

INTERVIEWEE: WILLIAM GAUD

INTERVIEWER: PAIGE MULHOLLAN

November 26, 1968

M: Let's first just identify you here for the beginning of the tape.

You are William S. Gaud, Administrator for the Agency for International Development.

G: Right.

M: And you have been in this position since what date, sir?

G: About the first of July, 1966. Maybe it was the first of August. I don't recall, but at any rate, the middle of 1966.

M: And you had previously been with the Agency since what time?

G: 1961. In 1961 I was appointed the Assistant Administrator for the Near East and South Asia. Then, in February, 1964, President Johnson appointed me as Deputy Administrator of the Agency, and I served in that capacity until the summer of 1966 when I became Administrator.

M: So you're one of the people who have been here long enough to see the development between the two presidencies, and that's one of the things I'd like to get into. How much can an individual who is President place an impact on an agency like AID? How much does he give it his stamp?

G: That depends on how interested he is in doing that. I think he can make a very real impression on the agency if he wants. He can decide, for example, the priorities between Latin America, Asia,

and Africa. Or he can say whether we should or should not emphasize a particular country. Or he can do what President Johnson did, for example, after he took over, say I want to put more emphasis on agriculture, on education, on health. So both geographically and in terms of the kinds of things we do, the President can have a very substantial influence on the program of an agency like this one.

M: How does the impact that Mr. Johnson has compare to that of President Kennedy before him?

G: Well, I would say there were no marked differences between them in terms of geographical emphasis. President Kennedy, of course, started the Alliance for Progress and give it a very real impetus. President Johnson has continued the priority that the Alliance for Progress had under President Kennedy.

The world, of course, changes and the far East Picture has changed very considerably from the time when President Kennedy took office--between then and now. As a result we have seen a very substantial increase in the amount of aid we have been giving to the Far East, particularly Vietnam, and to other countries near Vietnam as a result of the way the war heated up there. So that's a big difference between the two, but I think this is more a difference of circumstances and difference in changes in the world than personal emphasis.

President Johnson did fairly early in the game--I can't recall whether it was '64 or '65, I rather think it was '65-- President Johnson did decide that we should emphasize agriculture, education, and health to a greater degree than we had in the past. Then subsequently, as time has gone on between 1965 and the present, we in the agency have refined that still further and have increased the amount of emphasis we are giving to increasing food production on the part of the developing countries and family planning and education as well. But we, in a sense, have refined the emphasis that he himself announced in 1965. And today there is a great deal more emphasis going in these areas than there was in the days of President Kennedy.

M: What about the length of commitment--long-term programs. Has there been a change?

G: We don't have the authority to make long-term commitments. This is something that President Kennedy tried to get from the Congress in 1961 when the Foreign Assistance Act was passed. That was the act that set up the Agency for International Development. We have never had any authority to make long-term commitments.

This agency, its life is renewed every year. This is one of our greatest problems. We spend the whole year before the Congress: first, getting the program and the agency authorized; second, getting our funds appropriated. This is a process which takes us from early in the year often until October, November, and sometimes even December. We spend the whole bloody year

fighting before the Congress, you might say for our lives and for the amount of money that we need to spend. It takes a tremendous amount of time.

It keeps the program always before the Congress. It gives the impression -- it's more than impression, I suppose -- but it reminds everybody that the program has no real life other than from year to year. The net effect of all this is very unfortunate, I think, because this is an agency, which you might say, jumps from cliff to cliff. It's a crisis agency, and there's always before the Congress and always before the American people the possibility that we will not have an AID program. And an AID program should be a long-term proposition if it is to achieve its ends. This is a very disastrous, a very unfortunate, state of affairs.

M: How close attention does the President pay to specific programs that AID either conceives or undertakes?

G: Well, there's a real difference between President Kennedy and President Johnson there because in President Kennedy's time we went through the annual process of preparing our budget and preparing our program. When that was done we had, you might say, generally speaking, the discretion and the authority and the power to carry out that program, to make this loan or that loan as we saw fit.

Now, obviously, there would be occasions on which we would go back to the President, or he would call on us to find out what was happening in some particular situation. But, generally speaking, once the priorities, the general outlines of the program were approved, we carried the ball from then on.

President Johnson has operated very differently. We have to go to him for approval on many specific loans and the requirements are very rigid. Any program loan in excess of \$5 million dollars, any project loan in excess of \$10 million dollars. This means that we go to the President on a great many individual loans every year.

M: Does this hamper the operation of the agency importantly?

G: No question about it in my mind--hamper it in the sense that it is time consuming, hamper it in the sense that it seems to me--frankly, I just don't approve of this way of doing business. It seems to me that you pick someone to run an agency, and you let him run it.

Now, bear in mind that our programs are approved by the State Department--each year they are worked out--and by the Bureau of the Budget. We have a specific appropriation which is divided up so much for this country, so much for that country, and so forth and so on. When you get beyond that and require specific presidential approval of specific loans, I just don't think it makes any sense.

M: It also gets you involved in a lot of steps along the way. You mentioned the Bureau of the Budget. What about that agency?

G: Well, this procedure which President Johnson has invoked requires us on our way to the President with a specific loan to go through the Bureau of the Budget, to go through the Treasury Department, and to go through the staff at the White House.

M: Three steps before it gets to him.

G: Three steps before it gets to the President. As I say, this is apt to take, can take, quite a lot of time. The President has his own reasons for doing this, I'm sure.

The Treasury Department is in there in large part because of the balance of payments situation. The President wants to make sure that our programs are carried out with due regard to our balance of payments problems. But here again, it seems to me, that a better way to operate would be to lay down guidelines, regulations, and rules, and let us operate within them. Frequently, a loan that we are all set to make, would like to make, may be held up as many as two, three, four, five, or six weeks, sometimes longer, because it has to go through these channels that I have just mentioned.

