

INTERVIEW I

DATE: November 18, 1968
INTERVIEWEE: RUTHERFORD POATS
INTERVIEWER: PAIGE E. MULHOLLAN
PLACE: Mr. Poat's office, Washington, D.C.

Tape 1 of 1

M: Let's identify you by position and background here by way of introduction.

Incidentally, some of these questions will sound very simple, but people thirty or forty years from now might not consider them quite as simple as they now are. Don't let them limit you. If you want to ramble around and talk about something else, by all means do so.

You were with United Press International through all of the decade of the '50's, either as correspondent or Tokyo bureau chief or later in Washington in the Foreign Bureau here, and joined government service then in 1961.

Is that correct?

P: That's right.

M: As an appointee of President Kennedy?

P: Not as a presidential appointee, as a so-called administrative appointee of Fowler Hamilton, the new administrator of AID.

M: Then you were in this agency then during the course of the Kennedy Presidency, and have remained on throughout the Johnson Presidency?

P: That's right. I was appointed by President Johnson as the Assistant Administrator of AID for the Far East in April 1964, subsequently appointed by him as Deputy Administrator of the agency in May of 1967.

M: That's the position you still hold?

P: Right.

M: Did you ever have, in your career prior to joining the AID agency, any relation with Mr. Johnson back in your newspaper days?

P: None except the most indirect as a reporter covering the White House for UPI Asian Affairs during most of the period in Washington prior to December '61. I saw him at press conferences on his return from his trip to Asia and that sort of thing, but I had no personal relationship with him at all.

M: In an agency of this type, does the man who is President place a personal imprint on the way the agency operates in any determinable way?

P: Yes, indeed. President Johnson certainly has. He, very early in his Presidency, sought to gain control over all the major decisions of the agency with respect to loans or grants of any consequence--that is \$5- or \$10,000,000--and a little later all PL 480, Food for Peace sales and grants--I should say sales of any size.

It was initiated, I believe, because of his desire to have a close personal control over the timing and the conditions of the release of assistance to India and Pakistan at the time of the India-Pakistan war and thereafter. It was broadened to include Latin American countries, initially, and then a general system of White House clearance of commitments was established by him through the Budget Director.

M: Was this a change now from the operation in the Kennedy period?

P: Yes. President Kennedy delegated to the Secretary of States who in turn delegated entirely to the AID Administrator all decisions with respect to the size and conditions of loans and the timing of them. Now, that doesn't say that President Kennedy was not very interested in the AID program. He quite often held meetings in his office on tough policy issues in the aid field, but he did not sign off on all the releases of funds as President Johnson has done since about 1965.

M: Other than the India-Pakistan thing, did President Johnson ever indicate why he wanted to keep this more closely tied to his own hands here?

P: No, he never indicated, so far as I am aware, any complete rationale for it. It developed, as I say, from that experience. India and Pakistan are the two largest, continuous recipients of AID loans. Certainly, India has always been the largest recipient of PL 480 assistance. So the focus on India, the problems with India, the problems with Pakistan to some degree over Viet Nam, as well as the India-Pakistan conflict, were evident major factors in his decision.

I think he has several times indicated by action what his rationale was. He did not want loans to be made to a particular country at a time when the release of such funds might give the political leadership in that country the impression of approval and endorsement of some policy action that they had taken in an international sphere affecting the United States which he found objectionable. He would sometimes withhold loans until that point had been very much impressed on that political leadership.

But in a more professional sense--professional in terms of development assistance--he withheld both PL 480 and AID loans from India past the point that many of us felt comfortable with it in order to force the Indian government to face up to the necessity for agricultural reform and a greater concentration of their resources and policy changes on agricultural development. He played what he called a "tight leash" policy there toward India to force this turnabout in Indian attitudes. In retrospect it proved to be very sound developmental strategy, because they did see that they had to give up dependence upon imported cheap U.S. agricultural surpluses and pay the price by diversion of resources from industry to agriculture--to pay the price in terms of changing

well-established, internal procedures or bureaucratic privileges to bring about an accelerated agricultural development. So he proved to be a wise developmental administrator in what many of us at the time railed at as heartless.

M: What happens to long-term commitments under these kind of conditions, though?

P: Well, you can't play it both ways. You cannot have a meaningful long-term commitment to support a country's developmental program and still retain meaningful capacity to turn off the tap. If you have confidence in a country's long-haul approach and see an evolution of policies and procedures, and institutions which make general good sense, you're willing to make long-term commitments. In fact, the AID legislation that President Kennedy put through made provision for multi-year commitments.

But well before President Johnson came in, we in this agency concluded that such long-term commitments were on balance not desirable from our point of view; that they surrendered too much authority [and] latitude to make adjustments in the mix of policies and to negotiate for policy changes. They gave them too "blanche a carte."

Now, President Johnson went to quite the other extreme. He made it quite clear--some would have said brutally clear--that India had no claim whatsoever on the U.S. budget or on the PL 480 budget. He would decide whether they got a penny or not.

Clearly there is a risk in this kind of imposition of leverage on domestic policies of a major country that's extremely proud and very conscious of its passage from the colonial past, and very intense friction developed over the implications of his policy. It was blessed by the fact that some Indians themselves were coming to recognition that they had slighted agriculture,

and the World Bank was putting similar pressure on the Indians from another tack at the same time.

M: Still is. I think McNamara is there today or was there yesterday.

