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THE WHITE HOUSE
WASHINGTON

July 1, 1964

Mac:

I told Ben Read to make sure that an abbreviated version of this goes into the evening reading.

FMB

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MATERIAL FOR INCLUSION IN THE PRESIDENT'S EVENING REPORT

Preliminary figures indicate that A.I.D. and the Defense Department obligated by the close of business last night over 99% of the funds available for Fiscal Year 1964 for economic and military aid. All loan funds available for use in Fiscal Year 1964, both for Latin America and for the rest of the world, were completely used. Both agencies appear to have been successful in sharply reducing the normal amounts of "nickles and dimes" remaining at the end of the fiscal year in their many accounts around the world. A more complete statement will be available early next week when cable reports have been received from all Missions.

OO WTE8 SAN FRANCISCO

DE WTE 7S

FROM MR. RALPH A. DUNGAN

TO MR. JACK VALENTI

CITE WH40320

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MEMORANDUM FOR MR. VALENTI JUNE 19, 1964

WOULD YOU PLEASE CALL THE FOLLOWING DRAFT TELEGRAM TO THE PRESIDENT'S ATTENTION AND SEE WHETHER HE DESIRES TO SEND SUCH A WIRE OR TO COMMUNICATE THE SUBSTANCE OF IT TO PRESIDENT EISENHOWER WHO IS AT GETTYSBURG THIS WEEK END. THE NEW YORK TIMES IS CARRYING A VERY STRONG STORY ON SUNDAY WITH GENERAL CLAY'S STATEMENT AS ITS FOCUS. IF EISENHOWER COULD RELEASE A STATEMENT FOR MONDAY A.M., THIS WOULD BE A GOOD FOLLOW UP PRECEDING THE TUESDAY MARK UP SESSION IN THE APPROPRIATIONS COMMITTEE. FELIX BELAIR OF THE TIMES, WHO IS CLOSE TO EISENHOWER, HAS ALREADY BEEN IN CONTACT WITH JOHN WHO INDICATES RECEPTIVITY AT GETTYSBURG TO SUCH A REQUEST.

RALPH A. DUNGAN

PROPOSED TELEGRAM FROM PRESIDENT JOHNSON TO PRESIDENT EISENHOWER

I KNOW HOW KEENLY YOU FELT THE NEED AND DESIRABILITY OF BI-PARTISAN SUPPORT FOR OUR FOREIGN ASSISTANCE PROGRAM WHEN YOU WERE PRESIDENT. I AM GREATLY HEARTENED BY THE STRONG SUPPORT WHICH GENERAL CLAY IS GIVING TO OUR APPROPRIATION REQUEST FOR THIS YEAR WHICH IS, AS YOU KNOW, SUBSTANTIALLY LESS THAN ANY REQUEST IN THE PAST DECADE. AS GENERAL CLAY HAS SAID, THE APPROPRIATION OF THE FULL $3.5 BILLION IS ESSENTIAL IF WE ARE TO MAINTAIN LEADERSHIP IN THE FREE WORLD. I AM VERY HOPEFUL THAT YOU WILL BE ABLE TO INDICATE YOUR SUPPORT FOR THE FULL $3.5 BILLION WHICH WE HAVE REQUESTED AS THE HOUSE BEGINS ITS MARK UP OF THE APPROPRIATION EARLY NEXT WEEK

DTG: 192229Z JUNE 1964

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THE WHITE HOUSE

WASHINGTON

June 5, 1964

MEMORANDUM FOR THE PRESIDENT

The attached is the third report from Dave Bell on the use of foreign aid funds. As regards commitments, they have done well during the past two weeks and confidently expect to reach at least 97 percent by June 30. Compared with a year ago, they are doing a little better on military assistance and much better on economic assistance.

The last sheet contains an informal summary of actions taken to spend "pipeline" money.

McG B

McG. B.

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~~CONFIDENTIAL~~

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON

JUN 5 1964

OFFICE OF
THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Use of Foreign Aid Funds

This is the third memorandum report on progress in committing funds available in the current fiscal year.

We still expect to commit at least 97 percent of the available funds for both military and economic aid. Commitments to date are as follows:

	In Millions of Dollars				
	Funds Available	Commitments Through May 31	Percent	Anticipated Commitments by June 30	Percent
Military Aid	1,200.0	1,017.5	84.7	1,175.0	97.9
Economic Aid	2,174.7	1,772.4	81.5	2,119.7	97.5
Contingency Fund	132.7	14.1	10.6	?	?

In the period from May 15 to 31, $272 million of economic aid funds and $90 million of military assistance were obligated or committed. A breakdown of total obligations and commitments by category of appropriation as of May 31 compared with May 31, 1963 and May 15, 1964 is shown on Attachment A.

Obligation of an additional $43 million of Contingency Fund has been authorized, mainly in Southeast Asia. In addition a request for a further transfer of economic assistance funds to military assistance is anticipated from Defense, and there may be need for substantial balance of payments support for Brazil this month. Depending on the outcome of these factors the carryover in the Contingency Fund will range from zero to $40 million.

The current estimated pipeline of unliquidated commitments and unexpended balance of funds as of June 30, 1964 is indicated on Attachment B.

David E. Bell
David E. Bell

Attachments

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~~CONFIDENTIAL~~

Attachment A

Mutual Defense and Development Programs

RESERVATIONS/OBLIGATIONS

	May 31, 1963		May 15, 1964		May 31, 1964	
	Millions of $	Percent of Avail.	Millions of $	Percent of Avail.	Millions of $	Percent of Avail.
Military Assistance	1,333.4	83.4	927.5	77.3	1,017.5	84.7
Economic Assistance						
Development Loans	582.7	58.8	595.9	72.6	670.1	80.6
Technical Cooperation	188.6	73.2	136.5	62.5	166.0	71.9
Alliance Loans	279.9	65.7	279.1	59.1	370.0	79.2
Alliance Technical Cooperation	103.5	77.0	70.9	77.1	76.5	83.2
Supporting Assistance	365.3	83.5	257.2	74.0	304.6	84.7
Other Programs	188.3	89.2	160.5	82.6	185.2	95.4
Sub-Total: Economic Assistance	1,708.3	69.5	1,500.1	69.9	1,772.4	81.5
Contingency Fund	95.8	36.5	8.4	6.6	14.1	10.6

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B

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~~CONFIDENTIAL~~

Attachment B

Mutual Defense and Development Programs

END OF YEAR BALANCES[a/]

(millions of dollars)

	"Pipeline" (Unliquidated Commitments) Total	Development Loans	Alliance Loans	Other Economic	Uncommitted Carryover	Unexpended Balance
Military						
6/30/63 actual	2395.9	-	-	-	25.8	2421.7
6/30/64 est.	2045.2	-	-	-	25.0	2070.2
AID						
6/30/63 actual	3429.1	2113.8	331.7	983.6	249.4	3678.5
6/30/64 est.	3683.2	2116.9	687.0	879.3	55.0	3738.2
Contingency Fund						
6/30/63 actual	209.1	-	-	209.1	127.1	336.2
6/30/64 est.	111.2	-	-	111.2	40.0	151.2
SPTF						
1963 actual	335.0	-	-	335.0	-	335.0
1964 est.	396.0	-	-	396.0	-	396.0
Total						
1963 actual	6369.1	-	-	-	402.3	6771.4
1964 est.	6235.6	-	-	-	120.0[b/]	6355.6

a/ excludes Investment Guarantee Reserve ($268.6 million in 1963 and $273.2 million in 1964) and Excess Property Revolving Fund ($4.1 million in 1963 and $3.3 million in 1964) which are not available for program purposes.

b/ This figure represents the upper limit of the range ($70 - $120 million) in which we estimate our uncommitted balances will fall.

~~CONFIDENTIAL~~

To reduce the pipeline of unexpended funds as of the end of the fiscal year we are continuing to follow through with the plans of action discussed in our previous reports and have:

(1) Increased payments to the Government of India as reimbursements for commodities purchased under program loans.

(2) Arranged for contractors performing under both loan and grant projects to expedite their billings for services rendered and commodities delivered.

(3) Returned to Treasury interest and principal repayments collected in April in the Development Loan Fund Liquidation account. May and June repayments will be returned before the fiscal year accounts are closed.

(4) Transferred from A.I.D. accounts to Treasury Department $1 million of refunds which have been determined to be unusable.

We will make a concerted drive and will process for payment all amounts which are billed and can be legally paid by the end of the fiscal year.

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Foreign Aid

DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON

OFFICE OF
THE ADMINISTRATOR

April 28, 1964

MEMORANDUM FOR THE PRESIDENT

SUBJECT: House Consideration of the Foreign Aid Authorization Bill

The House Foreign Affairs Committee is completing hearings next week on the foreign aid bill. Dates are not set for mark-up, but the bill could be on the House floor as early as the third week in May.

We assume our strategy should be to fight hard for the full authorization for both military and economic assistance. We believe our chances are fairly good to hold the full authorization for military aid, less good to hold the full authorization for economic aid.

In Committee, our best information is that the issue will turn largely on the leadership of Chairman Morgan, and the position of Mr. Hays and Mr. Selden. Accordingly, we recommend that the President call Morgan, Hays, and Selden to seek their support of the full authorizations. (For the sake of courtesy, we also recommend that the President call Mrs. Bolton.) In making these calls, we believe the President will encounter the question: if this Committee votes for the full authorization, will the House leadership support them later on at the appropriations stage against the attack of Mr. Passman.

Secretary Rusk, Secretary McNamara, and I will continue our efforts to seek full support by the other members of the Committee. A current estimate as to their attitudes is attached as Annex A.

On the floor, our best information is that the issue will turn very largely on the attitude of the Republican leadership and of the "internationalist" Republican members. In logic, we should receive the votes of about 40 Republicans, mostly from the Eastern states. On the crucial vote to recommit last summer, only sixteen voted with us. On that occasion, Halleck and Ford led the rest against us.

Our chances to sustain a full authorization on the floor this year will depend very heavily on whether we can prevent such a wholesale defection.

One important step in this direction is the work we have asked Mr. Linowitz to do in organizing quiet business support for the aid program with specific Members of Congress. We recommend that the President agree to see Mr. Linowitz no later than the present week in order that he can get started.

Attached as Annex B is a list of the Republicans we need and should have in the floor vote this year. We would appreciate any views the President may have on how to proceed to maximize our strength with this group.

David E Bell
David E. Bell

Attachments

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ANNEX A

ALIGNMENT OF HOUSE FOREIGN AFFAIRS COMMITTEE

33 Members

Democrats likely to vote for full authorization with strong assurance of continuing Leadership and White House support:

1. Chairman Morgan
2. Zablocki
3. O'Hara
4. Fascell
5. Farbstein
6. Beckworth
7. McDowell
8. Murphy
9. Gallagher
10. Nix
11. Fraser
12. Cameron

Democrats who can probably be persuaded to vote full authorization, if worked on:

1. Kelly
2. Hays
3. Selden
4. Pilcher
5. Diggs
6. Monagan

Republicans most likely to support us:

1. Bolton
2. Broomfield
3. Mailliard
4. Frelinghuysen
5. Barry
6. Morse

Likely to be against us in any event:

1. Burleson
2. Fountain
   --
3. Adair
4. Whalley
5. Gross
6. Berry
7. Derwinski
8. Battin
9. Thomson

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REPUBLICANS WE NEED AND SHOULD HAVE

* John F. Baldwin (Calif.)
* Robert R. Barry (N.Y.)
* Frances Bolton (Ohio)
  Oliver Bolton (Ohio)
* William S. Broomfield (Mich.)
* William T. Cahill (N.J.)
  Charles E. Chamberlain (Mich.)
* Silvio Conte (Mass.)
  Robert J. Corbett (Pa.)
  Florence P. Dwyer (N.J.)
  Paul A. Fino (N.Y.)
  Gerald R. Ford, Jr. (Mich.)
* Peter Frelinghuysen (N.J.)
* James G. Fulton (Pa.)
  Robert P. Griffin (Mich.)
* Seymour Halpern (N.Y.)
  Hastings Keith (Mass.)
  Clarence E. Kilburn (N.Y.)
  John C. Kunkel (Pa.)
* John Lindsay (N.Y.)
  Sherman Lloyd (Utah)
* Joseph McDade (Pa.)
  Clark MacGregor (Minn.)
* William S. Mailliard (Calif.)
* Joseph Martin (Mass.)
* Charles Mathias (Md.)
* Brad Morse (Mass.)
  Frank C. Osmers (N.J.)
  Harold C. Ostertag (N.Y.)
  Albert H. Quie (Minn.)
* Ogden Reid (N.Y.)
  Howard W. Robison (N.Y.)
  Richard S. Schweiker (Pa.)
  Fred Schwengel (Iowa)
  Herman T. Schneebeli (Pa.)
  Abner W. Sibal (Conn.)
  Robert T. Stafford (Vt.)
  Robert Taft, Jr. (Ohio)
  Stanley Tupper (Maine)
  George M. Wallhauser (N.J.)
  William B. Widnall (N.J.)

* Indicates Member voted with us on recommittal vote last August.

Mr Bundy
Foreign Aid
68a

April 17, 1964

~~CONFIDENTIAL~~

MEMORANDUM FOR: Honorable David E. Bell
Administrator
Agency for International Development

Subject: Foreign assistance unobligated and unexpended balances

The President is concerned lest substantial unobligated balances in foreign assistance programs at the end of fiscal year 1964 again provide ammunition for some members of Congress who use them to justify aid cuts. Therefore, he hopes you will make a special effort to reduce them as sharply as you can without jeopardizing their efficient use.

For the remainder of the fiscal year, he would like a monthly report of obligations/commitments and remaining unobligated balances. This report should provide a breakdown by major program or operational elements.

The President would also like to have your thinking on the larger and more complicated problem of unliquidated obligations for the economic and military assistance programs. Critics of the aid program also point to these "unspent funds," especially those obligated more than two or three years ago, as justification for cuts. So he would like you to review these too and to report your major findings and recommendations. Perhaps you could come up with an annual plan for both obligations and expenditures by major program or operational element so we can measure our progress.

/s/

McGeorge Bundy

cc: Secretary McNamara

DECLASSIFIED
E.O. 12356, Sec. 3.4
NLJ 93-318
By lip, NARA, Date 5-12-95

~~CONFIDENTIAL~~

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~~CONFIDENTIAL~~

April 16, 1964

Mac -

Here's the prod to Bell on unobligated '64 balances. It got delayed because BOB tried to make a big production out of it.

But I sidetracked them, and attached has their OK. I also needled Gaud a week ago on WH interest so delay didn't cost us anything. Actually Gaud is fairly optimistic that FY 64 record will look good.

RWK
RWK

~~CONFIDENTIAL~~

Foreign Aid

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May 8, 1964

MEMORANDUM FOR

THE PRESIDENT

As you requested, two memoranda are attached for use with Senator Dirksen and Congressman Halleck and others.

The first memo gives for each of the Eisenhower years information concerning the amount of the foreign aid request, the arguments made in support of the program by Republicans and the response of the Democrats in the Congress.

These data show several remarkable things

- that your request for funds for this program is lower than any request made by Eisenhower despite greater and more complex problems throughout the world, including Viet Nam and an expanded Latin American program

- that the same valid arguments offered by Eisenhower, Dirksen, and Halleck in support of the program are being offered today - and it is a tighter, more effective, and better program.

- that Democrats - in the Senate under your strong leadership- and in the House supported this program in substantial numbers during the Eisenhower years

- that an average of 108 Republicans under Eisenhower supported foreign aid but this number has drastically and disgracefully declined in the past three years. In 1961, only 92 Republicans supported the program. In 1962, only 34 Republicans voted against recommittal in the House and in 1963 we fell to 16 Republican votes. In the key vote on foreign aid last Christmas we received just two Republican votes.

cc: Mr. Bundy

The second attachment is a table showing the progress of authorization and appropriation requests over the years.

I recommend you, or Larry O'Brien at your direction, call Chairman Morgan to tell him that

-you hope his Committee will report the full $3.4 billion you requested

-you intend to talk strongly to both the Republican and Democratic leadership in support of the program.

Ralph A. Dungan

Enclosures

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FOREIGN AID - 1953

Authorization Request $5.9 billion   Authorization Enacted $6.5 billion

Appropriation Request $6.5 billion   Appropriation Enacted $6.0 billion

Party Support

In the House, 160 Democrats voted for the authorization bill - only 27 against. Republicans, 119 for - 18 against.

In the Senate, on two motions to drastically cut the bill, Democrats under Johnson leadership turned back the attack by votes of 34 - 48 and 38 - 42.

Republican Statements

Eisenhower, May 5, 1953

"Unequivocally I can state that this amount of money (for foreign aid) judiciously spent abroad will add much more to our Nation's ultimate security in the world than would an even greater amount spent merely to increase the size of our own military forces in being."

FOREIGN AID - 1954

Authorization Request $5.5 billion   Authorization Enacted $5.2 billion

Appropriation Request $5.1 billion   Appropriation Enacted $4.5 billion

Party Support

In the House Democrats voted for the authorization bill 141 - 47 as compared to 118 Republicans for and 79 against.

In the House on a Republican motion to limit the contracting authority of the President the motion was rejected 96 - 267 with the Democrats voting overwhelmingly against it by a vote of 40 - 139 Republicans voted 56 - 127.

In the Senate an amendment to limit the amount of funds for the

Incl 1

grant program was defeated by a vote of 33 - 57 with the Democrats supplying the greater number of votes against, 13-30. Republicans were 20-26.

Republican Statement

Eisenhower, June 23, 1954:

"Our...(foreign aid)...is based on the sound premise that there can be no safety for us except in the cooperative efforts to build and sustain the strength of all free peoples."

Halleck, July 27, 1954:

"I realize that many are distrustful of this whole program. Many, I suppose, cannot see much good in it, but on the other hand, if I am right and if you believe that it is an integral part of the defense of this great land of ours then I say let us go on and pass the bill.."

FOREIGN AID - 1955

Authorization Request	\$3.4 billion	Authorization Enacted	\$3.0 billion
Appropriation Request	\$3.0 billion	Appropriation Enacted	\$2.8 billion

Party Support

In the House the authorization bill was voted by the House 273-128 with Democrats voting 160-51 and Republicans 113 - 77.