M: Do these channels--just take them specifically, the Bureau of the Budget, for example--do they sometimes seem to you to make policy decisions as opposed to dollar decisions? In other words, do they get into the act of deciding on programs in a policy way as they are justifying it on budget terms?

G: Yes, they do. They are not as likely to do this as the Treasury Department is. The Treasury Department is much more prone to do this. It's true--the basic reason as I understand it for inserting the Treasury Department into the picture is because of the balance of payments situation. But they are human like anybody else. They have views like anybody else. And they raise an awful lot of questions other than balance of payments questions. We frequently find that our decisions on program matters are disputed by the Bureau of the Budget and by the Treasury Department and, of course, understandably enough by the White House staff.

M: I was going to ask about the White House staff. Do they get into a policy-making role here, too?

G: Without any question. And they conceive that that's their job. Now, of course, the State Department is in this act, also, and for my money should be. I report to the Secretary of State. The AID agency is set up parallel to the State Department in the sense that we have desk officers for each country, they have desk officers for each country; we have assistant administrators for specific regions, they have assistant secretaries for the same regions. Our people and theirs live in each other's pockets. And we never make any decisions, you might say, that are not checked out by the State Department.

M: You anticipate all my questions. --

G: This is a very important part of our work as I see it. The AID program should follow U.S. foreign policy. It's 100 percent right in my judgment that I should report to the Secretary of State, that our programs should be subject to his policy control. But, with that exception, we are independent of the State Department, and an Assistant Secretary of State can't give orders to an AID man.

But the two agencies are set up, the people physically have offices next to or near each other--their counterparts. They work together, they clear cables together, they work out cables together, and all of our program decisions are made with the knowledge of the State Department people who are interested. So if there is any difference between them, that difference will be fought out first let's say at the desk level and then at the assistant secretary level and then may be brought to me and then it may ultimately go to the Secretary of State. So that before a loan paper, which we were talking about a moment ago, before a loan papers leaves AID on its way to the White House, it will have been cleared with the State Department so that it bears with it the imprimatur of the State Department, of our foreign policy objectives. It then goes through these other channels. Before it gets into those channels, moreover, it has

to go through what we call the Development Loan Committee. I'm the chairman of it, and on that committee is represented the State Department, the Export-Import Bank, the Treasury Department, the Commerce Department--

M: But not the Bureau of the Budget?

G: Not the Bureau of the Budget. So it clears that committee and it clears the State Department in a separate process before it goes on to the Bureau of the Budget, the Treasury Department, and then the White House.

M: With all that background, then, what kind of criteria would, say, the White House staff use in making a change in a specific project?

G: Well, they would be less likely to make a change in a specific project than they would be to raise the question whether or not we ought to be making a loan to Country X at this particular moment.

M: At all?

G: Right. For example, I can think of occasions in the past when they have raised the question whether we should make a loan to India under existing circumstances, whether we should make a loan to Pakistan given the political situation at the moment, whether we should go ahead with with a loan to Peru given the situation that exists. It's this kind of policy question which they raise. They're not likely to raise technical questions. They raise political questions, foreign policy questions.

M: I see. Are these the national security advisors on the White House staff?

G: Right.

M: Or the domestic people?

G: Nope, the former.

M: These are the Rostow operation--

G: The Bundys, the Rostows, and their staffs.

M: Right. And they get to be pretty numerous sometimes, I'm sure. What about within the State Department? Does AID encounter any sort of bureaucratic obstructionism from the professional Foreign Service to an important degree?

G: No, I don't think so. I think our working relations within the State Department are very good. They are much better now than they were in 1961.

M: Is that just because they have become accustomed to it?

G: We have each become accustomed to the other fellow's point of view, I think, to a greater degree. You see, fundamentally the AID program is looking toward long-term results. We are trying to build for the future. The State Department very often is thinking of the immediate political situation. They are much more prone than we are to look at the immediate situation--to try to achieve a short-term political objective, to try to keep the governing, ruling party or the ruler of a particular country happy, to achieve some very short-term political objective.

Frequently, in the early days, 1961-1962, we would find the State Department wanting to do things for short-term political objectives which we didn't think made any sense. We often think it's important to hold the country's feet to the fire, not to give in to them, not to let them take the easy course, to make it tough for them. The State Department is much less likely to be accommodating, not to want to hold their feet to the fire, and consistently--in 1961, 1962, 1963, but far less today--consistently issues were arising where we wanted to be tough and they wanted to be soft. Now, over the years, as I say, this has become less and less of a problem.

M: Does the presidency change have anything to do with this?

G: No.

M: The date happened to coincide there. You said, '61-2-3--

G: Well, you see, this whole arrangement that we work under today was created in 1961. The Foreign Assistance Act was passed in 1961. AID was created in 1961. This set up that I described a moment ago--this relationship between State and AID--dates from 1961. And all I meant to say by saying, '61, '62, and '63, was that over the years as we got more and more accustomed to each other and more and more accustomed to each other's habits, we understood better what the other fellow was driving at. Our differences have become fewer and fewer. It has nothing to do

with President Kennedy, or with whether President Kennedy or President Johnson was in the White House.

M: What about the cooperation in the field? You have people in the embassies. Is there a chain of command problem there?

G: No, not really. In all of the countries where we have sizeable programs, we have our own missions headed by a Mission Director just as the C.I.A. will have its station and as the U.S.I.A. will have its post of U.S.I.S. It has been quite clear for a good many years, certainly since the Eisenhower Administration--it was reaffirmed by President Kennedy--that the ambassador speaks for the President in a foreign country, that all of the other members of the country team, our people, the C.I.A. people, the U.S.I.S. people, and all the rest of them are under the ambassador's control. So the chain of command in a foreign country is perfectly clearly established and perfectly well recognized. Our programs, for example, which are prepared once a year in our missions overseas, are prepared under the direction of the ambassador. They come in here bearing the ambassador's approval. They can't come in without it. There is no real problem. Of course, in any business you get occasional problems arising out of personalities, but there is no structural problem, there is no organizational problem, there is no bureaucratic problem as such.

