

THE AGENCY FOR INTERNATIONAL DEVELOPMENT

During the Administration of

PRESIDENT LYNDON B. JOHNSON

November 1963 - January 1969

Volume I

Administrative History

Part I

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FOREWORD

The purpose of this volume is to provide the historian and student of foreign aid with a brief description of major policies, programs, and problems of the Agency for International Development (A. I. D.) during the Johnson Administration, and a guide to the extensive documentation on foreign assistance in the Presidential Library and elsewhere.

While we have tried to cover all the major aspects of A. I. D. operations - overseas and in Washington, both program and management, we have not provided detailed descriptions of each project or activity, or even each program. Each one of our major country programs, and indeed many of the smaller ones, deserves a history of its own. The major programs each involve hundreds of millions of dollars annually and employ hundreds of people, including government officials, engineering contractors, university staff members, labor union specialists and doctors. Moreover, these programs involve the United States intimately in the economic planning process of the recipient. The content and results of these dialogues on economic policy issues are an exciting story. These programs, and the many smaller ones, also contain other tales of growth -- of new roads, new schools, new wealth for the farmer from the use of fertilizer, increased

literacy. These stories of success, and some of failure, represent the dedicated work, often under very difficult conditions, of the many U.S. citizens serving overseas to transfer U.S. knowledge and technology and to help build a better world. But this volume is not intended to be that kind of history and these tales have, regretfully, remained untold. Perhaps some future writer will pursue these stories.

A few other points are worth noting. We have not presumed to write the history of the A. I. D. program for the historian. The U.S. foreign assistance program is large, complex, and closely interwoven with U.S. foreign policy objectives; its story involves the development efforts of many countries and many U.S. policies and groups. We have included the highlights of each important subject substantive and organizational - although we recognize that users of this volume will probably be interested in only parts of the A. I. D. story at any one time. Secondly, while we have tried to be as candid and thorough as possible, this story is written by those who participated in the decisions, agonized over the problems, exulted over the successes - and have relegated errors to the dimmer recesses of the mind. The story, therefore, cannot have, despite our best efforts to jog memories, the detached objectivity which an independent researcher may bring to the subject. We take our consolation from the fact that

the views of the participants in programs and decisions are also an important component of history and that we do not lack for critics to restore balance. Finally, we have not attempted to do the historian's work for him - we have only listed the most important documents, touched on the more important issues and programs. Much additional material is available and relevant to the detailed study of U.S. foreign assistance.

The history of A. I. D. has many authors since it was created by asking each major Office or Bureau in A. I. D. to draft a chapter covering its program. In some cases, this material was reworked extensively; in others, only minor editing was required. Each Office or Bureau had one representative to handle the history project but that person, in turn, was often a coordinator rather than the writer. It is not possible to identify them as the writers of specific sections without unjustly neglecting many who did extensive work on the draft. However, special thanks are due to Mr. Walter G. Stoneman for his extensive assistance with the complicated chapter on Vietnam; Mr. Charles W. T. Stephenson for his work on Chapter II; Mr. Martin Tank for his assistance on Chapters I, VIII and XV; Miss Leigh A. Forrester for her work on Chapter III; and to my immediate assistants, Miss Joan Silver, Mr. Blaine Richardson, Mr. John Lewis, and Mr. Malcolm Orchard.

Ernest Stern
Editor

Washington, D. C.
September 30, 1968

INTRODUCTION

This volume describes the A.I.D. programs and policies during the Administration of President Johnson. While we have tried hard to be objective, every user of this material will, and should, recognize that this is a history written by those deeply involved in the programs.

Even though we may not have ended up as dispassionate as we had hoped, we have tried to describe objectively the major programs, the policy changes, the problems and the achievements. I consider it appropriate, therefore, to introduce the historical narrative with a more personal statement of what we have learned from the past and how well we are equipped to handle the future.

The U.S. foreign assistance program in its modern context dates back to the end of World War II. The reconstruction efforts of the Marshall Plan were spectacularly successful -- in restoring economic strength in Europe, in maintaining internal security and in preventing external aggression.

As the Cold War battlefront shifted, so did U.S. foreign assistance efforts -- first to Greece and Turkey, then Asia and Africa. Latin America, although of major political importance because of its geographical location and historical ties, was not emphasized until the formation of the Alliance for Progress.

The principal objective of our assistance programs moved gradually from reconstruction to defensive alliances to development, although the program in almost every country retained a variety of objectives.

The two basic premises underlying the U.S. foreign assistance program have been and are that:

- American security and growth are directly related to the progress of other countries toward economic viability and the capacity to be politically independent;
- the U.S. can effectively assist other countries to become independent and self-supporting.

However, the definition of what affects the security of the U.S., and how, has varied from time to time, and from country to country.

Where the relationship is immediate and intimate -- Korea, the Dominican Republic -- the volume and composition of U.S. assistance has differed from those countries -- India -- where we have been able to define our program principally, but not exclusively, in terms of development. There are also a number of intermediate countries where development prospects looked promising but where strategic and political objectives played an equally important role.

U.S. foreign policy objectives are many and diverse, both short term and long term. Whether foreign assistance serves U.S. objectives well is a frequently asked but often poorly answered question.

The effectiveness of foreign assistance cannot be measured against all our foreign policy objectives because many cannot be, and are not intended to be, influenced by foreign aid. Experience has taught us that generally aid is not a suitable tool to influence political decisions permanently; nor does it buy friends, votes, automatic acceptance of U.S. suggestions, or democratic or even stable governments. It cannot do these things, and to the extent we expect it to do them we shall be frustrated. Aid tries to create the capacity for independence and sometimes that means independence from the U.S. as well.

As a result of these lessons, the Administration in the 1960's has emphasized the economic development of recipients rather than the political requirements for support, although clearly a community of political interests must remain the basis of any aid program.

The foreign assistance program is a tool of foreign policy and supports U.S. interests -- but how? The relationship was stated with clarity by President Johnson:

"The peoples we seek to help are committed to change. This is an immutable fact of our time. The only questions are whether change will be peaceful or violent, whether it will liberate or enslave, whether it will build a community of free and prosperous nations or sentence the world to endless strife between rich and poor."

It is in the U.S. interest to see that the changes are as peaceful and constructive as possible and contribute to the development of a

community of free and prosperous nations. For if the change were violent and destructive, it would affect not only our status in the world, our ability to influence events, but the evolution of our own society. In addition to our national interest, foreign assistance also discharges a moral obligation -- the obligation of a rich nation and the leader of the free world to assist the development of those who are very much poorer than we.

The A.I.D. program is America's effort to assist the developing nations:

- to become economically independent and viable,
- to provide for the needs of their people, and
- to permit their people to exercise choice in their political and economic decisions.

This has meant assistance:

- to provide enough food,
- to improve education,
- to control disease,
- to build the communication links that unite a nation,
- to train personnel,
- to provide resources for investment and industry,

provided the recipient is prepared to make the effort, to tax its people, and to change traditional ways. Without their commitment, their involvement and their resources, no assistance could hope to be successful.

Our vast human and financial resources have enabled us to mount a variety of assistance activities - in agriculture, education, health, industry - and have allowed us to participate in some of the vital economic decisions of the developing countries. U.S. funds have made an immense direct contribution to physical facilities and training, but the manner in which these funds have been used has been of equal importance. Through our emphasis on self-help, on comprehensive planning, on the importance of the private sector and the role of the market mechanism, major changes have been brought about and the prospects for sustained economic growth -- not instant wealth -- are bright in many countries.

Excluding those countries now in actual combat (Vietnam, Laos, Thailand) -- which have their separate problems, successes and failures -- the A. I. D. program has demonstrated that:

- development can and does work (in Korea, Greece, Iran, Israel, Brazil, India, Turkey, Pakistan, Taiwan);
- the U.S., through its aid program, can be a major factor influencing the rate and composition of the development of such countries;
- other developed countries will share the burden equitably;
- people in the developing countries are prepared to help themselves;

- it is possible to define with increasing care and precision development objectives and what it takes to achieve them; and, consequently, that
- it is possible to terminate aid programs when their objectives have been achieved.

In the last several years we have applied the lessons of earlier programs and have focused attention and money on food production and population control. One of the lessons we have learned, and which was dramatized by droughts in major aid-receiving countries in 1965 and 1966, is the paramount importance of the world food problem and the fact that extraordinary measures will be necessary to stave off major starvation and malnutrition in the next decades.

President Johnson has been personally concerned that the A.I.D. program give appropriate priority to both sides of this equation -- increasing the productivity of agriculture and decreasing the rate of population increase. Our concentration on these areas, together with the efforts of other donors and the developing countries, have paid off in record crops in Asia this year which are due only partially to luck and good weather; at least half of this dramatic increase is due to new agricultural policies, new seeds and tremendously increased supplies of fertilizer.

There has also been major progress in the administration of the A.I.D. program. The integration of technical assistance and capital

development which was the basis of the 1961 reorganization was but a first step toward orchestrating various A.I.D. and P.L. 480 programs to achieve maximum influence on policy and to assure that the physical and human resource aspects of each program were covered. Focusing our attention on "country programming, rather than isolated projects," we have significantly increased the leverage of our assistance by requiring changes not only in policies related to U.S.-financed projects but, when necessary, in broad monetary, fiscal or foreign exchange policies when these seemed to impede development generally. The country focus has also improved the analyses of the problems we deal with, refined priorities and enabled us to be more precise about self-help measures. In addition, U.S. assistance funds have become heavily concentrated in a few countries where substantial aid promised substantial results; the direct balance of payments effects of the A.I.D. program, excluding Vietnam, have been reduced to almost zero; and financial controls have been improved. All of these efforts have created an organization which is administering its program with increasing effectiveness, although, clearly, problems continue to exist.

Nor have we stood alone in our efforts to assist the developing countries. Foreign assistance, given in a relatively disinterested way for economic development, was a new concept in international

relations in 1948. The U.S. pioneered this effort with the Marshall Plan and, as the countries of Western Europe and Japan recovered, the idea was gradually accepted that it was the duty of the developed world to share its wealth and technical skills with the developing countries. We have succeeded in establishing criteria for the amount of aid countries should give and the terms on which it should be given, and recently the Administration has been successful in getting other nations to share with us the burden of providing foodgrains to the developing countries. Unfortunately, our persuasiveness internationally has not been matched domestically and each year's Congressional action moves the U.S. further away from the criteria we helped to establish.

Despite many important development successes, we have experienced a steady decline in the political and public support of the foreign aid program. Funds to expand successful programs and undertake new ones in priority areas have been inadequate for the last several years and we end this period with funds for fiscal year 1969 inadequate even to sustain successful programs in the major countries. What are the causes of this?

Failure to Communicate Objectives. In proposing the creation of A.I. D. in 1961, the President wrote to the Speaker of the House, Mr. Rayburn, that:

"Economic development assistance can no longer be subordinated to, or viewed simply as a convenient tool for meeting short-run political objectives. This is a situation we can ill afford when long-range, self-sustained economic growth of less developed nations is our goal. "

This concept, maintained in subsequent A. I. D. legislation, has been a difficult concept to communicate, both to the Congress and to the public, particularly in a period of growing domestic problems and interest in more limited overseas involvement. Congress, for one, has not accepted the Administration's view that long-term development assistance, free of all but the broadest political criteria, is in the long-term interest of the U.S. Significantly, appropriations for development loans, the major development financing category, have declined substantially. As acute political problems arise with an aid recipient, occasionally inimical to U.S. interests, the short-run difficulties tend to obscure, but only sometimes invalidate, our longer term objectives. Quite revealing was the 1966 Gallup poll which showed that only sixteen percent of those interviewed would continue aid without change if a recipient "fails to support the U.S. in a major policy decision such as Vietnam. " What is forgotten is that a strong and independent India, for instance, is important to U.S. interests whether or not we have India's support on all major issues today.

Misleading Expectations. The success of the Marshall Plan has bedeviled the aid program ever since. Many people, including some involved in the aid program, have failed to understand the difference between a program which furnished plant and equipment - i. e., money - to modern, scientifically sophisticated and industrially oriented societies and a program which assisted countries which often were in a pre-industrial state, which lacked trained manpower, commercial backgrounds and which sometimes only recently had acquired nationhood. As a result, an entirely unrealistic assessment of the time required to do the job emerged. As development requirements grew so did the belief that foreign assistance was a bottomless pit. No one was prepared to conceive of the effort as one of decades.

False Hopes. The Marshall Plan and some of the subsequent aid programs were specifically designed to counter Communism and to strengthen, or develop, allies. In this context criteria about aid eligibility emerged in Congressional and public thinking -- support in the U. N., support of our foreign policies -- which were not applicable when the emphasis shifted to development. Major assistance to abrasive neutrals -- such as India and the U. A. R. -- was taken as evidence that the aid program had failed. Moreover, the aid program was expected to cure each international problem, from seizure of fishing boats to trade with Cuba. Obviously it could not -- and in the

process of attempting to solve such problems relations crucial to development objectives were adversely affected. Also, the heritage of the Marshall Plan tended to link aid with the support of democratic governments. It was little realized that democracy as we know it is sometimes not a viable form of government in countries which have little experience with it, few national institutions, and which are trying to effect basic economic and social changes. Sometimes aid served to bolster dictatorships, not committed to progressive change, for political reasons. However, there were also important aid programs in non-democratically controlled countries (e.g., Pakistan) which supported development efforts clearly aimed not only at economic development but also at increasing popular, responsible participation in the political process.

Multiplicity of Objectives. Nor was the explanation of the emphasis on development made any simpler by the variety of basic aid objectives. While development assistance became a major emphasis we continued to provide assistance for political and strategic reasons.

High Risks. Explanations of the aid programs over the years have not conditioned Congress or the public to the fact that development is a high risk business -- in which all the participants are constantly learning and in which some failures are inevitable. Development in the West, including the growth of the many needed institutions, was a

slow process attended by costly mistakes. Attempting to accelerate the process of growth makes the risks even greater. Aside from economic uncertainties and miscalculations, the political situation in many developing countries is volatile and growth is often attended by disturbances which create additional risks for development objectives.