On the appropriations bill the House voted for it 251 - 123 with 146 Democrats in favor and 53 against; Republicans voted 105 - 70.

In the Senate two key amendments to increase the amounts available for assistance were adopted only with significant help from the Democratic side led by Johnson. The vote was 50 - 38 and 46 - 38.

Republican Statements

Eisenhower, April 20, 1954:

"The program...encourages private overseas investment and private enterprise abroad, fosters an increase in cooperative effort, emphasizes loans rather than grants where possible. I consider the program an indispensable part of a realistic and enlightened national policy."

Dirksen, July 22, 1955:

"Therefore, when we stop to consider this matter for a moment, we must remember that what we are doing is intensely selfish. It is not a giveaway program. It is not a contribution for the welfare of any people. It is not charity. We are doing it for the greatest, most blessed, most prosperous country on God's footstool. That is the justification for this program.

"I look at all of it realistically. I remember the day when I used to attack this program. I did it with a great deal of verve and vigor. I take it back. Publicly and privately, I take it back."

"The question has been asked, 'How long will this last?' Mr. President, I do not know. But I do know that this very afternoon, as the sun goes down, it shines on a country which is at peace, and I do know that the young men of that country are not paying with their own sacred blood for any mistakes which might have been made. That is worth something, Mr. President; is it not? When we stop to consider that foreign aid of this kind has cost us \$11 billion since 1949, whereas the Korean war cost us over \$18 billion, if we put the tangibles and the intangibles together, the total score is a rather good one."

FOREIGN AID - 1956

Authorization Request \$3.5 billion Authorization Enacted \$3.4 billion

Appropriation Request \$3.3 billion Appropriation Enacted \$2.7 billion

Party Support

In the House Democrats supported the authorization bill 163 - 52 and Republicans supported the measure 112 - 70

In the Senate a Bridges amendment to reduce the authorization bill was beaten by a vote of 23 - 56 with Democrats contributing heavily to its defeat - 32 against. The authorization bill was passed on a 54 - 25 vote with an equal number of Democrats and Republicans in support.

Republican Statements

Eisenhower, March 19, 1956

"(Foreign aid) is vitally important to our people. Its cost is not disproportionate to our Nation's resources and to our national income. That cost is a low price to pay for the security and vastly greater chances for world peace which it provides."

FOREIGN AID - 1957

Authorization Request	$4.9 billion	Authorization Enacted	$4.1 billion
Appropriation Request	$4.1 billion	Appropriation Enacted	$3.8 billion

Party Support

In the House Democrats supported the authorization bill 135 - 78. Republicans supported the measure 119 - 76.

In the Senate a Long amendment to reduce defense support funds by $90 million was defeated 40 - 49. Democrats voted 25 - 21 in support of the amendment despite Johnson opposition. A Morse amendment to reduce special Presidential funds and authority was rejected 22 - 61 with Democratic support (19 - 24).

Republican Statements

Eisenhower, May 21, 1957:

"In supplementing our country's defense, the tested and proven (foreign aid) programs give the American people more security per dollar invested than any other expenditure they make."

FOREIGN AID - 1958

Authorization Request	$3.9 billion	Authorization Enacted	$3.4 billion
Appropriation Request	$3.4 billion	Appropriation Enacted	$2.8 billion

Party Support

In the House a motion to recommit the Conference Report to the Conference Committee was rejected 134 - 238 with Democrats voting 62 - 138 and Republicans 72 - 100.

In the Senate an Ellender amendment to cut the military assistance authorization by $500 million was defeated 24 - 46 with Democrats voting 14 - 22 under Johnson leadership. A later attempt to reduce the military assistance appropriation by $100 million was also beaten 36 - 45 but here Democrats supported the amendment 28 - 19 despite the leadership opposition.

Republican Statements

Eisenhower, February 19, 1958:

"Working together with the people of less developed countries in a common attack on poverty, we talk a common language that all men understand and we help to establish the basis for better relations and more enduring cooperation among free nations."

Dirksen, June 4, 1958:

"I am sure many of them (the people) do not appreciate the fact that we do not give away money as such under this program. Most of the economic portions of the program are delivered in terms of commodities, and they are fabricated in American mines, mills and plants, and then sent abroad."

FOREIGN AID - 1959

Authorization Request $3.9 billion   Authorization Enacted $3.7 billion

Appropriation Request $3.7 billion   Appropriation Enacted $3.4 billion

Party Support

The authorization bill passed the House 271 - 142 with Democrats voting 182 - 83 and Republicans voting 89 - 59.

In the Senate an amendment to reduce the military assistance authorization by $550 million was defeated 38 - 55 with Democrats voting 29 - 30 under Johnson leadership.

Republican Statements

Eisenhower, March 13, 1959:

"We cannot safely confine Government programs to our domestic progress and our own military power. We could be the wealthiest and the most mighty Nation and still lose the battle of the world if we do not help our world neighbors protect their freedom and advance their social and economic progress. It is not the goal of the American people that the United States should be the richest Nation in the graveyard of history."

Halleck, June 15, 1959:

"I want to say, with the majority leader, that this is one of the measures that comes before us which we consider on a nonpartisan basis; maybe it is a bipartisan basis, but really it is a nonpartisan basis."

FOREIGN AID - 1960

Authorization Request	\$3.9 billion	Authorization Enacted	\$3.6 billion
Appropriation Request	\$3.6 billion	Appropriation Enacted	\$3.2 billion

Party Support

The authorization bill passed the House 243 - 131 with Democrats voting 162 - 79 and Republicans voting 81 - 52.

In the Senate the authorization bill passed 60 - 25 with Democrats voting 37 - 18, Republicans, 23 - 7. Later, a second supplemental appropriations bill added \$190 million to the Mutual Security Program by a vote of 56 - 31.

Republican Statements

Eisenhower, February 16, 1960:

"Equally with military security, economic development is a common necessity and a common responsibility. An investment in the development of one part of the free world is an investment in the development of it all. Our welfare and the welfare of all free men cannot be divided ... we are dependent one on the other."

Dirksen, May 2, 1960

"We do not fight alone with weapons. We fight in the economic and political and social fields as well. We fight not only with guns, but we fight also with credit."

Halleck, June 17, 1960:

"Contributing to the free world's military and economic strength we provide through the mutual security program an essential part of the defense of our own nation. I remember the words of the late Senator Vandenberg when in speaking of these programs he consistently expressed the view it was our own national interest we were seeking to protect. I believe that is as true today as it was then ..."

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HISTORY OF FOREIGN AID CUTS

Fiscal Year	Authorization request	Amount Authorized by Congress	Cut in Authorization Compared with Request	Appropriations Request	Amount Appropriated by Congress	Cut in Appropriations Compared with Amount Authorized	Cut in Appropriations Compared with Authorization Request
1948-49	7,370.0	6,913.0	6.2%	6,858.0	6,446.3	6.8%	12.5%
1950	5,680.0	5,594.0	1.5	5,512.2	4,942.4	11.6	13.0
1951	8,172.5	7,985.0	2.3	7,835.7	7,485.0	6.3	8.4
1952	8,500.0	7,583.4	10.8	7,483.0	7,284.4	3.9	14.3
1953	5,900.0	6,492.7	17.8	6,492.7	6,001.9	7.6	24.0
1954	5,474.7	5,157.2	5.8	5,124.5	4,531.5	12.1	17.2
1955	3,448.1	3,024.6	12.2	3,024.6	2,781.5	8.0	19.3
1956	3,530.0	3,424.0	3.0	3,266.7	2,703.3	21.0	23.4
1957	4,860.0	4,115.1	15.3	4,115.1	3,766.6	8.5	22.5
1958	3,864.4	3,386.9	12.4	3,386.9	2,768.9	18.2	28.3
1959	3,942.1	3,675.6	6.8	3,675.6	3,448.1	6.2	12.5
1960	3,930.0	3,576.8	9.0	3,574.8	3,225.8	9.8	17.9
1961	4,875.0	4,786.3	1.8	4,786.3	4,431.4	7.4	9.1
1962	4,768.5	4,259.5	10.7	4,259.5	3,914.6	8.1	17.9
1963	4,781.3	4,574.8	4.3	4,574.8	3,898.9	14.8	18.5
1964	4,525.3	3,602.1	20.4	3,602.1	3,000.0	16.7	33.7

Note: Includes Social Progress Trust Fund, but excludes appropriation and borrowing authority for Investment Guarantee Program.

March 1964

Attachment 2

~~CONFIDENTIAL~~

2431

Foreign aid 20

DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON

Asy Bunder 5/7

DECLASSIFIED
E.O. 12356, Sec. 3.4
NLJ 93-316
By lig, NARA, Date 8-20-93

MAY 7 1964

OFFICE OF
THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

Cy Dungan 5/7

SUBJECT: Use of Foreign Aid Funds

This memorandum reports on
- progress in committing funds available in the present fiscal year
- progress in expending funds previously committed and in the pipeline

We are making satisfactory progress in committing funds available in fiscal year 1964. Our latest estimates are that, excluding the Contingency Fund, which is drawn on only to meet extraordinary situations, we expect to commit more than 97 per cent of the available funds for both military and economic aid. Commitments to date, while slow as always, reflecting the late date of Congressional action, are in most cases ahead of last year at this time.

	Funds Available	Commitments thus far (latest data)	Per cent	Anticipated Commitments by June 30	Per cent
Military Aid	1200.0	962.6	80.2	1175.0	97.9
Economic Aid	2145.0	1343.6	62.6	2075.0	96.7
Contingency Fund	127.9	7.9	6.2	?	?

(Note: Above figures assume $50 million transfer from Contingency Fund to Military Aid)

With respect to military aid, as you know, total funds available are short of minimum requirements. We are proposing an initial transfer of $50 million from the Contingency Fund to military aid, (papers are on their way to you now), and are considering the possibility of an additional transfer later this month.

The only military aid funds expected to be uncommitted as of June 30th are the small residual amounts left in the various sub-accounts in Washington and the field. These usually total around $25 million.

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With respect to economic aid, our record on uncommitted balances is expected to be much more impressive this year than last. The most striking change relates to Development Loans, outside of Latin America, where the last fiscal year ended with $96 million uncommitted. This year, we expect to commit all available funds, (including the $96 million carried forward from last year), and to have a number of projects on hand and fully reviewed on June 30 for which funds will not be available till next fiscal year.

As in the case of military aid, we expect to have small residual amounts remaining on June 30 in various economic aid sub-accounts. These usually total around $25 million or one per cent of available funds.

Apart from these, the only uncommitted economic aid funds are expected to be in the Alliance for Progress loan funds, where we may have up to $50 million uncommitted as of June 30, depending on developments in Brazil. We have a solid argument with which to defend this fact before the Congress: we are properly holding to high standards of self-help on the part of Latin American countries, and during the current fiscal year this has required program restrictions, particularly in Argentina and Brazil.

With respect to the Contingency Fund, there is of course no plan for full commitment. About $22 million has been authorized thus far and another $25 million seems likely to be committed for normal uses. A transfer of $50 million is now assumed. As of today, therefore, the uncommitted balance is estimated at about $80 million, less whatever further amount may be transferred to military aid.

We are also making good progress in expending obligated balances. The "pipeline" of unexpended commitments as of June 30, 1963 was $6,369 million. Two-fifths of the pipeline represented loans in process of being drawn down as projects are completed. Another two-fifths represented military assistance orders in process of production and delivery.

During the present fiscal year we expect expenditures to exceed new commitments in all categories except Alliance loans. Therefore, we expect a drop of more than $300 million in the pipeline of unexpended commitments by June 30, 1964.

During the last three or four years the assistance pipeline has increased sharply, but the entire increase has been in undisbursed loans. We have checked our experience with that at the World Bank and the Export-Import Bank and our record is just about the same as theirs. An agency which starts making development loans, as this one did on a large scale three or four years ago, must expect to build up undisbursed loan commitments for the first several years - until the rate of disbursements in a year equals the rate of new commitments. We have now reached that point with respect to development loans outside of Latin America. We have not yet reached that point with respect to loans under the Alliance.

Attachments A and B show current commitments and the pipeline in somewhat more detail.

We will be glad to furnish any additional information you may wish.

David E Bell
David E. Bell

Attachments

Mutual Defense and Development Programs

RESERVATIONS/OBLIGATIONS
(Military Assistance figures as of March 31; Economic Assistance figures as of April 30

	1963		1964	
	Millions of Dollars	Percent of Availability	Millions of Dollars	Percent of Availability
Military Assistance	1,373.8	86.8	962.6	80.2
Economic Assistance				
Development Loans	517.0	52.1	593.5	72.3
Technical Cooperation	109.8	43.2	124.8	57.1
Alliance Loans	229.3	53.8	214.4	45.4
Alliance Technical Cooperation	80.0	59.5	64.0	69.6
Supporting Assistance	309.3	70.7	251.3	72.3
Other Programs	89.5	42.4	95.6	49.2
Sub-Total: Economic Assistance	1,334.9	54.4	1,343.6	62.6
Contingency Fund	61.1	23.4	7.9	6.2

Note: In fiscal 1964 there was an appropriation(not included in the above table) of $131 million for the Social Progress Trust Fund, all of which has been obligated for transfer to the Inter-American Development Bank under the trust agreement.

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Attachment B

Mutual Defense and Development Programs

END OF YEAR BALANCES a/
(millions of dollars)

	"Pipeline" (Unliquidated Commitments)				Uncommitted Carryover	Unexpended Balance
	Total	Development Loans	Alliance Loans	Other Economic		
Military						
6/30/63 actual	2395.9	-	-	-	25.8	2421.7
6/30/64 est.	2012.7	-	-	-	25.0	2037.7
AID						
6/30/63 actual	3429.1	2113.8	331.7	983.6	249.4	3678.5
6/30/64 est.	3547.9	2086.9	597.0	864.0	75.0	3622.9
Contingency Fund						
6/30/63 actual	209.1	-	-	209.1	127.1	336.2
6/30/64 est.	111.2	-	-	111.2	80.0	191.2
SPTF						
1963 actual	335.0	-	-	335.0	-	335.0
1964 est.	366.0	-	-	366.0	-	366.0
Total						
1963 actual	6369.1	-	-	-	402.3 b/	6771.4
1964 est.	6037.8	-	-	-	180.0 b/	6217.8

a/ excludes Investment Guarantee Reserve ($268.6 million in 1963 and $273.2 million in 1964) and Excess Property Revolving Fund ($4.1 million in 1963 and $3.3 million in 1964) which are not available for program purposes.

b/ Composition of uncommitted carryover:

	1963	1964
Military Assistance	25.8	25.0
Economic Assistance		
Development Loans	96.2	-
Alliance Loans	92.0	50.0
Other	61.2	25.0
Contingency Fund	127.1	80.0
Total	402.3	180.0

~~CONFIDENTIAL~~

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Foreign Aid

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON

OFFICE OF
THE ADMINISTRATOR

April 28, 1964

MEMORANDUM FOR THE PRESIDENT

SUBJECT: House Consideration of the Foreign Aid Authorization Bill

The House Foreign Affairs Committee is completing hearings next week on the foreign aid bill. Dates are not set for mark-up, but the bill could be on the House floor as early as the third week in May.

We assume our strategy should be to fight hard for the full authorization for both military and economic assistance. We believe our chances are fairly good to hold the full authorization for military aid, less good to hold the full authorization for economic aid.

In Committee, our best information is that the issue will turn largely on the leadership of Chairman Morgan, and the position of Mr. Hays and Mr. Selden. Accordingly, we recommend that the President call Morgan, Hays, and Selden to seek their support of the full authorizations. (For the sake of courtesy, we also recommend that the President call Mrs. Bolton.) In making these calls, we believe the President will encounter the question: if this Committee votes for the full authorization, will the House leadership support them later on at the appropriations stage against the attack of Mr. Passman.

Secretary Rusk, Secretary McNamara, and I will continue our efforts to seek full support by the other members of the Committee. A current estimate as to their attitudes is attached as Annex A.

On the floor, our best information is that the issue will turn very largely on the attitude of the Republican leadership and of the "internationalist" Republican members. In logic, we should receive the votes of about 40 Republicans, mostly from the Eastern states. On the crucial vote to recommit last summer, only sixteen voted with us. On that occasion, Halleck and Ford led the rest against us.

Our chances to sustain a full authorization on the floor this year will depend very heavily on whether we can prevent such a wholesale defection.

One important step in this direction is the work we have asked Mr. Linowitz to do in organizing quiet business support for the aid program with specific Members of Congress. We recommend that the President agree to see Mr. Linowitz no later than the present week in order that he can get started.

Attached as Annex B is a list of the Republicans we need and should have in the floor vote this year. We would appreciate any views the President may have on how to proceed to maximize our strength with this group.

