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MAKING ORGANIZATIONAL CHANGE EFFECTIVE:

CASE ANALYSES OF ATTEMPTED REFORMS

IN FOREIGN AFFAIRS

A Report to the
Commission on the Organization of
the Government for the
Conduct of Foreign Policy

National Academy of Public Administration
1225 Connecticut Avenue, N. W.
Washington, D. C. 20036

November 1974

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FOREWORD

Under a contract between the Commission on the Organization of the Government for the Conduct of Foreign Policy and the National Academy of Public Administration Foundation, the Academy conducted a study of the actual effects of organizational reform in foreign affairs. The consequences of attempts to restructure complex organizations are numerous and difficult to anticipate fully. Neither the Commission nor the Academy expected that the results of the study would provide answers to this matter by describing laws of organizational change which could be mechanically applied. But both shared the view that, before proposing changes in the complex organizational setting responsible for the conduct of foreign affairs, the task of the Commission would benefit from as clear an understanding as possible of the actual effects of such changes and of the factors which accounted for those effects, anticipated and otherwise.

Nine case analyses were made of recent changes in the organization of the United States Government for the conduct of foreign policy--three involve foreign affairs personnel, three concern policy planning and coordination, one focuses on the overseas establishment in terms of the role of the U. S. Ambassador, and two relate to foreign aid. The cases cover instances of high and low success in terms of attainment of the objectives of the reform, of relatively simple and relatively complex change, of small and large scale modifications, and of internal and external stimulation for change. Each case analysis is based upon a thorough review of relevant documents and upon extensive interviews of persons who had been involved in the reform effort.

With regard to each of the nine cases, the context is provided including a description of the actions taken, the major actors involved, the sequences of decisions and events, the dominant considerations which came into play,

and the outcome. The major effort in each case study, however, is an intensive examination of the following questions:

1. What effects were the proposed changes intended to have?
2. What effects, intended and otherwise, were actually experienced?
3. What factors appear to have been responsible for the actual effects of the changes?

The study was conducted by a panel composed of Richard W. Barrett, management consultant in New York City and publisher of the American Bicentennial Monthly; Roy W. Crawley, Executive Director, National Academy of Public Administration; I. M. Destler, Research Associate, Foreign Policy Studies, The Brookings Institution; James W. Fesler, Alfred Cowles Professor of Government, Yale University; Edmund A. Gullion, Dean, Fletcher School of Law and Diplomacy, Tufts University; John E. Harr, associate, John D. Rockefeller 3rd, New York City; Frederick C. Mosher, Doherty Professor of Government and Foreign Affairs, University of Virginia; and Harold Seidman, Professor of Political Science, University of Connecticut.

Authors of the individual cases include Leland Barrows, former U. S. Ambassador to Cameroun and Togo and most recently Director of Aid and Commercial Studies of the Center for Strategic Studies, Georgetown University; Chester A. Crocker, Director, Master of Science in Foreign Service Program, Georgetown University; Manlio DeAngelis, former official of the Agency for International Development, currently consultant to the American Society for Public Administration; Dominic Delguidice, formerly Director of Urban Studies for the National Academy of Public Administration, presently consultant to the General Government Division of the U. S. General Accounting Office; Michael M. Harmon, Associate Professor of Public Administration, The George Washington University; Erasmus H. Kloman, Senior Research Associate of the National Academy of Public

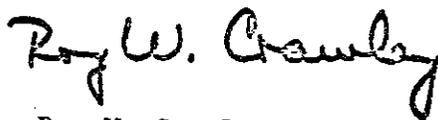
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Administration; William T. McDonald, former federal personnel administrator, now a consultant in personnel management and training who has served on several Academy panels; and Melbourne L. Spector, former official in the Department of State and the foreign aid program and currently a management consultant. Brief biographies on the panel members and case consultants are provided in Appendix B.

Two panel meetings were held. The first was devoted to a review of the proposed approach to the study, including a common frame of inquiry, and the methodology and procedure to be followed in each case. The first drafts of the case analyses then were prepared and circulated to the panel and the other case consultants for review and comment. The cases were revised, as appropriate, and a second panel meeting was held; it was concerned primarily with the development of conclusions and generalizations for the summary portion (Part One, Chapter II) of the report.

The report is divided into Part One, consisting of a chapter on the changed environment (1945-75) within which U. S. foreign affairs agencies function, and an overview chapter based, in large measure, on the findings from the case analyses; and Part Two, consisting of the nine case studies.

On behalf of the Academy, I express appreciation to the panel members and the case consultants for their contribution to this important study. I sincerely trust that it facilitates the significant work of the Commission.



Roy W. Crawley
Executive Director

CHAPTER X

FOREIGN AID: THE TRANSITION FROM ICA TO AID, 1960-61

Prepared by
Manlio F. De Angelis

FOREIGN AID: THE TRANSITION FROM ICA TO AID, 1960-61

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FOREIGN AID: THE TRANSITION FROM ICA TO AID, 1960-61

Introduction

Scope and Highlights. This case involves the transition process from the International Cooperation Administration (ICA) — and other related foreign aid agencies -- to the Agency for International Development (AID). It covers the period from the Summer of 1960 through the reorganization that created AID in November 1961.

The setting, organizational elements, and stimuli for change are briefly presented. In addition, the principal change agents and forces that shaped the reorganization are identified. The main focus is on the effects and the causative factors. An analysis is made of the objectives met or not met and the underlying reasons. Finally, the organizational change process, keyed to lessons learned from the case, is discussed.

The basic reasons for the success of the AID reorganization are that it was timely, well-prepared, and responsive to needs of the less-developed countries that had attained sympathetic attention of the people, Congress, and the President of the U.S. The political campaigns of 1960 and the 1961 momentum of a new administration climaxed in recommendations and proposals that, generally, were accepted. The reorganization and new concepts also sought to reduce the causes of many of the criticisms of the past. In short, the U.S. did respond to the spur for world leadership in development, and many other nations increasingly joined in the effort by participating as foreign aid donors.

Setting and Background: Conditions Leading to Attempted Change. The U.S. Government's efforts in the foreign economic area have grown and evolved with

the development of the U.S. as a world power. They have been spurred also by the increasing interrelationship of domestic and international economic affairs and the sharpening of economic and "cold war" competition with the Communist world. The 1947 Greek-Turkish Aid program, including both military and economic assistance, marked the beginning of a new phase. The Economic Cooperation Act, in 1948, led to a four year (Marshall Plan) large scale capital transfer effort for 17 European countries based on recovery plans which they developed. The Point IV technical assistance program was proposed in President Truman's inaugural speech in 1949. After the Korean invasion, the main justification for economic aid was its contribution to U.S. security.

Under the Mutual Security Act of 1954, the relative emphasis on military assistance lessened and other instruments were created or enlarged to provide free world economic stability and growth. The Export-Import Bank's operations, principally to promote U.S. exports, were expanded. The Development Loan Fund, established in 1957, also evidenced a growing emphasis on loans, rather than grants, for foreign economic assistance. Public Law 480 of 1954, providing disposal of surplus agricultural commodities, developed into an important aid instrument. Furthermore, the U.S. contributed a major part of the funds for a variety of regional and international organizations and programs, such as the UNDP, the IMF, the IBRD and its affiliate, the International Development Association (1960), and the Inter-American Development Bank (1960).

The history of foreign assistance has been marked by periodic and frequently disruptive structural, personnel, and policy changes. These have occurred as the ICA and its predecessor agencies moved from seeking economic recovery in Europe, to a focus on political and military security objectives, and then to emphasis on economic and social advancement in developing countries. The programs have been considered "temporary" and the annual legislative authorizations and

appropriations have involved detailed Congressional reviews and, frequently, the addition of restrictive legislative requirements. So much of the time of officials has been required for these reviews that, often, too little topside attention was left for administrative direction.