Administrative Deficiencies. Unquestionably there have been administrative shortcomings in the foreign aid agencies. Frequent organizational changes, changing objectives, emphasis on Congressional presentations and the fiscal year cycle - all contributed to poor decisions and, in some periods, to the inability to attract competent personnel. While the wrong choices have been a small part of the total, they were frequently publicized by the critics as representative.

Problems of the U.S. Economy. There has been an increasing preoccupation with the domestic problems of the U.S. economy and society but occasionally these valid concerns are expressed in extreme ways in relation to the aid program. For instance, the persistent deficit in the U.S. balance of payments is, of course, a matter of serious concern. However, A.I.D. has taken remedial action which minimizes the dollar outflow associated with the A.I.D. program to about \$50 million per year. Compared to the deficit on travel account (\$1.5 billion), or defense (\$3 billion), this amount is insignificant.

Yet even informed people have not ceased charging the A.I.D. program with being a major contributor to the balance of payments problem. Quite naturally as the problems of race and urban development have become more acute it has become increasingly difficult to convince the Congress and the public that development problems overseas are also important to the U.S. Finally, the dissent over Vietnam further eroded Congressional support.

Despite these problems, the foreign assistance program has continued to fulfill its important function in terms of U.S. security and development interests. The tools and programs which have been developed tap the skills of almost every part of the American economy -- the universities, the cooperatives, the labor unions, the foundations and other voluntary organizations, the business community and many government agencies. The rich diversity of skills and viewpoints has been utilized increasingly but the ability of organizations to participate, for programs to be significant, and for influence to be exercised in support of change requires more of a commitment -- and more funds -- than we are now allocating to this purpose.



William S. Gaud
Administrator

CHAPTER I

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E. Budget Developments: November 1, 1968 - January 15, 1969

A. Background

The U.S. foreign assistance program dates back to the post-World War II period, although some technical assistance programs in Latin America started even earlier. The principal purpose of foreign assistance after World War II was to rebuild Europe and to prevent Communist infiltration there and in selected peripheral areas such as Greece and Turkey. The purposes of the Marshall Plan were clear, the period of its operation limited, and the program was highly successful. However, even during this period it became evident that U.S. security would also be heavily influenced by events elsewhere and that the underdeveloped countries would play a major role in the evolution of the world situation. The emphasis of the foreign assistance program shifted gradually to the less-developed world, initially in a security context but increasingly recognizing the importance of long-term economic progress.

From fiscal year 1948 through fiscal year 1961 the U.S. foreign assistance program (under different names) contributed \$56 billion:

- \$31 billion economic and technical assistance
- \$25 billion military assistance.

In addition, \$6.5 billion of assistance under Food for Freedom (P. L. 480) were provided. During this period concepts evolved, different approaches were tried, and a variety of program techniques emerged.

This major transfer of resources at the intergovernmental level was an innovation in international relations and, gradually, as the countries of Western Europe and Japan recovered, the U.S. example and U.S. pressure to help share the burden created acceptance of the idea that the rich countries had a responsibility to the poor; that foreign assistance was "right"; and that world peace and security required assistance to the developing nations to become economically and politically viable with reasonable speed.

Throughout the period, the need for external assistance continued to grow. Many countries were gaining their political independence from former colonial powers only to find themselves without the capacity to govern, to administer and to cope with the newly articulated demands of their populace. And, in the more established countries it had become clear that the development effort was inadequate to improve living standards significantly. In some, better analysis and shifting priorities defined an approach

to more rapid growth; in others, the awareness of social inequities and the need for reform led to the formulation of development plans. In both cases, large amounts of additional resources would be required. The international effort to increase the flow of resources, on reasonable terms, continued during this period. The Development Assistance Committee, the Organization for Economic Cooperation and Development, the International Bank for Reconstruction and Development (the World Bank), and the U. S. all contributed to a better definition of the magnitude of the requirement and to the recognition that terms had to be improved and that the U. S. had been bearing a disproportionate share of the burden.

In 1961, the Administration reorganized the foreign aid program -- structurally and conceptually. Structurally, it combined in one agency, the Agency for International Development (A. I. D.), the responsibilities for all overseas technical and capital assistance activities. P. L. 480 was retained in the Department of Agriculture but A. I. D. administers certain portions of that law and participates extensively in the implementation of others. Conceptually, the program was focused on country activity and analysis, emphasized development assistance (the Allianza, the importance of India) as compared

to assistance for defense or political stability, asserted the need for recipients to help themselves as a condition for U. S. assistance, and attempted to integrate all U. S. assistance tools (loans, grants, technical assistance, P. L. 480 sales) to assure maximum U. S. influence on development policies. The reorganization caused, necessarily, some turmoil but, by 1963, the new approach and organization were beginning to demonstrate increased effectiveness in understanding the problem of development and in dealing with it. The new approach to foreign assistance was considerably less effective in impressing Congress. Congress appropriated \$570 million less for economic assistance than the authorization request in fiscal year 1962, \$700 million less in fiscal year 1963, and a full \$1.1 billion less for fiscal year 1964.

In November, 1963, the new Administration inherited an increasingly professional aid program under increasing criticism and with decreasing political support. Shortly after taking office, President Johnson established a commission, chaired by George Ball, to explore whether A. I. D. should be split up to reduce Congressional opposition. Members of the commission explored this possibility extensively with Members of Congress and the President finally concluded that a reorganization would not make

any difference. Instead, greater emphasis was to be given to self-help and the concept was more precisely and tightly defined. The President did, however, reorganize Latin American affairs, in December, 1963, combining State Department and A. I. D. operations, under Mr. Mann (see Chapter XIX) reflecting the high priority the President attached to Latin American affairs.

The first Johnson Administration aid budget was submitted to the Congress on March 23, 1964, for fiscal year 1965.

B. The Fiscal Year 1965 Budget

The objectives of the proposed program reflected U. S. foreign policies since World War II:

- U. S. economic and military assistance programs to other free nations were a recognition that their strength, economic and social progress were a distinct part of U. S. security;

- assistance programs represented an affirmation of our moral conviction that rich nations should help the poor nations. The proposed program continued the policies, called for by the Foreign Assistance Act of 1961:

- emphasis on economic and social development -- seventy percent of the request was for economic assistance;

- the shift from grant to loan financing;

-- self-help as a condition of assistance;

-- concentration of assistance in a limited number of countries for maximum effectiveness.

In order to defuse Congressional criticism and to avoid the debacle of the previous year -- when Congress appropriated thirty-four percent less than the authorization request -- the fiscal year 1965 authorization request was "pre-shrunk." It was almost \$1 billion less than requested in fiscal year 1964, but still \$600 million more than Congress had appropriated. The strategy was successful in avoiding a political struggle, the cuts were relatively minor, and appropriations rose somewhat in fiscal year 1965 and fiscal year 1966. The trend to large Congressional cuts and declining appropriations resumed in fiscal year 1967, as shown in the following tables. Although the biggest drop was in military assistance, the economic assistance appropriation in fiscal year 1968 was twenty percent less than in fiscal year 1962. (The fiscal year 1969 appropriation bill has not yet been passed, but the authorization for economic assistance is \$290 million below last year's appropriation.)

One of the reasons for the cuts in fiscal year 1963 and fiscal year 1964 was that A. I. D. had funds left over from prior years.

**Table 1 - Authorizations and Appropriations -- Economic
and Military Assistance**

(U.S. Fiscal Years - Millions of Dollars)

	1962	1963	1964	1965	1966	1967	1968	1969
Authorization Request ^{1/}	4768	4781	4530	3592	4174	4360	3382	2918
Amount Appropriated by Congress ^{2/}	3914	3899	3000	3325	3933	2935	2296	<u>3/</u>

Source: A. I. D., Program and Project Data, Presentation to the Congress - FY 1969, May 14, 1968.

1/ Military assistance for Vietnam transferred to the Department of Defense budget.

2/ Military assistance funds for Laos, Thailand, NATO infrastructure transferred to the Department of Defense budget in FY 1968.

3/ Appropriation bill not yet passed.

Table 2 - Authorizations and Appropriations -- Economic Assistance

(U. S. Fiscal Years - Millions of Dollars)

	1962	1963	1964	1965	1966	1967	1968	1969
Authorization Request ^{a/}	2883	3281	3125	2462	2704	3443	2786	2498
Amount Authorized by Congress	2559	3075	2602	2452	2605	2628	2165	1608 ^{c/}
Appropriation Request ^{b/}	2559	3075	2597	2452	2605	2414	2331 ^{e/}	<u>d/</u>
Amount Appropriated by Congress	2314	2574	2000	2195	2463	2143	1896	<u>d/</u>

Note: Includes Supplementals; excludes Investment Guaranty Program

a/ Including Executive Branch Adjustments

b/ As adjusted by the Executive Branch and adjusted to limitations of authorizing legislation

c/ Excludes \$12 million for Indus Basin Fund previously authorized and included again in FY 1969

d/ Appropriation bill not yet passed

e/ Includes \$185 million authorization not used in FY 1967.

Source: A. I. D. , Program and Project Data, Presentation to the Congress - FY 1969,
May 14, 1968.

Table 3 - Authorizations and Appropriations -- Military Assistance

(U.S. Fiscal Years - Millions of Dollars)

	1962	1963	1964	1965	1966	1967	1968	1969
Authorization Request	1885 ^{1/}	1500 ^{2/}	1405	1130 ^{3/}	1470 ^{4/}	917	596	420
Amount Authorized by Congress	1700	1500	1000	1130	1470	875	510	375
Appropriation Request	1700	1500	1000	1130	1470	875	510	<u>5/</u>
Amount Appropriated by Congress	1600	1325	1000	1130	1470	792	400	<u>5/</u>

1/ P.L. 86-108 authorized "such sums as may be necessary." Amount shown is appropriation request.

2/ P.L. 87-195 authorized \$1.7 billion for FY 1963. Amount shown is appropriation request.

3/ P.L. 87-195 authorized \$1.5 billion per year for FY 1963 through FY 1966. Amount shown is appropriation request. Includes \$125 million supplementary appropriation for Vietnam. Also includes Sec. 510 authority to order Defense stocks subject to subsequent reimbursement from military assistance appropriations, as follows: FY 65 - \$75 million, FY 66 - \$300 million. In FY 1966 a supplemental appropriation was approved to liquidate these amounts.

4/ Includes supplemental appropriation of \$375 million. See footnote 3.

5/ Appropriation bill not yet passed.

Source: A.I.D. Program and Project Data Presentation to the Congress - FY 1969

In fiscal year 1961 and fiscal year 1962 A. I. D. had asked for substantial funds, particularly for Latin America, to be used as incentives for changes in development policies. Since some of these changes were not implemented the funds were not utilized. Congressional reductions of the authorization requests thus did not have as severe an impact in those years as the figures would suggest -- A. I. D. expenditures rose from \$1.8 billion in fiscal year 1962 to about \$2 billion in each of the next three years, and to \$2.5 billion in fiscal year 1967 before declining slightly in fiscal year 1968.

Other reasons for the declining trend of appropriations were varied, complex, and more important. In part they derived from foreign and domestic developments, in part from a failure to convince the Congress that foreign assistance was attaining the desired results, and in part they reflected a struggle between Congress and the Executive Branch over their respective roles in foreign affairs. The latter was exacerbated by Congressional criticism of the conduct of the Vietnamese war.

Throughout the Johnson Administration there have been major foreign and domestic developments which have strongly affected the climate for support to U.S. foreign policy interests in general

and the A. I. D. program as an implementing device in particular.

In this period, the social, political and economic repercussions of the Vietnam war expanded rapidly. War costs increased not only the Department of Defense budget, and thereby very substantially the total budget, but also the foreign aid costs for Vietnam and the gold/dollar drain. The War on Poverty and other Great Society programs introduced early in the Johnson Administration, the continued high cost for space exploration, and additional defense costs in conjunction with Congressional unwillingness to increase taxes meant program cutbacks in order to maintain U. S. fiscal stability to which foreign assistance was not immune. Instability in Africa, the Indo-Pak war of 1965, the Arab-Israeli war of 1967, the 1967 revolt in Greece, the Indonesian flirtation with Communism, and the anti-Americanism of the U. A. R. seemed to suggest that our aid resources were being expended to little constructive purpose. Mounting concern with urban and racial problems convinced many that major U. S. problems lay at home rather than abroad.

There were at the same time foreign developments favorable to the U. S. The shift from Sukarno to Suharto has brought Indonesia

out of the Communist Chinese orbit to a status of friendly neutral and given some hope for stable economic and political development in South East Asia. The Russian detente in Western Europe made some U.S. troop withdrawal from Western Europe bases possible with no undue political repercussions and at some current savings to the deficits in our balance of payments which continued throughout the period. The prosperity and strength of Western Europe and Japan fortunately has enabled those countries to continue and even expand their foreign aid commitments.

C. Major Policy Trends

Given this domestic climate for foreign assistance, the Administration has sought minimal programs through this period, although still larger than Congress thought appropriate, shifted the military/economic aid ratio further to economic aid, and emphasized loans over grants, promoted multilateralism and regionalism, and has cut overseas staff.

An important element in strengthening A. I. D. under these adverse circumstances was the judicious selection of a number of development objectives which made sense and would appeal to the critics of foreign aid, which embodied the essential concepts of economic development and self-help, which would be integral to

a comprehensive "country" program, and which would lend themselves to the use of the full range of U. S. tools of assistance.

President Johnson chose to focus upon development in the areas of food, education, population and family planning.^{1/} These form the "New Initiatives" which A. I. D. has emphasized during his Administration.

While Congress has encouraged multilateralism and regionalism and supported population planning, agricultural growth and development of rural societies, for the most part it has been restrictive. Economic as well as military aid levels have decreased; the number of countries eligible for aid has been limited; ceilings have been imposed and narrowed for military aid to Africa and Latin America; loan terms have been hardened; flexibility has been reduced through smaller contingency appropriations and curtailment of Presidential determination authority. Additionally, the Senate Foreign Relations Committee, traditionally a supporter of foreign aid, became hostile to this legislation. (See Chapter III.)