/s/ David E. Bell

David E. Bell

Attachments

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ANNEX A

ALIGNMENT OF HOUSE FOREIGN AFFAIRS COMMITTEE

33 Members

Democrats likely to vote for full authorization with strong assurance of continuing Leadership and White House support:

1. Chairman Morgan
2. Zablocki
3. O'Hara
4. Fascell
5. Farbstein
6. Beckworth
7. McDowell
8. Murphy
9. Gallagher
10. Nix
11. Fraser
12. Cameron

Democrats who can probably be persuaded to vote full authorization, if worked on:

1. Kelly
2. Hays
3. Selden
4. Pilcher
5. Diggs
6. Monagan

Republicans most likely to support us:

1. Bolton
2. Broomfield
3. Mailliard
4. Frelinghuysen
5. Barry
6. Morse

Likely to be against us in any event:

1. Burleson
2. Fountain

--

3. Adair
4. Whalley
5. Gross
6. Berry
7. Derwinski
8. Battin
9. Thomson

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REPUBLICANS WE NEED AND SHOULD HAVE

* John F. Baldwin (Calif.)
* Robert R. Barry (N.Y.)
* Frances Bolton (Ohio)
Oliver Bolton (Ohio)
* William S. Broomfield (Mich.)
* William T. Cahill (N.J.)
Charles E. Chamberlain (Mich.)
* Silvio Conte (Mass.)
Robert J. Corbett (Pa.)
Florence P. Dwyer (N.J.)
Paul A. Fino (N.Y.)
Gerald R. Ford, Jr. (Mich.)
* Peter Frelinghuysen (N.J.)
* James G. Fulton (Pa.)
Robert P. Griffin (Mich.)
* Seymour Halpern (N.Y.)
Hastings Keith (Mass.)
Clarence E. Kilburn (N.Y.)
John C. Kunkel (Pa.)
* John Lindsay (N.Y.)
Sherman Lloyd (Utah)
* Joseph McDade (Pa.)
Clark MacGregor (Minn.)
* William S. Mailliard (Calif.)
* Joseph Martin (Mass.)
* Charles Mathias (Md.)
* Brad Morse (Mass.)
Frank C. Osmers (N.J.)
Harold C. Ostertag (N.Y.)
Albert H. Quie (Minn.)
* Ogden Reid (N.Y.)
Howard W. Robison (N.Y.)
Richard S. Schweiker (Pa.)
Fred Schwengel (Iowa)
Herman T. Schneebeli (Pa.)
Abner W. Sibal (Conn.)
Robert T. Stafford (Vt.)
Robert Taft, Jr. (Ohio)
Stanley Tupper (Maine)
George M. Wallhauser (N.J.)
William B. Widnall (N.J.)

* Indicates Member voted with us on recommittal vote last August.

Foreign Aid

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THE WHITE HOUSE

WASHINGTON

February 15, 1964

MEMORANDUM FOR MR. BUNDY

SUBJECT: Can Foreign Aid Be Saved -- A Proposal

1. A couple weeks ago, Gus Ranis, an Associate Professor at Yale, spoke to me about a possible new approach to the foreign aid problem; his idea sounded interesting and I asked him if he would write it down and send it to me. Attached is Gus' paper, copies of which he may have distributed to his contacts in AID. In essence, he proposes that we channel our aid into the foreign exchange markets of underdeveloped countries. This would permit "starved" sectors of the economy access to funds on a competitive, objective basis; aid would be used as a lever to achieve mass participation in the development effort. As a starter, we might try out the proposal in a small number of countries.

2. Generally speaking, Gus Ranis knows whereof he speaks. By way of background, he has a tough, first-class mind along with considerable experience in aid matters. After working on economic development problems for several years with the Ford Foundation in Pakistan (1958-1960) he obtained tenure at Yale at the age of 31. Since he has been at Yale, he has done some consulting and traveling for AID.

3. Although I am no economist, Gus' economic argument seems to have some force. The proposal would probably be tough to sell in Congress. But it might not be impossible since it does have some saleable political aspects -- it would cut down AID overhead; also, one could argue that it would be a real and meaningful demonstration of our faith in the free market system.

GC

Gordon Chase

cc: Mr. Dungan
Mr. Forrestal

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CAN FOREIGN AID BE SAVED: A PROPOSAL

There is nearly universal agreement in Washington and elsewhere that U.S. foreign aid is in trouble--probably its most serious trouble since the program was initiated. Not only is the program being subjected to the most severe cuts ever administered--on both sides of Pennsylvania Avenue--but its very existence is apparently at stake. In fact, even its most dependable supporters on the Hill are finding it more and more difficult to whip up enthusiasm for a program which in spite of its technically "temporary" status seemed to have become so firmly imbedded in U.S. post-war policy. The battle of numbers between the House, Passman, and the White House in the waning days of the last session of Congress had a curious defeatist air about it--as if the loyal garrison, having fought many similar annual battles was about to yield to superior numbers--and a vastly superior decibel count--and lay down its arms. What is even more curious is the virtually complete absence of positive suggestions for change even by those who warn of dire consequences if a brand-new foreign aid model isn't on the assembly lines by next year.

If we are to believe the news stories which have been permitted to leak out of the Ball Committee's deliberations, some suggestions, it is true, are being made concerning the fate of the aid program. But the notion of viewing all economic aid as an instrument for achieving U.S. short-term political objectives has already run into so much flak that there seems little need to repeat the various objections which have been raised all around. Similarly for the suggestion that we engage in a new numbers game, with the White House "hiding" aid appropriations throughout the federal budget and Passman putting them together again. But what is perhaps more serious is that all the Administration is able to come back with at this critical juncture is yet another promise to "be good", to streamline its operations, fire some people, get out of some countries and phase out of others. This response may have "done the trick" in the sense of getting last year's aid bill through Congress (though Santa Claus lent a helping hand), providing a temporary response to the Clay Committee and preventing the immediate interment of the A.I.D. No one, however, seems to have any illusions--or ideas--about the future. It almost seems as if the foreign aid program under perhaps its ablest administrator to date is being assigned to a rear guard action. If so, it can only be a question of time until the wolves will finally close in; and that would indeed mark a dark day from the point of view of our "hard-headed" national self-interest, if no other.

Clearly, any sensible discussion of what might save the patient must lean on an analysis of just what makes him so chronically ill in the first place. If we are to take Congressional debates as a guide, the pervasive disillusionment with economic aid seems to be based on basically two major strands of criticism. There are, on the one hand, those who claim that economic aid is not really in the national interest and constitutes a liberal's delight, fuzzy-headed, give-away program; and on the other, there are those who accept the objectives of economic aid but feel that performance has been so inadequate to date that it does not warrant the continued expenditure of our taxpayers' money. On the first, there is relatively little one can say: presumably more aid yields more rather than less economic growth and more economic growth yields more rather than less long-run stability and a better rather than worse chance for the free world to persevere. If this thesis is not accepted aid is indeed dead and we might as well get ready for the funeral. On the second point, there is, however, much to be said; and luckily most criticisms have directed themselves towards this thesis, the lack of visible accomplishments in the countries aided, the evidences of corruption and incompetence and the absence of any indication of where it is all going to end.

We should be ready to admit that the performance of our aid program has left much to be desired. Since--quite apart from military aid and other assistance linked to short-term political or treaty objectives--the effectiveness of our longer-term economic assistance must be measured in terms of the growth performance of the aided countries, we have little cause for rejoicing. All around the world we see aided countries talking about self-help but making inadequate internal commitments to growth, producing more and more impressive five-year plans but barely rising per capita income levels. As the Clay Committee put it, we have been "under-compensated in results and that no end of foreign aid is either in sight or mind".

Much of this disillusionment with progress in the less developed world can, of course, be traced to a lack of adequate understanding of the task ahead of us. Foreign aid was born in the context of the Marshall Plan. Having rolled up our collective sleeves and accomplished with great success what we set out to do for the reconstruction of Western Europe in a few short years, we decided in the mid-fifties to roll up our sleeves once again, this time to tackle the problem of stagnation in the less developed countries of the world. But in shifting our emphasis we have never fully taken stock of the basic nature and dimensions of the task we thus virtually "backed into". This is not a matter of simply adding some bottleneck capital resources and obtaining "instant growth". It is rather a question of helping to change the basic modus operandi of an economic system,at times even of moulding a conglomeration of resources into what may be called an honest-to-goodness economy in the first place.

We have not adequately thought through the nature of the task,or even our long-run national objectives partly, I believe, because we are essentially a business-like people who believe in the solubility of problems over relatively short time periods; and perhaps partly also because we thought that too much contemplation of the long-run implications of what we were doing might lead to some unhappy conclusions. And thus for years now we have dutifully played the aid appropriations game on Capitol Hill, mollified recurrent criticisms with administrative reforms of our aid-giving machinery and, in effect, convinced ourselves that we were doing the best we could to help the so-called uncommitted countries of the world in their slow struggle upwards. But having nearly exhausted the alphabet in Washington and our legislators' patience, the perennial game is now becoming less and less fun and more and more ominous. It seems clear that more than new administrative gimmicks are needed at this time to prove that this novel post-war act of enlightened international statesmanship can pay dividends many times the small expenditure of the nation's resources. Instead, we must address ourselves fully, perhaps for the first time, to the basic substantive question: why have we been "undercompensated in results" around the world. After all, only if we are able to accelerate economic development abroad sufficiently to put it on a self-sustaining basis within some foreseeable time span can the U.S. taxpayer feel he is not simply pouring water down a drain but has a chance of ultimately working himself out of a job. Let us therefore turn now to this basic question of the inadequacy of the growth performance of the countries we are aiding. It will probably be conceded that political stability and all other objectives of the U.S. will be simultaneously enhanced if we can get more developmental leverage out of our economic aid dollars.

II

The effectiveness of foreign aid in accelerating growth is usually viewed almost exclusively in terms of its "resources enlargement" capacity; that is, given the low domestic savings rates of the less developed countries, foreign aid provides supplementary foreign savings and thus enables a larger development program to go forward than would otherwise be possible. This almost exclusive concentration on the "resources enlargement" role of aid is evident not only in virtually all our discussions of country by country aid levels but also in much of the academic discussions of the subject. Using the simple Harrod-Domar growth equations framework, the impact of a given aid level can be quickly "read off" in terms of its enhancement of the per capita income growth rate (given the level of domestic savings, the population growth rate, and the efficiency--in terms of output capacity created--of the investments made). The calculation is impeccable but the inadequate results of our aid efforts to date can, I think, be traced largely to our exclusive concentration on this resources enlargement role of aid. The volume of resources which has been transferred in the past and is likely to be available in the future under any reasonable set of assumptions will not be sufficient to make a substantial dent on the pervasive problem of stagnation in the less developed world. If foreign aid is to make a real difference it must be in terms of the leverage it can be made to exert on the recipient economy in a broader and more fundamental sense. Our attention, in other words, has to shift from the virtually exclusive concentration on the "resources enlargement" role of foreign aid to its potential for effecting more basic changes in the developmental behavior of the underdeveloped economy.

Let me be more specific on this central point. Our aid programs to date under whatever label (i.e. E.C.A., F.O.A., I.C.A. or A.I.D.) have traditionally aimed at making a given array of additional specific projects possible or--and more frequently of late--providing an additional total volume of resources--in a residual sense--to satisfy the needs of the overall development program. Thus whether in the form of so-called project or program assistance we have been content to purchase particular pieces or portions of the total investment program but have concerned ourselves relatively less with the use of aid as a lever to substantially improve the workings of the domestic economy as a whole. Certainly some of our "projects" have transferred substantial amounts of technical assistance; but I am speaking of a much more pervasive potential for change which has been ignored--the potential for using aid as a lever to achieve mass participation in the development effort.

The point to be made here is that in the typical underdeveloped economy we have a situation in which the vast majority of decision-making economic units do not, in fact, have access to the scarce bottleneck resources on a competitive basis. In spite of the fact that government administrative and executive capacities are usually severely limited and already stretched to the utmost by the need to provide law and order and the requisite roads, schools, utilities and other social overheads, the attempt is usually made to exercise a large measure of direct control over the entire economy. While there is usually little question about the ability and competence of the top layer of civil servants, the rank and file of officials who are consequently forced to make vital decisions affecting economic activity have no special competence for doing so. Yet the little slips of paper--whether allocating foreign exchange or cement or building permits--over which they have control usually mean life or death for a particular concern. The sheer physical and technical impossibility of "reaching" the millions of dispersed agricultural households and small and medium-scale industrial units typically places an impossible burden on the network of diverse allocative devices which has all too often been thrown up. As the controls consequently work badly, new ones are devised to "patch up" the leak and thus the process goes snowballing along.

The consequence of this situation is that the small entrepreneur, unable to gain access to resources in an impersonal,objective manner, suffocates under the maze of interlocking controls, while government and large-scale private businesses, always at the head of the queue when import licenses and/or domestic credits and permits are being dispersed, flourish without ever being held accountable in terms of economic efficiency. As a consequence, we encounter the so-called "shortage of entrepreneurs" phenomenon, and the trend towards directing investment funds into the hands of the same in-group "to get things done" continues. There results a tendency to concentrate on a relatively few "manageable" large-scale projects embodying excessive amounts of undervalued foreign exchange and domestic capital and absorbing relatively little of the only really abundant domestic resource, i.e. labor. It is probably no exaggeration to say that in most of the countries we are aiding 80% -90% of the potential economic agents are thus "frozen out" of the chance to participate in developmental activities. Routinized self-sustaining growth cannot be achieved with the active participation of only a small fraction of the economy's indigenous human resources.

It should be readily admitted at this point that not all the blame for this misallocation of resources via an overemphasis of the large-scale, capital-intensive and spectacular at the neglect of the smaller-scale, labor-intensive and unspectacular can be placed on the less developed economies' governments. Our own foreign aid procedures and the preference of our officials for committing large amounts quickly to nicely visible (to local officials as well as visiting U.S. Congressmen) projects have undoubtedly contributed considerably to the failure to involve large segments of the population in economic activity and frustrated the attempts of domestic entrepreneurship to assert itself. It is far "easier" to allocate aid to projects which are less demanding in terms of the requirements on indigenous ingenuity and supervision and "neatly" absorb large quantities of development loans. Foreign aid officials are, after all, beset by the same difficulties as local civil servants: as well intentioned and able as they may be (though they aren't always) they do not have the time to be responsive on a project-by-project basis to any but the standard large-scale requests. There is no way for the host government to blueprint, or for the aid agency to examine, development loans for thousands of small workshops. Much-quoted U.S. preferences for financing only the import-component of particular projects--when coupled with the fact that individual country aid levels are not usually determined ex ante (except in the broadest sense)--have undoubtedly tended to bias local investment programs further towards the adoption of a capital-intensive "modern" technology--quite aside from local preferences for such prestige projects. The wholesale transplantation of U.S.-style plants, blueprinted by M.I.T. engineers, initiated by U.S. technical assistance personnel, and finally handed over to local management on a so-called "turn-key" basis, represents only an extreme--but not rare--example of what is happening. Large amounts of resources are thus concentrated on projects which employ relatively small amounts of labor and generally engage a negligible amount of the economy's vast human resources in productive and innovative activity.

The generally unsatisfactory growth performance of many of the countries we are aiding must be viewed in this context--and so must the potential role of foreign aid as a lever to improve the level of that performance--quite aside from its direct resources contribution. The method by which aid is made available can have a substantial impact in helping ensure greater participation of the host economy's human and material resources in the development effort. Given the aforementioned constraints on administrative capacities and the desire to avoid coercive solutions, greater reliance on markets appears as the logical alternative organizational device open to the "mixed" underdeveloped society. As the following proposal indicates, U.S. aid can play an important role in helping the underdeveloped economy move in that direction.

III

The foreign exchange market is perhaps the most important and most rigidly controlled market in the typical developing economy. The vital question of who gets bottleneck imports and on what terms is customarily settled in this market via a system of import licensing providing allocations mainly to the large and well-established firms. New and small-scale establishments are usually either "frozen out" entirely or must buy their capital and raw material requirements on the black market. On the other hand, if there is prior agreement between donor and donee governments that the overall growth performance of the total economy can be enhanced by broadening access to the substantial "starved" sectors of the economy on a competitive, objective basis, our aid program can provide considerable help and leverage--quite beyond its immediate resources augmentation contribution. While details would necessarily have to remain flexible, a program along the following lines, mutually agreed upon by both governments, should at least be given careful consideration:

1) The host country agrees to free its foreign exchange market, i.e. to dismantle exchange controls on current account and to permit the functioning of a competitive foreign exchange market in which all claimants are able to compete on an impersonal, price-determined basis. All comers can thus put their entrepreneurial knowhow to the test by bidding for the available foreign exchange.

2) Simultaneously, the U.S., for its part, commits itself to support the rate of exchange by providing foreign aid at an agreed-upon annual level. While some U.S. aid may still have to be of the project variety, e.g. for government projects--certainly in the transition period--the bulk would consist of a guaranteed annual flow in support of the competitive foreign exchange market. In other words, the flow of aid, together with the country's other foreign exchange resources, e.g. from exports, will seek a balance with the demand for imports. Annual U.S. aid levels under this

system would not necessarily be in excess of the current flow to the given host country.

3) To avoid the dissipation of vital foreign exchange resources into unessential imports, the host country would be expected to levy substantially higher tariffs and excise duties on luxury items. At the same time, since the freeing of the exchange rate is tantamount to a devaluation of the currency the country might be well advised to impose export taxes on its traditional primary commodity exports for which the international demand is likely to be quite inelastic.

4) Since a freeing of the foreign exchange market is by itself not necessarily sufficient to ensure mass participation in the "neglected" sectors the complementary improvement of other markets, in particular the domestic financial markets, must be undertaken at the same time. The local currency counterpart funds generated by the foreign capital inflow are, by agreement, to be earmarked for channelization into rural credit, small industry corporations and other financial intermediaries intended to widen and deepen the economy's financial markets by using the interest rate, not credit rationing, as an allocative device. The task may involve not merely the relaxation of discriminatory controls but also the creation of new financial intermediaries to strengthen particular markets. In the administration of the counterpart funds, maximum use should be made of commercial banking facilities with both donor and donee country officialdom playing a strictly secondary role.

5) It must, of course, be understood by both governments that the guaranteed annual flow of aid will continue only as long as the freedom of the foreign exchange markets is maintained. If exchange controls are

reimposed the flow of aid will cease. Critics of such a proposal may find it politically unrealistic. I do not agree. If there is a prior fundamental agreement on the overriding objective of improved developmental performance, and on the proper means for achieving it, aid can, in fact, be viewed as a lever for obtaining consent for the required institutional reforms from the more conservative, control-oriented groups in the economy. It should be noted that the host government's commitment to this plan is perhaps even more fundamental than meets the eye; for the maintenance of a free foreign exchange market entails restrained domestic monetary and fiscal policies to avoid excessive inflation and/or balance of payments pressures. The fact that reverting to an ambitious large-scale public investment program far in excess of the government's own resources will ultimately render the maintenance of a free foreign exchange market unworkable and trigger the cessation of foreign assistance might lead to just the proper restraint in domestic developmental policies. If foreign exchange crises are rewarded by more foreign aid--as is currently the case--rather than by less--as is the case in the above proposal--it is little wonder that they occur at regular intervals. (One expert has pointed out that Latin American "stabilization loans" have an average life expectancy of six months before the next exchange crisis occurs.)

