

The report talks around rather than focusing on the coordination problem. The location of the coordinator may be irrelevant if the person selected is a Dillon or a Harriman with their direct access to Congress, the White House and the executive offices of government. Generally, and surely in recent years, this has not been the case. The reason is relatively simple, aid has not been considered important enough to attract the very top public officials necessary to affect coordination. Lesser men, no matter how good their intentions, cannot control the internecine warfare which exists in all complex governments. Thus any serious effort to make aid more relevant to the development process will require the recruitment of an individual who can command respect in the Congress, the White House, and the relevant executive offices. A lesser official will fall prey to the special interest groups striving for their share of government funds and power. A strong national commitment to development with sufficient funding will produce both the leadership and the funds necessary to breathe new life into the aid program. When this day arrives the location of the coordinator's office will be largely irrelevant.

The proposals for splitting AID into two institutions may create serious problems if the linkage between the two newly proposed institutions is not improved upon. The report suggests two quite separate institutions with linkage at the

top in the person of the aid director. I believe that it is essential for effectiveness to ensure that a substantial part of the IDF is made up of operational people with a great deal of field experience preferably with an aid agency.

Multilateral/Bilateral Aid

The report accurately states that both multilateral and bilateral aid should receive more support. As presently constituted, they concentrate on different constituencies and different types of projects.

The report paints U.S. bilateral aid as a second best, somewhat inferior, option. This is not historically accurate. Virtually all of the innovation, and thus risk, in foreign aid has been initiated by the various U.S. aid agencies over the years including: the importance of non-economic factors in development (Title IX); long-term soft loans (DLF); etc. Over the years other bilateral donors as well as multilateral donors have followed U.S. aid initiatives both in substantive and procedural matters. U.S. aid agencies have worked with the complex human aspects of development not the much simpler bricks and mortar issues of large scale capital intensive projects. U.S. aid experimentation and experience has been essential to the evolution of development techniques.

The World Bank Group (the Bank, IDA and IFC) is the center of world development efforts today. Considering the scope of its problems it does a magnificent job. It is able to attract the "brightest and best" from all over the world. Its positive aspects overwhelmingly outweigh its shortcomings. Its large capitalization and access to capital markets limits day-to-day politicization of development issues. These are important attributes and the U.S. Government should continue to support and reinforce them.

New Directions and Development

The New Directions approach is a very limited and thus partial approach to development. Helping the poorest of the poor countries and concentrating on limited sectors is a necessary but not sufficient development strategy for the United States. It encourages a mechanistic rather than a systemic approach to development and thus has doubtful validity as a development strategy.

Over the past 30 years we have learned a great deal about the development process. We have both the knowledge and personnel to make an important contribution. To be effective administrative boundaries and constraints should be eliminated.

Coordination with the U.S. Government

One of the weakest aspects of U.S. international economic policy is its multi-directional, uncoordinated approach. There have been many improvements over the years. Today none would dispute the linkages between aid policies and trade, investment, agriculture, technology and other policies. This awareness however has an insufficient institutional base. A full discussion of these issues would take us far beyond the Brookings study.

N. HON. LESTER E. EDMOND, DIRECTOR, BOARD OF DIRECTORS, ASIAN DEVELOPMENT
BANK, MANILA, PHILIPPINES

ASIAN DEVELOPMENT BANK

Director
BOARD OF DIRECTORS

P. O. Box 759
Manila, Philippines

1 December 1977

The Honorable
Michael J. Harrington
Chairman, Subcommittee on
International Development
Committee on International Relations
U.S. House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

I wish to acknowledge your letter to me of November 8 which requested my comments on the Brookings Institution's interim report prepared by Lester Gordon entitled, "An Assessment of Development Assistance Strategies." I regret that I have been unable to meet your deadline for the receipt of comments, but your letter only arrived last week. My comments will be limited to the section of the report entitled, "Multilateral Assistance", an area in which it may be presumed that I have some particular knowledge in view of my present assignment as United States Executive Director to the Asian Development Bank.

First, I wish to state that I agree with the generally positive thrust of the comments made in this section of the report. The ADB is, I believe, carrying out its development responsibilities efficiently, and is generally regarded as being well managed. An expanding post evaluation of the Bank confirms the generally held view that the project loans have been, on the whole, well conceived and carried out. At the same time, the Bank appears to have established a satisfactory reputation in the international capital markets that should stand it in good stead in the future.

The United States Government has encouraged the Asian Development Bank to emphasize projects that help the poorest segments of the population. For example, the ADB is now emphasizing integrated rural development projects that increase food output by coordinating irrigation programs, water supply, seed production, and feeder road systems. At the same time, these projects also improve living standards by improving health and education facilities. In so doing, it should be appreciated that such programs will tax the administrative ability of many recipient countries to the limit since they are complex and difficult to

manage. I think we must be prepared for disappointment as well as success and not penalize the multilateral institutions in the future for their willingness to accept such difficult and demanding projects. In connection with these projects and others, the Bank is making a strong effort to support the use of appropriate technology whenever possible.