P: Yes. So in a sense we got away with it because we had allies both inside the Indian professional apparatus and external in the form of the World Bank--a quite professional independent body. But I don't mean to discount at all the fact that President Johnson in the sense of the big ball game here, as opposed to some of our senses of the humanitarian aspects of the formula or of the equation, proved to be a very critical and important and, for India, beneficial influence.

M: In the case of, for example, Pakistan, when we cut off aid as happened in the case of the India-Pakistan war, when that aid is reinstituted is it because of a specific quid pro quo on the part of the Pakistanis which makes the reinstitution of the aid possible? Or is it more in the way of a general understanding of what their policy might be?

P: I'm not sure I can with reasonable accuracy describe the terms of the understanding at the time we resumed aid, because I was then totally engaged in Viet Nam matters. I was in the Far East area of operations. But my second-hand memory of the facts is that both India and Pakistan suffered essentially a one-year break in the flow of aid. They drew down very sharply their reserves and pipeline of previous commitments. They came out of the short war with a much inflated military budget on both sides and sought the resumption of aid.

We said to both of them, "You've got to get your military budget under control. What are your plans? You've got to pick up where you left off and intensify measures to liberalize your economy so as to assure the private sector a chance to apply its individual genius, make its own mistakes, if

you're to have any prospect of export expansion and diversification of the economy." And then there were particular policy questions with each country.

So they drew up policy plans which underlay their requests for resumption of loans. We negotiated and accepted, as modified by negotiation, these plans and resumed the aid. We had remained of course in the consortium, in each case set up by the World Bank for their programs, and most of the other members continued to provide aid during that whole period.

M: Even when we were not?

P: Even when we were not. So it was simply a picking up of the pieces and going on from there.

M: You say Mr. Johnson has insisted on making the decisions on substantial aid programs himself. From a purely technical standpoint, how does he administer that control? With whom does AID deal in the case of a projected planned program?

P: We submit to the President through the Budget Director a "country memorandum" which states the recommendation and the underlying background facts, the negotiated conditions that we would seek, that country's performance, the country's economic situation [and] prospects, their military budget situation and their compliance or non-compliance with various laws and special amendments of the AID Act such as the Conte-Long Amendment and the Symington Amendment with respect to military budgets, any special problems such as threatened expropriation of American properties and so on. This memorandum may run from five to fifteen pages. It goes to the Bureau of the Budget which examines it in consultation with us--

M: Is this the International Programs Division?

P: Right. And to the Budget Director himself. The Budget Director sends it to the Secretary of the Treasury who personally reviews it with the help of his staff. Then it proceeds back to the Budget Director and then to the White House through Walt Rostow's office.

Each of these points along the way may attach a covering memorandum for the President, suggesting some conditions or qualifications. Or one or the other of them may come back to us and propose a revision of the conditions and so on. For example, the Treasury will often attach limitations as to the types of goods which may be financed so as to assure the maximum additional exports to the United States from the AID financing--additional to what that country would buy with its own foreign exchange. That's a typical Treasury intervention, but there are others.

This thing wends its way through that maze, and then goes to the President. The President, I think in most cases, would only look at the abbreviated covering memoranda put on the paper by the Budget Bureau or Walt Rostow's staff. I doubt that he would read through most of the full detail, although in some countries that are of particular interest to him or in the case of a major loan, he might. He approves with a notation as to whether he accepts or rejects the additional conditions added by the intervening offices.

This is returned to us and we proceed to authorize our missions to undertake negotiations of the loan according to the terms stated. There may follow lengthy negotiations then before a loan agreement is written, which is quite a document itself--a half-an-inch thick or so--which is then signed normally in the field by our Mission Director or Ambassador, and the Finance Minister or Economic Planning Minister, or occasionally, a Prime Minister of a country.

Now, this intervening layer here--the Budget Director and the Treasury--was performed in the past, and to some degree is still performed, through what we call the Development Loan Committee and the Development Loan Staff Committee, which required the clearance of the Budget Director and the Budget Bureau and Treasury--usually at the Assistant Secretary level there--but not the President. So what he has added is a procedure which converts that Development Loan Committee apparatus to a channel of clearance en route to him. He has added himself in the layer and, consequently, has imposed the requirement that the Treasury Secretary personally and the Budget Director personally give him a recommendation.

Now, in the case of PL 480 this is a joint memorandum of the Secretary of Agriculture and the AID Administrator, which runs through the same procedure to the President.

In the case of AID, this clearance by the President is limited to project loans of \$10,000,000 and non-project loans of \$5,000,000, or larger.

In the case of PL 480, credit sales, any sale of any size is covered by the procedure, so hundreds of papers must go through this process. A great deal of time is spent on it. This gives him tight-leash control over decisions.

M: Do you run into difficulties of differences in motivation of AID or USDA, in the case of PL 480 things, seeking to make a loan or start a program for one set of motivations, and Budget Bureau or Treasury Department opposing for different considerations such as economic considerations?

P: Exactly, and that's why the President wants all of these viewpoints in the act.

M: How do you argue your case? That was what I was leading to.

P: We have occasionally had split decisions to go to the President. Most of the time, however, we compromise with the views of Treasury or Budget Bureau. Occasionally the White House staff will join the fray--quite often it does.

M: This is Rostow's staff?