M: Is the same true with the other agencies that operate alongside you in the field, such as USDA and Commerce has some people there?

G: No, this is not really a problem.

M: How much impact has--I think President Johnson has been somewhat definite about this--the attempt to increase the amount of AID funds that are spent on American commodities--additionality I think they called it how much impact has that had on the type of AID program which is implemented?

G: Well, you are really talking here about the consequences of our balances of payments situation. This dates back to 1959, 1960. Prior to that time, our predecessors--the AID agencies that were in existence in those days spent their money in those places where it was cheapest to spend it and that was the only consideration. The result was that a relatively small portion of the funds were spent here in the United States. But then as the balance of payments situation worsened, we tied our aid, we required that the money be spent here. As a result well over 90 percent, 94-95 percent, of all of our funds are spent here in the United States.

This has had a number of different results. One is that it has had a real budgetary cost. For example, if Pakistan needs steel and we are financing it on a loan, instead of buying that steel from Japan or Italy or Belgium where it is cheaper, it is bought here in the United States, sometimes at a premium of 30 or 40 or 50 percent. So your funds don't go anywhere near as far, and the country which is buying the stuff or borrowing the money to buy the stuff pays a much higher price than it otherwise

would have to pay. And this stinks, this is lousy, but it's inevitable in terms of our balance of payments situation.

M: So there is--

G: We are not competitive. The United States is not competitive in a hell of a lot of things today so that there is this very real cost to the AID program.

Now, another consequence of the balance of payments situation is what you mentioned a moment ago, additionality. The Treasury Department in particular does its best to see that we finance only those products and goods which a recipient country would not buy with its own foreign exchange. Well, now of course, any country in its right mind will buy here only the goods that it can buy here cheapest. The result is that this emphasis on additionality again forces us to finance with our AID funds the worst possible things for that country to buy here in terms of cost.

M: From an economic standpoint.

G: From an economic standpoint. So the AID dollar doesn't go nearly as far as it otherwise would go as a result of these various measures that have been taken to help us with out balance of payments situation.

M: What's the response of this in the recipient countries?

G: Well, they are not very happy with it, but beggars can't be choosers. There is one thing that I ought to mention here, and that is that our loans--this is getting to be less and less true,

but there was a time when our loans were made on easier terms at lower interest rates and with longer maturities, than the loans of most of other lending countries. That is not true today. Our loans are about at the average or a little below the average of most countries because the Congress has hardened the terms several times.

M: When you say below, you mean less favorable?

G: Less favorable.

M: Not that interest is lower?

G: That's right. So it used to be that we could to argue with the Pakistanis, for example, "Sure you pay a lot more for your steel here but you get the loan on better terms." That's becoming less and less true. So our AID is becoming more and more expensive to these countries. Now, still, as I say, beggars can't be choosers. These countries have--by definition, they lack sources of foreign exchange and if they are going to develop, they have to get the money where they can get it on the terms they can get it on. So they still will take our aid despite the fact that they can't buy nearly as much with the AID dollar as they could in 1959 or 1960.

M: Does this mean that the left wing critics of AID in the United States--I'm thinking particularly in terms here of Michael Harrington as an example--who say that our aid program is fastening what will ultimately become an intolerable burden on these countries? Does this mean they have a point?

G: To some extent. There is no question about the fact that many of the developing countries will face--some of them already face--very serious debt burdens that they can't meet. But if you take the last half dozen, six eight, or ten years, the United States has contributed far less to these severe debt burdens than many other countries have because much of this debt load results from short-term credits, very high rates of interest, very stiff repayment terms. The United States has done very little of that kind of financing in the developing countries. It's the European nations that have gone in for that, and Japan, that has gone in for that, and Japan, that has gone in for that kind of thing. So our contribution to the very heavy debt burden that these countries bear is relatively small.

M: And if we decline to offer assistance, they will go to this short-term borrowing?

G: That's right. Because these countries are going to develop. They are damned well not going to stay the way they are and they will get the money where they can get it from.

M: You mentioned, too, that President Johnson has placed a different emphasis than President Kennedy on the nature of the programs, particularly in favor of agricultural programs, and this is another point at which some domestic critics get involved in the argument that this type of development program will fasten a raw

material producing economy on the underdeveloped areas. Is this an argument that has any weight?

G: No, I think it's a lot of bunk. By and large--and we have to talk to a certain extent in generalities here--but by and large the developing countries have today agricultural economies. The vast majority of the people in Asia, for example, live on the farm. They don't live in the cities. Most of them have either not enough food to eat or the wrong kind of diets. They are undernourished. They can't get anywhere in these countries until they have an adequate diet. The biggest problem they face, particularly considering the increase in population, the biggest problem they face is feeding their people. Now that is priority number one, as I see it, filling the food gap, making sure the people in these countries have enough to eat for the next ten, fifteen, twenty, thirty, forty years. They can't get anywhere without that.

India tried for far too long over nearly everyone's objections to concentrate on industrial development. Well, what price turning out goods which the people in your country can't buy? What price turning out good for people who haven't got enough to eat?

The only development that makes any sense in any of these countries is development across the board. You've got to maintain

a balance between agricultural development and industrial development. You've got to provide price incentives to the farmer so that he will grow more food. But you've got to have the food sold at a price in the cities at which the city dwellers can buy it. As you build up your agricultural economy, as you build up the economic standard of the peasant and the farmers in the countryside, they, can buy the stuff that is being produced in the cities. And the people in the cities can buy the food if they can sell the products of their industrial development. But you can't have one without the other. To say that we are trying to foist an agricultural economy on these countries because we are trying to get them to grow more food is just plain nonsense. We are trying to get them to meet what we believe to be their first priority in development, but we don't say they should develop only their agricultural sector. We believe in development across the board because this is the only way to get a healthy growth in the economy. I think that most of the developing countries today, at least in Asia, recognize this.