Major Organizational Units Involved. In January 1961, the outstanding organizational characteristic of U.S. foreign economic assistance activities was their high degree of dispersal among executive departments and agencies. This dispersal reflected the diversity of the U.S. economy, the complexity of foreign affairs, and the tendency to create organizations and assign responsibilities in the foreign economic field based on domestic political considerations. Furthermore, this "topsy-like" growth, during the 1950's, may have been partly the result of the multiple purposes to be served, as well as the deliberate strategy of some top officials aimed at getting more total funds by having many sources for foreign economic assistance. State had a major role in the foreign economic field and, historically, was responsible for foreign affairs, but it no longer had the dominant role. Treasury, Agriculture, and Commerce, the Development Loan Fund (DLF), the Export-Import Bank (EXIM), the Department of Defense (DOD), and the International Cooperation Administration (ICA) -- though it was semi-autonomous under State -- had operationally significant roles. Many other less well-known agencies also had important functions. The President and the White House Staff, the Bureau of the Budget, and the Food for Peace Program (PL 480) were vital elements in this program area. The "to-be-born" Peace Corps was yet another organization which later would have large numbers of volunteers overseas.

The Stimuli for Organizational Change

Presidential Change of Administration. During the election year of 1960, it was clear that, whether Kennedy or Nixon won, foreign aid would be subjected

to a new and critical look since annual authorizations and appropriations were required. Therefore, the new President would have to develop proposals on foreign aid for submission to Congress. In addition, he would have to take appropriate executive actions since the appropriations would be made to him.

Following his nomination, Senator Kennedy, with appropriate publicity, had commissioned Adlai Stevenson to prepare a report on foreign policy problems as one in a series of advisory committee reports to be delivered in the transition period between the election and the inaugural. After Kennedy's election, more reports were needed as foundations for new programs and policies. Public reports also were considered valuable for use as "trial balloons" to test the political climate for changes and as evidence to the public of mounting and continuing momentum for the Kennedy administration. George Ball and John Sharon, Stevenson associates, headed a series of task forces, including among others: foreign economic policy, Africa, and overseas personnel. Kennedy's private judgment on the task force reports, delivered by January 1961, ranged from helpful to¹ terrific. Because of these intensive advance preparations and his own definite views formulated during his service in the Senate, Kennedy's program took definite shape well before his inaugural on January 20, 1961. Thus, the President was able to take the legislative initiative immediately -- submitting 16 comprehensive messages (foreign aid and Latin America included) plus some 277 separate requests to Congress during his first hundred days in office.

Congressional Attitudes and Section 604, Mutual Security Act of 1960.

Congressional opposition to U.S. economic assistance programs continued to rise after the cessation of the Korean conflict. The termination of all economic

¹Sorenson, "Kennedy", p. 237.

assistance within 24 months and military assistance within 36 months was specified in the Mutual Security Act of 1953. By 1954, Congress had softened its position somewhat but still required the termination in 1955 of the Foreign Operations Administration (FOA). Accordingly, President Eisenhower abolished FOA in 1955 and created ICA within the State Department. Despite the changes in organizational structure, Congressional dissatisfaction continued, as shown in part by the following:

1. 1959: Congressional establishment of the office of Inspector General and Comptroller for Mutual Security reporting to the Secretary of State to review, inspect, and audit the foreign aid programs and to evaluate their effectiveness.
2. 1960: Senator Fulbright's amendment to the Mutual Security Act, as finally enacted, called upon the President to have a study made and required findings and recommendations to be reported the following year. As enacted, Section 604 provided:
 "The President shall have a study made of the functions of, and the degree of coordination among, agencies engaged in foreign economic activities, including the Department of State, the International Cooperation Administration, the Development Loan Fund, the Export-Import Bank, and the Department of Agriculture, with a view to providing the most effective means for the formulation and implementation of United States foreign economic policies. The President shall include in his presentation to Congress of the fiscal year 1962 mutual security program his findings and recommendations resulting from such a study."
3. 1960: Congress asked the President to arrange for a nongovernmental study of the advisability of establishing a Point Four Youth Corps.

By 1960, criticism of the program was widespread. Both within and outside the walls of Congress there were charges of waste, inefficiency, unqualified personnel, poor organization and administration, lack of coordination, lack of information, and failure to follow Congressional mandates.

Expanded Role of the U.S. in Foreign Economic Activities. As of 1960-61, U.S. foreign economic activities involved a diversity of goals and objectives, many of which were in conflict. The January 1961 Section 604 Study stated:

"There is no overall set of objectives tying together the various functional groups of activities; viz, foreign assistance, economic defense, and economic reporting."²

The expanded role of the U.S. foreign economic activities, in addition to countering the Sino-Soviet Bloc economic and military competition served multiple assistance objectives and many broad domestic purposes, including: (1) expansion of foreign trade and U.S. exports; (2) maintenance of a vigorous and growing U.S. economy; (3) regional economic integration; (4) development of underdeveloped nations; and (5) participation of private enterprise in foreign investments. Vast improvements in communications and transportation facilities had shrunk the oceans and multiplied the concern of the U.S. at disruption in the economic or security situations throughout the world. Accordingly, there was widespread interest in improving U.S. organizational capacity to respond to world challenges. There was support for more emphasis on providing capital for development, social progress, and modernization. In 1959, Senator John F. Kennedy, after mentioning the national preoccupation with the missile gap,

"called attention to another gap which, he said, 'constitutes an equally clear and present danger to our security' -- the economic gap. By this he meant, "The gap in living standards and income and hope for the future -- between the stable, industrialized nations of the north, whether they are friends or foes, and the overpopulated, under invested nations of the south, whether they are friends or neutrals."³

Transition Planning and Implementation: Methodology

Pre-Election Politics to the Foreign Aid Message of March 22, 1961. The Congress, the political parties, the Presidential candidates, and the nation as a whole seemed to focus on foreign economic policy and, particularly, foreign

²Bureau of the Budget, Staff Report on "Organization and Coordination of Foreign Economic Activities", p. 1-3, Vol. I. (Prepared pursuant to Section 604 of the Mutual Security Act of 1960 which resulted from Senator Fulbright's amendment -- see item and text quoted above regarding Congressional dissatisfaction.)

³Schlesinger, "A Thousand Days", pp. 590-591.

aid as issues for which solutions should be found in 1960-61. The sparks of dissatisfaction mentioned above needed only strong leadership to effect change.

Stevenson made 34 specific recommendations to President-Elect Kennedy in his foreign economic policy report delivered several days after the polls closed in November 1960. The basic thrust was to return foreign affairs leadership to the Secretary of State and to clarify and strengthen the positions of U.S. Ambassadors. Recommendation No. 4 read:

"To coordinate all our foreign aid programs, a Central Foreign Assistance Agency should be established with a Director appointed by the President and responsible to the Secretary of State; the agency should not, however, be located administratively in the Department of State."⁴

Stevenson's recommendations were actually a synthesis of his own thinking, as well as that of George Ball. On November 24, 1960, Ball was made chairman of seven task forces which were composed of leading consultants, economists, and scholars -- many of whom had prepared earlier studies for President Eisenhower and/or Congressional committees. The task force reports were to be submitted by December 31, but were not completed until mid-January 1961.

Congress had placed on President Eisenhower responsibility for getting under way the Section 604 study requested. On June 2, 1960, he put the Bureau of the Budget in charge, although it was to make use of the resources of the interested agencies.⁵ The 604 study was reproduced in January 1961 and distributed on a limited basis within the government. Though it was most useful as a briefing document, it also served as a nudge toward an integrated foreign aid agency.