P: Yes, this is Rostow's staff. He has regional specialists, and he has an aid-foreign economic affairs specialist on his staff. One or both of these will participate in the process of settling a conflict. Normally, the Treasury view on balance of payments considerations prevails--in the past few years--because the balance of payments problem has been so severe. This has resulted in the imposition of a number of additional negotiating requirements--not related to that country's development, but related to the United States' balance of payments interests [and] trade interests in the package of negotiating instructions that goes to the Ambassador and the AID Director. In a few cases in Latin America, lately, some of our people have contended that we've so overloaded the negotiations with what they call "additionality" requirements on the selection of goods and the prohibition of other--

M: Well, now, "additionality" is a technical term, is it not, that applies particularly to the attempt to have AID programs buy American products and increase American exports.

P: That's exactly right--not just buy American products, of course, because they all buy American products--but the question is whether that particular export financed by AID would have been financed anyway by that country's own foreign exchange or by some other aid donor with untied aid. There's a serious attempt made to exclude from the list of goods that we will finance any items which would have flowed anyway, so that we can say that our aid actually produces additional--that's where the term "additionality" comes from--additional U.S. exports.

That means, in extreme, that you only finance goods that nobody would buy here anyway, that are too high priced to buy here if the importer had a

free choice. Pushed to extreme, this can be clearly inconsistent with our economic policy advice in the country where we are engaged in what is hopefully a mutual effort to develop that country. To offer them the advice that you should spend funds and force importers into a bureaucratic administrative procedure, which compels them to buy in a market that they don't want to buy in at a price higher than they could get elsewhere for the same quality goods, reveals the policy advice of our AID administrators in the field to be somewhat out of both sides of the mouth.

M: That also gets you involved, I suppose, with people like the Bureau of International Commerce, for example, who are charged with increasing exports and providing "additionality" in the sense that they can, and tangles up the process of getting particular programs approved to an even greater extent.

P: Commerce Department is interested also in special problems of American industry-- industries in which there is serious problem of import expansion threatening the jobs of American workers become subject of additional restrictions. For example, the traditional one of course is the textile industry. We have studiously avoided in recent years financing any cotton textile manufacturing equipment. We then extended that to all textile manufacturing equipment without a very detailed study to assure--and special additions, legal conditions the loan agreement to assure--that the produce of such industrial equipment would not flow back into the U.S. market to any extent that would seriously upset that market.

Now, we've gone into many other fields in the same way as complaints have arisen here and a threat of import restrictions has been raised because of our concern about weakening Congressional support. We've been very sensitive to the complaint of a single Congressman about financing any particular type

of industry which might be in competition with the U.S. so we've developed a great range of regulations covering this sort of thing, extending even into the private investment guarantee and feasibility study programs.

For example, we will not today give a \$50,000 fifty-fifty cost sharing feasibility study grant to an American company which wants to investigate the possibility of raising mushrooms in Korea, because the Pennsylvania mushroom industry is protesting that such development in Korea might lead to a repetition of the experience they've had from Taiwan of radically expanding imports of lower priced mushrooms into the U.S. market. This is illustrative. You have the same problem with asparagus, with a multitude of commodities, so a good part of the administration of AID is devoted to protecting both the interests of the American economy as a whole and the interests of special groups within the economy which may well be inconsistent with any broad view of the U.S. national interests.

M: Would you say that these regulations in the Johnson years have seriously compromised projects that AID may have had for long-range economic development in the lower developed countries, where you're trying to industrialize them presumably?

P: Well, I would say that that trend has occurred as the AID program has become less well supported on the Hill, and as we've become much more sensitive to the need to avoid losing a single vote. This is not related to Johnson's policy at all. This is simply our appreciation of the close squeeze on the Hill.

But it's also related to a serious balance of payments problem that any responsible official cannot ignore to the extent that we can demonstrate to ourselves as well as to inquiring newsmen and so on that the AID program

does not damage the U.S. balance of payments, and in fact builds markets for U.S. industry, builds habits of procurement, habits of trade relationships with American suppliers--

M: Replacement parts.

P: Right. It is clearly a means of winning support and achieving our overall national interest. Now, offsetting to some degree the things I've said about the multitude of special restrictions on financing of certain industries, there has also been during the past five years or so a substantial relaxation of the previous pattern of limitations on agricultural development assistance by AID. When I came to this agency, and in fact as late as 1963, we had regulations prohibiting assistance to the development of agricultural production in fields which were surplus in the United States. Rice, for example, was a surplus; cotton was a surplus; tobacco was a surplus; corn is a surplus product; and there are others.

Now, this meant that despite the growing problem of famine and the clear need for countries like India to be urged and assisted in turning their attention to their nineteenth century agriculture, they were unable to keep up with their mouths to feed much less provide an economic base for the growth of the entire economy. We were in a strait jacket. Now, there was some cheating on that, and some of our technical assistance people did offer advice, but anything substantial was frowned upon and avoided, or it took a great deal of special waiver clearance.

All that was changed as we became conscious of the fact that in the fairly near term future our surpluses would be pretty well wiped out, and the world was facing a serious problem of food shortage. The whole economic development effort had neglected agriculture. We're now providing direct assistance to

countries in the production of high-producing varieties of rice, corn, and other products. In fact this is the major emphasis in the AID program. President Johnson put first priority on agricultural development, and all these bars were dropped. We've had no serious complaints because this was possible politically in that there became current in the Congress and the public about that time a recognition that our problem of surpluses was solving itself.