M: That was my next question. Has India learned, for example--

G: No question about it. India, Pakistan, Korea, a number of other countries, have shifted their resource allocations in their budget. They are devoting far more effort to agricultural development. They have changed their basic pricing policy to encourage food

production. A great many countries in Asia in particular have taken the steps necessary to redress this imbalance between industrial development and agricultural development.

M: Are you leaving Latin American out on purpose?

G: On purpose, because we haven't seen this to the same extent in Latin America. Latin America hasn't yet learned the lesson that India has learned: the importance of agricultural development. And the result is today--it's a result of a number of factors--but at any rate, today we do see what I call a green revolution in Asia, in a number of countries in Asia where you've got record yields of wheat and of rice, where they've got a momentum in agricultural development such as they have never seen before.

Now, the result of this, of course, is to increase the demand for industrial goods--to stimulate the entire economy. So you have a momentum for development in India, in Pakistan, in Korea, in Taiwan and in a number of other countries that's new and that's real and vigorous and that, if it continues, will get these countries where they want to go. You don't have any comparable movement in the agricultural field in Africa. There are two or three countries that are starting--Kenya with corn, Morocco and Tunisia in a limited way. In Latin America, very little of the same sort of thing has gotten started yet.

M: What's the importance, as far as the impact of our programs are concerned, of our hopes that they will do this largely through private initiative in the recipient country as opposed to government initiative?

G: Well, we all would like to have as much as possible done through the private sector, and there are some things that can be accomplished that way. But in the typical underdeveloped country, let's say, private initiative neither from within the country nor from outside is going to build roads or put in power plants or provide agricultural credit for farmers.

M: Just as they didn't in the United States.

G: No, and how can they? You can't finance infrastructure through the private sector under the conditions which exist in these countries today any more than we expect the private sector here to build our roads. We don't expect that here and we can't expect it anywhere else. So it is impossible, as I see it, for the private sector to do everything.

Now, God knows, it's terribly important to stimulate private enterprise and private initiative as much as you can. And it's the countries which have stimulated private initiative which have done the best, Taiwan, Korea, Pakistan, a few others.

For example, one of the big things in Pakistan in agricultural development today, are the thousands upon thousands of tube wells which have been dug at private expense, installed at private

expense, for irrigation, bringing up water from well below the surface and using this to irrigate crops. This has been a very interesting thing. It came quite unexpectedly. It's not only that the farmers financed the tube wells, but the tube wells, the parts, the motors have all been manufactured by private small shops, small firms in Pakistan. This one business of making and installing tube wells and their motors has given tremendous impetus to the growth of small factories and the like throughout that part of Pakistan where these things are used. It's that kind of thing that you want to encourage.

Another example of this. We financed some years ago-- actually the project dates from 1960 which was the last year of the Eisenhower Administration--the construction of a steel mill in Turkey. That steel mill came on stream something like two years ago. Turkey is a country which has been rather slow in fostering private enterprise. There are a great many state owned economic enterprises in Turkey, and they are damned inefficient. Well, when this steel became available from the steel mill--

M: This is a private steel mill?

G: This was a private steel mill. When steel became available--it's a mixed mill actually. The government owns some of the shares, some of them are owned by private investors. When the steel became available from this mill, the result was that steel became available which had never been available before and literally

scores of small shops, small enterprises, sprung up making all kinds of products with the steel from this mill. Again, tremendous impetus given to the development of the private sector. This is the kind of thing you try to encourage every way you can. But you can never do the whole job through the private side.

M: I gather that the agency has a number of instances which they consider outstanding success stories. Why then is it such a tough job to sell this program to Congress?

G: I wish I knew. If I knew, I'd sell it better.

M: Is that the trouble, that you just don't know what the Congress wants you to do? That is, you don't know how to go to them.

G: No, it's not that. We tell our story to the Congress, but we don't seem to get it across. Of course, the thing is very complicated because, well, this last year, you had dissatisfaction with the Viet Nam business, worry about the money being spent on Viet Nam, fear that the United States is becoming too involved overseas, worry about the troubles in our cities, racial problems, all the rest of them--a whole host of factors which tend to make congressmen leery of spending too much money on a program such as this one. That's part of the problem.

But the thing that I have never been able to understand, and I don't understand today, is that we can tell the Congress over and over again year in and year out the basic facts of our program and those facts still don't get into their heads and stay there.

Last year, a member of the Ways and Means Committee--I beg your pardon, a member of the Rules Committee, asked two questions, "When are we going to stop giving aid to these countries in Europe? When are the Europeans going to start giving aid to the developing countries?" Now, you figure that out. Today, the United States ranks seventh in the proportion of its national income which is going to foreign aid.

M: We last gave to a European country with Greece--

G: Years ago, years ago. We haven't been giving--aid to the Europeans countries for years. Take this: two years ago a member of the Senate Foreign Relations Committee, a man who has been on that Committee for a dozen years, asked if any of our loans were repayable in dollars. They are all repayable in dollars. They've been repayable in dollars for year. Yet here's a member of the Senate Foreign Relations Committee which approves our program every year and he didn't know that. God knows we've told him hundreds of times.

M: Is part of this--does not your legislative authorizations limit your public information function in the United States?

G: That's correct.

M: Is this an important hindrance in getting your story told?

G: Well, it's important in the sense that we can spend almost nothing publicizing the program in the United States and spreading the

word in the United States. I dare say this is a factor. But I still don't understand--sure, that might explain why someone in Keokuk, Iowa, didn't know about the program, but it doesn't explain why a member of the Senate Foreign Relations Committee or a member of the Rules Committee understands so little of the program.

M: That might explain why he didn't think it was important, I guess. The people in Keokuk didn't write him about it.

G: That's right. But at least you'd think he would know the basic facts because we have been up there year in and year out now, and every way we know how, we try to educate them. But we don't have much luck.

M: Has the Johnson Administration given what you consider to be adequate support on the Hill, pushing your programs or have they pretty well left you to your own devices and let you sink or swim as the occasion arose?