⁴Extract from "Report to the Honorable John F. Kennedy - Summary of Recommendations from the Task Forces", Dec. 31, 1960, unpublished but available at OMB Library, Washington, D.C.

⁵Office of Management and Organization; four staff members lead the team study to which five individuals were also detailed from principal foreign economic agencies: State, ICA, Commerce, Agriculture and the Treasury.

The study was comprehensive in its description and analysis of the present agencies, programs, and legislation and included a brief history of government activity in the area. Its analytical sections examined the dispersal of foreign economic activities among more than a dozen major agencies; it also contained a short section and three groups of charts on alternative organizational arrangements which covered the major themes and patterns that had been advanced over the years for the reorganization of foreign affairs functions. These were: (1) alternative arrangements in the Executive Office of the President; (2) proposals for a separate foreign economic agency; and (3) consolidations within the Department of State. However, the 604 study contained no direct recommendations of its own.

The agencies directly involved in foreign aid activities, and their leaders, were aware in the summer of 1960 that changes were coming. They began to carry out advanced planning and research so that the new administration would have, in convenient form, the best thought available to facilitate moving quickly to make changes desired. The various studies and reports were circulated and exchanged, and each author, in effect, sought allies elsewhere in the bureaucracy to support his point of view and his agency's interests. Edward W. Weidner gives a thorough picture of the multiplicity of studies, and points of view and names, too numerous to be listed here, of the persons involved.⁶

Congressman Reuss, in 1960, succeeded in having included, in the Mutual Security Act, a provision requiring a study of the feasibility of a "Youth Corps" under the Point Four program. Late in 1960, ICA contracted with the Colorado

⁶ Weidner, "Prelude to Reorganization: The Kennedy Foreign Aid Message of March 22, 1961", pages 46-76, The Inter-University Case Program, Inc., Syracuse, New York, 1969.

State University Research Foundation to conduct the study. In January 1961, Kennedy set up a Task Force under Sargent Shriver to formulate a plan for the new undertaking to which he had become committed.

President-Elect Kennedy had to decide whom he would appoint to his Cabinet and to numerous subcabinet posts. Also prior to his inauguration, he was attempting to set the programmatic and policy course for his new administration. Since no new organization for foreign economic and foreign aid affairs existed, Kennedy decided to designate new leaders for the already established posts with the expectation of later shifting them into whatever new structures would be created. However, shortly after such new officials were designated, their points of view concerning organization frequently shifted to reflect the positions of the bureaucracy they were to lead. For example, while he was Under Secretary of State, C. Douglas Dillon had prepared a report recommending "that the EXIM Bank should be split in two, with its development loan activities transferred to the centralized agency and the National Advisory Council on International Monetary and Financial Policies (NAC) shorn of its approval authority over development loans." On December 16, President-Elect Kennedy announced that his choice for Secretary of the Treasury was C. Douglas Dillon. The EXIM Bank and NAC recommendations were not included in Dillon's later draft.⁷ Two ICA officials, Warren Wiggins and William Josephson, dissatisfied with the outlook for the new foreign aid agency and interested in the concept, had prepared a draft proposal for a Peace Corps entitled, "A Towering Task." On reading it, Shriver was impressed and shortly thereafter Wiggins and Josephson were transferred to his preliminary planning staff. Almost immediately,

⁷Weidner, op. cit., p. 49.

they became strong advocates of an independent Peace Corps.⁸

The designations, on December 15, of Orville Freeman as Secretary of Agriculture, and George S. McGovern as Director, Food for Peace; on January 25, of Henry R. Labouisse as Director of ICA, and Frank M. Coffin as Director of the DLF; and shortly thereafter of Harold F. Linder as President of the EXIM Bank, and Sargent Shriver as Director of the Peace Corps did not serve to promote a compromise among the ICA-DLF-Agriculture-State points of view. Rather, the various meetings that George Ball convened with them to discuss foreign aid (after his appointment as Under Secretary of State for Economic Affairs on January 11 and the submission of his report entitled, "Report of the Task Force on Foreign Economic Policy") served to reopen all the issues once again. Accordingly, Ball decided that it would be better to have initial work done on a staff level instead of continuing negotiations with agency heads and Cabinet members. John O. Bell, Deputy Coordinator of Mutual Security in State, and his staff, therefore, were given responsibility for developing organization charts and proposals for consideration.

There were five principal problems regarding organization:

1. How would foreign aid be coordinated with foreign economic policy, military assistance, multilateral programs, and bilateral programs of other countries?
2. What would be the relation of the new foreign aid agency to the Department of State?
3. What would be the role of the Under Secretary of State for Economic Affairs relative to the new aid administration?
4. How inclusive would the consolidation of foreign aid agencies be?
5. How integrated would the new agency be -- a mere holding company, a balanced functional-geographic approach, or emphasis on regions?

⁸Weidner, op. cit., p. 123.

(This is where the major battle was: technical assistance and social development versus loans and the "bank"; and also Washington regional offices versus functional offices.)⁹

By his January Inaugural and State of the Union Addresses, President Kennedy, as a result of his own study, his task forces reports, and discussions with his White House Budget Bureau, and agency advisors, had committed his administration to a course of action for:

1. A new foreign aid program with new legislation.
2. A method for proceeding with the reorganization which looked to the Secretary of State through Ball to have the prime responsibility for making recommendations to the President (though the BOB and newly appointed officials such as Shriver, Freeman, and McGovern were to take initiatives in their respective areas).
3. Broad new policies that still needed definition at the level of program operation and organization were not clear as to exactly what would be included or how the new agency would be internally structured. Within the bureaucracy, three positions had emerged strongly: the DLF banking proposal, the ICA Cabinet-level unified agency approach, and the John Bell-Dillon suggestion for a stronger coordinating mechanism within State.

The first meeting of the National Security Council under President Kennedy assigned the responsibility for developing foreign aid reorganization recommendations to the BOB. This was to be expected given the Bureau's lead role in the 604 study. However, George Ball had been appointed Under Secretary of State for Economic Affairs and had chaired Kennedy's Task Force. Therefore, given the lead role assigned to State for foreign affairs coordination and the staff resources available to them in John Bell's Mutual Security Coordination office, it seemed logical to the BOB Director, David Bell, that George Ball be charged with recommending a program for Presidential consideration. Accordingly, Bell passed the main initiative for reorganization to George Ball.

During February, the Ball led group and John Bell produced four drafts of

⁹Weidner, op. cit., p. 102.

a "Growth for Freedom Memorandum" for the President which was discussed by a flexible group of senior staff members of the various agencies and of the BOB and White House who were very much divided along bureaucratic lines reflecting the special background and interests of each agency -- explained below -- on legislation and funding as well as organization proposals. The draft was a compromise with respect to regional and functional office relationships, and was based on some political assumptions about inclusions of the Peace Corps and Food for Peace that had not been decided by Kennedy.

A meeting on March 6, chaired by Sorensen, revealed that there were still many reservations concerning the reorganization proposed in the paper, including:

1. Agriculture did not want to see its role confined to declaring surpluses and preparing them for shipment abroad.
2. McGovern reacted negatively, objecting to having his Food for Peace office buried several layers down.
3. Shriver emphasized that the Peace Corps had to be independent and not buried; he did not want it in the new aid agency.

The meeting did not resolve the fundamental differences. David Bell, prior to a March 13 date that was set for a meeting with President Kennedy, helped resolve several other basic organizational questions:

1. He attached the label "Resource Staff" to the functional offices, thus clearly indicating they would not be in the operational line of authority.
2. The Under Secretary for Economic Affairs would not be the direct boss of the new aid agency whose administrator would report directly to the Secretary of State and the President (G. Ball agreed).
3. EXIM Bank would not have its dollar development loan program transferred to the new agency but would accept policy direction on such loans from the new agency (Linder agreed).