M: And the farm bloc had fewer votes than it once had I expect had something to do with it, too.

P: Well, even so, the other illustrations I've cited were not responses to a majority of votes on the Hill in the case of mushrooms or something like that. We have had virtually not a single protest from the rice producing states in the past few years about our rice programs, or the corn producing states about our corn programs. But we had intense protests about these in 1963 and 1962 even when we did such things as finance the construction of an irrigation dam in Thailand.

M: Something very indirect had its effect on agriculture.

P: Yes, so you see how far we've come in understanding in the Congress of what the AID program should be all about.

M: Doesn't this leave you open to critics--particularly the combination of these things, the easing of agricultural AID restrictions and the tightening of industrial development restriction--leave you open to the charge that our AID program is fastening a sort of permanent raw-producing status on the lower developed countries?

P: That was, of course, the prevailing argument during the '50's. In all of the international meetings you had that attitude expressed by the less developed countries and sometimes parroted by some of the rich countries attempting to

gain their favor. But in recent years there has been a great deal of learning, you know, throughout the world on what makes development, and the necessity for picking a leading sector in this process to find some way through the circular problem of poverty breeding poverty, to get a handle on the ingredients of promise in a country and push that breakthrough. Most of the countries that we're dealing with--not all, but most--have within their government apparatus a supporting academic community, people who've learned these lessons and many of whom are now in a position of authority.

So you have none of this now from India, Pakistan, Korea, or the others. They recognize that the need to develop a mass market, the need to reduce dependence on agricultural imports and the consequent political dependence on the supplier, and the need to build up national savings which have to tap a broad spectrum of the society and not just a handful, the need to engage their whole people in progress and to show the benefits politically of progress to the mass of voters in democratic countries, all suggest a greater effort on increasing agricultural production for export as well as for domestic use. There's a better understanding of the role of nutrition in national vitality now than there was just a few years ago. There again you have an advantage in talking about new varieties of corn, for example, now coming along with high protein, amino-acid mixes and so on.

So this process of adjustment and education has moved a long way. This is one of the reasons that we are so depressed by the fact that now comes a turning against AID appropriations, against our participation--fair share participation--in the development effort, by a substantial element of the Congress. Because we're just to the point where we're dealing with people who now know the score, who've learned a lot of lessons, and who now want to

do much closer to the right thing than they wanted to do a few years ago.

We now have the new seed varieties. We now have great increase in fertilizer production, much lower prices on fertilizer. We have a whole array of institutional developments, rural banks, private companies engaging in what amounts to profit motivated extension services in the rural areas; improved transportation; improved irrigation, and so on; greatly increased allocation of budget funds to agriculture and public works supporting agriculture in many of the major countries we're talking about. Just at this moment of promise and progress, comes our inability to deliver on our side of the bargain.

M: Why is the AID program in trouble in Congress?

P: Partly because of the lag effect. Many Congressmen respond to local newspapers editorials and their constituents who are still thinking of the AID program in the clichés of the past. They haven't absorbed the fact that there has been a change. I think they're dubious of people like myself who claim that there has been. They've got to be shown. The newspapers have not done, nor has television done, a complete enough job to convince them objectively that this new set of opportunities is real. The Congress responds to that, particularly. Primarily our problem is in the House--on the floor of the House--and the Appropriations Committee, who respond to really an outmoded negative conception on the part of the voters.

Second, the severe budget strain imposed by the Viet Nam expenditures forces very tough choices by the Appropriations Committees in Congress as a whole. When you say to a member of Congress, "The budget strain means that we cannot go ahead with a public works project in your district," or, "the scale of federal grants to schools in your district that you would like," or whatever, affecting directly his constituents, then the next breath or the

next week ask him to appropriate funds for education or public works in a less developed country, it takes a pretty broad-gauged Congressman to understand the need for continuity in these foreign programs, the need for the United States to hold up its share of the bargain, and the cost of failing to do so, not now, but two-three-four years hence. He has got to get elected now or next year.

M: Or not at all--four years from now he won't be around.

P: Or not at all. So it's not at all hard to understand why he takes the parochial-- from our point of view, parochial--short-term view. The other basic factor, of course, is what causes the budget strain. Well, it's not just the Viet Nam expenditure. It's other military expenditures as well, and other growths of programs throughout the federal budget. They're dealing with numbers that are so enormous now in the federal budget that they frighten most Congressmen. Per se it must be excessive, because look at the size of it! We haven't gotten used to the speed of this nation's growth and the economy's growth. We still, I think, feel a certain sense of sin in spending the amount of money that the federal budget now involves.

M: As witness the \$100,000,000,000 fear on the federal budget that went on for so long.

P: Yes, now it's around \$200,000,000,000.

M: That will be the next current figure that they are worried about.

P: Yes. The definition of the budget total, of course.

M: Is this, in your opinion, what was involved in Senator [Birch] Bayh's objection to your appointment?

P: No. Senator Bayh is one of the stronger supporters of the AID program on the Hill, and is a liberal, if one attempts to apply a label to a Senator.

Obviously he judges issues from various points of view. His opposition was based entirely, so far as I know, on a sense of outrage that I had authorized the continued procurement of galvanized iron sheeting by Vietnamese importers from Korea, using AID fund, at a time when it was demonstrated by some of our investigations that these Korean galvanized iron sheets were not uniformly up-to-snuff on specifications. He wanted this terminated and he wanted us to buy U.S. only, or to force the Koreans to use U.S. components to the point that they could not compete with the American suppliers.