G: Well, given the circumstances that have existed the last two or three years, I think that the President has done as much as he could.

M: How does he do that? He's the old master of dealing with the Senate, for example, and yet you can't get the kind of program you think necessary.

G: Well, I wouldn't call the President the master of dealing with the Senate. The President was the master of dealing with the Senate

when he was in the Senate. But since the President has been President, I think the situation has been very different. That's a remark that people frequently make, but it strikes me that over the last two or three years the President has had relatively little influence with the Congress, either in the Senate or in the House. On some programs perhaps, but generally speaking, the President has had a damned tough time with the Congress. There are those who say that the fact that we have done so poorly on the Hill--and we have done poorly on the Hill--shows that President Johnson didn't make a real effort.

I don't buy that. I don't think he had the influence. I don't think it would have made any difference. He's got an awful lot of programs that he has to try to get through the Congress. Some he obviously gives higher priority to than this one. It strikes me that when you have the situation that has existed between the President and the Congress the last two or three years, he's got to pick his shots pretty carefully. I don't believe it would have made a damned bit of difference if he had gone up there and tried to do more for the AID program.

M: Do you get the idea that some Congressmen or Senators or both are punishing the AID program specifically out of spite on Viet Nam?

G: Yes, spite or whatever you want to call it. Some of them make no bones about it. I've been told flatly and directly by members

these have made a lasting impression on most members of the Congress. There are some who never forget those snafus and boobos that we pull from time to time. But by and large I think it's a fair statement--although, as I say, I shouldn't make it--I think it's a fair statement that most of the members of the Congress feel that we are making a real effort to manage the program sensibly and that we are doing a better job of it than has been done in the past.

The pity of it is that we will pull a boner that won't be important in terms of the overall program, or in terms of the amount of money involved, or anything else. But this will get a tremendous amount of publicity whereas we can do a hell of a job with beefing up a university or showing a country how to increase its food production or something of this sort, and nobody ever hears about it. It's the boners that get the play. This is life and this is the way it is, and these have certainly hurt us from time to time.

M: When these tings get big play and in public print particularly, has President Johnson ever gotten in touch with you directly to find out what was going on in these instances?

G: I don't recall that he has. I don't remember an occasion on which he has done that, no.

M: The story that he frequently calls up high-ranking officials and twists their arm by telephone is not, in your case at least, true?

G: Well, he has called up and given us hell for other things, but I don't recall that he ever did so in connection with these snafus that you are speaking of.

M: What kind of things does he call you up and give you hell about?

G: Leaks.

M: The fact of publicity itself?

G: Correct.

M: On planned projects--this type of thing?

G: Yes, or in connection with his views on a subject, or in connection with guesses as to the amount that our budget will be. A story will get in the press about some action that we are thinking of taking with reference to some country, making a loan, something of this sort, or we are going to make a loan or we aren't going to make a loan--this kind of thing. Often enough, as far as we could determine the leaks never emanated from here. But if it had to do with AID business, it wasn't very unusual to get a phone call from the White House about it.

M: Right. Does he call you or does he call your subordinates?

G: As far as I know, he has never called my subordinates.

M: He does play the chain of command in that regard?

G: That's right.

M: In regard to the diversion business, the snafus, is it possible in your opinion to manage an AID program in the war situation such as you have in Viet Nam in what would be referred to as an efficient way? Can you really do that under those circumstances?

G: Well, you can do it. Maybe I'm quibbling over the word 'efficient'. You can't be nearly as efficient as you can in another environment, but you can do an awful lot to restrict your losses, to limit your losses.

Now, for example, the principal problems that we had with our AID program in Viet Nam were in 1965 and into 1966. You will remember, the summer of 1965 was when the United States started its big military build-up in Viet Nam. This was a crash operation in terms of sending troops in there, in terms of building bases, airfields, and other facilities. The result was that tens of millions of dollars were turned loose on Viet Nam and the country was faced with the threat of a galloping inflation.

The only short answer to this inflationary threat as we all saw it was to import a great quantity of goods into Viet Nam and sop up that money. So we undertook to ship a lot of goods, consumer goods, to Viet Nam for this purpose. Now, this was done by forced draft. It was done in a hurry, on a crash basis, just as our military had been built up on a crash basis. Well, the port of Saigon was inadequate to receive these goods. The berths were inadequate. The warehouses were inadequate. The guarding facilities were inadequate. The customs people were inadequate. The transportation inside the country was inadequate.

But we took the calculated risk of doing it because losing a considerable percentage, or a higher than normal percentages, of those goods seemed to us less of a risk than having a runaway inflation in Viet Nam because with runaway inflation there was the real threat, the likelihood, that the government would fall and you would be in a mess. It seemed very important to maintain that government, to maintain some kind of economic equilibrium in Viet Nam, lest the whole thing go down the drain.

So, during the period of this crash program, we lost a much higher than normal percentage of our goods to pilferage and all the rest of it.

Now, while we were carrying on that program, we also got to work increasing the port facilities, building warehouse, training custom inspectors, and doing all the other things which were necessary to handle sensibly, better, that volume of goods. And when these facilities got built up, our proportion of loss dropped very sharply. Since about the middle of 1966 or thereabouts, it hasn't been any higher in the port in Saigon than it would be in any other port in the Far East or perhaps here at home.

So that was a calculated risk that we took. Now during that period of time a lot of wildly exaggerated stories and some true stories got around about the extent of our losses there. It gave us a terrible black eye. It was unavoidable. Now that was part of the story.

Also, of course, when you go from the port area into the country itself, you've got a situation where you can't tell friend from foe, where you are bound to have a lot of highhacking, where you are going to lose a lot of goods to enemy action, where you are going to have a lot of warehouses pillaged and all the rest of it by the VC, so that we are, of course, losing a certain amount of goods to these kinds of causes in Viet Nam today. That will continue. There is not a damned thing anybody can do about it.

M: Well, that's military action.