Admittedly the government-to-government agreement sketched in here all too briefly amounts to some considerable "strings" attached to our aid program. But I have never been convinced that donee officials have any illusions about the fact that the U.S. is bound to exercise control over the effective use of its resources; it is only the existence of ineffectual, often badly administered, strings which cause resentment. The above proposal, in fact, is likely to substantially reduce the inevitable frictions between donor and donee since, instead of continuing negotiations and supervision on a project-by-project basis, the control is now exercised once-and-for-all and at a very general implementable macro-level.

The aid agency has been devoting a considerable amount of time since 1961 in pressing the need for increased "self-help" activities in the less developed world and in searching for ways to measure host country performance in this respect. The aid legislation speaks of land reform and improved savings rates. But land reform may be necessary in one country but not in another and changes in the rate of savings are but a symptom of a more fundamental transformation of the economy. There exists perhaps no less ambiguous indicator of "self-help" and of steady progress towards self-sustaining growth that this type of institutional transformation adopted and adhered to, thus permitting for the first time/total mobilization of the economy's resources in the development effort.

An additional side benefit to be derived under this proposal includes the reduction of aid agency overhead and administrative staff it makes possible. Nothing we have said, of course, implies the curtailment of technical assistance activities if there is a mutually agreed on need and a request by the host country--though even here a greater reliance on the universities, foundations, etc. seems indicated. But the number of people both in the field and in Washington concerned with project loan negotiation, evaluation and implementation could be substantially reduced and the resulting savings channeled to program purposes. Those who worry about the fact that under this proposal there would be no clearly designated "American aid projects" should be reminded that this is merely a matter of attribution which could easily be handled by mutual agreement--as it often is now in the case of program loans.

It may be necessary to move slowly during a transition period and try out the proposal by agreement with initially only a small number of countries. The use of aid funds as proposed here should not be viewed as a panacea nor as likely to pay spectacular dividends in the short run. Rather it is appropriate to view it as a chance to stimulate now largely dormant domestic processes aimed at providing the type of environment in which the domestic economy can begin to pull its own weight. Unless such an institutional transformation across the vast landscape of the developing economy can be effected and the broad mass of indigenous economic agents integrally involved in seeking personal improvement and thus participating in growth-promoting activities, there is very little hope that aid viewed only in the resources augmentation sense can be of really decisive help. In a word, the attitude of trying to do a small number of spectacular things over a short period of time must give way to inducing a large number of unspectacular things to happen over a longer period of time. There will be fewer monuments but more growth. There will also be risks, but the risks of "business as usual" are considerably greater.

Gustav Ranis

Associate Professor of Economics

Yale University

Mr. McGeorge Bundy

73

Foreign Aid

February 13, 1964

MEMORANDUM FOR

THE PRESIDENT

A draft of the report of your Committee on Foreign Aid will be ready for your consideration Friday. Gene Black will be in town next Monday. May I suggest that you meet with the Committee sometime next Monday to go over its recommendations and set the stage for your Foreign Aid Message which should go forward promptly.

Ralph A. Dungan

SECRET

Foreign Aid ✓

74

DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON

OFFICE OF
THE ADMINISTRATOR

January 21, 1964

MEMORANDUM FOR THE SECRETARY

Two actions I would like to propose to the President in connection with the 1965 foreign aid program have significant political overtones which I am bringing to your attention in this memorandum.

The first proposal is to announce plans to make no new economic assistance commitments after June 30, 1964, to the following nine countries: Free China, Greece, Israel, Iraq, Syria, Libya, Southern Rhodesia, Mexico and Surinam. Projects under way would of course be carried through to completion. We would plan to withdraw virtually all A. I. D. mission staffs from these countries by June 30, 1965.

I would propose to recommend to the President that he announce this decision in his foreign aid message, which will probably be sent to the Congress within the next two weeks. The President would make plain at the same time that while he does not expect to resume economic assistance programs in these countries, he has not foreclosed the possibility of doing so should their economic circumstances so require.

Each of these countries has been discussed with the relevant geographic bureau of the Department. There is uniform concurrence that the proposed decision to make no new commitments is warranted in every case in the light of normal aid criteria and the President's desire to present an austere program for 1965.

On the political side, Mr. Mann and Governor Williams have no objection to the proposal as it affects the countries in their areas (provided, of course, that advance notification is given to the countries concerned in appropriate ways before the President's message is released). Mr. Hilsman and Mr. Poats have jointly queried Taipei as to the possible effects there.

With respect to the four Near Eastern countries, Mr. Talbot is concerned over the political impact of such an announcement. I understand he is sending you his views on the subject. I have discussed the problems involved with him,

SECRET

and on balance I would urge that we keep all four countries on the list. Israel and Greece are today the most prosperous and economically progressive nations still receiving economic aid. If we do not stop new aid commitments to them, we would have no logical basis for stopping commitments to any other country.

The political problem with Israel should be bearable, assuming we continue to help provide them with military equipment, (either through credit sales or direct MAP), and assuming we give them strong support in the Jordan waters matter.

The political problem with Greece, it seems to me, can be minimized by stressing that their economic success has eliminated their need for aid on concessional terms, and that PL 480, MAP, and Export-Import Bank loans will continue to be available.

Furthermore, both Greece and Israel have been on notice for at least a year, by repeated public statements made by me and others, that we regard them as doing so well their need for economic aid is coming rapidly to an end.

Accordingly, I recommend that we propose to the President ending aid in the nine countries, with appropriate plans for notification - including the possibility of personal letters from him to the leaders of the other governments, at least in the cases of Greece and Israel.

The second proposal we are considering is to withdraw virtually all direct-hire AID personnel from 15 additional countries on or before June 30, 1965. Including the nine countries mentioned above, the net effect would be to reduce the number of AID overseas posts by 24, or almost a third.

The countries from which we expect to withdraw AID personnel, but to which we expect to commit new program funds in FY '65 or later, are the 12 UAM States, Sierra Leone, Haiti, and Trinidad. These are all countries in which the aid programs are quite small and concentrated on a few activities. We believe our operations can be carried out effectively in such countries without the necessity for a resident AID staff. Projects in such countries would be carried out by contractors, and AID supervision would be handled by staff stationed elsewhere, normally in a regional office or in Washington. We would expect to ask the Embassy in such countries to provide minimum liaison and service functions on our behalf.

We would expect to advise the countries concerned of our decision, stressing the administrative savings and efficiency that will result. If this is done, I would not anticipate any significant political reaction.

So far as I am aware, the regional Assistant Secretaries have no objections to this proposal.

David E. Bell

David E. Bell

cc: The Honorable McGeorge Bundy
The Director, Bureau of the Budget
The Honorable Ralph Dungan
The Honorable William P. Bundy
The Honorable John C. Bullitt

Foreign Aid

S 75

~~SECRET~~

DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON

Cy: Bundy

Hall File

OFFICE OF
THE ADMINISTRATOR

January 21, 1964

MEMORANDUM FOR THE SECRETARY

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~~SECRET~~

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David E. Bell

David E. Bell

cc: The Honorable McGeorge Bundy
The Director, Bureau of the Budget
The Honorable Ralph Dungan
The Honorable William P. Bundy
The Honorable John C. Bullitt

~~SECRET~~

Dr Bundy

9

~~SECRET~~

January 17, 1964

16

File Foreign Aid

MEMORANDUM FOR THE PRESIDENT

Here is how AID and DOD have apportioned the FY 1964 aid cuts. While we requested this report to enable you to weigh in if there were any major problems or unresolved issues, we see none and recommend you merely note it.

To summarize the report (which it does not seem essential to read), AID and DOD have spread the cuts pretty evenly among the major aid recipients, while protecting high priority programs and prior commitments. Because of carryovers, we have $3.7 billion to work with, compared with the $4.15 billion we actually committed last year.

Most of the actual reduction comes out of MAP, where we have $426 million less than we used last year. This will cover all explicit commitments, though we'll have to put off some force modernization which Korea, China, the Philippines, Greece, and Turkey expect. We're also trimming a number of smaller programs, e.g. Indonesia, Burma, some Africans. Tom Mann and DOD are still discussing how much to cut Latin American MAP, but any cut would be much less than in other areas.

The $2.5 million economic aid available is about what we actually committed last year. It will cover all firm promises and priority needs. What permits this is the slowness of many clients to come up with satisfactory project terms. We're also cutting back the more mature countries ready for conventional financing (China, Philippines, Israel, Greece, Mexico, Venezuela, Jamaica) and small marginal programs.

One problem is the lack of much cushion for emergencies or opportunities. Since an extra $40 million may be needed for more ammunition, etc. in Vietnam, Bell is already considering a $50 million transfer to MAP from our $179 million AID contingency fund. All in all, we'll probably get by this year, but partly by pushing our problems ahead of us, which underlines the importance of the FY 1965 AID reviews.

R. W. KOMER

Attach.
Memo Bell to Bundy dtd 1/10/64, subj
Addl $20 million MAP... ~~SECRET~~
Memo Bell to Bundy dtd 1/7/64, ~~subj.~~
Impact of Cuts in Foreign Aid Approp.

DECLASSIFIED
E.O. 12356, Sec. 3.4
NLJ 93-318
By ip, NARA, Date 5-12-95

THE WHITE HOUSE

WASHINGTON

OFFICIAL USE ONLY

January 9, 1964

MEMORANDUM FOR

MR. BUNDY

SUBJECT: Reorganization of Foreign Aid

1. Attached is a memorandum from Abba Schwartz on the reorganization of foreign aid. While I am a non-expert on aid, it strikes me as a thoughtful paper with a few new wrinkles (e.g. setting up a trust fund with the IBRD to expend long-term development funds -- see P. 6).

2. If you decide to send the paper on to Dave Bell, please note Abba's request that the paper not be attributed to him; removal of Abba's covering note would do the trick.

GC

Gordon Chase

OFFICIAL USE ONLY

DEPARTME OF STATE
ADMINISTRATOR
Bureau of Security and Consular Affairs

77a

January 8, 1964

TO: Mr. Gordon Chase
The White House

FROM: Abba P. Schwartz APS

Attached are my personal thoughts on a new look at foreign aid which I mentioned to you.

Since I am in no way involved in this subject within the Department, you will understand, of course, that none of these gems of wisdom should be attributed to me.

Abba

Enclosure:
As stated.

Foreign Aid
77-b

January 3, 1964

REORGANIZATION OF FOREIGN AID -- OUTLINE OF A PROPOSAL

1. Need for a New Look.

The fate of the Foreign Aid bill in the Congress this year has produced still another re-examination of the foreign aid program. Reorganization of our foreign assistance program is, of course, nothing new. Creating new agencies or abolishing old ones, shifting responsibility for foreign aid between the State Department, separate agencies, and autonomous agencies within the State Department has been occurring at two- to three-year intervals since 1948. This paper does not address itself to the merits of possible organizational changes, though there may well be advantages in such changes. This paper addresses itself, rather, to the possibility of a more fundamental examination of the foreign aid program.

In opening the foreign aid debate on the Senate floor in October, Senator Fulbright proposed (1) to separate military assistance from the economic and other elements of the aid program; (2) to look to international financial institutions for the provision of long-term development capital to less developed countries; and (3) to reserve in the President a sizeable contingency fund which could be frankly used as a political instrument in critical situations as they develop around the world. This paper undertakes to follow out somewhat more fully the suggestions made by Senator Fulbright.

2. Military Assistance.

It is now generally agreed that it would be desirable if the military assistance program were to be separated from the foreign aid legislation, and returned on paper, as well as in fact, to the Defense Department. Linking the military assistance program with the economic assistance program has not made the path of foreign aid in the Congress easier, at least in recent years. (The dollar cut in military assistance for FY 64 was approximately in the same proportion to the amount sought by the Executive Branch as was the overall cut in aid appropriation from the amount requested.) The presence of military assistance in the annual aid presentation has made the total amount of the program appear excessive, and it has also led to a good deal of public misunderstanding of the nature and purposes of foreign aid.

This paper, then, assumes that any substantial reorganization of the foreign aid program would remove military assistance from the foreign aid legislation process. In terms of current figures this would eliminate approximately one-third of the total amount appropriated annually for foreign aid--approximately 1 billion out of 3 billion for FY 64.

3. Distinction in Objectives of Economic Assistance.

A major difficulty with our foreign aid program has been a confusion as to objectives. We have stated that we are determined to work toward the achievement of a substantial rate of economic growth throughout the world--at Punta del Este we put forth a minimum figure of 2.5 percent per capita per year. We have also considered that political stability--which may mean X rather than Y in the next election--is an important objective in our foreign assistance program. In fact these two objectives are not necessarily contradictory, but they are distinct, and both get blurred when they are blended together. For example, we do want the Alessandri coalition to remain in office in Chile, and it may be to our interest to spread some of our funds to help achieve this result. But we also have a genuine interest in raising the economic level of Chile. Specific decisions on whether or where to build a bridge or a seaport may well come out differently depending upon which objective is in the mind of the person making the decisions.

As long as the short-run and the long-run efforts are dealt with by a single agency or indeed by a single government, they tend to merge, blend, and get confused. A good example of this is what has happened in Brazil, where projects have been shut down because the local provincial governors are left-wing or anti-United States, while less sound projects have been supported in provinces where the governors are friendly to the United States. Such a policy cannot help but create cynicism abroad and disappointment at home. The disenchantment with the foreign aid program of Senate "internationalists" such as Fulbright, Morse, Clark, and Church may well stem in considerable degree from the confusion of the "Ward 5" approach with the economic development approach to foreign assistance. Each new disappointment leads to cuts in the program by the Congress, and to additional restrictive amendments. In turn, the under-developed countries become less and less receptive to the concept of separating true economic growth from achievement of short-run political objectives.

4. Separation of Functions.

If possible, then, it would seem desirable to separate the short-range political from the longer-range economic development objectives, and to insulate programs designed to achieve the latter from day-to-day political pressures both abroad and in the Congress. One way to do so would be to retain the politically-oriented assistance program in the United States Government and to "internationalize" the longer-range programs dedicated to economic growth. This was suggested both by Senator Fulbright and in the Clay Committee report.

"Internationalizing" a substantial portion of our foreign aid program would have to be done in such a way as to satisfy certain minimum conditions under which the United States supplies foreign aid. The development funds should go only to countries of the free world; they should go only to countries prepared to operate according to certain minimum standards of economic order; and, by and large, capital supplied by the United States should be used to make purchases in the United States, and not, say, in Germany or Japan.

Both the Clay Committee and Senator Fulbright looked to the World Bank complex. The Bank deals only with member countries and thus excludes the Soviet bloc. It has developed and maintained the reputation of looking at projects from the point of view of economic soundness. It is a true international organization, but one governed according to voting weighted according to capital contributed, and is thus an organization in which the aid-giving and not the aid-receiving countries have the majority vote and control operations. It has had experience, and more success than we have had, in stimulating foreign assistance programs of other countries, for example in the India consortium. Finally, and this is important for the critics of foreign aid in this country--the World Bank has insisted upon sound fiscal practices on the part of borrowing nations, and it has been a strong defender of private enterprise. It has not hesitated to cut off countries engaged in irresponsible fiscal practices, or in which debts to private enterprises were not being paid or uncompensated expropriations were taking place.

Looking at the present aid legislation, the major components of the foreign aid appropriation could be segregated fairly simply within the general criteria set out in the Foreign Assistance Act. The distribution of aid functions within the United States Government--for instance, a distinctive treatment for the Alliance for Progress, could be carried out consistently with the proposal here made.

The United States Government-either a reduced aid agency or the State Department itself-would retain technical assistance, supporting assistance, and a contingency fund. It would also retain control of funds for economic development for such countries as South Viet Nam and South Korea, in which military and immediate political considerations predominate. Contributions to international organizations such as FAO, UNICEF, the U. N. Special Fund and the Palestine Refugee Relief Agency could be handled directly through the State Department appropriations, as other contributions to international organizations are at present. The investment guaranty program, administration of "Cooley" funds, and other activities in aid of private enterprise would be continued within the reduced aid agency, or in the Export-Import Bank.

Figures on future requirements in the aid field are of course highly speculative. But if military assistance, true development lending, and a proportionate amount of administrative expenses were separated out from the annual foreign aid legislation, a figure around $1 billion would probably cover all of the technical and supporting assistance and contingency funds required, presumably usable without major restrictions.

5. Plan for an International Economic Development Fund.

The World Bank would announce that it was prepared (in conjunction with its affiliates) to act as trustee of an Economic Development Fund to which all member nations would be invited to contribute. The Fund would be administered by the Bank according to conditions worked out between the trustee and each donor, much as a commercial bank undertakes administration of a trust in our country. Contributions to the Fund could be in terms of credits for goods and services, i.e., the United States could contribute a given amount of money to be used for engineering, shipping, construction or other services or purchases of capital goods in the United States, and the United Kingdom could do the same for purchases to be made in Great Britain. The contributions to the Fund could also be segregated by regions--Latin America, Africa, Asia, and the Far East--but not by individual countries. Contributions would be made on an "until expended" basis, with provision for regular reporting by the Bank and for replenishment of the Fund only upon a World Bank recommendation.

The Bank would pass upon applications for loans and would administer them in its absolute discretion but strictly according to terms of the agreement with the donor. It would preserve its policy of international competitive bidding to the extent resources were available in the Fund. The terms of the loans would be those authorized by the United States--for example 3/4 percent payable over 40 years with an initial grace period as under the present Act. Interest payments would go to the Bank for overhead and administrative expenses, but the principal would be repayable to the country which had contributed the resources from which the loan was made. As is the case at present with this kind of development lending, loans out of the economic development fund would be made only in cases in which other sources of capital, including the Export-Import and World Bank "hard" loans, were not available.

6. <u>The Plan and the World Bank</u>.

A plan along the above lines could probably be fitted under the charter of the International Development Association, a World Bank affiliate with voting and capital contribution provisions parallel to those of the Bank itself. Thus a new international agreement would probably not be required. It is clear, however, that the plan would present a significant new venture by the World Bank, and no agreement on such a plan could be reached without approval by the Board of Governors, at its annual meeting in September.