Reducing Assistance

Despite the increasing requirements for assistance in the less-developed countries, and their increased ability to use funds effectively, A. I. D. appropriations for foreign economic assistance

have declined since fiscal year 1962. U.S. economic assistance programs have fallen, as a percent of the budget and as a percent of U.S. Gross National Product. Military assistance has declined even more rapidly. In the latter case, the decline reflected Administration as well as Congressional policy. In the case of economic assistance, however, the Administration repeatedly sought to increase availabilities -- each year the authorization requested was well above the amount appropriated. Each year Congress refused to go along. As a result, by fiscal year 1968, A.I.D. -appropriated economic assistance programs represented only 0.26 percent of the GNP and 1.2 percent of the Federal Budget. (Even when P.L. 480 is added, which, in part, has had the function of disposing of the results of our farm policy, the total represented only 0.45 percent of the GNP.)

Other countries continued to contribute substantial amounts of aid and certain countries (including, notably, Japan, Canada, the Netherlands and West Germany) increased their respective aid programs. The U.S. fell to seventh place among developed donor countries in terms of the share of national income devoted to assistance.

Trends in Foreign Assistance Act
Appropriations and Net Commitments
(Millions of Dollars)

<u>Fiscal Year</u>	<u>APPROPRIATIONS</u>				<u>NET COMMITMENTS</u>				<u>a/</u>
	<u>Total</u>	<u>Economic</u>	<u>FAA</u>	<u>Military</u>	<u>Total</u>	<u>Economic</u>	<u>FAA</u>	<u>Military</u>	
1962	3,915	2,315		1,600	3,956	2,508		1,448	
1963	3,899	2,574		1,325	4,106	2,297		1,809	
1964	3,000	2,000		1,000	3,634	2,136		1,498	
1965	3,325	2,195		1,130	3,336	2,026		1,310	
1966	3,933	2,463		1,470	3,729	2,545		1,184	
1967	2,936	2,144		792	3,232 ^{b/}	2,249 ^{b/}		983	
1968	2,296	1,896		400	2,647 ^{b/}	1,889 ^{b/}		758	

1968 Data is preliminary.

a/ Deliveries.

b/ Excludes \$43.1 million reimbursements by Department of Defense for grants to Vietnam in FY 1967 and \$34.6 million in FY 1968.

Reductions in A. I. D. appropriations fell most heavily on development loans. Since the appropriation for Latin America was specifically earmarked, the reductions affected the loan programs in the Near East and South Asia. Latin America, which had been designated a priority development interest of the U. S. in the Alliance for Progress, found its fiscal year 1968 appropriations of \$470 million below its fiscal year 1963 appropriations. The Near East and South Asia region, containing about fifty percent of the population of the less-developed world and including India which is crucial to the evolution of an independent Asia, had commitments in fiscal year 1968 which were forty-six percent less than in fiscal year 1963.

The result was a shift in geographic emphasis, the extent of which had not been expected or desired by the Administration. The share of funds committed for the Alliance for Progress grew from nineteen percent in 1963 to twenty-four percent in 1969. While the Administration fully intended to increase its assistance efforts in Latin America, it had not intended to do this at the expense of withdrawing from Asia.

The Balance of Payments

A major target for A. I. D. critics has been the charge that

Table 4 - Economic Assistance Appropriations

(Millions of Dollars by fiscal year)

<u>Appropriation Title</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
Development Loans	1,112.5	975.0	687.3	773.7	618.2	500.0	435.0
Develon. Grants, Tech. Cooperation							
General	296.5	225.0	155.0	204.6	202.4	200.0	180.0
Supporting Assistance	425.0	395.0	330.0	401.0	684.2 ^{a/}	690.0	600.0
Contingency Fund	275.0	250.0	50.0	99.2	239.0 ^{a/}	35.0	10.0
Alliance for Progress:							
Loans	<u>b/</u>	425.0	375.0	425.0	435.1	420.3	389.0
Grants, Tech. Cooperation	<u>b/</u>	100.0	80.0	84.7	75.0	87.7	80.0
Partners of the Alliance		-	-	-	-	-	0.3
Social Progress Trust Fund	<u>b/</u>	-	135.0	-	-	-	-
International Organizations							
and Programs	153.5	148.9	116.0	134.3	144.8	140.4	130.0
Administrative Expenses	47.5	49.5	50.0	51.2	54.2	55.8	55.3
Other	<u>4.6</u>	<u>5.5</u>	<u>21.7</u>	<u>21.3</u>	<u>10.1</u>	<u>14.3</u>	<u>16.0</u>
TOTAL	2,314.6	2,573.9	2,000.0	2,195.0	2,463.0	2,143.5	1,895.6

Note: Details may not add to total due to rounding.

a/ - Includes supplemental appropriations of \$315.0 million for Supporting Assistance and \$100.0 million for contingency fund.

b/ - Unobligated carryover of \$600.0 million was available in FY 1962 for Alliance for Progress and Social Progress Trust Fund.

Table 5 - Trend of A. I. D. Net Commitments by Region

(U. S. Fiscal Years - Millions of Dollars)

Region	1962	1963	1964	1965	1966	1967	Total 1962-1967	1968
Near East and South Asia	1068	901	797	669	622	507	4564	533
Africa	315	239	189	150	169	184	1246	156
Latin America	478	542	603	523	637	556	3339	532
Vietnam	111	133	159	216	584	467 ^{a/}	1671 ^{a/}	400 ^{a/}
East Asia	257	263	146	192	255	244	1357	240
Non-Regional	<u>279</u>	<u>220</u>	<u>241</u>	<u>276</u>	<u>276</u>	<u>292</u>	<u>1585</u>	<u>309</u>
Total*	2508	2297	2136	2026	2545	2249	13,762	2170

a/ Excludes reimbursements by the Department of Defense of supporting assistance funds

* Includes small amounts for Europe

Details may not add to totals due to rounding

foreign aid significantly added to the Balance of Payments deficits. As early as 1961, A.I. D. concern with the U.S. balance of payments situation was reflected in progressively reducing the number of countries in which foreign assistance funds could be spent and increasing the proportion spent in the U.S. Over eighty percent of the fiscal year 1965 program was estimated to be expended in the U.S. which contrasted with less than fifty percent in 1959. This meant tying aid to U.S. procurement, which often meant items more expensive than comparable or adequate equipment and supplies from foreign sources and a consequent loss in benefits to the recipients per aid dollar. Although the increased costs of aid tying are difficult to measure, A.I. D. studies indicate that the average increase in commodity costs is between ten and twenty percent.^{2/} Throughout the period new ways were sought to tie aid to U.S. procurement, assure that procurement would be additional to normal commercial purchases and generally to protect the U.S. international financial position against the outflow of dollars. It is estimated that ninety-four percent of the fiscal year 1969 program would be spent in the U.S. These measures, though necessary, have significantly reduced operating flexibility but have done little to abate the criticism in Congress or by the public.

Self-Help

The idea that external assistance alone cannot create development was not new but it was refined during 1963-1968 and heavy stress was placed on the fact that the recipient countries must use their own resources effectively -- help themselves -- to achieve development. 3/

The self-help concept evolved gradually. Better analysis demonstrated that development bottlenecks often could not be solved by foreign aid or technicians but required policy changes; reduced appropriations required strenuous efforts to get more results for the U.S. aid dollar; equity demanded that recipients asked as much of a sacrifice from their people as did the U.S. to support its development assistance. Self-help was pursued not only by sharing the cost in carrying out the individual projects, but by insisting on revisions of laws and economic policies of aid recipients. Important changes were sought, and obtained, in areas such as tax laws and fiscal, budgetary, and administrative reforms to increase government revenues, to conserve foreign exchange and direct its use to essential imports, to stimulate and encourage private investment from abroad and promote it at home, and to increase food production and reduce population growth as rapidly

as possible. Additionally, emphasis was placed on working out termination strategies -- specifying the time when a country would not need concessional loan or grant assistance from the U. S. and the additional steps to be taken to reach this stage.

Emphasis on Development

A. I. D. shifted emphasis from programs designed primarily to guarantee U. S. security to programs designed primarily to promote economic growth in those developing countries whose prosperity and political stability were important to the United States and whose self-help efforts and past economic performance were adequate. This had begun several years earlier but was re-emphasized over the period 1963-1969. The share of military assistance financing requested under the Foreign Assistance Act fell sharply, from thirty-one percent in 1963 to fourteen percent in 1969. The share of the total program devoted to supporting assistance held at about twenty percent, although by 1969 the number of countries receiving the bulk of supporting assistance funds had fallen to only four -- Vietnam, Laos, Thailand, and Korea. The proportion of funds requested for development purposes (development loans, technical cooperation and Alliance for Progress loans) rose from about forty-five percent in 1963 to

about fifty-five percent in 1969.

Concentration

Concentration of assistance on a smaller number of countries to obtain more rapid and significant development results was a major concern. Relatively large sums were to be concentrated in a small number of countries, e. g., two-thirds of development loans in seven countries and over three-fourths of supporting assistance in four countries.

In 1963, A. I. D. requested the major portion of development loans for about twenty-three countries, technical cooperation and development grants for about seventy-four countries, and supporting assistance for sixteen countries. In 1969, A. I. D. requested the major portion of development loans for only eight countries and supporting assistance for only four; only fifteen major countries were to receive eighty-nine percent of all country program funds. The decision to concentrate aid on a limited number of countries was influenced by analyses of aid requirements in major countries which showed that the time period during which aid was needed could be sharply reduced if growth could be accelerated. Since total appropriations could not be increased this meant fewer recipients. Congressional criticism that aid was being

Concentration of Country Economic Programs

As Percent of Total Net Commitments

(Millions of Dollars)

Fiscal Year:	1962	1963	1964	1965	1966	1967	1968
Total Commitments	2508	2297	2136	2026	2545	2249	
Total 12 Major Countries (India, Pakistan, Turkey, Korea, Laos, Thailand, Vietnam, Brazil, Colombia, Dominican Republic, Congo (K) <u>a</u> /, Tunisia)	1313	1264	1285	1339	1828	1541*	
As Percent of Total	52	55	60	66	72	69	

* Excludes \$43 million reimbursements by the Department of Defense for grants to Vietnam

a/ Program in 1960 less than \$50,000

Excluding contributions to Vietnam for technical and operational assistance

Source: A. I. D. Special Report Prepared for the House Foreign Affairs Committee

spread too widely, without clear criteria for eligibility, was another major factor. In 1966, this Congressional concern was explicitly incorporated in the legislation though by then the policy to concentrate assistance was already being implemented

Concentration of Program Activities on Key Sectors: Food, Education, and Health and Family Planning

A major innovation during the Johnson Administration was the emphasis placed on agriculture and family planning -- the race between population and food. In response to Presidential directives issued in 1967 and Congressional recommendations, A. I. D. moved ahead with new initiatives to combat three of the most critical problems facing people throughout the developing world: hunger, disease, and illiteracy. The world food problem had been dramatically highlighted in 1965-1966 when widespread droughts in South Asia coincided with the depletion of U.S. surplus grain stocks. The export requirements for foodgrains, commercially and under P.L. 480, had been growing for some time but this conjunction of events foreshadowed grave problems for the future unless the relationship between the growth of agriculture and population could be reversed.

The challenge of relieving hunger was forcefully described by the President's Science Advisory Committee in May, 1967:

"The scale, severity and duration of the world food problem are so great that a massive, long-range innovative effort unprecedented in human history will be required to master it. . . A strategy for attacking the world food problem will, of necessity, encompass the entire foreign economic assistance effort of the United States in concert with other developed countries, voluntary institutions and international organizations." ^{4/}

The war on hunger required attacks on backward, unproductive agricultures and on dangerously high birth rates. Throughout the period 1963-1969, A. I. D. steadily increased its emphasis on agriculture and on family planning. Mr. Gaud stated on February 29, 1968, that:

"Not long ago most people were unaware that the world faced a food crisis. But this is no longer the case. And, happily, the means are clearly at hand to deal with the problem. New seeds, more fertilizer, effective pesticides and insecticides, the better use of water, farm credit, price incentives, better storage facilities, improved marketing and distribution facilities -- these can produce the kind of agricultural revolution that is needed. The only question is whether the world will take advantage of the opportunity which lies before it." ^{5/}

A. I. D. devoted a major part of its agricultural program to increasing the production of rice and other foodgrains by introducing high-yielding varieties of seed, by substantially increasing fertilizer supplies (in part financed by A. I. D.) and by increasing

host country efforts to develop water resources, credit institutions, and appropriate price policies.

In conjunction with its major emphasis on increasing agricultural output, A. I. D. also gave top priority to population and family planning. Some nations already had such programs and, indeed, received assistance from countries such as Sweden.

A. I. D.'s involvement substantially changed the priority accorded to family planning in many countries.

Although it was a principle of A. I. D. assistance to support only family planning programs which were voluntary, the existence of family planning programs, and their effectiveness, became part of the self-help assessment (see Chapter VI for a detailed discussion of the evolution of this policy).

In cooperation with other governments and international organizations, A. I. D. continued throughout the 1960's to support efforts to control or eradicate malaria, smallpox, cholera, sleeping sickness, and other diseases.

The problem of population growth compounded the problem of illiteracy and inadequate education in the 1960's. The school-age population in the less-developed countries increased about twenty percent every five years and the growth in educational expenditures,

staff and training often did not keep pace. Nevertheless, educational programs, some financed through U.S. foreign assistance, increased sharply. Primary school enrollment almost tripled and secondary and higher education enrollments increased three to four times across the developing world. However, the growth of education did not keep pace with the acceleration of political and social demands, and education systems remained seriously deficient in providing the skills to satisfy the manpower requirements of developing countries.

Over 1963-1969, A. I. D. expanded its proposed educational programs. In 1966, A. I. D. proposed an educational program of \$109 million; by 1969, A. I. D. had increased its proposed program to \$252 million. However, this was an expansion of traditional education activities. Only the barest start has been made on the research necessary to develop new techniques (educational television, programmed learning) which will permit the developing countries to cope with their burgeoning school population and cut into the educational backlog without relying exclusively on the very slow process of teacher education and direct teacher-student instruction.