President Kennedy's decisions at the March 13 meeting ratified the following:

1. The consolidation of ICA and DLF with strong regional assistant administrators and not quasi-autonomous functional units, excluding the EXIM Bank from AID, but transferring its local currency lending activities.

2. That any changes in P.L. 480 would have to be handled by the Agriculture Committees of Congress and that the appropriation for it should not be in the aid bill; but he reaffirmed the central concept of unified country programs.
3. That McGovern's request for more power would be denied but the President would accept a memorandum from him on where the Food for Peace office should be located.
4. That, for purposes of the Message, both the Food for Peace office and the Peace Corps, despite Shriver's preference for keeping the Peace Corps separate, would be considered a part of the new aid agency.

Implementing President Kennedy's Message. Accordingly, regarding organizational changes, in his March 22, 1961, Message on Foreign Aid to the Congress, President Kennedy proposed, "that our separate and often confusing aid programs be integrated into a single Administration embracing the present Washington and

- Field operations of:
- A. The International Cooperation Administration (ICA) and all its technical assistance (Point 4) and other programs;
 - B. The Development Loan Fund (DLF);
 - C. The Food-for-Peace Program (P.L. 480) in its relations with other countries, while also recognizing its essential role in our farm economy;
 - D. The local currency lending activities of the Export-Import Bank;
 - E. The Peace Corps, recognizing its distinctive contribution beyond the area of economic development;
 - F. The donation of non-agricultural surpluses from other national stockpiles of excess commodities or equipment;
 - G. All other related staff and program services now provided by the Department of State as well as ICA."

During February, John Bell had written a memorandum to George Ball on "The Job Ahead." The first phase involved helping the President make decisions on new concepts of aid, funds to be requested, legislative proposals, and a new organization. However, the second phase concerned the follow through. John Bell suggested that Ball chair a general strategy board with a general secretariat and five task groups. By March 22, the President had decided that he, rather than Ball, should appoint the task force to develop the implementation plan so that the White House staff would be in a stronger position to supervise the work,

especially since it had been agreed that Ball would not have direct responsibility in the foreign aid field. Therefore, on March 22, Kennedy wrote to Labouisse, the ICA Director, appointing him to serve as chairman of the Task Force.

To carry out the principles for the new foreign aid program of the Kennedy administration, the President, the White House staff, and the Bureau of the Budget were determined that the March 22 Message should be taken as a "given." Before the many aspects of administrative transition to come later, two simple steps appeared to be required:

1. Develop detailed program and organizational plans for clearance with the various interested parties -- mostly the foreign aid agencies and State, Defense, Agriculture, Treasury, BOB, and the White House.
2. Prepare legislation for presentation to Congress, along with an accompanying Presidential message.

But the simplicity of these steps depended upon two major factors: (1) that no one reopen the decisions in the President's message; and (2) that relatively few people be involved in the process to minimize the number of views and the build up of contending forces. However, each agency that felt its point of view was not adequately represented in the President's message wanted to go behind it. Also, others argued that many persons, both in and out of government, should be involved in the process in order that the best advice could be obtained and so that maximum support for the foreign aid program could be marshalled. The President, by creating a new task force under Labouisse, opened the door for renewed debate over the structure of the new foreign aid agency.

Both policy issues and bureaucratic and political contests for power lay behind the struggle over organizational structure. The Agriculture Department, White House Food for Peace Office, and ICA conflict over the PL 480 (Food for Peace) program involved questions of whether it was primarily an agricultural or foreign aid program. The argument over unified and strong regional offices

and country desks for the aid agency headquarters, unified field missions, and field responsibility of the Ambassadors involved conflict with the Foreign Service and the traditional Department of State and also with the supporters of each functional aspect of foreign aid -- loans, technical assistance, program assistance, etc. This argument also involved a decision as to whether foreign aid was temporary or a relatively permanent feature of U.S. foreign policy and whether aid should be geared primarily to those countries that could use loans. Similar implications were present in other organizational issues such as:

1. Should the Peace Corps be integrated into the new aid agency?
2. Where internally should the services involving research, planning, technical services, and development financing be located?
3. How should personnel, budget, and management services be provided?
4. What should be the relationships of the aid agency with the Department of State?

On March 26, Labouisse accepted President Kennedy's assignment as Chairman of the President's Task Force on Foreign Economic Assistance. He also outlined his concept of the job and suggested names for a Deputy and chairman for three of the five sub-groups he proposed. He proposed John O. Bell as Deputy Chairman; for chairman of the group on Legislation and Congressional presentation -- Theodore Tannenwald; for chairman of the Group on Program Development -- Frank Coffin; and for chairman of the Group on Organization and Administration -- Don K. Price. Labouisse also suggested two other groups: one on recruitment and selection of policy-level personnel; and one on public support for the program. At the White House, Ralph A. Dungan, who had previously served as Senator Kennedy's legislative assistant, was given the assignment for the next phase of the foreign aid reorganization. Dungan quickly arranged for a White House greenlight to Labouisse to proceed, but felt that the proposed groups on executive recruitment and public support were ill-advised. A public support

group might backfire if Congress felt that public funds were being used openly to influence its decision; furthermore, Mutual Security funds could not be used for this purpose. Strong White House action was needed on executive recruitment certainly, but Dungan did not believe that selection of top political appointees for the new agency could be given to a Task Force group, especially one under Labouisse who had not been definitely designated as part of the new permanent team. Tannenwald and Coffin readily accepted their assignments, but Don K. Price was not available. George Gant, of the Ford Foundation, was suggested in Price's place. Gant agreed to the assignment but indicated his participation would have to be limited to April, May, and June. John O. Bell accepted the job offered by Labouisse and made his staff of some 50 employees, built up over his years as Deputy Coordinator for Mutual Security, available; in general, it became the headquarters for the Task Force.

Regarding Labouisse, the President had never made it clear whether he expected Labouisse to remain when ICA was superseded by the new agency. Many, including Labouisse, felt that the head of the Task Force should be the administration's choice to head the new agency in order that implementation could follow naturally, smoothly, and quickly. However, neither Labouisse nor the White House staff wanted to press the President for a decision, and so the matter remained unsettled.

To free himself for full time work as head of the Task Force, Labouisse decided to delegate responsibility for operating ICA to Dr. D. A. Fitzgerald, the Deputy Director for Operations. On March 30, the President sent a memorandum to the heads of State, Treasury, Defense, Agriculture, BOB, the Export-Import Bank, DLF, Peace Corps, and Food for Peace in which he announced the appointment of Labouisse as chairman of a Task Force "to work on the problems of transition from existing programs of foreign aid for economic and social development to the new approach outlined in my message to Congress of March 22, 1961."

Effects of the Reorganization

The following section: (1) summarizes the intended effects of the reorganization; (2) describes the actual effects, intended and otherwise; and (3) dicusses the factors that were responsible for the actual effects.

What Were the Intended Effects? President Kennedy's March 22, 1961, Special Message to Congress on foreign aid stressed the role of the United States as leader of the Free World with these concluding words, "For we are launching a Decade of Development on which will depend, substantially, the kind of world in which we and our children shall live." Its theme was the need for change in program, organization, legislation, and personnel. The reorganization aimed at basic programmatic changes and not just label changes or the shifting of boxes on organizational charts. The changes involved organizational aspects at several levels of the many agencies concerned. These changes were closely interwoven with the program and legislative aspects of the objectives sought.