One appeal of the plan to the World Bank would be that it would give that organization, with its excellent reputation and experienced staff, the opportunity to continue to grow, even as its present activities are beginning to level off. It may well be that such an opportunity would be attractive to the Bank and its new President, George Woods. Essentially, the Bank would continue to perform its function of assisting the transfer of resources from developed to less-developed countries for the purposes of economic growth.

Conclusions

1. The "new look" at our aid program should go beyond organizational changes.

2. A distinction should be drawn between short-term political and long-term economic objectives.

3. The long-term economic objectives should be insulated from day-to-day political pressures both here and abroad.

4. In order to accomplish this objective, the United States should entrust its funds for long-term economic development to the

World Bank group, which would manage a development lending program in accordance with conditions to be agreed upon between the Bank and the United States Government.

5. If development lending and military assistance were both removed from the annual aid package there would be a net saving on appropriations, and it would probably be possible to secure from the Congress aid funds adequate to our short-fun political purposes. If successful, the plan would permit the United States to accomplish its short-run purposes without all the restrictions to which it is now subject, and at the same time to sponsor a sound, and probably more efficient program of long-term economic growth throughout the free world.

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ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON 25, D. C.

S/S 311

DEPARTMENT OF STATE
WASHINGTON

Foreign Aid
Tell S/S OK 78
B K J

January 7, 1964

Told S/S O.K.
1/8/64 - also Marie
E. P.

MEMORANDUM FOR MR. McGEORGE BUNDY
THE WHITE HOUSE

Subject: Follow-UP Report on
Certain AID Matters

The Department's Monthly Follow-Up Report on executive directives has been including information on NSAM 159 and on portions of 496 NSC 2447, which concern military and economic aid planning. In view of the general review of aid matters being made by the interagency committee chaired by Under Secretary Ball, we think that reporting on these directives may no longer be pertinent.

If you approve, I will discontinue reporting on 496 NSC 2447 and NSAM 159 in the Follow-Up Report this month.

H Read for
Benjamin H. Read
Executive Secretary

101

79

Foreign Aid

Orig Bundy 1/7

Cy Komer
" Forrestal
" Bubeck 1/8
" Ginzer

JAN 7 1964

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington 25, D. C.

OFFICE OF
THE ADMINISTRATOR

~~CONFIDENTIAL~~
(~~SECRET~~ attachment)

MEMORANDUM FOR: The Honorable McGeorge Bundy
The White House

SUBJECT: Impact of Cuts in Foreign Aid Appropriations

This memorandum is the response to NSAM 276 of December 26, which requests a report for the President on how we propose to adjust the economic and military assistance programs to the large cuts made by the Congress. It includes an analysis of military assistance supplied by the Department of Defense and is concurred in by the Secretary of State and the Secretary of Defense.

We would suggest that the President should be informed of the following major points:

1. Fund Availabilities. The President requested $4.5 billion in new appropriations and anticipated carryovers of $300 million more. $3 billion was appropriated and carryovers of $684 million are now estimated (including reappropriation of $127 million of last year's Contingency Funds, which we had not requested, and $37 million of uncommitted funds of the Social Progress Trust Fund which are with the Inter-American Development Bank). The total now available therefore is $3.7 billion, 24 percent less than was requested. The cut was fairly evenly divided among appropriation categories:

~~CONFIDENTIAL~~

	Request to Congress	Total Available	Reduction
Development Loans and Grants - Latin America	$ 907	$ 743	-164 (18%)
Development Loans and Grants - Rest of World	1,433	1,036	-397 (28%)
Military Assistance	1,555	1,173	-382 (25%)
Supporting Assistance and Contingency Fund	745	540	-205 (28%)
Other	223	192	- 31 (14%)
Total Foreign Assistance	4,863	3,684	-1179 (24%)

2. Comparison with 1963 Commitments. Compared to last year, FY 1964 funds are down by $470 million, almost entirely in military assistance. Total economic assistance funds are about the same as were used last year. However, on a geographic breakdown, funds available for Latin America have been increased by $160 million; those available for the rest of the world have been reduced by $200 million

	1963 Commitments	1964 Available	Reduction
Military Assistance	$1,599	$1,173	-426 (27%)
Economic Assistance (including Supporting Assistance)	2,555	2,511	- 44 (2%)
	4,154	3,684	-470 (11%)

3. Allocation of Cuts: Economic. In the last few weeks a country by country review has been conducted of the economic aid program with the purpose of allocating available funds to achieve maximum progress toward U.S. objectives. In each case we have applied the basic criteria we use for determining priorities:

- the importance to the U.S. of the results to be sought through aid;

- the extent to which the country is applying self-help measures and can use aid effectively;

- the availability of assistance from sources other than the U.S.

The results are very roughly summarized in the following table, which groups countries by the general purpose and nature of the economic aid program the United States conducts there. (There were of course variations among countries in each group.)

	Request to Congress	Present Allocation	Per Cent Change
Relatively Small Cuts			
1. General Support of Strategic Countries	450	395	-12%
(Korea, Vietnam, Laos, Thailand, Jordan, Congo, Bolivia)			
2. General Support of Economic Growth and Security in Priority Countries	1151	941	-19%
(India, Pakistan, Turkey, Tunisia, Nigeria, Colombia, Chile, Peru)			
3. Maintenance of Access to U.S. Facilities	56	59	+ 5%
(Morocco, Libya, Ethiopia, Panama, Trinidad, Cyprus)			

	Request to Congress	Present Allocation	Per Cent Change
Relatively Large Cuts			
4. Successful Development Programs Approaching Termination	159	57	-65%
(Taiwan, Philippines, Israel, Greece, Mexico, Venezuela, Jamaica)			
5. Conditional Support of Countries Requiring Improved Self-Help	437	256	-41%
(Argentina, Brazil, Ecuador, Central America, Liberia, Sudan, Iran)			
6. Programs with Limited Objectives	210	134	-36%
(44 programs averaging $3 million, of which 28 are in Africa)			
Total Country Programs*	2463	1842	-25%

*Omits funds not allocated by country.

Attached to this memorandum are annexes which show the reduction made in each region and discuss countries in which substantial changes have been made in the program presented to the Congress.

4. Allocation of Cuts: Military. A preliminary review has been made by the Office of the Secretary of Defense and tentative proposals put forward for adjusting Military Aid programs to the limited funds available. These figures will be reviewed further this week with the Unified Commanders and the Joint Chiefs of Staff and with officials of State and A.I.D. We do not anticipate any substantial modification as a result of these further reviews.

On the basis of country by country reviews to date, the Defense Department has proposed figures which would:

- honor all explicit commitments;

- meet the increased needs in Vietnam and Laos;

- defer a large amount of implied commitments for modernization of forces, and

- radically reduce small programs of little military importance, including termination in Cambodia and very heavy cuts in Indonesia and Burma.

Reductions by major groups of countries are as follows:

	Request to Congress	Present Allocation	Reduction	
Asia - Nine periphery countries (Greece, Turkey, Iran, Pakistan, India, Vietnam, Thailand, Taiwan, Korea)	$ 1005	$ 791	-214	(21%)
Rest of Asia	153	49	-104	(68%)
Latin America	77	63	- 14	(18%)
Africa	24	18	- 6	(27%)
Europe and Other	296	252	- 44	(15%)
Total	1555	1173	-382	(25%)

The State Department and Department of Defense are currently reviewing the allocation to Latin America, which is below the Congressional ceiling for equipment of $55 million and also somewhat reduces the $17-20 million originally planned for training. Assistant Secretary Mann is urgently considering this issue and the Department of Defense is prepared to consider restoring the program to approximately a total level of $70 million if it is State's judgment that this money can be effectively spent and that the priority is deserved in relation to other areas.

5. Contributions to International Organizations. You will recall that the Congress for the first time reduced the appropriations needed to meet pledges and commitments of the United States to International Organizations such as the UN Special Fund. They appropriated $116 million compared to a present estimate of needs of about $124 million. If the needs do not shrink further, we would propose to transfer Contingency Funds to cover the gap, a possibility mentioned explicitly in the Floor debate by Chairman Passman.

6. Effect of Cuts. Our present assessment is that the reduced economic assistance funds are:

- relatively plentiful for Latin America, where some carryover of unobligated funds into next year seems likely;

- tightly budgeted elsewhere in the world, but sufficient to meet all firm commitments and high priority purposes.

The Military Assistance Program on the other hand is not adequate to cover priority requirements in several countries.

We are therefore considering the possibility of recommending a transfer of up to $50 million worth of economic Contingency Funds to the Military Assistance Program, and some shift in the financing of commercially available commodities from military assistance to economic aid appropriations. If it is undertaken, we would of course discuss it fully with the Congressional committees and would expect it to become permanent.

David E. Bell

Attachments

79a

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ANNEX A

MAJOR FY 1964 PROGRAM CHANGES

ANNEX B

Comparison of Current Economic and Military Assistance Programs to the Request to Congress.

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(When With Attachments)

ANNEX A

AFRICA

	FY 1963 Commitments	FY 1964 Congressional Presentation	FY 1964 Current Program
TOTAL	266.6	$338.5-413.2	$209.3-219.3
Development Loans	98.3	165.0-239.7	76.0-86.0
Development Grants (Technical Assistance)	84.6	104.5	78.0
Supporting Assistance	62.7	64.0	47.8
Contingency Fund	6.2	--	--
Contributions to International Organizations	14.8	5.0	7.5

The Development Loan funds available for Africa this year should finance all ready projects. Many of the projects on which the higher Congressional request was based have run into delays or are receiving funds from other sources.

It is possible to operate with fewer Development Grant funds than requested because many projects, primarily in Liberia and Nigeria, are moving more slowly than expected and therefore require less money this year, and because of a reduction in normal forward funding.

The countries whose current program is at least $10 million less than the Congressional Presentation are as follows:

1. Congo	42.4	47.3	29.3

The reduction of $20 million is in Supporting Assistance funds intended to support the stabilization effort. Since the stabilization program has moved more slowly than expected, the requirement has dropped and funds previously committed but not spent can make up the remaining shortfall.

2. Liberia	39.9	20.3	7.5

As a result of a major reassessment since the Congressional Presentation, it is evident that Liberia's resources for carrying out its part of existing and planned A.I.D. projects are less than previously thought. The new program is about as much as Liberia can absorb in FY 1964.

3. Nigeria	27.4	91.5-121.5	56.3

The reduction in Nigeria results from postponing projects which are behind schedule in their preparation and from the prospect of more financing than expected from other sources to fund the Niger Dam.

4. Tunisia	32.3	28.9-43.9	20.5

The preparation of sound loan projects has met with delays. As a result, the three-year commitment made in 1962 to support the country's development program will have to be extended.

5. Sudan	6.5	34.9-39.9	9.0-29.0

It was originally expected that several projects, including the Khartoum-Sudan road which President Kennedy promised to examine, would have their feasibility established this year. This does not now appear likely. If it does prove to be the case, there will be a shortage of loan funds for Africa this year. (The road alone would cost about $25 million.)

NEAR EAST AND SOUTH ASIA

	FY 1963 Commitments	FY 1964 Congressional Presentation	FY 1964 Current Program
TOTAL	$ 991.7	$1088.9-1148.9	837.4-867.4
Development Loans	779.6	890-950.0	698.0-728.0
Development Grants (Technical Assistance)	58.2	62.4	51.0
Supporting Assistance	98.8	76.2	46.4
Contingency Fund	12.0	--	--
International Organizations	43.1	60.3	42.0

The reduced level will not force violation of our commitments to India, Pakistan, and Israel, but may well mean some slowdown in the pace of initiating development projects in the region. Of the reduction of $192 in the minimum planning levels for development loans, perhaps half is justified by the failure to develop acceptable projects, particularly in Pakistan and Turkey. There is no question that the U.S. national interest would be better served by a faster rate of development in this area, which would require a higher level of assistance than is currently available.

The countries whose economic assistance programs have been changed significantly are as follows:

Greece	31.6	25.0	7.0

Favorable economic developments in Greece have reduced assistance requirements and a program loan is no longer contemplated.

India	402.3	458.1	357.2-387.2

Failure of other members of the Consortium to pledge the full amount of assistance requested by India reduced the offer of U.S. aid by more than $60 million from the Congressional Presentation, because of our unwillingness to undertake a larger share of the total requirement.

Pakistan	186.1	234.9	188.6-208.6

If sufficient sound projects were available for approval, $237 million would be needed to fulfill our commitments to Pakistan for this year. However, there have been major delays in the preparation of eligible projects and it now appears unlikely that we will be able to commit soundly more than $80-100 million for projects, in addition to a $100 million program loan.

Turkey	131.7	134.7-164.7	110.3-130.3

A program loan of $70 million will provide essential import financing for 12 months, making it possible to terminate Supporting Assistance earlier than had been anticipated. Lack of development projects is expected to prevent our achieving the assistance level earlier planned.

UAR	50.7	17.2-27.2	1.7

The UAR has been informed that further loans would depend on compliance with the agreement to reduce its forces in Yemen. Unless there are favorable developments on this subject, and on a stabilization program, no development loans will be considered.

FAR EAST

	FY 1963 Commitments	FY 1964 Congressional Presentation	FY 1964 Current Program
TOTAL ECONOMIC ASSISTANCE	$ 443.7	$451.4 - 501.4	$325.6 - 335.6
Development Loans	67.1	105.0 - 155.0	35.0 - 45.0
Development Grants (Technical Assistance)	57.3	59.4	51.0
Supporting Assistance	271.0	287.0	236.3
Contingency Fund	48.1	--	3.3
Contributions to International Organizations	0.2	--	--

We have reduced the minimum planning level for loans in the Far East by $70 million because of the increased likelihood that loan requirements in the Philippines, Thailand, and China (Taiwan) can be financed from sources other than A.I.D. The termination of the A.I.D. program in Cambodia and reduction in Burma lower the regional needs for supporting assistance by $29 million. However, the supporting assistance programmed for the Far East has had to be reduced by $50 million from the requested level and will probably have to be supplemented by use of the Contingency Fund.

The countries whose programs have been changed significantly are as follows:

1. Burma	15.3	23.3	5.7

An engineering survey of the Rangoon to Mandalay Highway will not be completed until next summer, forcing a delay for another year in fulfilling an old commitment for financing this road.

2. Cambodia	20.0	21.0	5.0

Termination of assistance by Prince Sihanouk is expected not only to reduce requirements for this year to amounts already obligated, but releases some $15 million of prior year obligations for other program uses.

3. China.	38.6	22.3 - 32.3	2.3

Recent improvements in China's balance of payments indicate that the previously planned program loan will not be needed.

4. Indonesia	36.7	29.4 - 39.4	17.1

Due to political developments and the failure of the stabilization program, no Development Loans are contemplated, although continuation of some technical assistance activities and assistance to the Mobile Brigade is anticipated.

5. Korea	127.9	126.6 - 146.6	106.5-121.5

Obligation of $15 million of Supporting Assistance late in FY 1963, which has not yet been released pending fulfillment of Korean stabilization goals, has permitted a $15 million reduction in the Supporting Assistance program. If Korea proceeds with devaluation this spring, increased Supporting Assistance may be required.

6. Laos	38.4	33.5	39.6

The program has been increased to meet additional air transport and other security needs. Further increases may be necessary.

7. Philippines	3.3	28.8	3.1

Lack of project applications now makes it appear unlikely that any Development Loans will be made in the Philippines this year.

8. Thailand	17.6	27.1 - 37.1	14.5

Thailand's improved financial condition now makes it appear unlikely that there will be a need for Development Lending by A.I.D. this year.

LATIN AMERICA

	FY 1963 Commitments	FY 1964 Congressional Presentation	FY 1964 Current Program
Total	$680.3	$913.5-1033.5	$ 694.3-791.3
Development Loans	342.8	602.0-722.0	422.0-519.0 /b
Development Grants (Technical Assistance)	109.0 /a	93.8 /a	77.3 /a
Supporting Assistance	22.7	17.7	19.5
Contingency Fund	81.7	--	3.2
Social Progress Trust Fund	124.1	200.0	172.3

/a Excludes $11.3, 11.2, and 10.0 million, respectively, of DG funds contributed to non-regional program expenses.
/b Total available is $483.7.

Unless key countries in Latin America improve their economic and fiscal policies, take required self-help measures, and submit more sufficient ready projects than now seems likely, the Development Loan funds available to Latin America should be more than adequate to meet U.S. objectives. The current prospect is for a substantial year-end uncommitted balance, unless technical and self-help standards are relaxed.

The reduction in Development Grants involves no significant change in country programs. The reduction can be absorbed through a general tightening up of individual projects and some reduction of normal forward funding.

The planned increase in Supporting Assistance is for Bolivia, to meet the deteriorating situation in the nationalized mines. It should be noted that Supporting Assistance for the Dominican Republic has been eliminated because of the high world price for sugar.

The principal changes are as follows:

	FY 1963 Commitments	FY 1964 Congressional Presentation	FY 1964 Current Program
1. Argentina	99.7	77.0-102.0	11.5-16.5

The new government which has taken office has not yet organized itself to use large amounts of economic aid effectively.

2. Brazil	86.9	190.0-220.0	96.0-126.0

The central government has continued to pursue disastrous economic policies in violation of agreements made with the U.S. last spring. Our reduced program is designed to support constructive elements by working through state governments and private enterprises and to fulfill our commitment to the program for the northeast.

3. Mexico	0.4	60.3	22.5

The current expectation is that no additional project financing will be required.

MAJOR CHANGES IN FY 1964 MILITARY ASSISTANCE COUNTRY PROGRAM LEVELS

PROPOSED BY DOD WITH STATE BUREAU COMMENTS

($ millions)

AREA/COUNTRY	CONGRESSIONAL PRESENTATION	DOD CURRENT PROGRAM
Italy	25.4	13.2
Investment	(13.3)	(5.3)
Operating Costs	(12.1)	(7.9)

Missiles and support for NIKE units have been deleted.

AREA/COUNTRY	CONGRESSIONAL PRESENTATION	DOD CURRENT PROGRAM
Portugal	12.1	2.1
Investment	(9.1)	(1.5)
Operating Costs	(3.0)	(1.6)

The program has been reduced to committed shipbuilding and training.