Private Enterprise

Renewed emphasis was placed on using private resources in

the developing countries through existing A. I. D. programs such as investment guaranties and new techniques such as financing fifty percent of the cost of investment surveys to determine feasibility of new investment. Increasing use was made of voluntary agencies, labor unions, cooperatives, and savings and loan associations. Investment tax credits, Executive Service Corps and an Advisory Committee on Private Enterprise were other devices to maximize the private enterprise contribution to development.

Increased Use of Program Loans

A. I. D. required sound development planning and self-help from countries receiving assistance. This generally focused attention on broad economic issues -- trade liberalization (India and Pakistan), financial restraint (Brazil and Chile), and increased taxes. Loans for specific projects required relatively narrow types of self-help -- focused on the project itself. Program loans which supported general production by financing raw materials and spare parts as well as equipment grew in importance. Since they affected almost every sector of the economy they could also be used to require acceptable overall economic policies. Sector loans, which have a similar purpose but are focused on the overall problem

in a single sector.

Shift from Grants to Loans

In 1963-1969, A. I. D. increased sharply the proportion of its assistance given in the form of loans and reduced the proportion given in grants. This policy developed as a result of changing political pressures in the United States, a worsening balance of payments position, and improving economic conditions in the developing world. Assistance on a loan basis was also thought, by Congress and others, to promote a more businesslike approach to development by the recipient countries. It was, therefore, ironic to see Congressional cuts in A. I. D. appropriations fall most heavily on the loan program. Originally these loans were on very favorable terms but by fiscal year 1969 A. I. D. loan terms had been hardened by Congressional action though they still are highly concessional.

Terms of A. I. D. Loans

<u>Fiscal Year</u>	<u>Interest Rate During Ten-Year Grace Period</u>	<u>Interest Rate After Grace Period</u>
1962	0.75	0.75
1963	0.75	0.75
1964	0.75	2.00
1965	1.00	2.50
1966	1.00	2.50
1967	1.00	2.50
1968	2.00	2.50
1969	2.00	3.00

(Maximum maturity of loans is forty years.)

Improved Programming

With increased experience and research into the development process, A. I. D. and its field missions were able to develop more comprehensive programming techniques -- identifying costs and benefits more clearly. Underlying the self-help principle is the fact that external resources in volume represent only a marginal contribution -- the bulk of the resources are indigenous. Moreover, sound fiscal and monetary policies, new educational systems and population planning are as important as soundly designed projects. Through the use of more sophisticated economic tools and improved budgeting systems, A. I. D. was able to describe more accurately the assistance needed, the self-help steps necessary and the conditions under which assistance would no longer be required. Each A. I. D. field mission was asked to identify major assistance goals, operational sub-goals and projects, complete with a statement of required inputs, and was asked to analyze alternative ways of achieving objectives. These analyses were applied to the total economy of the recipient, enabling A. I. D. to assess projects and programs in context, and to urge policy changes even where these were not directly relevant to our project activity. This full-range approach is rather unique to the U.S.

among bilateral and multilateral donors. Unfortunately, the leverage and persuasive ability of U.S. officials in developing countries tended to become increasingly limited with reductions in the amounts of aid, legislative and balance of payments restrictions on its use, hardening of terms, and some shift to multilateral rather than bilateral form.

Increasing Emphasis on Multilateralism and Regionalism

During the 1960's A. I. D. consistently encouraged the expanding role of multilateral institutions and arrangements for the coordination of economic assistance programs in order to get other countries to share in the burden of financing development. Multilateralism owed much to the leadership of the United States in the organizations of donor countries established to coordinate the various donors' programs of economic assistance. These organizations included the Development Assistance Committee of the Organization for Economic Cooperation and Development, the aid consortia such as those for India, Pakistan, and Turkey, the consultative groups in which donor countries coordinate their aid policies and review performance, the other international aid institutions such as the World Bank and development banks.

U.S. efforts to enlarge the role of multilateral aid arrangements were quite successful in much of 1963-1968 largely because

the U.S. gave clear evidence of its own commitment to multilateralism by channeling more U.S. assistance through multilateral institutions. By the end of the period, however, U.S. leadership began to weaken as the U.S. commitment to foreign assistance in general appeared to falter. The U.S. share of total Development Assistance Committee (DAC) official aid declined in the 1960's.

Throughout the 1960's, A.I.D. also increasingly favored economic assistance which affected regional programs. This policy resulted from a growing recognition that some problems extended beyond the borders of one country, that greater benefits could be obtained if the recipients coordinated their efforts, and from Congressional limitations on the number of aid recipients.

Over 1963-1968, U.S. foreign assistance was used to encourage regional cooperation among the developing countries. In Africa, in particular, A.I.D. shifted emphasis sharply to regional and multi-national projects. (See Chapter XI.)

Restrictions on Military Spending by Aid-Receiving Countries

Deriving from the concept that self-help was indispensable to development was the increasing concern with military spending by aid-receiving countries. Inevitably, resources spent for defense detracted from those available for development. Such concerns

were sharpened by outbreaks of local wars, such as the Indo-Pak war of September, 1965, with their consequent economic dislocations.

The Congress shared A. I. D. 's concern about military spending and added specific defense-related restrictions to the Foreign Assistance Act.^{6/} The Symington Amendment to the Foreign Assistance Act of 1967 instructed the President to terminate assistance to a developing country diverting such assistance to military expenditures or diverting its own resources to unnecessary military expenditures which substantially interfered with development.

The Conte-Long Amendments to the 1967 Appropriation Act also directed the President to withhold economic assistance from developing countries equivalent to their expenditures on sophisticated weapon systems, except when such purchase or acquisition of weapons systems are vital to the national security of the United States.

In fiscal year 1968, A. I. D. did not proceed with a proposed loan to Peru because of concern over the high level of defense expenditures, which was compounded by Peru's decision to contract for the purchase of Mirage Jets from France.

Vietnam

A major development during 1963-1968 was the growing U. S. involvement in Vietnam. Not only did this profoundly affect the

Congressional and public attitudes toward the aid program, but the Vietnam Program absorbed an increasingly larger share of money, personnel and management time. A.I.D. assistance to Vietnam rose from \$133 million in fiscal year 1963 to \$400 million in fiscal year 1968, eighteen percent of total commitments; personnel (U.S. and foreign) rose from 1,170 to 8,880, thirty-four percent of total staff. The operational needs of a program in war-time required a completely different set of operational guidelines and extensive involvement of senior staff.

D. The Fiscal Year 1969 Budget

The program for fiscal year 1969 was prepared to serve the same general objectives followed in the earlier years of this period. In its proposals the Administration sought to define U.S. interests more closely and to relate the detailed assistance programs to minimum essentials.

The fiscal year 1969 program was prepared in a national environment of preoccupation with both merits and costs of the war in Vietnam, domestic social and economic issues, and financial problems which demanded both spending cuts and tax increase in an election year. At the same time, major problems in the developing countries demanded continued assistance to meet

a growing shortage in world food supplies and to cope with the political, economic and social issues of rapidly expanding populations.

The Administration's program proposed continued concentration of assistance in the food and population areas, and emphasis on self-help. In addition, new initiatives for regional cooperation in Asia, Latin America, and Africa were undertaken. The need for regional cooperation in developing areas was dramatized by President Johnson in his July 4, 1968, visits to Central American capitals.

The continuing tendency toward closer definition of U.S. purposes and interests was marked by a greater concentration of A.I.D. programs. Concentration of limited resources was reflected by country, by aid category, and by sector-assisted.

-- Eighty-nine percent of the total assistance was proposed for just fifteen countries;

-- ninety-five percent of the supporting assistance was proposed for just four countries;

-- eighty percent of the development loan funds was proposed for just eight countries;

-- thirty percent of the total assistance was proposed for the field of agriculture.

The use of private resources for development and the discovery of new ways to engage the private sector in development activity was a continued objective. The Administration sought to further encourage private investment; attract investor attention; broaden the participation in development by private, non-profit groups; and to expand assistance to meet those problems peculiar to the private investor abroad.

The fiscal year 1969 program was slightly less than the amount requested in the preceding year, but also about \$600 million or thirty-two percent more than the previous appropriation. Grant military assistance was also less than the preceding year. The military assistance appropriations request for \$420 million was the lowest since the inception of this program in 1950. The balance between military and economic aid, therefore, continued to shift with military assistance representing less than fifteen percent of the total. A relatively large portion of the total economic assistance took the form of grant assistance rather than loans because of the special and heavy needs to support the economy of South Vietnam. As a result, half of the proposed program was in the form of grants and half in the form of loans.

^{1/} Message from the President to Congress, February 9, 1967, Ninetieth Congress, First Session, House of Representatives, Document No. 55.

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E. Budget Developments: November 1, 1968 - January 15, 1969

FY 1969

On October 17, 1968, the President signed the Foreign Assistance and Related Agencies Appropriation Act for FY 1969 in which the Congress provided New Obligational Authority of \$1,380.6 million for A.I.D. This was a reduction of more than \$1.1 billion -- or 45% -- from the President's request. On the basis of the reduced level of appropriations enacted by the Congress, the Administrator approved, on November 8, 1968, an Operational Year Budget (OYB) containing planning levels for FY 1969. The only factor partly offsetting the cut was that \$125 million of unobligated funds carried over from FY 1968 -- not anticipated in the President's original request -- were available to support A.I.D. programs in FY 1969.

The deepest cuts were sustained in A.I.D. development assistance funds -- Development Loans, Technical Assistance, and Alliance for Progress Loans and Grants. Substantial cuts were also made in the Supporting Assistance appropriation and in the Contingency Fund. In program terms, this means:

- A 39% cut (about \$280 million) in the Alliance for Progress, falling most heavily on such major aid recipients as Brazil, Chile, Colombia, the Central American Economic Community, and the Dominican Republic.

- A 50% cut (more than \$350 million) in Near East/South Asia, principally reflected in cuts of similar magnitude in programs for India and Pakistan.
- A 28% cut (about \$50 million) in Africa, continuing the low level of FY 1968 and falling particularly heavy on expanding regional programs.
- A 23% cut (more than \$60 million) in East Asia, falling most heavily on Korea and Thailand.
- A 32% cut (more than \$150 million) in Vietnam made possible only because disruption in the economy as a result of the TET offensive in January 1968 resulted in a corresponding reduction in aid requirements.
- Reductions of corresponding magnitude in Interregional Programs.

Thus the Congressional action on the President's FY 1969 A. I. D. appropriation request means one more year of very low levels of funds in the face of increasing requirements. In fact, on the basis of present estimates, the FY 1969 total program level will be more than \$500 million less than the low level for FY 1968.

FY 1970

In December 1968, the President approved an NOA request for A. I. D. of \$2, 347. 8 million for FY 1970, which was reflected in the President's

1970 budget transmitted to the Congress January 15, 1969. This request, which is \$150 million less than the President's request for FY 1969, is \$452 million over the amount enacted by Congress for FY 1968 and \$967 million over the very low level enacted for FY 1969. Together with present estimates of loan receipts and recoveries of prior year funds, this would result in a total A.I. D. program of \$2, 571.9 million for FY 1970.

President Johnson's final A.I. D. budget request thus reaffirms the foreign aid policies and directions that he has consistently emphasized throughout his administration. It reasserts his position that the low appropriation levels enacted by the Congress in FY 1968 and FY 1969 do not adequately support U.S. interests, and proposes to return A.I. D. programs in major development countries to the higher levels of earlier years.

1/ Message from the President to Congress, February 9, 1967, Ninetieth Congress, First Session, House of Representatives, Document No. 55.

- 2/ Source of ICA Commodity Procurement, Office of Statistics and Reports (ICA), January 9, 1961; see also Memorandum to Mr. Gustav Ranis (Assistant Administrator/ Program Coordination) from Alan Strout (Program Coordination/Policy Planning Division), Available Data on Costs of U. S. Aid-tying, December 19, 1966.
- 3/ Foreign Assistance Act of 1967, Section 102, Section 208; P. L. 480, 1966, Section 109.
- 4/ The World Food Problem, A Report of the President's Science Advisory Commission, Vol. III, Report of the Panel on World Food Supply, U.S. Government Printing Office, Washington, D. C., May, 1967.
- 5/ Statement of the Honorable William S. Gaud, Administrator, Agency for International Development, before the House Foreign Affairs Committee, February 29, 1968.

CHAPTER II

THE CHANGING LEGISLATIVE FRAMEWORK FOR FOREIGN ASSISTANCE

- A. The Foreign Assistance Act**
- B. Public Law 480**
- C. The Themes of Change**
 - 1. Self-Help**
 - 2. Program Concentration**
 - 3. Regionalism and Multilateralism**
 - 4. Influencing Country Policy**
 - 5. Private Enterprise**
 - 6. Balance of Payments**
 - 7. Administrative Changes**
- D. Foreign Assistance Act of 1968**

A. The Foreign Assistance Act

In 1961 the foreign assistance mechanism of the U. S. was re-organized and new emphasis given to long-range economic development problems. Under the Foreign Assistance Act (FAA) of 1961 a new organization was established - the Agency for International Development (A. I. D.) to replace the Development Loan Fund and the International Cooperation Administration. In Chapter I of the FAA, Congress stated its policy on foreign assistance, of which the main points were:

- peace depends on wider recognition of the dignity and interdependence of men.
- the survival of free institutions in the United States can best be assured in a worldwide atmosphere of freedom.
- to renew the spirit of past aid efforts and to help make a historic demonstration that economic growth and political democracy can go hand-in-hand.
- in order to promote world security threatened by international communism aid will be made available to free countries based on sound plans and programs; be directed toward the social as well as the economic aspects of economic development; be responsive to the efforts of the recipient countries to mobilize

their own resources and help themselves; and shall emphasize long-range development assistance as the primary instrument of such growth.^{1/}

After the policy statement, the FAA provides for dollar-repayable Development Loans (DL); Technical Cooperation-Development Grant funds (TC/DG); Supporting Assistance (SA), for use on a loan or grant basis to promote political or economic stability; Alliance for Progress loans and grants in Latin America; voluntary contributions to international organizations (supplementary to our assessed contributions, which are appropriated to the State Department); Contingency Funds (CF), which are for unexpected needs under any of the above categories; Investment Surveys abroad; and Investment Guaranties against specific risks of investing abroad and against all risks in certain cases, including housing guaranties.