I argued the case for continuing Korea's opportunity to bid under strengthened conditions of supervision on the specifications and quality testing. He rejected those measures as inadequate and insisted on his approach to the problem. He made some statements in public, and the AID Agency spokesman responded in public. It became a personal issue. The Congressional committees involved examined the matter. One of those committees held hearings. One other heard testimony on this and other subjects at the same time, and he thought that I had misrepresented the case in a self-serving way to those committees. Out of this grew a very strong, personal allergy to me.

M: But his original motivation was, as you mentioned awhile ago, one of these constituent interests?

P: There's certainly a strong steel interest in his state, yes, and that undoubtedly was a factor in his, as opposed to any other Senator's, taking interest in this matter. Another factor here, one reason I was so stubborn, one reason that I took the initial action that provoked this, was that just at the moment I suspended procurement of steel from Korea to try to work this thing out with them--just before Senator Bayh got involved--the Koreans had sent one division to Viet Nam and were considering sending another division and brigade. President

Johnson was determined that nothing would interfere with the Koreans' decision to go ahead to send that additional division and brigade. In fact, he used some very colorful language to tell all his bureaucrats to be sure that the Koreans were made happy and kept happy until they made the right decision on that additional division and brigade.

I took that to mean that I should work out something that the Koreans could live with and we could live with which would continue to give them reasonable access to the Viet Nam war market, which the Koreans saw as the way Japan made its breakthrough to great progress during the Korean War and which they wanted to emulate to some degree in the Viet Nam war. That was one of their conditions for providing their troops--an indirect benefit through access to the expanded market of AID and Defense Department financed transactions.

M: So the AID decision has all sorts of implications?

P: So we clearly leaned over backwards to find a way to avoid a permanent preclusion of Korea from the Viet Nam market in this instance because of the fact that the decision came along at a time when Korea was going to make a yes or no decision on President Johnson's request for additional troops in Viet Nam. Senator Bayh did not know this background at the time he started making his public statements. I think had he known it he never would have. But he got out on a limb and then stuck with his position.

M: It's hard for a Senator to back off a limb sometimes.

P: I guess so.

M: Once something like this happens, some personal episode gets into the public print and becomes a matter of some controversy, does the White House then take any role, in this case, supporting you? Did they work on Senator Bayh, for example, to try to remove that opposition? Or did they promote your appointment in an active way?

P: The President stuck with the appointment recommendation for seven months during this thing, and some of his staff did attempt to persuade Senator Bayh that he was wrong--some very senior members of his staff. But they failed to budge him.

M: You don't know that the President intervened personally then in any of that controversy during that time?

P: I'm not aware that he did.

M: You talked awhile ago about the relationship of AID to the other agencies in the process of making project decisions. There are other interagency relationships that are going to be difficult to trace some day. For example, one that is in print a lot of places, but is pretty difficult to pin down, is the relationship of AID to State exactly. You didn't mention the Secretary of State when you talked about the project clearance, for example.

P: The contact with the Department of State--the involvement with the political side of the House on the AID side--is most pronounced at the field level, the Embassies. The Ambassador is very much involved in the review and approval of the program content and is involved daily almost in some countries--weekly or less often in others, depending on the personality and interest of the Ambassador and how important the AID program is to our foreign relations in that country--with the AID Director who is a senior member of his staff. Back here, some Assistant Secretaries for the regions are very deeply involved, others not. Some are involved periodically and then they are out of it for a long time. The Latin American Bureau, of course, is an integrated one. The Assistant Secretary of State is the chief AID administrator for Latin America.

M: This is a little bit irrelevant--is that why in your agency the Latin American man has a rank lower than the other area directors?

P: That's right. The two jobs of coordinator for the alliance and what would normally be the assistant administrator of AID for Latin America were consolidated in the hands of the Assistant Secretary of State for American Republic Affairs at the time Tom Mann was appointed to that position by President Johnson, and it has been continued since. The AID Bureau was consolidated with the State Department Bureau so that you have geographic office desks--in which in one case an AID man will be the chief, in another case the State Department Foreign Service officer will be the chief--they're intermingled, integrated. One of the principal planners of our non-project lending in Latin America is a State Department Foreign Service officer, working in the role of Deputy Assistant Secretary for Economic Affairs of that bureau. Some of the members of his staff for economic policy, review, and so on, are AID people. Some are State people. It works reasonably well.

M: No bureaucratic obstructionism from the Foreign Service people?

P: I think the Foreign Service people have learned a great deal about, not only the mechanics, but the doctrine philosophy, the longer haul considerations, that AID tends to use and have moderated their caricatured, short-term diplomatic interests accordingly. AID people have learned the political trade and non-developmental side of our relations. Now, there are still problems with it, but there are problems in any administrative structure you can devise. It demands a very broad-gauged man as the head of the combined operation.

M: In the field?

P: Here. In the position of coordinator, Assistant Secretary, and so on. The man has got very large, political responsibilities with nineteen or twenty countries to deal with on political matters. He also has the biggest AID operation and a very substantial trade and other economic policy concern,

and a small but fairly significant military security interest. So it takes a whale of a renaissance man to do it. Any man coming on the job will recognize he has certain weaknesses and limitations and the day is only so-many hours long, and he delegates, so that the AID job is pretty largely delegated to his Deputy for AID. That is, the Deputy Assistant Administrator, in our jargon, of AID for Latin America.