State/EUR believes that additional FY 64 funds may be needed in relation to base rights negotiations.

AREA/COUNTRY	CONGRESSIONAL PRESENTATION	DOD CURRENT PROGRAM
Spain	28.4	41.3
Investment	(17.4)	(34.5)
Operating Costs	(11.0)	(6.8)

In line with base rights agreements with Spain, the program has been increased to include 1 squadron of F-104G aircraft.

AREA/COUNTRY	CONGRESSIONAL PRESENTATION	DOD CURRENT PROGRAM
Greece	103.1	77.3
Investment	(32.6)	(29.9)
Operating Costs	(70.5)	(47.4)

Substantial reductions have been made in trucks and weapons and all light aircraft have been deleted. Reduction in operating costs includes smaller support for NIKE and Honest John units.

AREA/COUNTRY	CONGRESSIONAL PRESENTATION	DOD CURRENT PROGRAM
Turkey	183.3	128.2
Investment	(80.6	(48.9)
Operating Costs	(102.7)	(79.3)

Patrol craft and minesweepers have been deleted and substantial reductions made in armored personnel carriers, wheeled vehicles, weapons, and electronic and communications equipment.

China, Republic of	133.8	85.2
Investment	(42.9)	(20.1)
Operating Costs	(90.9)	(65.1)

This reduction eliminates the Navy program for increasing China's anti-submarine warfare capability and results in drastic reduction in replacement of obsolete and ineffective equipment.

State/FE proposes reducing force maintenance by a further $5 million to help offset a proposed increase in Thailand.

Indonesia	16.4	2.1
Investment	(10.4)	-
Operating Costs	(6.0)	(2.1)

This program is currently under review and is likely to be reduced to training and technical assistance.

Korea	205.1	142.6
Investment	(52.8)	(21.8)
Operating Costs	(152.3)	(120.8)

Trucks, tanks, minesweepers, and escort vessels have been deleted. Also, the desired shift of the aircraft control and warning system to a semi-automatic basis for use in the high performance aircraft and missiles is not provided for.

AREA/COUNTRY	CONGRESSIONAL PRESENTATION	DOD CURRENT PROGRAM
Korea (continued)		

State/FE proposes reducing force maintenance by a further $7.2 million to help offset proposed increases for Thailand and Laos.

Philippines	34.4	23.0
Investment	(19.0)	(10.8)
Operating Costs	(15.4)	(12.2)

Force improvement is limited to some aircraft modernization and construction for the air control and warning system. All ships and the vehicles, weapons, and electronic and communications equipment for the Philippine constabulary have been eliminated.

Thailand	67.4	39.9
Investment	(38.7)	(17.3)
Operating Costs	(28.7)	(22.6)

Tactical aircraft and helicopters, light tanks and trucks, and minesweepers and landing craft, all have been deleted.

This represents a transition from emphasis on external defense to concentration on internal security and civic action. State is concerned with the speed with which this transition is being made, and urges an additional $10 million to restore some of the deleted equipment.

Vietnam	159.1	173.1
Investment	(55.7)	(17.1)
Operating Costs	(103.4)	(156.0)

This increase in program level is required in order to meet operational requirements. State and DOD agree that an additional $20 million may be needed.

Infrastructure	77.0	50.0
Investment	(77.0)	(50.0)

Decrease is based on revised estimates of construction schedules, however, standing commitments may require a larger amount.

Annex B

79-b

1.

FY 1964 FOREIGN ASSISTANCE FUND AVAILABILITIES
(in millions of dollars)

	Congressional Presentation NOA	Congressional Presentation Program	Current Estimate NOA	Current Estimate Unobligated Carryover	Current Estimate Recoveries & Reimbursements	Current Estimate Total Available	FY 1963 Commitments
Development Loans	1060.0	1160.2	687.3	96.2	25.8	809.3	945.1
Development Grants	257.0	272.7	155.0	47.3	23.9	226.2	234.2
Alliance for Progress							
- Loans	550.0	602.1	375.0	92.0	16.7	483.7	342.1
- Grants	100.0	105.0	80.0	4.3	3.0	87.3	120.3
Supporting Assistance	435.0	445.1	330.0	6.0	24.6	360.6	431.2
CIO	136.0	136.0	116.0	0.3	-	116.3	148.7
Contingency Fund	300.0	300.0	50.0	127.0	2.4	179.4	149.2
ASHA	26.3	26.3	19.0	0.1	-	19.1	2.8
Surveys	-	1.0	-	1.1	0.1	1.2	0.4
Administrative - AID	57.3	57.3	50.0	2.0	0.8	52.8	54.4
- State	3.0	3.0	2.7	-	-	2.7	2.8
Total AID	2924.6	3108.7	1865.0	376.3	97.3	2338.6	2431.2
SPTF	200.0	200.0	135.0	37.3 a/	-	172.3	124.1
MAP	1405.0	1555.0	1000.0	25.8	147.3	1173.1	1598.6
Total Foreign Assistance	4529.6	4863.7	3000.0	439.4	244.6	3684.0	4153.9

a/ Uncommitted balance of the SPTF obligated to the IDB/SPTF in FY 1962

NOTE: May not add due to rounding

FY 1964 FOREIGN ASSISTANCE REQUEST TO CONGRESS COMPARED TO CURRENT PROGRAMS

Summary Table
(in millions of dollars)

	Development Loans		Development Grants		Supporting Assistance		CIO and Other		Total Economic		Military Assistance	
	Request	Current Program	Request	Current Program	Request	Current Program	Request	Current Program	Request	Current Program	Request	DOD Current Program
Europe	-	-	-	-	-	-	-	-	-	-	231.7	168.6
Africa	165.0- 239.7	76.0 86.0	104.5 -	78.0 -	64.0 -	47.8 -	5.0 -	7.5 -	338.5- 413.2	209.3 219.3	24.4 -	17.9 -
Near East-So. Asia	890.0- 950.0	698.0- 728.0	62.4 -	51.0 -	76.2 -	46.4 -	60.3 -	42.0 -	1088.9- 1148.9	837.4- 867.4	442.5 -	349.1 -
Far East	105.0- 155.0	35.0- 45.0	59.4 -	51.0 -	287.0 -	236.3 -	- -	- -	451.4- 501.4	322.3- 332.3	714.8 -	490.6 -
Latin America	602.0- 722.0	422.0- 519.0	93.8 a/ -	77.3 b/ -	17.7 -	19.5 -	200.0 -	172.3 -	913.5- 1033.5	691.1 788.1	77.2 -	63.0 -
Non-Regional	0.3	0.3	57.5	51.0	0.2	0.3	70.8	66.8	128.8	118.4	14.2	49.8
Contingency Fund	-	-	-	-	-	-	300.0	179.5	300.0	179.5	-	-
Amer. Schools & Hosp.	-	-	-	-	-	-	26.3	19.1	26.3	19.1	-	-
Investment Surveys	-	-	-	-	-	-	1.0	1.2	1.0	1.2	-	-
Administrative AID	-	-	-	-	-	-	57.3	52.8	57.3	52.8	25.0	24.0
State	-	-	-	-	-	-	3.0	2.7	3.0	2.7	-	-
Credit Sales	-	-	-	-	-	-	-	-	-	-	25.0	10.0
Total Programmed	1762.3	1231.3	377.7	308.3	445.1	350.2	723.6	543.9	3308.7	2433.8	1554.9	1173.1
Unprogrammed	-	0.1	-	5.2	-	10.4	-	-	-	15.7	-	-
Total	1762.3	1231.4	377.7	313.5	445.1	360.6	723.6	543.9	3308.7	2449.5	1554.9	1173.1

a/ Does not include $11.2 million used for Non-Regional D.G.; total A.G. program $101.0 million.
b/ Does not include $10 million used for Non-Regional D.G.; total A.G. program $87.3 million.

Note: May not add due to rounding

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FY 1964 FOREIGN ASSISTANCE REQUEST TO CONGRESS COMPARED TO CURRENT PROGRAMS - AFRICA
(in millions of dollars)

	Development Loans		Development Grants		Supporting Assistance		Military Assistance	
	Request	Current Program	Request	Current Program	Request	Current Program	Request	DOD Current Program
AFRICA-EUROPE - TOTAL	165.0-239.7	76.0-86.0 a/	104.5	78.0 b/	64.0	47.8	24.4	17.9
Algeria	-	-	2.5	1.3	-	0.4	-	-
Congo (Leopoldville	-	-	2.3	1.8	40.0	20.0	6.0	3.5
Ethiopia	2.5	0.5	5.7	5.9	-	-	8.8	8.5
Ghana	-	-	2.5	1.5	-	-	0.1	0.1
Guinea	3.0-6.0	1.7	2.9	3.2	5.0	7.5	-	-
Kenya	2.0	-	3.1	1.9	-	-	-	-
Liberia	9.0	0.3	11.3	7.2	-	-	2.0	0.6
Libya	-	-	1.5	0.8	9.0	4.8	2.2	2.2
Mali	0.6-1.3	1.5	1.2	1.2	-	-	0.7	0.3
Morocco	5.0-12.0	5.2	1.2	1.1	10.0	15.0	2.9	1.8
Nigeria	70.0-100.0	42.4	21.5	13.9	-	-	0.3	0.3
Rhodesia and Nyasland	0-1.8	-	3.8	3.0	-	-	-	-
Sierra Leona	0-4.5	-	2.3	1.6	-	-	-	-
Somali Republic	4.0	-	4.5	3.3	-	-	0.5	-
Sudan	30.0-35.0	5-25.0	4.9	4.0	-	-	/c	/c
Tanganyika	2.8	4.6	3.0	2.0	-	-	-	-
Tunisia	25.0-40.0	18.4	3.9	2.1	-	-	0.5	0.5
Uganda	1.1-2.9	0.5	2.9	2.2	-	-	-	-
Zanzibar	-	-	0.4	0.5	-	-	-	-
CCTA	-	-	1.5	1.2	-	-	-	-
Regional Projects	-	-	9.8	6.0	-	-	-	-
Other	-	-	-	3.6	-	-	-	-

a/Country figures include $108.3 million applications under review.
b/Country totals add to $1.8 million more than region due to overprogramming of DG.
c/Less than $50,000.
NOTE: May not add due to rounding.

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AFRICA (continued)

	Development Loans Request	Development Loans Current Program	Development Grants Request	Development Grants Current Program	Supporting Assistance Request	Supporting Assistance Current Program	Military Assistance Request	Military Assistance DOD Current Program
AFRICAN & MALAGASY UNION STATES, & BURUNDI & TOGO -- TOTAL	10.0-15.9	8.2	12.2	10.5	-	0.1	0.4	0.1
Burundi	-	-	-	0.7	-	-	-	-
Cameroon	0-3.5	-	1.5	1.3	-	-	-	-
Central African Republic	-	-	0.6	0.6	-	-	-	-
Chad	-	-	0.5	0.6	-	-	-	-
Congo (Brazzaville)	-	2.0	0.6	0.3	-	-	-	-
Dahomey	0-0.7	-	1.0	0.6	-	-	-	-
Gabon	0-3.0	-	0.5	1.0	-	-	-	-
Ivory Coast	0-4.3	5.0	2.4	0.8	-	-	-	-
Malagasy Republic	-	-	0.5	0.7	-	-	-	-
Mauritania	0-0.7	-	0.2	0.1	-	0.1	-	-
Niger	0-1.0	-	1.0	0.7	-	-	-	-
Rwanda	-	-	-	0.7	-	-	-	-
Senegal	0-1.2	1.2	1.2	1.3	-	-	0.4	0.1
Togo	-	-	0.8	0.7	-	-	-	-
Upper Volta	0-1.5	-	1.2	0.4	-	-	-	-

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FY 1964 FOREIGN ASSISTANCE REQUEST TO CONGRESS COMPARED TO CURRENT PROGRAMS - NEAR EAST AND SOUTH ASIA
(in millions of dollars)

	Development Loans		Development Grants		Supporting Assistance		Military Assistance	
	Request	Current Program	Request	Current Program	Request	Current Program	Request	DOD Current Program
NEAR EAST SOUTH ASIA - TOTAL	890.0-950.0	698.0-728.0	62.5	51.0[a]	76.2	46.4	442.5	349.1
Afghanistan	15.0-20.0	10.0	14.9	12.5	-	-	0.1	0.3
Ceylon	-	-	0.8	-	-	-	-	-
Cyprus	-	3.0	1.0	0.9	-	-	-	-
Greece	25.0	7.0	-	-	-	-	103.1	77.3
India	450.0	350.0-380.0	8.1	7.2	-	-	50.0	50.0
Iran	25.0-40.0	10.0	4.1	3.3	-	-	54.4	53.2
Iraq	-	-	1.0	0.8	-	-	0.1	0.1
Israel	20.0	20.0	-	-	-	-	-	-
Jordan	-	-	7.5	7.9	34.0	34.0	3.7	3.7
Lebanon	-	-	-	-	-	-	0.1	0.1
Nepal	-	1.0	4.5	3.9	-	-	-	-
Pakistan	255.0	180.0-200.0	9.9	8.6	-	-	48.6	41.5
Saudi Arabia	-	-	-	-	-	-	1.2	1.5
Syria	-	-	0.6	0.3	-	-	-	-
Turkey	95.0-125.0	100.0-120.0	4.7	4.3	35.0	6.0	183.3	128.2
UAR	15.0-25.0	-	2.2	1.7	-	-	-	-
Yemen	-	-	-	-	6.0	5.2	-	0.1
CENTO	-	-	0.4	0.5	1.2	1.2	-	-
Regional Projects	-	-	2.7	2.2	-	-	0.2	-
Other	20.0	-	-	-	-	-	-	-
Less MAP assets applied	-	-	-	-	-	-	-2.3	-6.9

a/ Country totals add to $3.1 million more than regional totals due to overprogramming of DG.

NOTE: May not add due to rounding.

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FY 1964 FOREIGN ASSISTANCE REQUEST TO CONGRESS COMPARED TO CURRENT PROGRAMS - FAR EAST
(in millions of dollars)

	Development Loans		Development Grants		Supporting Assistance		Military Assistance	
	Request	Current Program	Request	Current Program	Request	Current Program	Request	DOD current Program
FAR EAST - TOTAL	105.0-155.0	35.0-45.0	59.4	51.0[a/]	287.0	236.3	714.8	490.6
Burma	-	-	0.6	1.4	22.7	4.3	8.0	2.2
Cambodia	-	-	8.3	3.0	12.7	2.0	9.2	0.4
China	20.0-30.0	-	2.3	2.3	-	-	133.8	85.2
Indonesia	10.0-20.0	-	15.0	12.7	4.4	4.4	16.4	2.1
Japan	-	-	-	-	-	-	20.3	11.6
Korea	40.0-60.0	35.0-50.0	6.6	5.3	80.0	66.2	205.1	142.6
Laos	-	-	6.0	8.4	27.5	28.4	10.0	15.7
Philippines	25.0	-	3.8	3.1	-	-	34.4	23.0
Thailand	10.0-20.0	0-8.0	7.4	8.0	9.7	6.0	67.4	39.9
Vietnam	-	-	6.8	6.0	130.0	125.0	159.1	173.1
Regional Projects	-	-	2.2	2.4	-	-	48.8	41.0
APO	-	-	0.2	0.2	-	-	-	-
SEATO	-	-	0.2	-	-	-	[illegible]	-
Asian "Reserve"	-	-	-	-	-	-	43.0	[illegible]
Less MAP assets applied	-	-	-	-	-	-	-40.7	-46.2

a/ Country totals add to $1.8 million more than regional total due to overprogramming of DG

PC/EPD:1/4/64

NOTE: May not add due to rounding

FY 1964 FOREIGN ASSISTANCE REQUEST TO CONGRESS COMPARED TO CURRENT PORGRAM - LATIN AMERICA

(in millions of dollars)

	Alliance for Progress Loans		Alliance for Progress Grants		Supporting Assistance		Military Assistance	
	Request	Current Program a/	Request	Current Program	Request	Curent Program	Request	DOD Current Program
LATIN AMERICA TOTAL	602.0-722.0	422.0-519.0	105.0	87.3 c/	17.7	19.5	77.2	63.0
Argentina	70.0-100.0	10.0- 15.0	2.0	1.5	-	-	2.4	6.3
British Guiana	-	-	1.5	0.5	-	-	-	-
Bolivia	30.0- 40.0	25.0- 40.0	5.5	5.5	7.0	13.0	3.9	2.8
Brazil	170.0-200.0	80.0-110.0	20.0	16.0	-	-	14.1	11.4
Chile	60.0	60.0- 70.0	2.5	3.2	-	-	8.5	7.5
Colombia	100.0	80.0-100.0	5.0	3.5	-	-	10.7	7.9
Costa Rica	b/	8.0- 10.0	2.0	1.8	-	-	0.9	0.7
Dominican Republic	b/	-	2.5	1.5	4.0	-	3.9	0.7
Ecuador	10.0- 15.0	22.0	4.8	4.0	-	-	5.3	3.9
El Salvador	10.0	9.0	2.0	2.0	-	-	1.6	1.4
Guatemala	b/	10.0- 15.0	4.5	3.2	-	-	2.3	1.7
Haiti	b/	-	-	-	1.7	1.5	1.4	-
Honduras	-	-	2.5	1.5	-	-	1.3	0.1
Jamica	-	2.7	0.7	0.6	-	-	-	*
Mexico	60.0	22.0	0.3	0.5	-	-	0.4	0.5
Nicaragua	-	8.0	2.0	2.7	-	-	1.8	1.4
Panama	10.0- 17.0	15.0	1.8	1.9	-	-	0.5	0.5
Paraguay	-	2.3	3.1	2.5	-	-	2.2	2.0
Peru	30.0- 40.0	40.0	5.0	4.0	-	-	10.0	9.1
Trinidad-Tobago	-	-	0.7	0.5	5.0	5.0	-	-
Uruguay	-	6.0	1.5	1.3	-	-	3.8	2.4
Venezuela	-	-	1.7	1.6	-	-	1.8	1.9
Regional Projects	-	-	13.7	14.3	-	-	0.5	0.7
ROCAP	20.0- 40.0	22.0	8.5	4.4	-	-	-	-
Other	32.0- 40.0	-	-	-	-	-	-	-
Non-Regional	-	-	11.2	10.0	-	-	-	-

a/ Availability estimated at $483.7 million. b/ Included under Other: Applications to be considered.
c/ Country figures add to $1.2 million more than regional total due to overprogramming.
*Less than $50,000.
NOTE: May not add due to rounding.