The Military Assistance Program (MAP), also authorized by the FAA.

Other FAA provisions contain various authorities, criteria and limitations on the giving of assistance.

The FAA granted authorities to the President, who retained those powers of greatest significance - such as the power to waive prohibitions

^{1/} Foreign Assistance Act of 1961 (Public Law 87-195) of September 4, 1961

on assistance - but has delegated the balance of FAA economic assistance authorities to the Secretary of State. Most of these, in turn, have been redelegated to the A. I. D. Administrator.

B. Public Law 480

The Agricultural Trade Development and Assistance Act of 1954, as amended, to give P. L. 480 its full title, was initially used as a means for disposing of America's large surplus agricultural stocks. However, it has increasingly come to be viewed as part of an integrated foreign assistance package.

Originally, P. L. 480 provided for local currency sales under its Title I, donations of food under Title II, other donations and barters under Title III, and dollar credit sales under Title IV. As revised in 1966, however, sales for dollars (emphasized) and for local currency (diminishing) were put under Title I. The ability to loan or grant back to the purchasing country the local currency proceeds of sales was restricted while self-help programs to strengthen the agricultural sectors of the recipients were emphasized.

Authorities under P. L. 480 were delegated in large part to the Department of Agriculture, but A. I. D. administers certain local currency and donation programs, monitors the self-help programs, participates in the formulation of country programs and frequently negotiates the bilateral agreements.

The text of the FAA, P. L. 480, and related documents and legislation, including the separate Foreign Assistance Appropriation Acts, are conveniently published, annually, in a Joint Committee Print, "Legislation on Foreign Relations", printed for the use of the Senate Committee on Foreign Relations and the House Foreign Affairs Committee.

While the basic structure of the Foreign Assistance Act of 1961 has been retained, important amendments have both initiated and reflected changes in A. I. D. programs. Significant changes have also been made in P. L. 480.

C. The Themes of Change

Legislative changes in the economic assistance parts of the FAA and in P. L. 480 have emphasized seven themes:

Self-Help: a country's own efforts are crucial to its development, and without adequate efforts at development by aid recipients foreign assistance cannot achieve its objectives.

Concentration of Programs: the FAA recognized that concentration on key areas within a country is necessary for rapid economic development; areas of emphasis are agriculture, education, health, population control programs, cooperatives, and the development of effective and democratically-oriented political and social institutions. Similarly, to assure adequate resources for the most promising

countries, the number of those eligible for assistance has been limited. P. L. 480 has emphasized concentration on programs to promote agricultural self-sufficiency.

Regionalism and Multilateralism: the FAA emphasized regional programs which encourage common solutions to common problems and the provision of assistance through international institutions.

Influencing Country Policy: emphasis on self-help implied considerable involvement with and influence over development policies. In addition, the FAA and P. L. 480 have been used increasingly to legislate foreign policy issues - trade with Cuba and North Vietnam, arms purchases, fishing rights. While the Executive Branch resisted expansion of this Congressional control, it has been only partially successful. In several instances economic assistance has been halted (U. A. R. , Indonesia) as the result of Congressional action.

Private Enterprise: greater emphasis was placed on maximum use of private enterprise and institutions in development.

Balance of Payments: increasing emphasis was placed on protection of the U. S. balance of payments position, in the FAA and in major revisions in P. L. 480, through changes in procurement policy and hardening of aid terms.

Operational and Administrative Changes: emphasis was placed on administrative efficiency to obtain maximum effectiveness for each dollar spent.

More detailed treatment of these major themes follows:

1. Self-Help

In 1967, at the Administration's suggestion, there was a major revision of the FAA's statements of policy and purpose. The revision reflected several years of experience with inducing policy reforms to promote economic development (self-help) and stated as a first principle that development is primarily the responsibility of the less-developed countries, and that assistance from the U. S. should be used in support of, rather than in substitution for, essential self-help efforts (FAA sec. 102). Moreover, again at the Administration's suggestion, specific self-help criteria for furnishing development assistance were emphasized (FAA sec. 208).

These factors included efforts to increase food production, to aid private enterprise, to allocate its own resources to development projects, to increase the role of the people in development, and to initiate economic, social and political reforms such as tax reform and changes in land tenure arrangements.

In P. L. 480, the 1966 amendments required that before entering into any sales agreements, consideration should be given to how a country was attempting to increase per capita food production and improve food storage and distribution facilities. Also, each sales agreement had to describe the self-help efforts of the purchasing country and to provide

for the agreement's termination if adequate progress was not made (P. L. 480 sec. 109).

2. Program Concentration

(a) Agriculture, Education, Health. The focus on agriculture, education and health programs, which was one of the keynotes of the 1967 Administration amendments to the FAA, was spelled out in the policy and self-help provisions and in the development assistance authorizations. Moreover, Congress further emphasized this focus in, for instance, Title XI of the FAA - "Food Production Targets and Reports", also added in 1967. For every aided country with a food deficit, this title called for a description of proposed food production programs and targets, and of progress toward these targets, together with a report of family planning programs and progress.

Concentration on reaching food self-sufficiency in "the Green Revolution" became a major goal of A. I. D. programs. It goes hand-in-hand with education -- the use of better seeds and fertilizer -- and with health and family planning programs.

Congress also emphasized adaptive research to meet food needs, in FAA sec. 211(e), added in 1966.

Improvements in agricultural capacity are the main thrust of the self-help provisions added to P. L. 480 in 1966.

Outside the FAA, use of U. S. institutions to promote international education was called for by the Administration's

International Education Act of 1966. However, lack of adequate appropriations prevented this from becoming an effective supplement to A. I. D. programs. A proposed International Health Act of 1966, which would have expanded the scope of Public Health Service's training, was not adopted.

(b) Population Programs. But food production cannot be considered apart from population growth and family planning programs constituted another key area of concentration. The subject was first recognized legislatively in the FAA in 1963, when A. I. D. 's research authority was amended to include specific reference to research into problems of population growth.

In 1966, an authorization -- but no additional appropriation -- to use excess foreign currencies in voluntary family planning programs was adopted (FAA sec. 612(c)).

By 1967, as growing Congressional concern paralleled increasing Administration program initiatives, a new Title X, "Programs Relating to Population Growth", was added.

The new title (1) provided a separate authority for assistance to family planning and other population-related programs; (2) earmarked \$35 million of economic assistance funds for fiscal year 1968; and (3) permitted the use of any such funds (including Development Loan funds) to furnish assistance on either a grant or loan basis. By specifically

identifying international organizations among the various types of organizations eligible for assistance under its provisions, the title also relieved certain existing limitations on the use of Technical Cooperation funds to support population programs of international organizations. The title also directed that no individual shall be coerced into practicing methods of family planning inconsistent with his or her beliefs.

The Administration, while fully supporting the goals of the title, had opposed the earmarking of funds, wishing to retain discretion to utilize funds as it saw best. However, the explicit Congressional endorsement of population programs has been useful in channelling increasing assistance for such programs under the Act.

Family planning was introduced into P. L. 480 in 1966, when sec. 104(h) explicitly authorized use of local currencies generated by P. L. 480 sales for voluntary programs relating to population growth, emphasizing maternal welfare and child health and nutrition programs.

(c) Institutions. Both the Administration and Congress have underlined the importance of effective and democratically-oriented social and political institutions.

A legislative landmark in the FAA was the 1966 Title IX, "Utilization of Democratic Institutions in Development", which calls for emphasizing participation of the people of less-developed countries

in development by encouraging indigenous and democratic private and local governmental institutions.

Also in 1966, Congress adopted FAA Chapter 7, "Joint Commissions on Rural Development", to encourage another form of institution - bilateral commissions to promote rural development. This was legislative recognition of the success of the Republic of China's Joint Commission on Rural Reconstruction.

Another specific example of legislative encouragement of institution-building is FAA sec. 251(g), added in 1963 at the initiative of then Senator Humphrey, which called for assisting the growth of the cooperative movement in Latin America as a means of strengthening democratic institutions and economic and social development under the Alliance for Progress.

Building of institutions, such as savings and loan associations, in the Latin American housing field, especially for the benefit of low-income families, was strongly emphasized in Administration revisions in 1965 to FAA sec. 224, "Housing Projects in Latin America".

In 1966, at the Administration's suggestion, the FAA was amended to authorize explicitly grants to U.S. education and research institutions to strengthen their capacity for assisting in development programs (FAA sec. 211(d)).

(d) Country Limitations. Limitations on the numbers of countries which may receive bilateral aid under the major categories of FAA assistance outside the Alliance for Progress were imposed by Congress in 1966. While resisted by the Executive Branch as potentially harmful restrictions on the President's ability to conduct foreign policy, the country limitations were otherwise consistent with the Administration's policy to concentrate assistance where it would do the most good. The overwhelming preponderance of FAA aid was already concentrated in key countries (86 percent of the Development Loans in the 1967 program were in 6 countries).

Legislative history, however, indicates that programs organized or administered by international organizations, or carried on on behalf of or jointly by a group of nations are not subject to these limitations. Also, limited grant funds for self-help projects are not thus restricted.

As passed in 1966, the country limitations could be waived by the President when he determined that assistance to additional countries was in the national interest. Under this provision the President permitted aid to additional countries. In 1967, Congress, in effect overruling this judgment of the need for assistance to additional countries, removed the power to waive the ceilings. (They may be waived now only by FAA sec. 614(a), on the President's finding that such waiver is important to the security of the U. S.)

3. Regionalism and Multilateralism

Increased emphasis on regional and multilateral programs has been reflected in general statements of policy and purpose in the FAA, in endorsements of such programs in particular regions, and in specific authorizations which can promote multilateral programs.

The FAA's policy statement, as amended at the Administration's suggestion in 1967, emphasized regional cooperation in solving common problems, and encouraged multilateral cooperation and maximum contribution by other donors, to share the burden of development assistance. In addition, the same themes were spelled out more fully in FAA sec. 209, "Multilateral and Regional Programs", also added at the Administration's suggestion in 1967. This section promoted regional cooperation for efficiency of administration in such areas as agriculture, education and health, communications and power, river basin development, and development banks.

These policies have been legislatively endorsed for specific areas. FAA sec. 206, "Regional Development in Africa", added by Congress in 1965, emphasized use of regional institutions, including the African Development Bank. Title VIII, "Southeast Asia Multilateral and Regional Programs", added in 1966 at the Administration's suggestion emphasized cooperation for social and economic progress in Southeast Asia. This title reflected President Johnson's speech at Johns Hopkins

University, Baltimore, Maryland, on April 7, 1965, on the importance of cooperative development in that region. Similarly, regional cooperation for Latin American development, already implicit in the separate Title VI for the Alliance for Progress, was reinforced by the section 251(h) requirement that Alliance loans be consistent with findings and recommendations of the Inter-American Committee for the Alliance for Progress (CIAP), and by the added criterion for Alliance projects under section 251(b) relating to contribution to the economic or political integration of Latin America.

Specific authorizations to promote multilateral aid also have been enacted. FAA sec. 205, which had authorized use of 10 percent of the Development Loan appropriation for transfer to the International Development Association, was broadened to permit the 10 percent to be transferred also to the International Bank for Reconstruction and Development, the International Finance Corporation, or the Asian Development Bank.

Similarly, FAA sec. 251(h), added in 1966, permitted 15 percent of the Alliance for Progress funds to be made available to the Inter-American Development Bank, IDA, IBRD or IFC.

Under either section, the funds transferred were to be used in accordance with the statutes of the organization and those governing U.S. participation in it, rather than in accordance with the requirements

of the FAA. So far, these transfer authorities have not been used. However, emphasis on regional and multilateral programs has otherwise been heavy.

Amendments to P. L. 480 have also called for international programs and larger contributions from other donors (sec. 205, added in 1966).

4. Influencing Country Policy

In many ways, the FAA embodies attempts to influence cooperating country policy. Since November, 1963, the number of such provisions has increased considerably. P. L. 480, to a lesser extent, has shown the same trend.

In broad terms, the furnishing of assistance itself is an attempt to influence a country toward stable growth. The emphasis on self-help, regional cooperation, institution building, private enterprise, and key areas like agriculture and population, involve a use of A. I. D. activities to influence cooperating country programs towards these goals.

However, the FAA and P. L. 480 also deal more specifically with country policies by increasingly using aid as a tool with which country policies, external as well as internal, and political as well as economic, may be influenced. Assistance may be denied countries with whose policies we are at odds, while permitting continued aid to those whose policies we approve.

At the level of general country policies, for example, significant amendments to the FAA sought to influence country military expenditures, especially on sophisticated weapons. Under sec. 620(s), added in 1967, A. I. D. must consider, in furnishing development assistance under the FAA and in making sales under P. L. 480, what a country is spending on military purposes, and must terminate such assistance if unnecessary military spending materially interfere with development. Even more strict is sec. 119 of the Appropriations Act for fiscal year 1968, which requires withholding economic assistance equal to the amount an under-developed country spends for any sophisticated weapons unless the President determines that the country purchase is vital to the security of the United States. Seven listed countries on the periphery of the Communist bloc were excluded from this requirement.

Sanctions have been provided to discourage other specific country policies or acts. Sections 620(n) of the FAA and 116 of the Appropriations Act, prohibited assistance to countries which sell to or permit their ships or aircraft to traffic with North Vietnam, so long as it supports hostilities in South Vietnam.

Restrictions on countries which aid Cuba, similarly, were tightened (FAA sec. 620(a), amended in 1963).

Aid to the United Arab Republic was prohibited, unless the President finds it essential to the U. S. national interest (FAA sec. 620(p),

added in 1966, and sec. 117 of the Appropriation Act), and for a time, aid to Indonesia was prohibited unless the President determined it to be essential to the U. S. national interest (FAA sec. 620(j), added in 1963, deleted in 1967).

In addition, assistance and P. L. 480 sales were prohibited to countries which have broken diplomatic relations with the U. S. (FAA sec. 620(t), added in 1967). Assistance to several African or mid-eastern countries was terminated prior to this provision when diplomatic relations were broken following the short Israeli-Arab conflict in 1967.