M: How about in the field? Is it possible to coordinate interagency personnel? For example, don't you have USDA people connected with AID program directly?

P: Yes, that's true in all regions, not just in Latin America. I think there has been very little more integration in the field in Latin America than there has in the typical mission anywhere in the world. You have an AID director and his staff, and an Embassy and a staff. More of the messages are through the State political channels, I suppose--instructions in Latin America--than there are in other regions where we tend to send messages more through the AID channels directly to the AID Director. But still the same procedure occurs. The matter is handled by the AID Director. The Ambassador of some countries is very much involved as, in Brazil frequently, that has been the case. We've had strong Ambassadors with a strong economic bent in Brazil, and they naturally were engaged. That's obviously the major concern of the United States with Brazil.

M: So it depends probably on the personnel--

P: It depends on the situation and the personnel involved.

M: You've been very close to the Viet Nam AID program particularly, working directly on it for some time before you moved up. In the hearings regarding your nomination you estimated, I think, that about five to six percent of AID might have been diverted in that program. What has been done about that in subsequent times?

P: Well, during that testimony I described measures that we were taking to get tighter control and to develop within the Vietnamese system tighter controls. Among these that have evolved have been the improvement of port security in Saigon and, in a lesser degree, the other ports; the development of a system of uniform documentation of the flow of commodities from the U.S. supplier through the port system, to the first destination warehouse, and then on out to the provincial or regional warehouses; a uniform system of commodity accounting from the provincial warehouse to the village or whatever project; a supply system in the medical program which involves Americans really working in a Vietnamese Ministry of Health supply operation; very extensive directly contracted airlift involving Air America planes in Viet Nam, delivering particularly high cost low bulk items such as medical supplies.

M: Has there been an audit?

P: Oh, yes. Well, this was quite a canard. We had many audits, but someone concluded we hadn't had the kind of audit that he thought should have been undertaken; that is, a swarm of investigators going out to audit every aspect of the program simultaneously. We had had spot audits in a variety of fields which did not meet that definition.

M: Is such an audit by that definition possible in such a program?

P: Well, we've attempted it--what we call an internal audit. I think it's never really fully possible because there's just too much of it. But we have a huge audit staff in Viet Nam plus a very large independent inspection and investigations staff with ten people. It's bigger than our whole investigations staff in three other regions combined. We have also a continuous presence of the GAO in Viet Nam, the almost continuous presence of the Inspector General for Foreign Assistance, Congressional committees going in with their staffs periodically, and a lot

of press attention to the operations in the field. Then we have, as I said, this elaborate system of documentation and reporting now with computers and all sorts of apparatus to take the bugs out of it; and an evaluation review in this field every year or so. So I'd say that this is probably the most inspected and audited and monitored program that we have anywhere.

Even so, I don't say that it's not possible and doesn't happen that there are corrupt diversions or simple theft or Viet Cong seizure of some of our supplies. That is inevitable when you're operating in a country without a battle line, without easily delineated good guys and bad guys.

M: Has the White House ever taken a direct interest in this problem of diversion and control?

P: Yes, we submitted a report to President Johnson in January '66, I believe, and again in '67. The President asked some Justice Department people to take a look at our, what we call, "surveillance" measures about a year ago. We have kept him and the Budget Director informed of these procedural steps for dealing with the problem. Obviously he was concerned at any weakness in the Viet Nam operation and anything that would break down popular Congressional support for his policies there.

But I think most people who were familiar with the problem on the ground in Viet Nam, as I think he was, would realize that just as the U.S. military forces and the U.S. military aid program would naturally suffer some losses and that there would be theft and black market sales of P.X. supplies in the military side of the Viet Nam effort, so there would be in an enormous, very diverse, program in the AID (economic) side which attempted to go down to the villages and to leave management responsibility in the hands of the Vietnamese for a very deliberately chosen policy reason; that only so can the Vietnamese authorities--

village chiefs on up--demonstrate that they are responding to the people's needs, they are communicating with and working with the people, they rather than the rich Americans are bringing about constructive change.

M: This gives you a problem that the military doesn't have?

P: That's right. The military can manage its own resources and do its own fighting job and logistic job without that concern about development of the political institutions. So we accepted a degree of inefficiency in the use of AID resources and a degree of loss in them when we decided--we've consistently stuck with that decision--that these economic development projects, if they're to have the political effect we want them to have, to strengthen popular support of local government and to build a sense of Vietnamese pride of achievement that they had to be Vietnamese programs. This is not peculiar to Viet Nam. It's the way we operate everywhere. And we undoubtedly have some inefficiency and loss from that approach everywhere. You could go in with an all-American team of contractors, engineers, and so on, and do the job probably more efficiently in many places in many kinds of programs.

M: From a purely economic standpoint.

P: You could deliver them a completed piece of work, but you would have missed a lot of the educational, institution building, political aspect of the effort.

M: One of the issues that got into public discussion to a considerably extent not very long ago was the testimony Secretary Rusk delivered, I guess, before the Senate Foreign Relations Committee which some of them took to mean in implication that our AID program commitment could become a commitment that justified intervention in certain cases. Do you have any insights into this problem? When we have a big AID program, does this tend to become a justification for perhaps the military presence at some future time?