Having stated the above, I believe we should not go to extremes. There continues to be a need for the international development banks to support traditional capital-intensive infrastructure construction, an area which U.S. bilateral assistance is precluded from assisting. Developing countries continue to have priority requirements for projects in the power, transportation, and public utility sectors, areas where the multilateral banks can effectively promote co-financing arrangements for projects that are too large for one institution itself to finance.

From my vantage point, one of the most important contributions that the international financial institutions can make in promoting economic development is the encouragement and training of private entrepreneurs who, in turn, are a most effective catalyst in support of economic growth.

To date, the Asian Development Bank has, in its direct loans, preponderately lent to public sector entities in support of infrastructure required for industry, agriculture, and the basic human needs services of the urban and rural populations. The Bank, however, has extended substantial general purpose credits to national development financing institutions which, in turn, have made smaller loans to private businessmen. The ADB's Charter does permit it to extend direct loans or take equity interest in private enterprises. With rare exception, it has not as yet done so for a variety of reasons. First is the belief that such lending would be regarded by the world's capital markets as more risky than lending to government entities and, if undertaken, might cause the ADB's financial soundness to be questioned by potential bond purchasers. The desire to develop a sound financial reputation in the world's capital markets thus continues to be a question of high priority for the ADB's Management, which appreciates that future acceptance of the ADB's financial obligations at reasonable interest rates is a key to the continued healthy existence of the Bank. Secondly, the Bank Management's attitude is undoubtedly influenced by the fact that unless additional funds for this purpose were to be provided by the Bank's members, assistance to private firms would not be additive to the amount of lending the Bank presently can undertake, but would merely change the direction of its flow. Furthermore, the Bank currently lacks a staff that is oriented to the opportunities and problems of the private sector. Finally, the majority

of the member countries has not pressed the Bank to move in this direction and it has been easier to give priority to pending projects that governments desire than attempt to redirect programs and carry out new endeavors. I do believe, however, that the Bank's Management may be ready to look at the issue more sympathetically, particularly if pressed by major donors.

One of the basic issues facing the United States Government today as regards the ADB and other multilateral financing institutions, is to what extent these institutions can be directed to further our own particular foreign policy concerns.

Multilateral development banks operate in a complex international political setting, in that their members are national governments, each with its own foreign policy goals. Furthermore, the Bank's lending operations often influence the domestic priorities and economic policies of the borrowing member countries. To help protect the integrity of their operations from the pressures that might arise from such a situation, the Banks traditionally have sought to limit the range of issues and criteria that may be used in considering their lending programs. For the most part, the Bank staffs employ technical standards when they review the specific loan proposals under consideration by the Bank. The member governments, through their representatives on the Boards of Directors, to date, have confined their discussions regarding the merits of these loans to economic issues. The ADB's Charter specifies that "only economic considerations shall be relevant" in the development of its program and the Bank is prohibited from interfering in the political affairs of the member countries or giving any weight to the political characteristics of member governments.

I fear that the multilateral structure of the ADB places some practical limits on the extent to which the United States can use it to promote political issues of specific concern to it. The United States can only seek to persuade other governments and not just rely on its voting strength if it is to affect Bank operations.

President Carter has made clear and Secretaries Vance and Blumenthal have emphasized that this Administration believes that the goals and purposes of economic development encompass human rights as well as freedom from economic privation and want. The Congress equally has made its views known as to the importance it attaches to this issue. The Asian Development Bank, quite clearly and properly in my view, will be a forum in which this objective will be pursued.

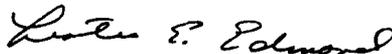
However, if the United States were to rely on the multilateral banks as its primary vehicle for promoting action in such areas as human rights, nuclear non-proliferation, arms control, or protection of domestic industries or agriculture, we run the risk of reducing the influence of the United States within these international organizations. We would also run the risk, as we introduce our own policy concerns in the Bank, that our actions will encourage other nations also to use the Bank for their own national foreign policy objectives which may be at odds with our own.

Finally, I agree with the author of the Brookings study, that efforts to strengthen the voice of the United States on certain issues by attempting to exercise a veto through the restriction of contributions could very well result in the destruction of such institutions, which, in my view, would be a foreign policy loss of disastrous magnitude. To conclude this point on a positive note, changes in Bank policy by and large have tended to flow from a growing consensus within the international community for a particular change brought about by diplomatic persuasion both within the Banks and in foreign capitals. This should be the principal means used and Congressional efforts to press the Executive Branch to be active along these lines would be worthwhile and a productive means of making its views known.

Finally, I wish to support the concept of multi-year funding for multilateral assistance -- for appropriations as well as for authorizations. I do not know if it is fully appreciated that the U.S. practice of single-year appropriations results in a situation where U.S. voting power increases only as annual subscriptions are appropriated, whereas the voting power of other donor countries is increased by the full amount at the time of the commitment of the multi-year subscription.

I trust, Mr. Chairman, that these observations and views will be of assistance to your Subcommittee in its consideration of the Brookings report. For the record, I should make clear that the views expressed in this communication are my own personal ones and do not necessarily reflect those of the Executive Branch.

Sincerely yours,



Lester E. Edmond
Ambassador
of the United States of America

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