Assistance and P. L. 480 sales were similarly prohibited to countries which the President determines have either prepared for or committed aggression against the U. S. or a country receiving U. S. assistance (FAA sec. 620(i), added in 1963).

Several provisions added to the FAA in this period called for consideration of an aid cut-off, rather than requiring it. Such consideration was required if a country permitted mob action to damage U. S. property (sec. 620(j), added in 1966); if a country seized U. S. fishing vessels (sec. 620(o), added in 1965); or if a country lacked specific risk guaranty agreements against invertibility and expropriation (sec. 620(l), first added in 1963). Also, whether a country was delinquent in payment of U. N. dues and

assessments had to be considered, and any delinquency, plus plans to pay up, reported to Congress (sec. 620(u), added in 1967).

The severity of such cut-off requirements was ameliorated somewhat by explicit provisions that such prohibitions will not bar certain assistance, such as the Peace Corps, famine and disaster relief, or military sales. (FAA sections 638, 639, and 640, added in 1963 and 1965.)

Some of these restrictions are duplicated in P. L. 480. Thus, P. L. 480 sales can only be made to "friendly countries". "Friendly" was defined to exclude Communist countries for certain purposes. Since 1963 the definition has been expanded to exclude countries which traffic with North Vietnam or Cuba; the U. A. R., unless the President determines the sale to be in the U. S. national interest; aggressor nations or those using funds from the U. S. for purposes inimical to its foreign policy (P. L. 480 sec. 103(d)).

There is also in P. L. 480 a prohibition on sales to countries with which we have no diplomatic relations and an injunction to use Title I to assist countries in being free of Communist domination (sec. 103(j), added in 1966). Similarly, Congress provided that FAA sec. 620(e), which prohibited aid to a country which expropriates U. S. property without compensation, should apply to P. L. 480 Title I assistance (sec. 410, added in 1966).

However, restrictions on P.L. 480 sales did not prohibit donations, either directly or through voluntary agencies, under Title II of P.L. 480.

In general, the Administration opposed adoption of these provisions of the FAA and P.L. 480 as encroachments on foreign policy powers ordinarily reserved to the President and the Executive Branch. While it often agreed with the particular objectives, the Administration sought to avoid inflexible sanctions attached to assistance, and preferred to retain a capacity to mix its own blend of long-range strategies and shorter-range tactics. Moreover, some of these sanctions turned out to be very difficult to apply. For instance, a sophisticated weapons system in terms of a small country may not seem so in terms of the needs of a large country like India or Pakistan; nor is it always possible to determine the terms of the weapons acquisition, which are not public knowledge.

5. Private Enterprise

An emphasis on development in the private sector, and on utilizing private enterprise as an efficient means of promoting development, has been further developed in legislative changes. High among the self-help criteria spelled out in FAA sec. 208, added in 1967, was the extent to which the country creates a favorable climate for domestic and foreign private enterprise and investment. In addition, how a country improves the climate for private investment was added as a

criteria for Development Loans, Technical Cooperation grants and Alliance for Progress activities in 1966. Congress also provided that at least 50 percent of development loans and Alliance for Progress loans were to be available "for loans made to encourage economic development through private enterprise" (FAA secs. 202(a) and 252(a), added in 1963).

At the Administration's suggestion, changes in the FAA investment guaranty authorities have been made to meet needs of the private investing community. Such changes included those which specified that guaranty agreements represented a full faith and credit obligation of the U.S. (sec. 222(e), as modified in 1963); removed individual ceilings on extended risk guaranties (sec. 221(b), amended in 1965); and revised administrative portions of the guaranty authority to put the guaranty program on a self-supporting basis (sec. 222, modified in 1967). It also was made explicit that U.S. credit unions can participate in the guaranty program (sec. 221(b), amended in 1967). The total guaranty authority available has been vastly increased, from \$1.3 billion in specific risk authority in 1963 to \$8 billion in the 1967 amendments to the FAA.

Changes have been made in the general provisions of the FAA to highlight the role of private enterprise. Thus, Congress has called for the establishment of an effective information system covering

non-governmental participation in the development process (sec. 601(b)(2), added in 1966); for appropriate steps to discourage nationalization (sec. 601(b)(6), added in 1963) and for use of U.S. private enterprise, including, specifically, engineers, wherever practicable (sec. 601(b)(7) and (8), added in 1963 and 1966).

Encouragement of U.S. private investment in developing countries was the aim of one of the sanctions added to the FAA in this period - sec. 620(l). When first added by the Congress in 1963, it directed that no assistance should be provided to countries which after 1966 had not entered into bilateral agreements authorizing specific risk guaranties against inconvertibility and expropriation. In 1966, however, at the Administration's suggestion, the prohibition was changed to the requirement that we consider denying assistance in such a case. Almost all aided countries now have such guaranty agreements.

Another boost to U.S. business is provided in sec. 115 of the Appropriation Act. Added in 1965, it required issuance of regulations to assure that, to the maximum extent feasible, A. I. D. -financed construction work be performed by U.S. citizens or nationals of the recipient country, rather than third-country nationals. This has been implemented by A. I. D. Regulation 7.*

* 22 C. F. R. 207

Provision was added in 1963 for a nine-member Advisory Committee on Private Enterprise in Foreign Aid, to make recommendations on effective use of private enterprise.

One amendment perhaps typified the changed approach in this area. FAA sec. 621 provided, in part, that technical assistance in fields like education, agriculture, health, etc., A. I. D. should use, to the fullest extent practicable, the services of Federal agencies. In 1963, this was changed to the requirement that, in providing such technical assistance, A. I. D. should use services from private enterprise to the fullest extent practicable, calling on other Federal agencies only when they are particularly or uniquely qualified, and not competitive with private enterprise. These priorities are reflected in A. I. D. guidelines such as Policy Directive No. 37.*

In P. L. 480, Congress has emphasized the role of private trade entities in selling agricultural commodities and in utilizing the proceeds for agricultural self-help activities or other private-sector economic enterprise (sec. 107, added in 1966).

6. Balance of Payments

In both the FAA and P. L. 480, additional emphasis has been placed on protecting the U. S. balance of payments. This was particularly important in the major 1966 revisions to P. L. 480.

* A. I. D. Manual Order 1000. 2

These revisions called for a transition, by the end of 1971, from local currency sales to sales for dollars. Local currency sales could still be made, however, to the extent local currency was needed to pay for U. S. obligations and programs, for common defense programs, for "Cooley" loans to U. S. affiliated businesses, and for population programs (sec. 103(b)).

This change, of course, reduced the amount of local currency which could be loaned or granted back to the country, as was frequently done, and increased the recipient country's future dollar debt considerably. Moreover, any grants of local currency (except in "excess" currency countries, where there is more than a two-year supply on hand), had to be submitted to the Agricultural Committees of Congress before they became effective (Proviso 3 to sec. 104, P. L. 480). (The pattern of greater Congressional involvement in the implementation of assistance programs, of which this example is a part, is discussed further below.)

The terms of P. L. 480 assistance also have been hardened. Thus, local currency loans may not be at less than the cost of money to the Treasury, unless an Advisory Committee with Congressional representation decides otherwise (Proviso 4 to sec. 104 of P. L. 480). Dollar sales are to be on Development Loan terms, over not more than 20 years. In contrast, in 1963 there were no limits on terms on

local currency loans, and a ceiling (cost of money to the Treasury), rather than a floor, on dollar-repayable credit sales.

For any P. L. 480 sales, enough of the proceeds to meet U. S. needs, including, in excess countries, sales to U. S. tourists, must be convertible to dollars.

Moreover, sec. 105 of P. L. 480 contains a general injunction to use local currencies received under P. L. 480 to minimize any U. S. balance of payments deficit.

The same attention to balance of payments considerations has been evident in the FAA. Thus, furnishing assistance in the form of goods and services, in a manner consistent with efforts to improve our balance of payments, is now stated as one of the policies of the FAA (sec. 102, as amended at the Administration's suggestion in 1967). Other provisions are aimed more specifically at the problem. There are directives in the FAA to make maximum use of local currency (sec. 612(b), as amended in 1965), to consider balance of payments effects in making guaranties (sec. 222(g), added in 1963), to require that interest be paid on U. S. -owned foreign currency (sec. 613(d), added in 1965), and to require a special waiver for any non-U. S. procurement of motor vehicles (sec. 636(i), added in 1967).

In addition, development loan and Alliance loan interest rates have been raised to 2 percent for 10 years and 2-1/2 percent thereafter (sec. 201(d), as amended in 1964 and 1967).

7. Administrative Changes

Legislative qualifications affecting operational and administrative matters, which help determine how and whether foreign assistance is to be given, have grown in this period. There are (a) changes designed to improve efficiency of administration, and (b) changes reflecting Congressional desire for closer review of A. I. D. programs.

(a) Efficiency of Administration. An example of this thrust is FAA sec. 611(e), added in 1967, which required a certification from the director of a country program for any capital assistance project over \$1 million, stating that the country had the capacity to utilize and maintain the project. (This to a large extent overlaps with the existing sec. 611(a), which already required adequate planning for a project.) And, to save money, there was a sense of Congress declaration that excess property rather than new items should be used wherever practicable (FAA sec. 608(a), as amended in 1967).

Also, Congress put into the FAA special provisions concerning the aid program in Vietnam: an express requirement that counterpart local currency (generated by sale of granted imported commodities) be programmed only after written U. S. concurrences (sec. 402, as amended in 1966); and a sense-of-Congress expression that the Government of Vietnam should create a \$10 million revolving

account from which the U. S. could withdraw refund claims arising out of aid operations (sec. 403, added in 1967).

(b) Congressional Interest. There has been a tendency reflected in the legislation in this period for greater Congressional involvement, not only in use of the FAA and P. L. 480 to reflect and influence policies, but also in the purpose and content of the programs.

Under the FAA, all Technical Cooperation and International Organization projects must be justified to Congress (fiscal year 1968 Appropriation Act). Without express approval of Congress, funds cannot be used for a productive enterprise where the U. S. contribution will be more than \$100 million (sec. 620(k), added in 1963). Congress has called for specific proposals for tropical agriculture programs (sec. 461(b), added in 1967), and for food production targets (discussed above), and suggested a fish protein concentrate program (sec. 218, added in 1967).

Also, further reports to Congress are required by the FAA. An overall evaluation and report to the President and to Congress was suggested in sec. 261, added in 1963. Reports on specific subjects have been called for. One was on the possibility of furnishing used tools and equipment (sec. 217, added in 1964). Semi-annual reports on loan repayments are required (sec. 634(f), added in 1966). Use of unvouchered funds must be reported

(sec. 614(c), as amended in 1966). This provision merely confirmed a procedure followed previously.

Finally, to have its own review of certain FAA operations, Congress has specified that any fund provided solely by the U. S. and administered by an international organization must be audited by the Comptroller General, the agent of Congress (sec. 301(d), added in 1967). This was aimed specifically at the Inter-American Development Bank.

The Administration had requested multi-year FAA authorizations, to put aid on a more stable basis, but, except for multi-year Development and Alliance Loan authorizations for a certain period, Congress has preferred to keep an annual rein on the program for authorization as well as appropriations. Even those loan programs that started as five-year authorizations have been reduced to single year ones.

In P. L. 480, Congress has created an Advisory Committee - Congressional representation outnumbered Executive Branch membership - to advise the President on a variety of matters arising in the implementation of P. L. 480 programs, including self-help actions, uses of local currency, amounts reserved for Cooley loans, rates of exchange and loan terms. This Committee also may authorize local currency loans at less than the cost of money to the Treasury.

Also in P. L. 480, as noted above, proposals to make local currency grants, or to reuse loan proceeds, must be laid before the House and Senate Agriculture Committees before they become effective.

D. Foreign Assistance Act of 1968

There were relatively few amendments to the FAA in 1968. The major ones, listed by subject headings used earlier in the chapter, were:

Population Programs. \$50 million of fiscal year 1969 economic assistance funds were earmarked for population programs.

Influencing Country Policy. A new section (620(v)) incorporates section 119 of the Appropriations Act for fiscal year 1968 and directs the President to withhold assistance in an amount equal to that spent by any underdeveloped country to purchase "sophisticated weapons systems" unless he determines that such purchase is important to the national security. The exemption for seven countries (Greece, Turkey, Iran, Israel, China, Philippines, Korea) in fiscal year 1968 was withdrawn. However, another new section (651) states the sense of Congress that the U.S. should sell supersonic planes to Israel.

Balance of Payments. Minimum interest rates on loans were increased further, raising the rate after the first ten years from two and one-half percent to three percent.

Administrative Changes. The FAA was amended to require A. I. D. to review commodity eligibility for financing prior to shipment instead of relying on post-transaction audits (see Chapter XVII); to establish a new management system, including quantitative indicators of progress, to relate expenditures and budget projections more clearly to objectives (see also Chapter XIX); and to reflect the sense of Congress that there should be a comprehensive review of all U.S. foreign economic and military assistance programs. The President is requested to submit his recommendations by March 31, 1970, with an interim report by July 1, 1969.

CHAPTER III

CONGRESSIONAL ATTITUDES TOWARD FOREIGN AID

- A. Background**
- B. Fiscal Year 1965 Budget**
- C. Fiscal Year 1966 Budget**
- D. Fiscal Year 1967 Budget**
- E. Fiscal Year 1968 Budget**

A. Background

President Johnson's first foreign aid budget, for fiscal year 1965, requested \$2.5 billion for economic assistance, which was \$660 million less than that of President Kennedy the year before. (The military assistance requested, \$1,055 million, was \$350 million less than in the previous year.) This "bare bones" approach so pleased Congress that it passed the aid bill easily with minimal cuts. Any criticism voiced during consideration of the bill came from long-time opponents of foreign aid.

Soon thereafter, however, Members of Congress began to clash with the Administration on foreign policy issues, and the spirit of cooperation on foreign assistance was lost. Resentment began to grow, particularly in the Senate, as the Vietnam war escalated and Senators felt that they had had far too little to say about the extent of the U.S. involvement. An accusing finger was pointed at the foreign aid program by several influential Members, including the Chairman of the Foreign Relations Committee, who were of the opinion that it was U.S. assistance programs - military and economic - which had led the U.S. into the position of protecting its Vietnam investment. As dispositions toward Vietnam soured, foreign aid became the focus for Congressional misgivings and discontent over the war and U.S. foreign policy in general.