P: Well, certainly Viet Nam does not prove that, simply because we went in with a military aid program and an economic AID program. When the insurgency began to threaten the independence of South Viet Nam and it became a clear risk of Communist success in the insurgency, President Kennedy sent in a larger number of military advisers and some military logistic support operations. Finally to helicopters, then armed helicopters, and then advisers armed to defend themselves, then finally advisers who were virtually leaders of field units in some cases, particularly in the Special Forces/ranger like of operations. Then you've reached by that point a sort of a twilight zone where you're very close to direct and open military intervention.

I can't recall at any point that someone said, "Look, we've made this deep economic Aid investment in this country, and we can't see it go down the drain." Rather it was said, "We have clearly here a case of the proclaimed Communist national war of liberation process unfolding. This is what they declare to be their strategy for achieving their goals throughout the world in less developed countries that are vulnerable to that kind of approach--proxy aggression."

Without particular concern about Viet Nam per se, but rather concern about deterring that kind of Communist ambition, President Johnson, and before him President Kennedy, placed a high priority on U. S. assistance to South Viet Nam, much more as a case where this important evolution of Communist expansionism was occurring than because Viet Nam had been a place we had spent a lot of aid money.

It's conceivable that a case might arise in which we felt we had such a heavy investment that we needed to do something militarily to defend it, but I

don't know of a case where that has happened. It certainly was not the case in Korea. It seems to me that it's hard to argue that our willingness to provide air action, at least, in the offshore islands in 1954 and '55, I believe it was--of Quemoy and Matsu and the related islands--was based on considerations of a heavy investment and the economic development of Taiwan. It had much more to do with containment of China. And so containment was the objective and the rationale and motivation in our deepening involvement in Laos and Viet Nam.

M: The current popular way of selling aid, particularly in Congress, I think, is to emphasize multilateral operations. Is this agency under President Johnson doing anything in a very big way to push such institutions as the Asian Development Bank, this type of multilateral operation?

P: Yes. We have, I think, something to be proud of in having changed U.S. policy toward the need for an Asian Development Bank. It was the State Department and Treasury position for several years that there was no need for such a bank. The World Bank could take care of it, U.S. policy held. There was not sufficient identify of purpose and regional reality in Asia to warrant an Asian Development Bank. We opposed this policy and finally broke it down.

M: You opposed it? You opposed their position--?

P: We opposed this position of the U.S. government unsuccessfully for awhile.

I submitted to the White House staff in February and March of 1965 some suggestions for a post-war Southeast Asian development program which would start while the war was still on in Viet Nam, and which would attempt to show a future for Southeast Asia, including South Viet Nam and North Viet Nam, that would demonstrate a positive purpose of the United States in our engagement in that area. We had just at that time, you see, sent our first American

troops into South Viet Nam. President Johnson was considering some broad public speech defining U. S. national objectives in the area, and it needed a positive cast--a positive longer term definition of purpose. We needed to try to engage the resources or, at least, the present sympathy of other advanced countries in the area. We needed to create more devices of cement among these countries of Southeast Asia, many of whom had never been terribly close to their neighbors, but much closer to their trading or metropole powers far away.

So I outlined the notion of a Southeast Asia development program, a regional program, of maximum Asian initiative and some regional institutions to give it form and system, including roles for the proposed Asian Development Bank and specialized organs for ministerial collaboration on regional integration projects, such as in transportation and education, Mekong [River] development and so on. We had already the Mekong Committee of the UN to build on. These were additional devices. To proceed with that kind of approach an Asian Development Bank was obviously necessary.

So just as we were about to take a very negative position at an annual meeting of the U.N. Commission for Economic Development in Asia and the Far East--we got this traditional negative stand reversed by the process of showing the importance of the Asian Development Bank to such a broad conception of economic and political cooperation by a regional set of institutions in Southeast Asia. Now, that's a personal footnote simply to evidence that, despite our managing bilateral AID programs, we're very interested in the promotion of all sorts of multilateral programs--institutions--not just banking for the management of funds but cooperative institutions for the development of project and trade cooperation.

Out of the Southeast Asia scheme has come the Southeast Asia Ministers of Education Council [and] a similar council of transportation ministers. The Japanese took the initiative in creating an annual meeting of economic development and Foreign Ministers. The Koreans and others proposed and developed a similar kind of loose annual meeting approach. The Southeast Asia countries have expanded their old ASA scheme association of--

M: "ASA"--I don't know.

P: That's the Association of Southeast Asia, I guess it was called--into something called ASEAN, which is essentially the same thing with two more countries added--Indonesia and Singapore, I believe. So all sorts of acceleration of regional cooperation arrangements and institutions has occurred since President Johnson's speech of April 1965, of which the economic development half of that speech flowed out of the suggestions that I began discussing with the White House staff in February of '65.

M: Did you ever have personal consultation with him regarding that project?

P: No, this was done through a task force that he had Mac Bundy chair. I was a member of that. He called in Gene Black as his personal representative in this effort, and he made a number of trips, you know. I furnished a member of my staff, Tom Hiblock, to be his special assistant while being my regional man concurrently. We worked, of course, with Gene Black in developing his approaches and his commitment authorities and so on.

M: Has the contributions of other than American nations been significant to these multilateral things, such as the Asian Bank? Has Japan, for example, committed itself to investment funds through that particular agency?

P: That's the beauty of it. We put in exactly the same amount as Japan--twenty percent of the regular capital.

M: That was the original--?