The objectives sought through reorganization were based on a new set of basic concepts and principles. They included:

1. Consolidation of the foreign aid agencies to provide unified administration and operations with a single agency in Washington and in the field in place of several competing and confusing aid units.
2. Foreign affairs leadership and coordination by the Department of State, with authority for the conduct of activities which advance our foreign policy objectives vested in the President or other officials primarily concerned with foreign affairs; and international activities of domestic agencies to be clearly either: (a) necessary extensions of their normal domestic missions, or (b) undertaken on behalf of, and in support of, programs and objectives of the appropriate foreign affairs agencies.
3. Stimulation and response to country programs involving a carefully thought through program tailored to meet the needs and resources potential of each individual country (instead of a series of separate unrelated projects), long range economic development plans with centralized coordination of programming, and special attention to those nations most willing and able to mobilize their own resources, make necessary social, fiscal, and governmental reforms, and other efforts to reach self-sustaining growth.

4. Provision of a flexible set of foreign aid tools, long term (at least five years) authorization for the new aid agency, borrowing authority from the U.S. Treasury in order for the new aid agency to make long term loans repayable in dollars, supporting assistance for strategic purposes, development grants chiefly for human resources development, an expanded Food for Peace program, and Peace Corps Volunteers.
5. Provision of systematic research to improve the effectiveness of U.S. assistance efforts.
6. Drawing on the financial and management assets of private enterprise, through broader guarantees and investment surveys.
7. Mobilizing free world aid sources by coordinating multilateral programs, increasing amounts of aid, and lengthening commitments.
8. Separation of economic and social development assistance from military assistance by proposing a separate authorization bill for military assistance, requesting appropriations for military assistance as part of the Defense budget, and providing coordination within State for military assistance with the economic assistance policies.

What Effects, Intended and Otherwise, Were Actually Experienced? The effects of the reorganization are summarized below, in terms of (1) objectives met and the reasons therefore, and (2) objectives not achieved and why they were not.

Objectives Met and Why? As discussed above, Kennedy established "The President's Task Force on Foreign Economic Assistance" to develop the legislation, and the organizational and administrative plans for implementing his Message to Congress of March 22. The task force, chaired by Henry Labouisse, set up a subgroup for each of these three principal areas. In less than two months, a tremendous amount of detailed work was concluded by the task force, its sub-groups and the experienced staff of DLF, ICA, State, and BOB whose knowledge and background contributed greatly to the overall results. Thus, on May 26, 1961, President Kennedy was able to send their work forward and write to Congress, "Transmitted herewith for consideration by the Congress is a draft of a bill which would carry out the principal

recommendations set forth in my message on foreign aid of March 22, 1961 ..."

He stated that the Bureau of the Budget had conducted a study, as required by Section 604 of the Mutual Security Act of 1960, and prepared a report. He added that the second requirement that the President shall include his findings and recommendations resulting from such study in his presentation of the FY 1962 program to Congress was being met by this message and the accompanying program materials and organization plan being submitted. More than half the message dealt with the organization and administrative aspects of AID which had been assigned to the George Gant Group.

Congress responded in a relatively short time by passing the Foreign Assistance Act of 1961, which Kennedy signed on September 4.¹⁰ It gave the President most of the authorities he requested, including a new basic act to supersede the Mutual Security Act of 1954. More particularly, the Act recognized the need for longer term development loans by providing a five year authorization for lending authority. The loan funds were authorized to be appropriated annually within limits set, but could continue to be available until expended; that is, they become "no-year" funds. In effect, Congress supported the "new look" in foreign aid stressed in the political campaign and the studies made by its own committees for more emphasis on development loans, self-help, long-term country plans, and social, fiscal, and governmental reforms by the aided nations.

Congress did not spell out details but gave the President full discretion on organizational matters, except for the number and grades of statutory officers and the location of the Office of Inspector General for Foreign Assistance (see explanation below). Kennedy carried out most of his

¹⁰
P.L. 87-195, 75 Stat. 424

organizational objectives by:

1. Creation of AID. Section 621 of the new FAA gave the President full authority to delegate the operations of the program to any U.S. agency. Of course, the presentation spelled out for Congress the President's intent to create AID within the Department of State. On November 3, 1961,¹¹ President Kennedy formally delegated to the Secretary of State most of his functions under the FAA, except for specified reserved, or otherwise delegated, functions and certain operating functions of the military assistance program delegated to the Department of Defense. On that same day, State Department Delegation of Authority No. 104 was issued. Although the Executive Order and Department of State Delegation establishing AID were not formally issued until later, the President on September 30, signed the Foreign Assistance Appropriation Act and directed the Secretary of State to create AID. Besides creating AID, the Executive Order provided for transfer to AID of officers, funds, and records of ICA, DLF, and the local currency lending function of the EXIM Bank. ICA and the corporate DLF were abolished on November 3 under the FAA Section 621(b) which permitted them to exist for up to 60 days after September 4, the effective date of the FAA, to facilitate the transition and to permit the issuance of the necessary Executive order creating the new agency.

The President, meanwhile, had appointed Labouisse to a diplomatic post and brought into AID, as its first Administrator, Fowler Hamilton.¹² On September 30, 1961, Aid/Washington Notice No. 1 was issued by Fowler Hamilton to all officers

¹¹ Executive Order No. 10973, (26 F.R. 10469).

¹² Some interviewees stated that the White House felt that Labouisse was not ruthless or tough enough, and too much of a gentleman to give the new agency the impetus they wanted; Hamilton was a brilliant lawyer from New York and had the advantage of coming from outside the government, thus represented the new leadership that was being sought.

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and employees of ICA and DLF notifying them of the creation of AID and authorizing them to exercise their functions under the FAA of 1961 in behalf of AID. He concluded by saying:

"Therefore until these agencies are abolished all employees continue as employees of ICA and DLF in their current positions and titles, and functions of officers remain unchanged, unless otherwise specified."

This AID organizational structure created in 1961, though modified in some details from time to time over the past 13 years, has -- in the main -- endured and outlasted by far any of its predecessor organizations.

2. Internal AID Reorganization. Regarding internal organization of the new agency, the Gant Group on Organization and Administration of the President's Task Force on Foreign Economic Assistance succeeded in achieving its basic goals:

- a. Strong regional offices with "line" authority over the country missions in the field were created.
- b. Veto power over projects and programs previously exercised by the functional offices was eliminated.
- c. Functional offices were converted to resource units.
- d. Development financing was integrated into the regional units but a central review was retained through a Development Loan Committee chaired by the AID Administrator.

The fact that DLF had a small but very competent staff and that creation of loan units in each expanded AID regional office created more loan positions than there were trained personnel available to fill them facilitated the successful integration of DLF into AID. The most dissatisfied personnel were the ICA functional, technical assistance specialists whose power and influence had been curtailed. The Kennedy administration thrust for development and major emphases on Latin America and Africa required strong regional internal AID organization to coordinate all available flexible foreign aid tools and to support self help efforts of individual country programs, long-range development, and economic

and social growth goals. Therefore, the basic concepts of the administration's AID reorganization were put into effect and, during subsequent years, were deemed to be working effectively by most evaluators and observers.

3. Foreign Affairs Leadership and Coordination by the Department of State.

The Foreign Aid Act (FAA) of 1961 and resulting Executive Orders, plus the President's letter to Ambassadors of May 1961 (strengthening their country-team leadership role), gave the State Department basic authority to lead and coordinate foreign aid efforts. The AID Administrator was given Deputy Under Secretary rank and reported directly to the Secretary of State and the President. Authority ran from the Administrator to the AID Assistant Administrators of the four regional bureaus and, through the Ambassadors, to the chiefs of AID missions overseas. The four AID Assistant Administrators had equal rank with the geographical Assistant Secretaries of State and worked closely with them, though the extent of collaboration varied somewhat from one area to another depending on the personal relationships developed between the corresponding staffs. Congress agreed with the administration on the desirability of State coordination of military and economic assistance as a key element for integrated country programming. The administration's support for more integration in the field left approaches open that could lead to more integration, eventually, in Washington. Separatism of State's Foreign Service and their disinterest in AID's operational problems, plus the personal styles of Secretary Rusk and State top officers, however, did not provide the stronger leadership and coordination that was sought by the reorganization.