G: In large part. But the truth of the matter is that except for the relatively short period when we carried on this crash program to help prevent inflation in Viet Nam, our losses of goods in Viet Nam other than to enemy action have not been significantly larger than they would be anywhere else.

M: Did this sopping up of local currency work?

G: You bet it worked. In Korea during the comparable period they suffered an inflation of several thousand percent. In Viet Nam we kept it down to 150, 160, 170 percent.

M: This couldn't have been done by price controls or something or other instituted--

G: The Vietnamese government just plain isn't up to that. If you had had our kind of a government in Viet Nam you would have increased taxes enormously. You would have had all sorts of controls, resource controls. You would have established priorities for

this, that, and the other thing. But the Vietnamese government couldn't handle that to save its life. As you know, it was a very weak government. It just didn't have the resources, it didn't have the people, it didn't have the command over the people. It was impossible, as we saw it, to solve the problems by increases in taxes and all that kind of business. The only way was to put in goods to sop up the money.

M: With a weak government like that, how can you hope to get success from your revolutionary action and pacification loans?

G: Well, only with the passage of time. Now, the government today in Viet Nam I think is far stronger than it was in 1965 and 1966. I think most people would agree it's gaining in strength all the time. As it grows in strength, your chance to carrying on effective programs throughout the country increases, but I think we've still got some distance to go before we can be sure that this government can make it throughout Viet Nam.

M: Are things like President Johnson proposed in his famous speech when he talked about the Mekong Delta program, are these type of long-term development programs realistic in a situation like you have in Viet Nam or are they primarily political rhetoric on the part of the President?

G: Well, the development of the Mekong River Basin is a highly practical proposition. It's something that people have been working on for a number of years. I've forgotten the exact

figure, but it's something as I recall it, well over \$100 million dollars--it may be less than that--has actually been appropriated by a number of governments and invested in and spent on engineering and other studies as well as in two or three projects that are already going on. Now, for example, there are several small dams which are a part of this overall Mekong River Basin development which have either been finished or are being constructed in Thailand. There is a dam in Laos, north of Vientiane, the capital, which is called the Nam Ngum Dam which is now under construction. This dam will serve several purposes, irrigation, flood control, and generating power which will be used not only in Laos but also in Thailand. There is another big dam site in--well, before I get to that one, there is another dam in Cambodia at Phnom Penh--I beg your pardon, at Prek Thanat, the financing for which has been agreed to by a number of countries, not including the United States. That project will go forward very shortly. There is another dam site south of Vientiane--I've forgotten the name of it at the moment--it is a much bigger proposition than the Nam Ngum Dam--on which there have been a lot of studies which could go forward not too far into the future. So this program for the development of the Mekong River Basin is one which will take decades to finish. It's already well underway.

M: And can continue to go underway--

G: That's right. There are some things that you can't do. There are some places where you can't work in the two Viet Nams and in parts of Laos and in parts of Cambodia. But there are parts of this overall development which are going forward today.

M: A big question that has a lot of aspects is the emphasis now being placed on multilateral aid as opposed to bilateral aid. I guess you're now trying to increase the amount up to about 85 percent--is that the figure--through multilateral agencies of one kind or another. How is this going to affect your position like you mentioned earlier, the position of being able to put up to the recipient country a tough line as to what they must do, which you say you have been able to hold in the past. Will this affect this importantly?

G: Well, I'm afraid there is a little confusion here. We would like to see the amount of aid going through multilateral institutions increased. We haven't got any goal to put 85 percent of our aid through multilateral institutions. What we have said is that 85 percent of our aid goes to countries in a multilateral framework under some multilateral arrangement or another.

For example, what I mean by that is this--take India or Pakistan or Turkey or any one of half a dozen other countries. All of the countries that are giving aid to India belong to a consortium which is headed by the World Bank. Under the leadership of the World Bank we all agree on what the requirements for India

are, on what steps India should take to make better use of the aid that we are giving her--self-help measures. Then having agreed on the requirements for aid, having agreed on what steps India should take in the way of reforms and the like, we then more or less divvy up among ourselves who will do what. Now, that is a form of coordination between all the aid givers which I call working in a multilateral framework.

M: I see. And that's where you try to put 85 percent of your--

G: That's right. That's where it is now--85-90 percent of our development aid is handled in some some arrangement as that. It's a sort of half-way house between multilateral aid and bilateral aid. Bilateral in the sense that we keep control of it, and we can decide what we want to do. Multilateral in the sense that you have common agreement on what needs to be done by the country and instead of a confrontation between us and the Indians as to what they should do, you have a common front on the part of all the aid givers toward India.

You may have, for example--this wouldn't be true in India, the question hasn't come up with connection with India, but it does in other countries--the question of whether it's necessary to work out a stabilization program. Instead of the U.S. working out a stabilization program with Colombia, with Korea, with Viet Nam, we get the IMF to do it. Then we tie our aid to the conditions of the stabilization program worked out by the IMF --

again working in a multilateral framework with other people other than doing it all on our own. That's the kind of thing that we have been empahsizing and concentrating on in our bilateral aid program. Now what are the possibilities of increasing multilateral aid in the sense of true multilateral aid?

M: This would be something like the Asian Development Bank?

G: The Asian Development Bank.

M: The confusion was on my part.

G: The Asian Development Bank or the World Bank, or IDA, the soft-loan window of the World Bank. The first problem there is this--that the Japanese, the Germans, the Italians, the French, are against increasing the amount of their funds that are going through multilateral institutions. They don't want to increase it.

M: Why?

G: They prefer to control their own programs. They don't want to give away control of their aid funds to any multilateral institution. The Germans have said flatly, for example, they will not contribute to the Asian Development Bank, the soft-loan funds. They are not interested. They would rather make their own loans. And a number of these other countries that I mentioned take the same view.