Members vented their frustrations by slashing the foreign aid budget request and by attaching many restrictive amendments to aid legislation in an attempt to curb the President's authority in the field of foreign relations. Restricting the foreign aid program was the most convenient means of limiting the President in his conduct of foreign policy.

Economic Assistance Requests
(millions of dollars; fiscal years)

	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
Authorization Request	2875	2884	3281	3125	2462	2704	3443	2786
Amount Appropriated	2631	2315	2574	2000	2195	2463	2143	1896
Difference	244	569	707	1125	267	241	1300	890

Congress declared that the furnishing of aid was not to be construed as creating a new commitment to use U.S. armed forces for the defense of any foreign country. It limited the number of countries to which aid could be granted, restricted aid to those countries trading with Vietnam and Cuba, raised the interest rates on development loans, cut off aid to countries whose defense spending interfered with their economic growth, and required that the Administration furnish Congress greater detail about its proposed aid commitments.

While the aid program was being battered in Congress for a variety of political reasons, its popularity with the American people was also declining. Constituent mail against foreign aid increased, and Members

weighing a vote for the program said they feared repercussions in their constituencies. Foreign aid legislation passed by a smaller margin of votes each year.

As it became increasingly difficult to get foreign aid legislation through Congress, the Agency intensified its Congressional liaison activities. The Congressional Liaison Staff worked closely with individual Members and with Congressional committees and also attempted to keep every Member of Congress and his staff informed on foreign aid. A series of foreign aid seminars featuring the A. I. D. Administrator and such noted speakers as John Kenneth Galbraith and Barbara Ward were presented on Capitol Hill. Leaders from private industry and university faculties were prompted to explain to their Congressional representatives how they had benefited from A. I. D. -financed contracts and to urge their support of foreign aid legislation. Senior A. I. D. officials, A. I. D. Mission Directors, and visiting foreign dignitaries were introduced to Members of Congress to present the foreign aid story from every angle. Despite these efforts, by 1968 mere passage of the foreign aid authorization bill had become a life-and-death struggle.

Foreign assistance legislation runs a double Congressional hurdle -- since A. I. D. is a temporary agency, an authorization is required annually to continue the program and to establish maximum

funding levels. The annual presentations provide an opportunity for review by the Foreign Affairs and Foreign Relations Committees. Amendments to the enabling legislation are common, as are reductions in the amount requested to be authorized. After House and Senate approval money must be appropriated. The aid bill goes through the two appropriations committees and again to the House and Senate. Appropriations are frequently reduced below the amounts which sometimes are authorized only days before.

B. Fiscal Year 1965 Budget

In 1964, the President's foreign aid request for fiscal year 1965 was passed easily by the Congress after the smallest reduction in funds in the nineteen-year history of the program; a total of seven and one-half percent was trimmed from the appropriation request in contrast to the previous year's thirty-four percent cut, the highest percentage up to that time since the program's inception. Only two major administrative provisions were disapproved and the President's supplemental request of \$125 million for Vietnam was promptly accepted.

For the first time in the history of the program, the House Foreign Affairs Committee on May 27 reported out an authorization bill for the full amount requested: \$3.4 billion from the original request and the supplemental \$125 million for Vietnam, bringing the total to \$3.5 billion

for economic and military assistance. The Committee also defeated, by reputedly "top-heavy" votes, five amendments offered by E. Ross Adair to cut authorizations. The major administrative passages deleted were provisions for open-end authorization for military assistance (replacing this passage was a one-year authorization), and ("select-out") authority for the Administrator of A.I.D. to terminate the service of certain employees without regard to regular civil service procedures. This provision had been added as part of the Administration effort to improve the calibre and efficiency of employee performance in response to Congressional criticism in this area.

The majority report noted that the program had been modified in scope and improved in administration. In recognition of a lack of any "padding" for "cut insurance", the report stated that any reduction in funds "would impose an unjustified handicap on those responsible for our defense and for the conduct of our foreign policy." ^{1/} Minority views acknowledged that the program was "well-intentioned", but insisted that it was also "misguided" and should be "drastically revised and substantially reduced." ^{2/}

^{1/} H Rept 1443, 88th Cong., 2d Sess.

^{2/} Ibid.

On the floor, although a majority of Republicans and Southern Democrats continued their tradition of voting against final passage, the House cut only \$127,600 (for international organizations) from the President's request, which Foreign Affairs Committee Chairman Thomas E. Morgan remarked was well described as "bikini-sized" or "pre-shrunk." ^{3/} The majority appeared to agree with Representative Cornelius E. Gallagher who asserted "the amount requested for economic and military assistance is a tight, realistic, hard-core estimate of the needs for the next fiscal year." ^{4/} A motion to recommit the bill with instructions to cut (which would have reduced funds by \$222 million) was defeated with the assistance of a group of fifteen Southern Democrats, who were willing to defend the Administration against cuts, although they voted against final passage.

On July 2, the Senate Foreign Relations Committee ordered the House-passed bill reported with amendments which reduced the original Administration request by \$50 million. The Committee also reinstated the provisions for "selection-out" authority. Chairman J.W. Fulbright expressed the feeling of the Committee that if A.I.D. was to be continually criticized by the Senate for administrative problems, some

^{3/} House debate on HR 11380, 88th Cong., 2d Sess.; Congressional Record, June 9-10, 1964.

^{4/} Ibid.

authority should be granted the Agency to correct these problems.

In its majority report, the Committee noted that the foreign aid program was "being steadily rationalized and improved", and prospects were "encouraging." ^{5/} Senator Wayne Morse, in a separate minority report, termed the program "one of the most stagnant, unproductive and misrepresented of all federal activities", and urged a further reduction of \$466.7 million worth of "fat clinging to the bare bones" of the President's request. ^{6/} However, floor amendments cut only \$216.7 million beyond the figure reported by the Committee, sending to conference on September 24 a bill authorizing appropriations of \$3.3 billion, and retaining the Committee's language providing for "selection-out" authority.

On October 1, House and Senate conferees agreed to a compromise bill which authorized \$3.5 billion (\$10 million less than requested), and which deleted A.I.D. "selection-out" authority. Later the same day, the appropriations bill, reducing the Administration request by only 7.6 percent, was cleared. \$3,250,000 was allocated for foreign aid, \$250 million more than the Congress had allowed for fiscal 1964.

Representative George H. Mahon, Chairman of the House Appropriations Committee following the death of Chairman Cannon, opposed

^{5/} S Rept 1188, 88th Cong., 2d Sess.

^{6/} Ibid.

an attempt by Subcommittee Chairman Otto E. Passman to cut \$515 million from the request, and subsequently argued against further cuts on the floor. Asserting that the foreign aid program had played "an important part in preventing World War III", Chairman Mahon added that such a war would "cost twenty times in money what foreign aid has cost in the last twenty years." ^{7/}

1964 constituted a high point in Congressional-Administration cooperation on the U.S. foreign aid program.

C. Fiscal Year 1966 Budget

1965 saw the novel results of 1964 repeated; the appropriations requested by the Administration were reduced by only 6.9 percent. However, a major controversy arose between the two Houses of Congress concerning the question of restructuring the entire aid program. The Senate registered its growing dissatisfaction with the workings of the program by demanding a complete overhaul by 1968, meanwhile authorizing funds for two years (through Fiscal Year 1967) as a proposed first step toward a different approach. The Senate bill did not specify precise changes to be made in the aid program, but required only that the current program be concluded in Fiscal Year 1967 and requested the submission of new plans by the Administration.

^{7/} House debate on HR 11812, 88th Cong., 2d Sess.; Congressional Record, June 30-July 1, 1964

A Foreign Aid Planning Committee was to be created, to advise the President and make its own recommendations for reform.

Individual Senators supporting reform, however, did have specific changes to suggest: Senators Fulbright and Morse both criticized the current program, and Senator Fulbright even introduced his own bill to the Foreign Relations Committee, authorizing \$846 million for foreign economic aid, in accordance with his desire to separate economic and military aid. The two-package idea was rejected by a nine-four vote in the Committee, and Senator Morse introduced an Administration-drafted bill, to which Fulbright appended a provision for a two-year authorization. Senator Fulbright was also in favor of the increased use of international organizations for the dissemination of aid. Senator Morse disagreed violently with this proposition and with the multiyear authorization, on the grounds that continuing Congressional review of the aid program would be eliminated. However, he sponsored the proposal for termination of the entire program in two years, together with the creation of a commission to draft a new program by the middle of 1966. He cast the only dissenting Committee vote on the completed bill, remarking

"Because the authorization continues for two years aid programs for an excessive number of countries, because it increases military aid to countries where it will do American interests more harm than good, and

because it promotes an increase in funds for international lending agencies sight unseen by Congress, I believe at least half a billion dollars should be cut from this bill for each of the two years." 8/

Senator Fulbright had been so displeased by the Administration draft bill that he had threatened to refuse to manage the bill as it stood (i.e., without separation of military and economic aid, plus several other changes he desired), but he changed his stand after the draft had been amended by the Foreign Relations Committee, partly as he remarked on June 2, because he "just couldn't find a substitute on the Committee to take my place." 9/

In reporting out a clean bill, the Foreign Relations Committee justified its actions in the following remarks:

"There is general agreement that small adjustments in the Administration's proposals could not result in a program which would secure broad public and Congressional support. Moreover, some Members feel that the Congress increasingly in recent years has seen its constitutional role in the formulation of U.S. foreign policy relinquished to or usurped by the Executive Branch of the Government, regardless of which political party held power. This trend has resulted in a situation in which support or rejection of Administration policy have seemed the sole alternatives...

"Accompanying and intertwined with this attitude is the feeling among Members that the Committee on Foreign Relations increasingly is being forced into the role of a Committee on Foreign Aid... So long as there is so much criticism of the aid program--whether valid or not--the

8/ S Rept 170, 89th Cong., 1st Sess.

9/ Quoted in Congressional Quarterly Weekly Report, Vol. XXIII, No. 25, p. 1153.

Committee is unable to sponsor or approve a long-term authorization for this program, and is unable to break the dreary cycle of full-scale and time-consuming annual reviews..." 10/

Meanwhile, the House bill which had been passed by the Foreign Affairs Committee consisted of a second draft prepared by the Administration, incorporating changes requested by Chairman Morgan. These included recombining economic and military aid which the Administration had at first separated. The Chairman requested the change because, in his view, the objects of economic and military aid were identical: "to prevent war and to maintain our security", and therefore the program should be viewed "as a whole in order to know its cost and judge its accomplishments." 11/

In recording majority views, the Committee specifically disagreed with the Senate proposals to restructure the aid program:

"We cannot agree that it would be desirable, or possible, to terminate the program in the near future. Nor do we believe that it is advisable to establish a commission, no matter how distinguished its membership, to undertake still another survey of foreign aid... That no new approach has been developed as the result of any... (earlier) inquiries indicates the complexity of the problems faced rather than a lack of perception or analytical ability. The Committee believes, therefore, that the basic structure of our foreign aid program is sound and should not be drastically revised." 12

10/ S Rept 170, 89th Cong., 1st Sess.

11/ Hearings before the Committee on Foreign Affairs, House of Representatives, 89th Cong., 1st Sess., on HR 7750. February 4, 1965.

12/ H Rept 321, 89th Cong., 1st Sess.

On May 25, the Foreign Affairs Committee bill passed the House easily, by a 249-148 roll-call vote, virtually without amendment.

On June 14, the Senate passed its own version of the bill, which differed drastically from that of the House: The differences deadlocked the conferees on the bill for two months, during which time they met an unprecedented 12 times. The conference report finally appeared on August 18; the two-year authorization was dropped, as were plans to terminate the program in fiscal 1967 and create a committee to revamp it. While Senate conferees had to concede these points to adamant House representatives, the House conferees in return, added an "expression of informal understandings" that they would next year "urge their colleagues to examine with the greatest care such proposals as may be submitted authorizing foreign aid programs for two or more years." ^{13/} Both groups of conferees urged the President "to inaugurate a review of the foreign aid program as presently constituted, seeking to direct it more effectively toward the solution of the problems of the developing countries." ^{14/}

The compromise authorization bill passed both Houses, again without difficulty (224-150 in the House, 67-27 in the Senate). The appropriations bill which followed substantially repeated the action

^{13/} H Rept 811, 89th Cong., 1st Sess.

^{14/} Ibid.

of 1964, the President's request coming through relatively unscathed. This was again attributed to the support of House Appropriations Committee Chairman Mahon, against the efforts to reduce appropriations by the Foreign Operations Subcommittee Chairman. The membership of this subcommittee was also reconstituted in 1965, with the result that a clear majority of members were favorable to the Administration.

On the Senate side, Senator Fulbright voted "present" on September 23, on the bill presented by the Appropriations Committee, "primarily", as he explained in a floor speech, "because of the failure of Congress this year to give the foreign aid program a new philosophy and direction", adding that "virtually all of the reforms I thought necessary have been abandoned at least for this year." ^{15/} He registered his disapproval further by voting against final passage of the bill reported out of conference.

D. Fiscal Year 1967 Budget

Although in 1966 foreign aid legislation was basically unchanged from that of previous years, it was one of the most controversial subjects before Congress. While the House was inclined to act favorably the Senate launched an intensive attack of foreign aid.

^{15/} Senate debate on HR 10871, 89th Cong., 1st Sess.; Congressional Record, September 23, 1965.

The Vietnam war was a major concern in both Houses, although the Senate was more outspoken in its opposition. Some House Members hesitated to voice their opinions in an election year when they were uncertain about the public attitude toward the war. Many Members, particularly in the Senate, expressed their discontent over the Vietnam war and Administration handling of foreign policy by voting against the foreign aid program. The House Foreign Affairs Committee recognized this and stated:

"Much of the criticism of foreign aid reflects dissatisfaction with the world situation or with aspects of U.S. foreign policy which the foreign assistance program has been used to implement... Congress can indicate to the Executive its dissatisfaction with the situation in Vietnam or elsewhere by cutting the funds authorized for foreign aid or by establishing arbitrary limitations on the number of countries to which various types of assistance can be provided. Such action does not, however, provide either the guidance or the means for redirecting our foreign policy...