4. Flexible Set of Foreign Aid Tools. Congress gave the President five year authorization for loan funds, subject to annual appropriations. Supporting assistance, development grants, an expanded P.L. 480 Food for Peace program, the Peace Corps, and broader authorities for the use of guarantees and investment

surveys for private enterprise were all authorized. Thus, the administration did get most of the tools it requested and was able to adapt them to the diverse country situations. Comprehensive individual country plans and programs were developed (sometimes perhaps more by the AID mission than the country itself). The President's emphases on self-help, national plans, and country and regional longer-range programs were realized in most cases.

5. Provision of Systematic Research. The research and planning assistance function was given recognition and visibility through the creation of a separate resource office and by specific authorization in FAA Section 241. Because assistance to other countries in the development planning area was a very sensitive matter, many of the key advisors on the reorganization felt that such a separate office in AID was needed for research on the process itself. Also, it would be desirable to collect and evaluate prior experiences (such as those of the Harvard University advisory groups to Iran and Pakistan, and Ford Foundation staffs in other countries). The Gant Group felt strongly that each host country should determine its own needs -- with the help of private organizations it might select -- but that a central AID unit should exist for research and evaluation purposes.

6. Mobilizing Free World Aid Resources. An International Development Organization Staff was created within AID, reporting directly to the Administrator. It worked closely with the State Department, the UNDP, the OECD in Paris, the World Bank, and with Regional Development Banks that were stimulated by the increased world attention and interest in economic development. Congress included, in the FAA, a Chapter 3 which provided general authority and funding for expanded multilateral activities.

Objectives Not Met and Why? On balance, most of the program and reorganization objectives of the administration's transition from ICA to AID were met. As

discussed below, however, some of the proposals made to Congress were not provided for in the Foreign Assistance Act. Also, the President changed his mind regarding some of the proposals he had made in his March 22 Message and dropped them from his final recommendations in May. The draft legislation and the program presentation document which Kennedy sent to Congress on May 26, 1961, after the Labouisse task force had completed its work, reflected basically the "second thoughts" of the President and his advisors that more funds would be provided by not consolidating all the organizations since "more spigots" for aid, would, therefore, be available and greater political support for the program would be obtained. Of the specific objectives sought in March and summarized above, only the separation of economic from military assistance was completely dropped. The organizational changes originally sought, that were omitted by the President, are detailed below. Congress basically denied the administration three legislative changes initially sought.

1. New Legislative Objectives Not Met. The draft legislation submitted in May contained two proposals which Congress did not accept. The administration dropped a third proposal upon realizing that the House leadership was strongly opposed to it. These three (initially desired) proposals were:

a. The five-year borrowing authority for development loans.

Instead the new Act provided a five-year authorization for annual appropriation of no-year funds.¹³ By denial of the borrowing authority requested, Congress reasserted its "control of the purse" prerogative, and expressed its dislike of the Executive Branch using "back-door" financing" for programs to escape reviews by the appropriations committees. Recognizing the time required to

¹³Foreign Assistance Act of 1961, Title I, Chapter 2.

properly evaluate loan projects and country programming needs, Congress, however, provided that long-term loan commitments may be made by the President against authorized but not yet appropriated funds "subject only to the annual appropriation of such funds."

b. The transfer of the Inspector General and Comptroller from the Department of State to AID, which the President had proposed, also was rejected by Congress. Instead, it established an "Inspector General, Foreign Assistance"¹⁴ as a statutory officer. This officer reported directly to the Secretary of State rather than to an Under Secretary, as under the Mutual Security Act. The House Committee on Foreign Affairs stated its reason for this arrangement:

"One of the major problems which has confronted the Secretary of State in connection with the aid program has been that information as to the shortcomings has not penetrated to him until too late for proper preventive or remedial action."

c. The separation of economic and social development assistance from military assistance. Instead of the original two bills anticipated, the draft FAA was submitted to Congress in May as one bill with military assistance provided for as Part II. The White House approached the leaders of the House and Senate to obtain initial Congressional clearances of two separate bills only four days before the proposed new legislation was to be submitted to Congress. The leaders expressed their feeling that they had been left uninformed about the work of the Labouisse task force and the administration's views. Speaker of the House Rayburn, the most powerful

¹⁴ Foreign Assistance Act, Section 624(e).

man in Congress, declared flatly that the administration's plan to separate military and foreign aid in different bills was completely unacceptable. He could not take responsibility for getting the measures through the House in the form of two bills. Much of the Congressional support for foreign aid was tied to the fact that it contributed to U.S. international security. The attitude was "take that argument away, and the rest of the foreign aid program was a sitting duck." This was a rude shock to the administration's concept of separating military and economic assistance programs, to which it had been committed even before assuming office. But, in view of the strong opposition, the White House had no alternative except to combine the two proposed bills into one and to drop its objective.

2. Organizational Objectives Not Met. Four of the organizational consolidations into the new agency sought in March were not in the administration's May presentation to Congress. These omissions reflected new decisions on the part of the President. They involved:

a. The EXIM Bank Dollar Loan Function. The EXIM Bank, as an organization, was left out of the consolidated new aid agency and retained its dollar development lending function basically because Kennedy and his advisors concluded that, in total, more money would be forthcoming from Congress. Also they felt that the EXIM Bank's politically strong supporters in and out of Congress might be alienated if the Bank was abolished.

b. The National Advisory Council on International Monetary and Financial Policies (NAC). The NAC, composed of the heads of

Treasury, State, Commerce, EXIM Bank, and the Federal Reserve System, had been created by law in 1945. Development loans would be subject to NAC review unless the legislation would abolish the NAC as the Gant task force believed desirable. The task force wanted to abolish the NAC and transfer its functions to the State Department in line with State's expanded role in coordinating foreign affairs. Dillon, who had favored the idea while he was Under Secretary of State, was now, however, Secretary of the Treasury and Chairman of the NAC. He thought retaining the existing NAC would be useful politically as it would help toward Congressional acceptance of the administration's proposal for borrowing authority from the Treasury for development loans. Congress looked on the NAC as an additional watchdog to help insure that borrowed money would be properly used. Therefore, the White House and Budget Bureau decided to retain the NAC for political reasons and no mention of it was included in the proposed FAA legislation.

c. The Food for Peace (PL 480) Program. The program included: (1) the general public relations and coordination functions for the office in the White House headed by George McGovern; (2) the Department of Agriculture, sponsor of the program, before the Agricultural Committees of Congress which authorized and funded it; and (3) the new aid agency responsible for integrating the PL 480 food resources into the individual foreign country programs. Although the task force favored moving McGovern and his coordinating function to the new agency, plus giving his function a stronger overall role, McGovern wanted to remain organizationally in the White House,

where he would be more highly visible politically. The pressure of the Agriculture Department to retain its major policy influence in the program strengthened McGovern's hand as the coordinator of interagency interests. Secretary of Agriculture Freeman saw AID as a planning and coordinating body with agricultural operations and technical assistance responsibilities turned over to USDA. Labouisse outlined to the White House the task force position that unified country programming was at stake and that lack of responsibility for the Food for Peace program would handicap AID in carrying out its function. Given the strong position taken by Secretary Freeman, and the desire of the agriculture committees in Congress to retain PL 480 controls, plus the political desirability of keeping McGovern's office in the White House, the Budget Bureau and Ralph Dungan recommended to the President that he not push on this consolidation, even though it was in his March message and the task force wanted it. Accordingly, the status quo was allowed to remain "fuzzed up" without spelling out explicitly the roles of each party concerned. Also, the final Gant reorganization plan for AID provided for an "Office of Commodity Assistance" to replace the previously proposed office title of "Food for Peace." This new office would maintain liaison with the McGovern Food for Peace office in the White House. To further country programming of the PL 480, Titles I, II and IV in the final draft provided that "AID would handle these in accordance with approved country programs but would do so together with the Department of Agriculture."