Well, we can't very well increase our multilateral aid until other people are prepared to do the same thing. If we took all of our development loan funds and gave them to IDA, which is what Mr. Fulbright and some of the others would like us to do, it wouldn't be a multilateral institution anymore. 80-85 percent of the funds would come from the United States. That's not a multilateral institution. So that you can't multilateralize unilaterally. We are not going to be able to increase substantially the amount of our contributions to multilateral institutions until these other countries that I have mentioned come around to that point of view.

M: This would be an easier program to sell to Congress, you think?

G: Well, some people say so, but let me just point out that this last year the Congress may have given us a bad time, but they did not pass the IDA bill at all. They didn't pass the Asian Development Bank Bill at all. Also, when they cut our funds, they cut the contributions of the United States to the United Nations Development agencies. On the record, in this last Congress, the bilateral aid program fared better than the multilateral program. Now there are some people, notably in the Senate, who prefer multilateral aid, who will make funds available to multilateral aid before they will to our program. But this last year, given the situation that actually existed, multilateral aid has a harder time than bilateral aid did.

M: I think the Asian Development Bank funds never got out of committee.

G: Correct. They never got out of the Senate Foreign Relations Committee which is the committee of all committees that claims to love multilateral aid.

M: Was that a Viet Nam punishment deal over there?

G: Right. Senator Morse for one said flatly that he would not vote for that bill as long as the Viet Nam war was going on. There were other members of the committee who held the same view but didn't say it publicly. Other factors are involved there. You have other members of the committee--well, Senator Symington for one, who it is fair to say opposes all AID bills on balance of payments grounds. And there are other points of views as well. But the Viet Nam war unquestionably had a lot to do with the fact that the Asian Development Bank didn't come out of committee. So even if these fellows do have this affection for multilateral aid, there are other matters to which they give a higher priority such as our involvement in the Viet Nam war.

M: What about these cooperative programs such as the Alliance for Progress which involve the cooperation of private industry in the development programs? Has the response from private industry been adequate during the Johnson years on that?

G: Well, the Alliance for Progress is no different from any other aid program in this particular respect. In all parts of the world we try to engage the private sector in this country in the problems of development whether it is Latin America or India or Korea or what-have-you. And it is very hard to answer your question. The amount of private investment which has gone into the developing countries over the last half dozen years has fluctuated very considerably from year to year. The amount of investment depends on a lot of things: what's the climate of opinion in a particular country? Isn't it much easier to invest in a developed country and get a big return with much less risk? Also, another factor, of course, recently has been the existence of the extent to which the United States government has been discouraging private investment overseas because of the balance of payments situation.

M: They have even limited it in some cases.

G: That's correct. So there have been a whole lot of factors. Certainly there has not been anywhere near as much in the way of private investment in the developing countries as I for one would like.

But has there been as much as you could reasonably expect under the circumstances? It's hard to say. One thing I would say which I think is very clear, and one thing which most people don't take into account, that it is still true that by far the

larger part of the investment that is made in the developing countries today by U.S. investors is in the extractive industries. It's in mining, it's in oil, it's not in manufacturing, it's not in the kinds of thing that I would like to see that money go into.

M: Not the developmental--

G: That's not the development sector, that's right. The figures on investments in the developing countries are very misleading in this respect because such a large proportion of the investment is in oil or is in mining. Take, for example, money that is invested in oil in Venezuela. Who gives a damn? Venezuela can get along without any aid, or if it is bauxite in Jamaica. Well, you've got to look at it country by country where that money is going to reach any conclusion as to whether it is making a contribution to development. And by and large the amount of this kind of money that has been invested has been pretty small.

M: As kind of a wrap up, I'll make it as open ended as you want to make it, how would you characterize the record of the Johnson Administration on foreign aid overall?

G: Well, I think that these have been tough years for foreign aid. They have been bad years in terms of the appropriations, the size of the appropriations we have gotten from the Congress. The President's policy has been quite clear. He has consistently asked for much larger authorizations and much larger appropriations than the Congress has been willing to make available. So these

have been years when you might say we have been on iron rations and in that sense we have not been able to do an awful lot of things that we felt needed doing.

On the other had, I think that the President was dead right, showed a very clear sense of priorities, when he directed us to concentrate on increasing food production, on education, and on health. With his complete approval and enthusiasm our concentration has been primarily on three things, increasing food production, family planning, and teaching--training--whatever you want to call it--those three things.

I think a lot of progress has been made in the last few years. There has been a tremendous breakthrough, as I have said before, in agricultural production in a number of countries in Asia. The critical question at the moment is whether that will continue. And whether it continues will depend on two things--one, whether the developing countries themselves continue to work at the problems as they have been working at it, and, second, whether they can get the aid--whether they can borrow enough money--to import fertilizers and pesticides and do the other things which are necessary to keep this agricultural revolution moving, things which they cannot do without outside help. We are at a very critical and crucial point particularly in Asia, it seems to me. The question is whether we can capitalize on the progress

that has been made in the last two or three years, and that progress has been very real.

I think that in the agricultural business there has been real progress. On the family planning front, there has been some progress, slower, less accomplished. This is something that only come from these countries themselves, but there has been a great change in the climate of opinion, both in this country and worldwide with respect to the need for turning down the rate of population growth. And President Johnson has unquestionably given this a tremendous boost, because he has been quite clear from the beginning of his term that this is one of the major problems the world has to face. He has moved, it seems to me, as fast as anyone could more in getting this going, getting programs going, getting other countries interested, getting other countries moving. I think he has made a real contribution in that respect.

The Alliance for Progress. There has been movement there. It's a slow business in Latin America. Economic development is a small part of it. There have to be extensive social reforms in most of the Latin American countries before you can see any real progress toward modernization. This comes very slowly and no one can expect it to come very fast. I think there has been real progress made. It's much too early to write off the Alliance for Progress as a failure.

M: Has Mr. Johnson paid particular attention to Latin America because of his past conviction with South Texas and so on, do you think? Or is that pretty much a press myth?