FY 1964 FOREIGN ASSISTANCE REQUEST TO CONGRESS COMPARED TO CURRENT PROGRAM - EUROPE

	Economic Assistance		Military Assistance	
	Request	Current Program	Request	DOD Current Program
EUROPE - TOTAL	-	-	231.7	168.6
Austria	-	-	.5	.5
Belgium	-	-	3.1	2.3
Denmark	-	-	21.1	19.8
Finland	-	-	*	*
France	-	-	.8	.6
Germany	-	-	.2	.3
Italy	-	-	25.4	13.2
Luxembourg	-	-	*	*
Netherlands	-	-	2.9	2.2
Norway	-	-	31.8	37.3
Portugal	-	-	12.1	2.1
Spain	-	-	28.4	41.3
United Kingdom	-	-	.1	.1
Mutual Weapons Development	-	-	1.5	.7
Infrastructure	-	-	77.0	50.0
Weapons Production	-	-	15.4	11.1
Europe Area	-	-	3.7	2.0
NATO Hq. and Agencies	-	-	12.5	13.9
Less MAP Assets Applied	-	-	-4.8	-28.7

PC/MAD: 1/4/64

*Less than $50,000

NOTE: May not add due to rounding

Foreign Aid
80

~~Confidential~~

DRAFT
1/6/64

Outline of possible points for Ball Committee Report
to the President

The Committee believes it is essential to U.S. national interests to provide economic and military assistance to many (but not all) underdeveloped countries, the assistance in each case being tailored carefully to the specific interests of the U.S. in each recipient country, to the willingness of that country to undertake self-help measures, and to the availability of aid from other donors. The problem confronting the President is to obtain legislative authorization and appropriations for such a program in the face of widespread Congressional concern that the foreign aid program is too big and in many cases only loosely related to U.S. interests; that the program is scattered too widely and is not concentrated and selective enough; that the AID staff is too large and not of high enough quality; that not enough use is made of American private resources - and so on.

A good deal of the Congressional concern over foreign aid cannot be satisfied because it is actually criticism of U.S. foreign policy. The Committee believes however that Congressional concern will be met to the maximum feasible extent if the President presents a foreign aid program which is demonstrably limited in size and purpose, based on a hard-headed examination of U.S. interests in each aided country, and administered on a lean and frugal basis. To this end, we have the following suggestions:

1. Tighter Program. The President has already taken the most important step he can take to establish with the Congress his intention to have a tighter foreign aid program, namely, to propose to Congress a minimum request for funds. The 1965 budget proposal for foreign aid is more than a billion dollars less than the 1964 request. We suggest that the President describe this '65 request as a hard-headed judgment of what is likely to be needed in the national interest, and state that if additional funds are required he will ask for a supplemental.

Other steps recommended to demonstrate the President's intention to tighten the program:

- emphasize his intention to apply hard criteria of U.S. interests with respect to each country, and to insist on self-help by recipient nations and on a limited U.S. contribution in each case;

- announce that while the program has been concentrated very heavily already (80% of economic aid going to 20 countries, 80% military aid going to ten countries) the program will be concentrated even further. Proposed specific actions to this end:

. announce dates for winding up programs and missions in "success story" countries (Greece, Israel, Taiwan, etc.);

. announce the elimination of AID programs in at least ten (?) "small program countries", allowing U.S. interests there to be carried by the Peace Corps, PL 480, Fulbright-Hays activities, etc.;

. announce the elimination or major reduction in the size and status of AID missions in at least ten (?) more "small program countries", allowing economic aid activities to be handled by regional offices and/or temporary visitors as necessary.

2. Greater use of private resources. We recommend the following steps in this connection:

- Request from Congress a 30% investment tax credit for private U.S. business investment in under-developed countries;

- Make maximum use (in publicity and in substance) of the Advisory Committee on Private Enterprise in Foreign Aid which is required to be established under the Javits Amendment;

- Announce major move toward greater use of private contractors -- such as universities, farm and labor organizations, cooperatives, other Federal Agencies (Agriculture, HEW, etc.) -- for carrying out technical cooperation projects.

3. Use of multilateral institutions and other means of increasing aid from other advanced countries. The Committee is in agreement that the U.S. should stand ready to join with other advanced countries to augment the resources of international financial agencies, notably the International Development Association, on an appropriate cost-sharing basis. If U.S. funds are channeled through such institutions, the bilateral U.S. program can be correspondingly reduced. At the present time, however, there is no substantial prospect of other countries supporting a major move in this direction, and we believe therefore the President should limit his public statements to a reaffirmation of the U.S. position.

We recommend that, without public announcement, the President undertake a personal initiative to persuade other advanced countries to provide greater economic assistance and on more reasonable terms. Without personal Presidential interest, we would expect no step-up in the recent slow rate of progress by other countries in this direction. We recommend no public announcement at present of this initiative, because we think such announcement would be counter-productive.

4. Greater efficiency. We recommend several steps in this direction:

- announce the objective, already agreed between AID and the Budget Bureau of reducing the number of AID employees from 7,000 U.S. citizens on June 30, 1964 to 6,600 on June 30, 1965, with corresponding reductions in the employment of foreign nationals. (According to the Budget Bureau this is the second largest percentage reduction proposed in the '65 budget);

- continue vigorous use of the existing selection-out authority for AID's overseas employees and request from Congress selection-out authority for Washington (Civil Service) employees.

- announce intention to establish outside review committees, of the type recommended by Senator Cooper, to visit several of the major countries receiving aid. (The President might wish to propose to Congress privately that the relevant Congressional Committees /particularly the authorizing committees/ arrange for more of their members to visit major AID receiving countries more frequently;

- eliminate the "50 poorest" technical cooperation programs by January 1965.

5. Organizational changes

- Announce that Mr. Mann is being given full authority to approve development loans and grants in Latin America, and will be able to draw on AID for common services (procurement and contracting policy, PL 480 coordination, accounting and auditing services, etc.).

- With respect to the rest of the world, alternative possibilities, in decreasing order of merit, are:

(1) retain a reduced AID Agency to operate the smaller, tighter program, outlined above;

(2) to retain AID geographic bureaus, (under Assistant Administrators ranking as Assistant Secretaries); make AID Administrator also Under Secretary for Economic Affairs, with E reporting to him, as well as AID Bureaus; merge administrative and staff offices with State to the extent convenient;

(3) split AID into a capital funding agency (DL plus SA) and a technical assistance agency, with coordinating and staff functions in the Office of the Under Secretary of State for Economic Affairs.

6. Legislative changes

- Propose to Congress the handling of military assistance via military affairs committee channels (this is already being checked out on the Hill);

- Propose to Congress an authorizing bill excluding Alliance for Progress and Development Lending funds (since these are already authorized for FY '65). This would limit the authorization bill to $917 million. Note, however, that the President would have to make clear that he was asking for a total program of $2.4 billion.

7. Public Support. Establish a new Council for International Economic Cooperation to act as non-profit sponsor of publicity and information activities, conferences, and other activities intended to strengthen public support for economic assistance.

The Committee wishes to emphasize most strongly that none of the potential changes in program and organization can be effective without a major national educational effort in support of foreign aid, strongly led by the President personally and backed with every resource by State Department, the Defense Department and the AID agency.

Foreign Aid 5 9

DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE ADMINISTRATOR

81

January 2, 1964

MEMORANDUM FOR:

The Honorable Dean Rusk
The Honorable George W. Ball
The Honorable McGeorge Bundy
The Honorable William Bundy
The Honorable Kermit Gordon
The Honorable W. Averell Harriman
The Honorable Ralph Dungan
The Honorable Frederick G. Dutton

Mr. Bell asked that you be given a copy of the attached memorandum.

Executive Secretariat
Agency for International Development

Attachment: Memorandum dated December 30, 1963
Subject: "Inclusion of Military Assistance in Foreign Aid Bill -- Conversation with Boyd Crawford, Chief, Clerk, House Foreign Affairs Committee"

81a

December 30, 1963

MEMORANDUM FOR: Mr. Bell

Subject: Inclusion of Military Assistance in Foreign Aid Bill -- Conversation with Boyd Crawford, Chief Clerk, House Foreign Affairs Committee

I called Mr. Crawford this morning at your suggestion to inquire concerning the background for Dr. Morgan's letter responding to the proposal to separate economic aid and military aid in the authorization act.

Mr. Crawford said that this letter had as background the continuing struggle between Senator Fulbright and the House Foreign Affairs Committee over a number of years on this issue. Senator Fulbright, with the support of the Defense Department and the liberals in the Senate Committee, had attempted on two previous occasions to separate these two items.

The House Foreign Affairs Committee and the House Appropriations Committee were both strongly opposed. They felt it would weaken the Members of the House support of economic aid. Dr. Morgan personally felt he could not support appropriations for foreign development unless they were clearly related to the defense of the United States or the Allies of the United States. Inclusion of the economic items in the bill, including a substantial amount for military assistance, made it possible for many Members of the House to vote for the bill who would otherwise find it necessary to vote against a separate economic aid bill. The separation of the two items would result in a resounding majority for the military assistance bill and a resounding defeat for the economic aid bill. The best that the Foreign Affairs Committee could do under these circumstances would be to report out a small Technical Assistance bill without funds for development. Mr. Crawford said he realized this was not what we wanted, but that we had to realize that this issue had aroused strong emotions in the Foreign Affairs Committee and in the House generally and the idea should be dropped unless we were prepared to forego economic aid.

Mr. Crawford had been in touch with Mr. Sprankle, Chief Clerk of the Appropriations Committee, who had informed him that the reason

Mr. Cannon had not commented negatively on the proposal was that he had taken the incoming letter with him to Missouri and had no facilities there for preparing a reply.

I inquired as to Dr. Morgan's whereabouts. Mr. Crawford told me he was in Fredericksburg, Pennsylvania, telephone 73388, but suggested that as the Chairman had a bad cold and would be returning to Washington on Monday, January 6, that any call on him should be deferred until that time.

I suggest that your reply to Dr. Morgan's letter be deferred until you have an opportunity to talk to him personally on Monday.

I am attaching additional copies of this memorandum for such distribution as you may wish to make.

WOH

William O. Hall
AA/A

CC: PC

Attachments

WOH/eth

82 697

√ Mr Mc George Bundy

Bundy
Foreign Aid

~~CONFIDENTIAL~~

December 31, 1963

DECLASSIFIED
E.O. 12356, Sec. 3.4
NLJ 93-321
By [illegible], NARA, Date 2-1-94

TO: The Secretary

THROUGH: S/S

FROM: S/P - W. W. Rostow

SUBJECT: Foreign Aid Reorganization.

Reflecting on the state of thought in this town about fragmenting the foreign aid operation, I wish to make one point which appears to be widely ignored: We are in danger of destroying in this Government strands of thought and action which have taken a decade of hard work to build. I refer to the introduction into government policy of systematic and centralized thinking about economic development.

The presence of Dave Bell, Hollis Chenery, and Francis Bator, for example, in the AID administration and the willingness of men like Ed Mason and Max Millikan to serve as AID advisers symbolize this achievement. The approach we have come to take towards India, Pakistan, Taiwan, Turkey, Tunisia, Nigeria, and, even, Korea, plus the more creative aspects of the Alliance for Progress (e.g., Colombia, Chile) represent an operational reflection of this achievement.

In fact, the whole concept of applying self-help criteria is a short-hand way of indicating that we are bringing development criteria systematically to bear in our aid programs.

The foreign aid reorganization of 1961 was systematically geared to this conception. For a variety of reasons, it has moved forward slowly; but it has moved forward. And its future prospects have never been better than under Dave Bell's leadership.

~~CONFIDENTIAL~~

GROUP 4
Downgraded at 3 year intervals; declassified after 12 years

The proposals presently circulating -- and the underlying mood -- recall the breakup of the economic section of the State Department (built by Will Clayton) and the fragmentation of its functions and talent shortly after the war. The State Department has never since been able to draw to itself a pool of competent economists.

A fragmenting of aid functions along functional lines will leave no central point of direction and orchestration of the instruments of economic development. It will damage our foreign policy in one important dimension and damage the reputation of this Administration among influential and thoughtful people, both in the United States and abroad.

This does not mean that the aid organization need be left exactly as is. As you know, it is my own view that AID has been excessively concerned with the allocation of that part of the resources available which happened to be voted by the Congress. It has not spent sufficient time and talent on the orchestration of all forms of potential assistance. Moreover, I am quite clear that economic development criteria are by no means the only legitimate criteria which ought to be brought to bear in a foreign aid effort.

What I am arguing is that any satisfactory reorganization of the aid effort must include the maintenance of a very high official in the Government, with a first-rate staff, whose mission it would be to assure that the economic development component in our national policy is effectively organized and that economic development criteria are effectively represented in the shaping of national policy.

cc: U - Mr. Ball
M - Mr. Harriman

WWRostow:rln

655 83
Bundy
Foreign aid

December 27, 1963

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Signing of Foreign Assistance Appropriations Bill

As you know, it is anticipated that the foreign aid appropriations bill will be passed by the Senate on Monday, December 30, 1963. As we have pressed the Congress to complete action on this bill, it would seem appropriate to have the bill signed at your early convenience.

In my judgment appropriate presidential statements have already been made concerning the various aspects of Congressional action on foreign aid. You may, therefore, not wish to make any further statement on the substance of the foreign aid legislation.

However, there is one further matter you may wish to bring up at the time of signing the appropriations bill - the need for bi-partisan support. This might help in soothing any possibly ruffled feelings.

A draft of a possible statement is attached, ending on a bi-partisan note. It also includes several other points which you may wish to consider making in such a statement.

On balance I believe that a statement is not necessary and attach a draft only for your consideration if you believe something should be said.

David E. Bell

Attachment

cc: The Honorable Dean Rusk
The Honorable McGeorge Bundy
The Honorable Lawrence O'Brien
The Honorable Ralph Dungan

Rec'd for filing 12/26/63 — Foreign Aid

MEMORANDUM

1. The unfortunate turn taken by Congress in the closing days of the session has obscured the real issue in the wheat sale debate. The real issue is whether the President of the United States will look strong or weak to other nations at a critical moment in our history.

2. The manner in which the issue has been presented makes it appear to be a mere partisan squabble between administration Democrats on one hand and between the so-called Republican-Southern Democratic coalition on the other. But this is not the reality.

3. The real issue becomes apparent when the situation is placed in perspective. What has happened is that a new President has suddenly been thrust into office. This is an event of tremendous magnitude to other nations. The countries of the free world are watching anxiously to determine whether he is strong enough to be a reliable leader of liberty or whether he is weak and they should base their policies on some calculation other than the strength of the United States. The countries of the Communist world are watching anxiously to determine whether the new President is so strong they will have to come to terms with him or so weak that they can start hacking away at the free world with impunity.

4. Against this background, it is not difficult to imagine the reaction of the rest of the world if the first disagreement between Congress and the new President results in a restriction upon the powers of the President. There can be no other interpretation placed upon the House amendment. Aside from any other details, it places handcuffs upon the President and leaves the key in the possession of a body of men who cannot possibly act with the speed frequently required in international negotiations.

5. The situation is even clearer when looked at from the other end. It is inconceivable that either Nikita Khrushchev or Chou En Lai would ever have to enter negotiations impeded by a similar set of handcuffs. The Communist world never sends its leaders into conferences after first announcing publicly that they are only trusted up to a certain point.

6. From the standpoint of domestic politics this may appear to be the customary squabble over foreign aid. But from the world standpoint, it appears to friend and foe alike as the tip-off on whether they are to deal with a strong or a weak President (and, to them, that means a strong or a weak United States) for the next 12 months.

# # #

10461
Foreign Aid
WH
85

OUTGOING TELEGRAM Department of State

INDICATE: ☐ COLLECT
☐ CHARGE TO

~~CONFIDENTIAL~~

W
Origin SS
Info:

ACTION: Amembassy MEXICO CITY 1111

DEC 20 9 16 AM '63

EYES ONLY AMBASSADOR MANN

001

EYES ONLY

Ref DEPTEL 1105

Memorandum which should have been quoted in reftel as follows:

QUOTE MEMORANDUM FOR

DECLASSIFIED
E.O. 12356, Sec. 3.4
NLJ 93-321
By [illegible], NARA, Date 2-1-94

The Honorable George W. Ball
Acting Secretary of State

The Honorable David E. Bell, Administrator,
Agency for International Development

The Honorable Kermit Gordon
Director, Bureau of the Budget

The Honorable John C. Bullitt
Assistant Secretary of Treasury for International Affairs

The Honorable William P. Bundy
Assistant Secretary of Defense ISA

This confirms the President's direction of December 16 regarding the establishment of an Executive Branch Committee to examine the foreign assistance program.

Drafted by: S/S:GHilliker:jmj 12/20/63 Telegraphic transmission and classification approved by: S/S - Mr. Hilliker

Clearances:

~~CONFIDENTIAL~~

EYES ONLY

FORM 8-61 DS-322

~~CONFIDENTIAL~~

The addressees, under the Chairmanship of the Acting Secretary of State, are to develop recommendations for the President by January 15 on ways and means of strengthening the foreign assistance program within the framework of the principles on which the program is currently based. The President is interested in getting the job done more effectively without reducing the benefits or blunting its purposes.

This reexamination should include, but not be confined to, organizational changes and specifically should include recommendations with regard to organization of the Alliance for Progress.