d. The Peace Corps. The Peace Corps had been established as a

separate organization on March 1, 1961¹⁵ on a temporary basis (under the Mutual Security Act within the Department of State). On March 4, the President appointed his brother-in-law, Sargent Shriver, as Director, to coordinate planning for the new idea. The Foreign Aid Message to Congress of March 22 included the Peace Corps as one of the units of the proposed new agency. However, two days later, Shriver informed the White House and the Budget Bureau that he wanted a separate authorization bill to obtain legislative approval more quickly.

In mid-April, the Labouisse task force sent a memorandum to the President in an attempt to resolve the organizational question of the Peace Corps relationship to the new agency. The task force assumed the Peace Corps would be one of four principal resource units and that the concept of unified country programming required its inclusion under AID. Labouisse proposed that the Peace Corps would have its own separate name and that its Director would have the status of an Assistant Secretary. It would have high visibility in AID and substantial independence. Also, it would be authorized in a separate title of the legislation creating the new agency.

For his part, Shriver, on April 21 (just before departing for an overseas trip), took three actions: (1) he sent a letter to Labouisse, with copies to the President and Dungan, asking that nothing be done to jeopardize the PC independence while he was gone; (2) he sent a memorandum to the President outlining the PC position,

¹⁵E.D. No. 10924 (26 F.R. 1789).

which amounted to a request for a quasi-independent agency within the State Department; and (3) he asked Wiggins (his right-hand man) to turn to the Vice-President, Lyndon B. Johnson, for help, if needed, while Shriver was away. Ralph Dungan, on receiving these memos and Bureau of the Budget views, called a meeting on April 26 to discuss the PC status. At the meeting Wiggins, representing the travelling Shriver, was outnumbered and out-ranked.

After lively discussion, Dungan and the Bureau agreed with the Labouisse position and decided to recommend that position to the President. Wiggins then politely said he would have to let Shriver know about, and protest, the decision. He sent a long cable to Shriver and also asked Bill Moyers to contact the Vice President.

On May 1, Labouisse tried to see the President to present the case for support of the White House decision, but the appointment could not be arranged. However, that evening, the President and Vice President met with Sorensen and Goodwin and discussed the Peace Corps issue. Kennedy agreed with Johnson to separate status for the Peace Corps on the grounds that it was a new agency and needed operational independence. The President made this decision without having seen Labouisse or his memo and without talking to Shriver about it. The next day Dungan informed the Secretary of State (with copies to all the others) of Kennedy's decision and stated that separate legislative authorization and appropriations would be sought for the Peace Corps.

3. Personnel Objectives Not Met. An important additional general objective of the reorganization, that was not fully realized, was the

attraction of professional personnel of high quality to the new agency. Without long term authorization for AID, annual authorizations and appropriations continued to be required, and personnel could not have career assurances. The basic personnel issue regarding the long term status of staff also remained unresolved and AID personnel, both overseas and in Washington, frequently felt themselves to be "second-class" citizens in the foreign affairs community. Shortly after AID was established, the White House led a recruitment effort among the business community (labeled "Operation Tycoon" by many of the bureaucrats) that brought in about 25 new top executives, mostly for Mission Director positions overseas. Within a few years most of them had left AID and the government. Though, as a group, they performed adequately, they were generally not distinguished or outstanding.

Lessons Learned About the Organizational Change Process

In general, the foreign aid program transition from ICA to AID has been regarded as a successful reorganization. The resulting basic structure has lasted for many more years than any of its predecessor organizations or components. The principal participants, as well as outside evaluators, have concluded that the broad objectives of the Kennedy administration that stimulated the reorganization were largely met. From this case, a number of specific examples may be cited that appear to illustrate general principles or lessons regarding the organizational change process.

Limited Organizational Changes Most Likely to Succeed. President Kennedy initially aimed at consolidation and coordination of all the U.S. foreign aid programs under the Secretary of State. ICA and DLF were merged successfully

and integrated into the internal structure of AID. However, the Peace Corps, the Food for Peace program, and the EXIM Bank, through their leaders and political supporters, succeeded in convincing the administration that they should not lose their separate identities and be consolidated into AID. Kennedy and his advisors recognized that achievement of a more limited organizational change was more essential, possible, and practical than pushing for their original total objective. Elimination of the NAC and transfer of its functions to State also was dropped to avoid stirring up Treasury and Congressional opposition to the overall plans, which were considered much more important than changing the NAC. As a general lesson, acceptance of half-a-loaf, in terms of all organizational change objectives sought, is often better than failing completely by attempting too sweeping changes all at one time.

Newly Appointed Agency Heads Quickly Become Advocates for Agency Interests.

Presidential and other top level political appointees, soon after entering on duty, tend to identify more completely with their new agency than with the President or their old agency. Therefore, the President can achieve desired organizational changes, more readily, in agencies while they are headed by an acting head than if politically active and powerful supporters have been appointed. For example, Ex-Governor of Minnesota, Orville Freeman, upon appointment as Secretary of Agriculture, strongly urged a more active role for his Department in the foreign aid program and succeeded in keeping the major responsibilities for the P.L. 480 program under his Department. Also, as Secretary of the Treasury, Dillon became chairman of the NAC; he soon opposed its abolition and transfer to State, although he had recommended just that when he served as Under Secretary of State and Mutual Security Coordinator.

Timing and Timeliness of Initiatives for Change Are Most Important.

Organizations, once operating, tend to have an inertia of their own to keep on doing what they have been doing in generally the same way until a time when they are no longer in tune with their current environment. Then criticism and dissatisfaction sets in and new political leaders tend to promote new program emphases to meet the new needs. The changed world situation by 1960, with rising expectations for development, gave Kennedy the timely opportunity to call for a new era and the "New Frontier." Congress too had called for the 604 Study and asked for Presidential recommendations. Thus new proposals had to be presented and the calendar deadlines for legislative authorization bills and appropriations provided spurs for the reorganization efforts that led to AID. One might say that, in 1961, most of the factors affecting the U.S. foreign aid program converged and were conducive to change.

Top Level Leadership and Stimulation Needed. Since foreign affairs and foreign aid operations involved State and other Cabinet Departments, the President, himself, and his top White House and Budget Bureau advisors had to be deeply involved in the reorganization planning as well as its implementation. They were deeply involved and their objectives were largely met. The Budget Bureau 604 study also referred to the informal leadership of the foreign economic affairs community as "the lodge." It consisted of the heads of agencies, their deputies and assistants, and Presidential assistants. They were those that made decisions, frequently in private, which formed the basis for interagency relations. For example, the President's message of March, the Labouisse Task Force, the Budget Bureau and White House staffs had all recommended that the new Peace Corps should be part of the new AID agency. However, Vice President Johnson, as chairman of the PC Advisory Committee, got through to Kennedy in

private one evening in May. He persuaded the President to reverse the plan and to authorize a quasi-independent organizational status for the Peace Corps, "within State."

Continuity of the Reorganization Planning and Implementation Is Essential.