P: Of the Asian Bank. The other countries put in contributions on the basis of a formula taking into account their income and trade and other factors. The bank has a majority capital contribution from the countries of Asia--that is, including Japan--a minority from the Western countries. It's a copybook form of international cooperation.

M: _____

P: Well, we're getting out cheaply, of course, because in any reasonable comparison of the scale of our capacity against all the other countries in the bank, we're far bigger than all the rest of them combined. Nevertheless, it is an Asian Bank, and that has made it an Asian Bank--the fact that we do have a minority role.

Now, the bank also needs soft-term funds to mix with its very hard-term regular capital for projects in countries that can't support a hard-debt service--a long pay out for a country that has a serious debt burden foreseeable--and this was included in the charter. We have asked the Congress for appropriation of special funds for that window of the bank. The Japanese accepted our suggestion on this and proceeded to appropriate special funds--\$100,000,000 to be paid in over, I believe it's three years. We have been bogged down in the Congress on our side of this.

M: Is this the \$200,000,000 that's in the Senate committee that has--?

P: That's right. We submitted a bill for authorization of \$200,000,000 of which perhaps \$50,000,000 would be appropriate in the first year. Our basic position was that less than half of the special funds, maybe up to forty-nine percent, would be the U. S. share. The Canadians anted up their share, the Japanese anted up theirs, and one or

two small countries in Western Europe have or are about to; and we, who initiated the idea, have not been able to get our bill through the Congress even though the first year's appropriation would be only \$50,000,000 or less and the disbursement on it would not occur for another year or so. This is one of our very real disappointments in the past year. We hope that President Johnson will ask the Congress in his final State of the Union budget message to act on that bill, and act as well on the IDA bill.

M: On the which bill?

P: That's the International Development Association--the soft window of the World Bank to which we and other countries make subscriptions on the basis of three-year pledges every third year.

M: Is the Congressional objection to these things the soft nature of the loan that'll be made? Are they afraid that some of the restrictions that apply to regular AID programs that we talked about earlier will be evaded in this way? Or are there other objections to this type of contribution?

P: So far as we could find, there was a strong majority support for both the IDA--certainly the IDA Bill--and perhaps the Asian Development Bank Bill as well. In the case of the Asian Bank, it was argued that the bank had not gone very far in making loans of its regular capital and therefore it was premature to be giving them special funds--additional capital. We argued that the bank needs to have assurance of these funds in order to proceed with negotiations and planning and feasibility studies and so on.

The case of IDA--now, the opposition was essentially of two members of the Senate Foreign Relations Committee who prevented a quorum from occurring repeatedly. I've never fully understood their reasons for this. This was Senator Symington and Senator Gore.

M: Who are not foreign aid critics philosophically, I don't think.

P: No, they have been supporters of AID programs. I felt they accepted the prevailing view in that committee that the development of international multilateral institutions for aid administration was desirable, and the United States should push it--certainly support it. So, the Senators really prevented action on the IDA Bill and consequently prevented IDA lending to some of the most acutely needy countries whose policies to make effective use of aid have been proved dramatically over the past several years. That is, India and Pakistan, particularly. Some of these funds also were to go to Indonesia, which certainly most Congressmen would endorse. That also has been frustrated, if you will, of the replenishment by this hold-out--what seems to have been a minority hold-out--in the Senate Foreign Relations Committee.

Well, obviously one reason for this was that they felt it necessary to attempt to hold down the appropriations, and the federal budget cut had to take its penalty against the foreign aid as well as domestic programs. This was something that could wait until next year. There may have been also some feeling that the particular countries that were going to get the aid were countries that were not worthy of it, or were diverting their resources to military expenditure or whatever. I'm just guessing now. I really don't know the reasons for their stand.

M: There was no suggestion anywhere that this might be sort of a Foreign Relations Committee punishment of the President in regard to their opposition to his Viet Nam policy?

P: I don't think that's clear in the case of Senator Symington, certainly. It certainly was never declared by either one of these Senators. You would have

understood that if it came from some of the more extreme "doves," but in fact, the extreme "doves" supported these bills--at least the IDA Bill.

M: So it was not an attempt to demonstrate the committee power here--Senate power--as a lesson in other unrelated areas. That's what occurred to me.

P: Well, it's hard for me to know what all the motivations are, but a terrible disappointment--and a real black eye to the United States in development bodies that we attend--the Colombo Plan, the Development Assistance Committee of the OECD, and so on. It's pretty clear that the United States was the country with the GNP growing at \$40- or \$50,000,000,000 a year that couldn't afford \$160,000,000 a year contribution to IDA, even though other countries much poorer than we were ready to contribute their share, and which prevented IDA from existing for another year, and lost some ground that will be hard to make up.

M: So timing was important.

P: Timing was important. The program was already late in getting replenished. So we took quite a black eye on this, and our credibility as a leader in the development effort has certainly been undermined.

M: I have only a few more questions here. You've been very patient.

P: I've got a meeting that I was supposed to go to at eleven o'clock. I heard him open the door a minute ago.

M: That's fine. I wouldn't want to hold you up. Actually, all I had to ask was regarding some press matters which I don't think would probably be important enough to impose upon you for another interview.

P: I wish I could. I enjoy hearing myself talk, but I think I'd probably better get in this meeting.

M: Well, you've been a very patient and helpful interviewee, and I certainly appreciate your cooperation.

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By Rutherford Poats

to the

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