G: Well, I don't know. I just don't know what's the reason for it. He clearly puts a great deal of emphasis on Latin America. He gives it a high priority. I don't know what the cause for it is. It may be due to his early years, it may not. At any rate, that is clearly a matter of first priority with him. Another contribution that I think he has made, you referred to it a minute ago-- getting people thinking about regional development, regional co-operation in Asia and in East Asia. The Mekong River business, all these other initiatives--he backed the Asian Development Bank, a whole host of programs and organizations which are moving out there now which were stimulated in considerable part by his Johns Hopkins speech that you spoke of. I think there he has made a concrete contribution to the future.

He has shown perhaps less interest in South Asia--in the subcontinent--than President Kennedy did. We have been bedeviled there in part by a lack of funds. The congressional cuts have borne rather heavily on our programs in the subcontinent because they are very large programs and they have to bear a very sizeable portion of our cuts. But I would say I've listed what I consider to be the principal places where he has given us a boost--in agriculture, in family planning, in the Far East, in the

Alliance for Progress. These in particular stand out in my mind as the areas on which he has put the emphasis and where it has had some results.

M: Besides the congressional cuts, are there any significant failures of presidential leadership in the AID field that are worth mentioning?

G: None occur to me offhand.

M: Anything that you would like to add on any subject here that we have overlooked or haven't gone into. Feel free to do so. I don't want to limit you in any way.

G: No, I think we've probably pretty well covered it. I haven't said so specifically, but I think it has been implicit in what I've said that the President has been insistent from the outset on self-help on the part of the countries that we have worked with.

M: That they cooperate?

G: That they cooperate, that we hold their feet to the fire, that we not make it easy for them, that they've got to take the tough decision that are necessary to make sensible use of their own resources and of the resources that we make available to them.

M: When you say that, do you mean self-help in the sense of reforming their own house as opposed to following some foreign policy directive of our own?

G: I mean the former. I don't mean turning into lackeys who agree to everything that we say. I mean taking the tough internal decisions,

adopting sensible policies, economic policies, social policies and the like, so that they can make better use of their resources. In Brazil, tackling the problem of inflation. In India, putting more emphasis on agricultural production and family planning and less on industrial production. This kind of thing.

M: What about the latter? What about a case like Pakistan, for example, where we cut off aid after the India-Pakistan war, and then after some months reinstituted it? What kind of price is exacted there in terms of the future good behavior? Outside of reforming their own house, did you do something--

G: No, you can't do this kind of thing. I don't think you should use aid do this -- to exact a political price for aid. The Chinese and the Russians try this occasionally in terms of a vote in the United Nations. I can think of a particular case where the Chinese gave a certain amount of aid to a country in Africa on the condition that they would support them in the United Nations. The Russians, it seems to me, used their aid often to achieve short-term political objectives with a Sukarno, with a Nasser, with a Syria. But that's not what we are interested in. We are interested in the long run. We are interested in development. And we don't think it makes any sense to use aid to achieve short-term objectives. And certainly, it seems to me you cannot use aid to force the settlement of a Kashmir issue, for example, or to force the settlement of the Middle Eastern situation between the Israelis and the Arabs. When

you come to the gut issues like Kashmir and the Israeli-Arab confrontation--you can't solve that kind of an issue with aid to save your life. If you should say to the Indians, or if you should say to the Pakistanis, "We will not give you any aid unless you settle the Kashmir issue," they would say, "Go jump in the nearest lake." And they would be right. We would do the same thing.

M: We can't say to them, "We won't reinstitute our aid until you agree to settle, or to work, on the Kashmir issue peacefully, as opposed to by force?" We can't exact even that kind of price with them?

G: Well, we have never succeeded in doing it. The United States has made a great many efforts, as you know, over the years to try to get a resolution of the Kashmir crisis and we have not succeeded in doing that. The trouble with that proposition that you just put up is this, in my eyes, you've got to be prepared to take the consequences if they say, "Go jump in the nearest lake." What is more important to us--to get the Kashmir issue settled, or if they refuse to settle the issue, are we prepared to let 600 million Indians and Pakistanis starve--go without aid. It's too high a price to pay. We have got to do what we can to bring a decent standard of living and peace to the subcontinent. We can't afford to live in a world where there are 600 million people who for years to come will be living under the conditions that those people are living under now. In today's world those people are not prepared to accept

the circumstances under which their fathers and their grandfathers lived. So we should not go to the Indians and the Pakistanis and say, "Look, Gents, we won't give you any aid unless you sit down and work out Kashmir," unless we are prepared to forego giving them aid if they refuse to do it. I think the price is too high to pay.

M: That's what you've got to decide on when you decide--

G: That's what you've got to decide on. I mean, the same question comes up, for example, in connection with Viet Nam. I comes up over and over and over. People say, "Why don't you tell those Vietnamese that unless they do so and so the United States won't give them any more aid?" It's not a price that we are prepared to pay. We are stuck with Viet Nam for the time being whether we like it or not. We are not in a position to withdraw from Viet Nam because our own interests, as we see it, are deeply involved there. We can't threaten to that extent because we can't afford to take the risk that they will say, "Go jump in the lake." You run into the same thing in the Kashmir issue.

Now, if the issue is not important to you, or if our interests are not so deeply involved, then it's another matter. The fracas that we have had over Peru, for example. The law requires us to reduce our aid if any country to which we are giving aid buys sophisticated military equipment which it doesn't need. Peru

contracted to buy some Mirage airplanes from the French. Under the law, we had to reduce the AID program very substantially as a result of this. In effect it came down to our cutting out our aid to Peru for awhile. Okay, you could do this. Our interests weren't that deeply involved.

M: And Peru made their choice in that case, too. And knows it in advance.

G: But when you get into a situation such as the subcontinent or Viet Nam you're not as free as you are in some other situations. In some situations you can be good and tough; in others you can be less tough--

M: I'm glad you brought that to my attention. I'm glad we didn't let that pass without saying it here.

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By William S. Gaud

to the

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