In this case, the initial Stevenson Task Force report on foreign affairs changes was a great stimulus to President-Elect Kennedy. But the shifts later to the Ball Task Force, then to the staff level effort of John O. Bell, followed by the Labouisse Task Force resulted in greater delays and the reconsideration several times of previously arrived at decisions. If Kennedy could have decided on his new selection as AID Administrator sooner and placed that person in charge of the reorganization, the process would have been smoother, more efficient and productive. In fact, on October 16, 1961, shortly after he had become the first AID Administrator, Fowler Hamilton found it necessary to issue a memo to the ICA and DLF Executive Staff enforcing internal administrative discipline to curb the development of a number of organizational proposals that challenged the plan developed by the President's Task Force. The shift from Labouisse to Hamilton had provided another opportunity for some individuals to question decisions that had been made previously.

Congressional Clearance and Public Support Factors Are Important. In this case, recommendations were designed so as not to antagonize the separate Congressional committees that supported the PL 480 Food for Peace Program and the EXIM Bank functions. However, one error was made in planning the separation of military assistance from economic assistance legislation and appropriations, without first consulting Congressional leaders. Just a few days before the President's May 26 Message was due, the tardy consultations revealed such a strong adverse reaction on the Hill that the administration dropped the

separation plan. Executive agencies build up relationships with specific Congressional committees and it is very difficult to reorganize agencies successfully in a way that will cause changes in committee jurisdiction. Besides the Congressional aspects, the public reaction to changes being considered and particular attention to informing all appropriate key public support sectors is a prime element in achieving ultimate reorganizational success. One of the most important "publics" are the personnel who will be directly affected by the changes. If they are adequately informed, they react more favorably and maintain a higher morale; this is a positive factor in any change effort.

Adequate Planning for Personnel Change Is Essential. Regarding this factor, the ICA to AID transition was not as successful as it might have been. Leadership for the new agency was not chosen early enough. There were doubts about the existing staffs and special authority was contained in the FAA (Section 621 (d) authorizing the termination of ICA employees, notwithstanding any other provision of the law, who were not transferred to AID on November 3 when ICA was abolished). This attempt to "get rid" of unwanted employees backfired, caused many appeals and low morale, and, in the final analysis, did not succeed in terminating very many employees. One lesson learned was that much more attention must be given to finding alternative placements or retraining existing staff to assume new functions to facilitate reorganizations. Arbitrary management actions concerning personnel, not understood or accepted by employees, are not worth the effort. The basic issue of the future status of AID employees in relation to the Foreign Service was not resolved satisfactorily and has continued, over the years, to cause dissatisfaction.

Program Methods Changes Have Extensive Effects on Organization. How a program actually will operate makes a great deal of difference as to how many

and what kinds of personnel are needed as well as how the agency should be organized. The emphasis on long-term programs not only contributed greatly to setting AID up as a separate agency within State for coordination of policy objectives but also to the decision to insulate AID as much as possible from the short term political objectives of State. DLF staff were all stationed in Washington; the agency did not use a field staff or missions abroad as ICA did. The shift of ultimate program control to regional offices, with their country program emphasis, reduced greatly the previous role of the ICA technical specialists. Certain regional offices decided to operate in the field with "direct hire" employees instead of "contracting out" for technical assistance as others did; therefore, the organization, kinds, and numbers of employees needed varied considerably from one region to another. To the extent that an agency operates on a "retail" rather than a "wholesale" basis, its general structure of management support functions will be extensive or simple. It takes many fewer professional and support employees -- organized differently -- to handle ten large \$50 million program loans, for example, than 100 technical assistance projects each averaging only \$1 million or less.

Transition Phases from Existing to Reorganized Entities Are Required. Ongoing activities must be continued by those familiar with them until a determined date when they either end or are taken over by a specified new entity. The interrelationship of changes in program planning, legislation, organization, budgets, personnel, operating methods, space requirements, records, and many other aspects need to be spelled out -- and communicated to those who must carry out the activities. Internal new agency regulations, delegations, policy and procedural instructions need to be developed or revised and issued. There needs to be some top authority, definitely in charge, to monitor and enforce the planned changes and to provide continuity over the extended time period

required for any major reorganization. Reorganizations require not only careful and sound planning but also skilled execution and adequate time for implementation.

Chronology of Key Events

- 2/2/34 EXIM Bank created by E.O. 6581.
(Bank's local currency lending functions transferred to AID 11/3/61.)
- 12/27/34 IBRD, IMF, and NAC officially came into existence on signature by 28 Governments of Bretton Woods Agreements. U.S. adherence authorized by 59 Stat. 512.
- 7/10/54 Agricultural Trade Development and Assistance Act enacted, (P.L. 480), 68 Stat. 454.
- 7/1/55 ICA created by Dept. of State Delegation of Authority No. 85 pursuant to E.O. 10610 which abolished F.O.A. as directed by Mutual Security Act of 1954. (ICA abolished and consolidated into AID on 11/3/61 by Sec. 621 (b) of FAA of 1961.)
- 8/14/57 DLF originally established within the ICA by the MSA of 1957, 71 Stat. 355. (In 1958 DLF was given independent status as government corporation by the MSA of 1958, 72 Stat. 201. DLF abolished and consolidated into AID on 11/3/61 by Sec. 621 (b) of FAA of 1961.)
- 7/24/59 Inspector General and Comptroller for Mutual Security established within State Department by Sec. 533 A of MSA of 1959. (It was superseded by the Inspector General, Foreign Assistance created by Sec. 624 (e) of FAA of 1961.)
- 5/14/60 Sec. 604 of MSA of 1960 required the President to have a new study made of U.S. foreign economic activities with findings and recommendations to be reported in 1961. Also, Sec. 307 of the same Act required a study and report on the Youth for Freedom concept -- later to become the Peace Corps concept.
- July 1960 Task Force on Foreign Economic Policy chaired by Adlai E. Stevenson set up by Presidential-Nominee Kennedy only a few days after his nomination. (Reported to President-Elect Kennedy on Nov. 14, less than a week after the Nov. 8, 1960 election.)
- 12/15/60 Director of the Food for Peace Program established within Executive Office of the President and George S. McGovern designated.
- 1/20/61 President John F. Kennedy inaugurated.
- 3/1/61 Peace Corps initially established on temporary basis as an agency in the Department of State by E.O. 10924. (Peace Corps Act signed on 9/22/61 (P.L. 87-293), 75 Stat. 612.)
- 3/22/61 President Kennedy's Message to Congress on Foreign Aid.
- 3/31/61 President's Task Force on Foreign Economic Assistance established and Henry Labouisse appointed Chairman.

- 5/26/61 President Kennedy's Message to Congress proposing draft FAA legislation and his detailed FY 1962 Request and Program.
- 5/29/61 President Kennedy's letter to U.S. Ambassadors strengthening and defining their role.
- 9/4/61 Foreign Assistance Act (FAA) of 1961 enacted (PL 97-195), 75 Stat. 424. (It authorized creation of AID by Executive order.)
- 9/30/61 Foreign Assistance and Related Agencies Appropriation Act for FY 1962 signed (PL 87-329), 75 Stat. 717.
- 9/30/61 AID established by Secretary of State Rusk in the Dept. of State pursuant to authority delegated to him by President's letter of the same date issued simultaneously with signature of the Appropriation Act and pending formal E.O. to facilitate transition from existing organizations to AID. (This delegation was superseded by State Dept. Delegation of Authority No. 104 on 11/3/61 upon issuance that day of E.O. 10973 -- containing Sec. 102 directing the Secretary of State to establish AID. Delegation No. 104, Sec. 7 (d), although signed on 11/3/61, stated it "shall be deemed to have become effective on 9/30/61".)