"The Committee has avoided cutting the authorization of funds or imposing comprehensive restrictions as an expression of general dissatisfaction with the world situation or the conduct of our foreign policy." 16/

The attitude of the Senate Foreign Relations Committee was not so favorable. Its report said:

"Consideration of the aid program this year is also inevitably influenced by the war in Vietnam--a war which casts a very long shadow. Many Members of the Committee feel that the United States is overcommitted,

16/ H Rept 165, 89th Cong., 2d Sess., pp. 4-5

or in danger of becoming overcommitted, in the world at large. ^{17/}

President Johnson encountered the most important foreign aid setback since the beginning of his administration when his proposals for major changes in the program--multiyear authorization and separation of economic and military assistance bills--were rejected by Congress.

In 1965, the Senate Foreign Relations Committee had argued that a multiyear authorization was desirable because it would free Congress of the annual rehash of the aid program and give Members more time to study foreign policy. In 1966 it reversed this position saying:

"Aid as a factor in the U.S. involvement in Vietnam, the use of American arms by both sides in the recent India-Pakistan conflict, the persistent overselling of aid as a 'cure-all' both to the American people and to foreigners, balance-of-payments problems--these and other factors have had the effect of merging the thinking of Members who previously held opposite points of view on the merits of long-term authorizations." ^{18/}

Senators were encouraged to vote against the Administration's proposals on the floor by Senate Foreign Relations Committee Chairman Fulbright's open dissatisfaction with the aid program and U.S. foreign policy. The Senate favored separate economic and military assistance bills but surrendered this position during the House-Senate conference.

^{17/} S Rept 1359, 89th Cong., 2d Sess., p. 4.

^{18/} S Rept 1060, 89th Cong., 2d Sess., p. 6.

The House Foreign Affairs Committee voted a two-year authorization of the program which, although less than what the President had requested, was a notable reversal of its position of insisting on annual Congressional review of foreign aid. The two-year authorization proposal was not overly popular with House Members, however, and a motion to recommit the aid bill which would have shortened the authorization of most programs to one year was defeated by only two votes.

There was strong Administration pressure on House Democrats to support the multiyear authorization. A favored Administration tactic was to urge Democrats who opposed the program to cast their vote with the Administration on close recommittal motions and then to express opposition by voting against final passage of the bill. Therefore, in his attempt to strike the two-year authorization, Congressman Adair included an authorization cut in the motion to recommit and probably attracted some Members who might otherwise have supported the Administration's request for multiyear authorization.

Although the two-year authorization passed the House, it was one of the points which House conferees conceded during conference on the bill.

The foreign aid appropriations bill cleared Congress quickly, and early in October, for the first time since 1958, Congress appropriated less than \$3 billion to the foreign aid program.

E. Fiscal Year 1968 Budget

Congressional support of foreign aid dropped to an all-time low in 1967. Much of the opposition to the program appeared to be related to a growing discontent with the conduct of U.S. foreign policy, particularly with regard to the war in Vietnam, and to an overwhelming concern over the domestic fiscal situation. Congress was intent upon cost reduction in all government programs because of the mounting budget deficit, a high level of war spending and the resulting threat of inflation, and the foreign aid program was an especially attractive target for the economy-minded legislators.

A conservative coalition of House Republicans and Southern Democrats, who had greatly influenced House action on other Administration proposals, also threatened the foreign aid bill. During floor action on aid authorization, Speaker McCormack was forced to search out Administration supporters in the halls and restaurants of the Capitol for key votes, and Minority Leader Gerald Ford found himself in the curious position of having to round up votes for the majority so that the Republicans could not be held responsible for abolishing the foreign aid program entirely. As it was, the bill was recommitted easily and only passed the House by the narrow margin of eight votes.

While the House was largely preoccupied with budget cutting, the Senate crusaded against Presidential domination of foreign policy.

The Senate Foreign Relations Committee dedicated itself to restoring the balance of power between the Executive Branch and Congress in the field of foreign affairs, and foreign aid became the object of a tug-of-war between the two branches.

The Administration requested that Congress remove all limitations on the number of countries which could receive foreign aid, and the Senate Foreign Relations Committee viewed this as an attempt to lessen Congressional control over foreign policy. In 1966, Congress limited the number of countries which could receive assistance but gave the President the authority to increase this number if he felt it was in the national interest to do so. The Committee maintained that the President had used this authority so widely that "Congressional intent was, for all practical purposes, ignored."^{19/} So, in 1967, the Senate bill limited the President's authority by requiring that any determination to increase the number of countries be approved by a concurrent resolution of Congress. To justify this restriction, the Committee explained:

"The formula in the bill to authorize additional countries will insure that congressional intent is no longer ignored, but it will permit assistance to countries above the limits wher the Congress determines that such action would be in the national interest. A side benefit from the formula will be a reassertion of Congress' proper role in the formulation of foreign policy."^{20/} (emphasis added)

^{19/} S Rept 499, 90th Cong., 1st Sess.

^{20/} S Rept 499, 90th Cong., 1st Sess., p. 8 (emphasis added)

The concurrent resolution requirement was eliminated in conference, but the final bill contained no provision for Presidential authority to increase the number of countries.

A major controversy arose when the Senate Foreign Relations Committee learned of the extent of U.S. arms sales to the less-developed countries financed through the Pentagon's revolving fund. Many Members said that the fund had been so little publicized that they were not even aware it existed. They felt that the revolving fund involved "Trickery" and was a "Back-door" method of furnishing arms to less-developed countries. Many Senators objected to the U.S. contributing to arms races around the world under a program that did not provide for adequate Congressional scrutiny.

The Senate repealed the Pentagon's authority to maintain the revolving fund in the aid authorization bill. Senate Foreign Relations Committee Chairman Fulbright strongly supported this action and announced that it would be better to let the entire foreign aid bill die than to allow retention of the fund. The House retained the revolving fund asserting that a reduction in any type of military aid would be false economy and might lead to a situation where the U.S. would have to commit troops to a foreign crisis where indigenous forces might have been used.

It was this issue which kept the House-Senate conferees deadlocked for nearly two months. Compromise came only after the House Appropriations Committee threatened to bring the foreign aid appropriations bill to the floor without an authorization.

After passage of the authorization bill, the foreign aid program operated on a series of continuing resolutions until mid-December when Congress finally approved the lowest foreign aid appropriation in the twenty-year history of the program.

CHAPTER IV

PUBLIC ATTITUDES TOWARD FOREIGN AID

- A. This History of Public Support
- B. Why Public Support Declined
- C. Institutional Support and Opposition
- D. Building Public Support

A. The History of Public Support

Public support for foreign aid, as measured by polls, declined somewhat between 1963 and 1966. While opposition rose, Gallup polls in 1958, 1963, 1965 and 1966 showed these results:^{1/}

	<u>1958</u>	<u>1963</u>	<u>1965</u>	<u>1966</u>
For it	51%	58%	57%	53%
Against it	33%	30%	33%	35%
No opinion	16%	12%	10%	12%

In general, the polls showed foreign aid to be in highest favor among the best-educated, among those in professional occupations, and among younger people.

The polls have consistently suggested that among those who favor foreign aid, humanitarian considerations far outweighed considerations of direct security or political advantage. Among opponents, the reason which was most consistently cited was that the money could be spent better at home.

To the extent that they have attempted to correlate information with support, the polls have consistently shown that the more informed people were about foreign aid, the more likely they were to support it.

Although the polls indicated that a majority of people favored aid, they also revealed that only very small minorities, two to eight

percent, consider development of the poor countries to be among the most important problems facing the country. In fact, no more than one in thirty mentioned aid as a field of foreign affairs about which they would like to know more.^{2/} Thus, Americans who favored foreign assistance, ascribed a low priority to aid as against other political issues. This may explain why Congressional attitudes could become so negative towards aid during the Johnson Administration while public support, as measured by the simple "for it-against it" approach remained relatively stable.

Public opinion polls have suggested (and the experience of A.I.D. officials and non-governmental opinion leaders has confirmed) that people have not been well informed about foreign aid. They tend to believe it consisted simply of transferal money, was distributed more widely than it was, and accounted for a larger portion of the federal budget than it did. A 1963 Gallup poll, for example, showed that nine percent of the respondents thought foreign aid accounted for less than five percent of the federal budget, nine percent guessed it took five to ten percent, forty percent thought it took more than ten percent and forty-two percent didn't know.^{3/} (In 1963, economic assistance represented two and one-half percent of the budget.)

An additional factor was the widely held view that foreign aid tended to benefit the few and that the mass of people in developing countries did not really share in the benefits of foreign aid. Both the Gallup and other polls have shown public support was strongest for aid that helped education, health and agriculture, weakest for aid to build factories and industries, highways and railroads and (at the bottom) aid to build military strength.

B. Why Public Support Declined

The polls themselves have not attempted to document the reasons for changes in measured opinion. But they suggested several reasons that were generally believed to be operative by observers in government and out.

After a special poll in early 1963, Sam Lubell noted a sharp improvement in public acceptance of aid which attributed to "the new mood of hopefulness that has spread through the nation since Krushchev's backdown over Cuba." ^{4/}

A 1966 Gallup poll asked people whether they would continue, reduce or cut off aid to a country which "fails to support the U.S. in a major policy decision such as Vietnam. Nationally, thirty percent thought aid should be reduced, forty-five percent would have cut it off and only sixteen percent would have continued aid without change." ^{5/}

In general, public support for foreign aid fluctuated with public optimism or pessimism about international events. When things went well, people tended to look more kindly on aid; when things went badly, aid tended to become a target.

Between 1963 and 1968, Americans were troubled by the Vietnam situation and by a variety of other international problems: hostilities between India and Pakistan, Arab-Israeli fighting and the growth of Soviet influence in the Middle East, continuing coups and unrest in Latin America.

At the same time, a domestic consideration highlighted by the polls became increasingly important. "Funds could be better used at home" was the reason cited most consistently by those who opposed foreign aid.

There is no question, therefore, that public opinion about foreign aid has been appreciably affected by concern about the effectiveness of American policy abroad, and concern about putting domestic problems first.

C. Institutional Support and Opposition

Changes in institutional support (and opposition) for foreign aid are easier to trace and attribute during the period 1963-1968. To a great extent public opinion is formed and actively expressed by the organizations to which people belong -- business, labor, church and civic groups.

In general there was a steady decline in organizational support for foreign aid from 1964 through 1967, with a strong renewal of support in 1968. Several things contributed to the weakening of support by organizations that have traditionally supported aid.

All of the traditional support groups have been concerned by Vietnam and what many members felt was either an over-extension or a misapplication of U.S. power. Business groups such as the Chamber of Commerce also reflected the conservatism of constituencies which were increasingly concerned with the balance of payments problem and the putative impact of foreign aid on the dollar drain.

Church groups were particularly troubled by Vietnam and by the 1965 intervention in the Dominican Republic. Opposition to U.S. policy in Vietnam by liberal churchmen in the most active wings of the National Council of Churches watered-down their usual vigorous support of foreign aid programs.

At the same time both church and civic groups became increasingly involved with domestic race and poverty problems. Some of their ablest staff was withdrawn from the international to the domestic scene, with foreign aid educational programs the poorer for it.

The vigor of labor support also waned during the period, partly because of liberal divergence on the Vietnam issue, partly because the growing schism between AFL and CIO factions diverted leadership attention to issues other than the foreign assistance program.

Except for labor, this pattern changed in 1968. Business, civic and church groups worked hard among their own constituents and among legislators to support the economic aid bill. There were several reasons for this change. One was a genuine concern that the foreign aid program was in danger of extinction without vigorous support. Another was a growing conviction -- based heavily on breakthroughs in food output and successful performance in countries such as Korea, Pakistan and Turkey -- that the aid program was demonstrating its effectiveness in the less-developed countries. Still another was a more vigorous bid for public support by A.I.D. itself, through an intensified public information effort.

There was little change during the period in either the quality or the quantity of activity by organized opposition groups, centered around the Citizens Foreign Aid Committee (later re-named the Taxpayers Committee to End Foreign Aid). This group and others made weekly railings attacking the aid program, publicizing

scandals new and old, and cataloguing the iniquities of the less-developed countries. These attacks were featured in right-wing radio broadcasts and in columns written largely for smaller papers in the South and West. They sustained hard-core opponents of foreign aid and other international programs but there is no indication that they enlarged the number of opponents.

D. Building Public Support

The responsibility within A.I.D. for developing better public understanding of foreign aid has been vested in the Information Staff. This office distributes A.I.D. publications and films to schools, libraries and institutions, businesses, and interested individuals. It also prepares press releases describing major events in the A.I.D. program such as innovations, completion of a project, and loan signings.

The Information Staff is also in a position to interest private groups, and the media in presenting to the public, on behalf of A.I.D. information on foreign aid. Businesses which participate in A.I.D. procurement, and universities which provide staff and perform training functions for the program are among the groups where a sound understanding of A.I.D. would be particularly useful - and which might be the bases for greater support for aid programs. However, no special efforts to involve these target groups have been made by A.I.D.

A major cause of the lack of knowledge and understanding is that A.I.D.'s work is concentrated overseas and has no immediate direct effect on the lives of Americans. Its successes are rarely recorded at home; but its failures are. Since A.I.D. is bound by the same policies on program promotion as other Federal agencies, it is very difficult to offer the necessary educational publicity through the U.S. news media which has limited facilities to devote to development programs abroad.

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- 1/ Gallup Polls released March 1958, February 1963, April 1965 and March 1966. American Institute of Public Opinion, Princeton, New Jersey.
 - 2/ Development Assistance Committee, Annual Aid Review 1968, Memorandum of the United States, April 1968, p. 21.
 - 3/ Gallup Poll, released March 1963. American Institute of Public Opinion, Princeton, New Jersey.
 - 4/ Lubell, S. "The People Speak", Washington Daily News, March 7, 1963.
 - 5/ Gallup Poll, released March 1966. American Institute of Public Opinion, Princeton, New Jersey.