END QUOTE

RUSK

10461

Foreign File. 86
Aid W/d

OUTGOING TELEGRAM Department of State

INDICATE: ☐ COLLECT
☐ CHARGE TO

~~CONFIDENTIAL~~

W

Origin
SS
Info:

ACTION: Amembassy MEXICO CITY 1111

DEC 20 9 16 AM '63

EYES ONLY AMBASSADOR MANN

002

Ref DEPTEL 1105

EYES ONLY

Memorandum which should have been quoted in reftel as follows:

DECLASSIFIED
E.O. 12356, Sec. 3.4
NLJ 93-321
By [illegible], NARA, Date 2-1-94

QUOTE MEMORANDUM FOR

The Honorable George W. Ball
Acting Secretary of State

The Honorable David E. Bell, Administrator,
Agency for International Development

The Honorable Kermit Gordon
Director, Bureau of the Budget

The Honorable John C. Bullitt
Assistant Secretary of Treasury for International Affairs

The Honorable William P. Bundy
Assistant Secretary of Defense ISA

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Drafted by: S/S:GHilliker:jmj 12/20/63

Telegraphic transmission and classification approved by: S/S - Mr. Hilliker

Clearances:

~~CONFIDENTIAL~~

FORM 8-61 DS-322

~~CONFIDENTIAL~~

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END QUOTE

RUSK

File

OUTGOING TELEGRAM Department of State

10381

86a

INDICATE: ☐ COLLECT
☐ CHARGE TO

~~CONFIDENTIAL~~

~~UNCLASSIFIED~~

W K

M

Origin
SS
Info:

ACTION: AMEMBASSY MEXICO CITY 1105
EYES ONLY

EYES ONLY Dec 19 9 14 PM '63

FOR AMBASSADOR MANN

003

Ralph Dungan requested text following December 17 memorandum addressed to Presidentially-named committee be sent you:

QUOTE

(Text of memorandum, with titles and names of addresses)

END QUOTE

Dungan states President wishes you participate fully in committee work regarding Alliance for Progress.

Your group here developing analysis and alternatives handling Alianza for your consideration upon return Washington.

EYES ONLY

DECLASSIFIED
E.O. 12356, Sec. 3.4
NEJ 93-321
By isp, NARA, Date 2-1-94

BALL.

Drafted by: O:RBarrett:bd 12-19-63

Telegraphic transmission and classification approved by: William J. Crockett

Clearances: White House-Mr. Dungan S/S-Mr. Baldwin

~~CONFIDENTIAL~~

FORM 8-61 DS-322

Rusky Foreign Aid

10381

87

OUTGOING TELEGRAM Department of State

INDICATE: ☐ COLLECT
☐ CHARGE TO

~~XXX~~ ~~CONFIDENTIAL~~
~~XXXXXXXXXXXX~~

EYES ONLY

W K

M

Origin
SS
Info:

ACTION: AMEMBASSY MEXICO CITY 1105
EYES ONLY

Dec 19 9 14 PM '63

FOR AMBASSADOR MANN

002

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QUOTE

(Text of memorandum, with titles and names of addresses)

END QUOTE

Dungan states President wishes you participate fully in committee work regarding Alliance for Progress.

Your group here developing analysis and alternatives handling Alianza for your consideration upon return Washington.

EYES ONLY

DECLASSIFIED
E.O. 12356, Sec. 3.4
NLJ 93-328
By lig, NARA, Date 5-12-95

BALL

Drafted by: O:RBarrett:bd 12-19-63

Telegraphic transmission and classification approved by: William J. Crockett

Clearances: White House-Mr. Dungan S/S-Mr. Baldwin

~~CONFIDENTIAL~~

FORM DS-322

Administrative 88

December 19, 1963

MEMORANDUM FOR MR. BUNDY

General Clifton reports that under the new rules the White House car pool will provide cars between the hours of 9:30 AM and 4:00 PM for all the staff members listed below. Authorization for the use of cars before 9:30 AM and after 4:00 PM will have to be given by your office. Every effort will be made to meet special requirements, such as trips to and from the airport.

I do not now know how serious a problem the new rules will create. Making White House cars available to staff members during most of the working day would appear to be an easier solution than separating out those few officers who would have unrestricted use of White House cars.

White House staff members will continue to have unrestricted use of cars.

BKS

Alexander
Belk
Brubeck
Chase
Forrestal
Johnson
Klein
Komer
Saunders
Smith (Colonel)
Smith (Bromley)

Foreign Aid

89

THE WHITE HOUSE

WASHINGTON

December 19, 1963

Dear Senator Mansfield:

I strongly urge that the Senate reject the amendment attached to the foreign aid appropriation bill which would prevent any use of the facilities of the Export-Import Bank in connection with all trade with Communist countries.

The Senate has twice before refused to accept this proposal, and it is even less justified now than before. In one of the last letters of his life, President Kennedy pointed out plainly that the Export-Import Bank has a record of judgment which fully justifies confidence in its ability to use its powers wisely, with a net gain to the taxpayer; that the Bank exists precisely for the purpose of assisting American traders in their legitimate commercial interests; and that the proposed restriction would jeopardize not only the possible sale of wheat to the Soviet Union but sales of other important commodities, like tobacco, corn and cotton, to a number of Communist countries.

The present amendment is doubly objectionable in that it aims to insert a major shift of policy, already twice rejected by the Senate, into an appropriation bill.

I can assure the Senate, which knows me well, that this Administration proposes to protect the interest of the United States in all matters affecting trade with Communist countries. We will support such trade only where it is clearly in our interest to do so. In my judgment sales of wheat and other farm commodities, on reasonable terms, are now plainly in the national interest of the United States -- good for our farmers and exporters, good for our shipping and railroad industry, good for our balance of payments, and good for the country. It makes no sense to jeopardize these possible gains by this legislative rider.

Sincerely,

Lyndon B. Johnson

The Honorable Mike Mansfield
United States Senate

cy - USSR-Grain
East West - Trade

~~SECRET~~ jl December 17, 1963

MAC -

Here's the President's statement on signing aid bill, in case you haven't seen it. Note that it omits any mention of Gruening Amendment. Dungan tells me O'Brien urged taking this out and President concurred--apparently idea was LBJ could deal with this issue when it arose. However, I didn't get any clear sense from Ralph that LBJ was fully aware of implications here.

Note also that LBJ apparently comes down on Dave's side in opposing "reorganization for re-organization's sake" of aid program.

✓

I need you with Larry on this.

RWK
RWK

~~SECRET~~

IMMEDIATE RELEASE DECEMBER 16, 1963

Off... of the White House Press Sec... ary

Foreign aid.

90a

THE WHITE HOUSE

STATEMENT OF THE PRESIDENT ON SIGNING H. R. 7885, THE FOREIGN ASSISTANCE ACT OF 1963.

I have today signed the Foreign Assistance Act of 1963. The economic and military aid programs authorized by this bill are indispensable to the security of the United States and the free world. This bill reflects this nation's determination to maintain that security by helping those nations willing to help themselves.

It also reflects, unfortunately, the growing tendency to hamstring executive flexibility with rigid legislative provisions wholly inappropriate and potentially dangerous in a world of rapid change. I wish to make clear now, for example, that -- when a free and peaceful government is ever established in Cuba -- I intend to exercise my authority to provide essential health, educational and other assitance to the Cuban people, without waiting for a long and complex adjudication.

In addition, this bill reflects a dangerous reduction in funds and a consequent dangerous reduction in our security. We cannot oppose the spread of communism and promote the growth of freedom by giving speeches. A policy of weakness and retreat -- which any further reduction at the appropriation stage would represent -- cannot be justified by the needs of our security, the financial strength of our nation or the attitude of our citizens.

All of us desire greater efficiency in our aid programs -- and, make no mistake about it, we are going to improve it -- but in our pursuit of efficiency, let us not hamper the progress and safety of free men.

I have already directed Administrator Bell to put our foreign operations on a sounder basis -- to insist on maximum effort by aid recipients -- and to intensify our efforts to eliminate excess or ineffective personnel. We will resist reorganization for reorganization's sake -- but we do intend to present to the Congress next year a more effective, efficient aid program.

Our cautious new hopes for a reduction in the risk of all-out war may only imply an increase in communist efforts to prevail through economic, political and conventional military means, particularly in the under-developed countries. The aid programs of Truman, Eisenhower and Kennedy are needed now more than ever -- this is no time to fail.

# # # #

CONFIDENTIAL

Mr. McGeorge Bundy

Foreign Aid

December 17, 1963

91

MEMORANDUM FOR

The Honorable George W. Ball
Acting Secretary of State

The Honorable David E. Bell
Administrator, Agency for International Development

The Honorable Kermit Gordon
Director, Bureau of the Budget

The Honorable John C. Bullitt
Assistant Secretary of Treasury for International Affairs

The Honorable William P. Bundy
Assistant Secretary of Defense ISA

This confirms the President's direction of December 16 regarding the establishment of an Executive Branch Committee to examine the foreign assistance program.

The addressees, under the Chairmanship of the Acting Secretary of State, are to develop recommendations for the President by January 15 on ways and means of strengthening the foreign assistance program within the framework of the principles on which the program is currently based. The President is interested in getting the job done more effectively without reducing the benefits or blunting its purposes.

This reexamination should include, but not be confined to, organizational changes and specifically should include recommendations with regard to organization of the Alliance for Progress.

DECLASSIFIED
E.O. 12356, Sec. 3.4
NLJ 93-318
By lip, NARA, Date 5-12-95

Ralph A. Dungan
Special Assistant
to the President

cc - Mr. Lawrence O'Brien
Mr. McGeorge Bundy

CONFIDENTIAL

File

92

DEPARTMENT OF STATE
EXECUTIVE SECRETARIAT

December 15, 1963

To: Mr. McGeorge Bundy
The White House

From: Benjamin H. Read
Executive Secretary

Attached are copies of the AID-Mr. Bell memorandum to the Acting Secretary, together with an additional copy for Mr. Dungan. I asked Mr. Dungan whether he wished to have this delivered to his home. He feels that it will not be necessary but will take care of the matter the first thing in the morning.

Attachment

Mr Bundy

430

DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON

92a

December 15, 1963

OFFICE OF
THE ADMINISTRATOR

MEMORANDUM FOR: The Honorable George W. Ball
Acting Secretary of State

Attached is a draft signing statement on the foreign aid bill for the possible use of the President.

The President will probably wish to sign the bill tomorrow morning, since the Appropriation Bill would be subject to a point of order in the House until after the Authorization Bill has been signed.

The attached draft has the following advantages:

- It includes reference to the Gruening Amendment in accordance with our discussion of the other evening;

- It includes reference to the Cuba property-owners amendment, as strongly desired by ARA;

- It indicates the President's intention to respond to the Congressional desire that he review the foreign aid program, without (I trust) implying that a sweeping reorganization is in prospect.

At the same time, the draft seems to me long and contentious. It may be better to do without a signing statement altogether.

DEB

David E. Bell

Attachment

cc: Mr. Bundy (White House) Mr. Dungan (White House)
Gov. Harriman
Mr. Chayes
Mr. Hughes, BOB

92-b

12-15-63

DRAFT PRESIDENTIAL STATEMENT ON THE FOREIGN ASSISTANCE ACT OF 1963

I have today signed the Foreign Assistance Act of 1963.

Like Presidents Kennedy, Eisenhower, and Truman before me, I regard strong, efficient economic and military assistance programs as vital to the security of the United States and the free world and essential to the positive exercise of American foreign policy. Accordingly, I am glad to sign this Act which authorizes our mutual defense and assistance programs for the present fiscal year.

At the same time, I am disturbed by two aspects of the consideration of foreign assistance legislation this year.

I greatly regret the introduction into the statute of damaging restrictions on the conduct of U.S. foreign policy in a world of rapidly-changing events and continuing peril to freedom.

For example, the Act prohibits assistance to any country "engaging in or preparing for aggressive military efforts" against the United States or any aid recipient nation. The United States of course does not and will not aid any nation engaging in aggression. It is quite another matter, however, in a world of tensions between many nations to determine and proclaim with certainty that a country is preparing for aggressive military efforts against another country at some future time. The legislative history of

Congressional intent in adopting this provision is itself contradictory and ambiguous. I am directing the Secretary of State to advise me at any time he considers that the application of the provision is required, on the basis of convincing evidence and careful interpretation. But I cannot avoid expressing my strong view that it is a mistake to attempt to deal with such complex issues through the device of legislative provisions which can only prove cumbersome and awkward to apply in practice.

A second example is the restriction on possible future aid to a free Cuba. I wish to make clear that, in the event of the establishment of a government in Cuba which is free of Communist domination and which is prepared to live peaceably and harmoniously with its sister republics of the Americas, I will exercise the discretionary authority provided in the Act and will provide appropriate support to such a government. In taking that action, I am sure I would be reflecting the wishes of the great majority of the American people, who would not want a Cuba, liberated from the Castro tyranny and faced with enormous and urgent tasks of repairing the ravages of Communism, to be forced to wait for sorely needed assistance until it had taken steps to return or to provide equitable compensation for property the Castro government had taken. Although I intend to protect fully the interests of American investors abroad, in Cuba and in all other countries, I consider that once Cuba is free, the first obligation of the

United States would be to extend the hand of friendship warmly and generously to the free Cuban people.

In addition to adopting these and other constricting limitations on U. S. foreign policy, the Congress this year has in this Act reduced severly the funds authorized for foreign assistance, and is considering even further reductions at the appropriations stage. I have already expressed my alarm at the prospect of a policy of U. S. weakness and retreat, forced by what seem to be essentially arbitrary financial limitations not related to an analysis of U. S. interests in today's world. I hope very strongly that the Congress will provide the essential funds needed.

Looking ahead to next year, I hope very much that we can achieve a handling of foreign assistance legislation that will be more expeditious and more satisfactory from the standpoint of the Congress as well as of the Executive Branch.

I agree with the Congress on the necessity for increasing the efficiency of our aid operations, and will insist on the steps to achieve it - more self-help from recipients, higher quality projects, eliminating excess staffing, etc.

In accordance with the suggestions of the Senate Foreign Relations Committee, I have directed that a careful re-examination of the aid program be undertaken. I have asked that interested Members of Congress and informed private citizens be consulted, with a view to presenting to the

Congress any recommendations that hold promise of achieving U. S. interests more effectively and economically.

Finally, I urge the Congress to reflect seriously on the significance to the United States of recent international developments, which seem to permit of some cautious hope of a reduction in the risk of all-out nuclear war, but by the same token imply if anything an increase in the effort to achieve by subversion and infiltration communist domination in the under-developed countries. Asia, Africa, Latin America - these are the crucial theatres of this decade where freedom must win or fail. Strong programs of United States economic and military aid - in conjunction with those of other advanced countries and of international organizations - are essential to freedom's success. In the effort to achieve efficiency, let us not lose sight of our goal, which is the progress of free men.

IMMEDIATE RELEASE DECEMBER 16, 1963

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Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT OF THE PRESIDENT
ON SIGNING H. R. 7885, THE FOREIGN
ASSISTANCE ACT OF 1963.

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I have already directed Administrator Bell to put our foreign operations on a sounder basis -- to insist on maximum effort by aid recipients -- and to intensify our efforts to eliminate excess or ineffective personnel. We will resist reorganization for reorganization's sake -- but we do intend to present to the Congress next year a more effective, efficient aid program.

Our cautious new hopes for a reduction in the risk of all-out war may only imply an increase in communist efforts to prevail through economic, political and conventional military means, particularly in the under - developed countries. The aid programs of Truman, Eisenhower and Kennedy are needed now more than ever -- this is no time to fail.

# # # #

CONFIDENTIAL

Foreign Aid

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DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON

THE A[illegible] OF [illegible]RATOR

DEC 15 1963

MEMORANDUM FOR: The Secretary of State
The Secretary of Defense
The Director, Bureau of the Budget
The Honorable McGeorge Bundy
The Honorable Ralph Dungan

Attached is the memorandum prepared for the 11:30 meeting on Monday with the President concerning the FY '65 foreign aid program.

David E. Bell

David E. Bell

Attachment

DETERMINED TO BE AN ADMINISTRATIVE MARKING NOT NAT'L SECURITY INFORMATION, E.O. 12356, SEC. 1.1(a)
BY [illegible] ON 2-17-93

CONFIDENTIAL

94a

DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON

OFFICE OF
THE ADMINISTRATOR

December 15, 1963

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Foreign Aid Program for FY 1965

Of the numerous issues of substance and presentation concerning the FY 1965 foreign aid program, those that most urgently require your consideration are:

- what figures should be included in the forthcoming Budget;

- what work do you wish undertaken on the possibilities of "major revisions" in the program;

- what public impression do you wish to begin creating now about the 1965 aid program and your attitude toward it?

Budget Figures

A strong, constructive military assistance program would require a minimum of $1.2 billion in new appropriations for FY 1965. It is proposed to transfer perhaps $400 million of this amount to the regular Defense Department budget, (including a new, separate military sales credit fund). This would leave about $800 million identified as military aid, and it is hoped to handle this, along with other Defense Department matters, through the military affairs committees, rather than the foreign affairs committees of the Congress. I understand that Secretary McNamara has discussed these proposals with you.

A strong, constructive economic assistance program would require a minimum of $2.4 billion and a maximum of $3.0 billion in new appropriations for FY 1965. The higher figure is generous. It would be needed if all developments were favorable and recipient countries - notably including Brazil - undertook needed self-help measures, thereby justifying larger aid from us. The lower figure is a more hard-boiled guess as to what we might actually commit during the year, on the realistic assumption that a number of countries will not undertake proper self-help measures. Attached are tables showing the breakdown of these figures.

In addition to program requirements, the President will need to consider Congressional consequences of his aid budget figures. The two main considerations are:

- the advantage of presenting a relatively low figure, which would respond in some degree to the widespread Congressional desire for a smaller, tighter program; and

- the risk that a relatively low figure would nevertheless be cut heavily by the Congress (the average cut over the last ten years has been 19 percent of the Executive Branch request).

If it were possible to reach some advance agreement with Congressional leaders that a tight recommendation by the President would receive favorable treatment in the legislative process, such a course would clearly be desirable. It would remove much of the artificiality that has surrounded this legislation in recent years.

Such advance agreement does not seem feasible, however, in view of the attitude of Mr. Cannon and Mr. Passman. Accordingly, it may be preferable for the President to propose a generous Budget figure, perhaps \$3.0 billion, in the expectation that it will be cut severely, but that the final appropriation will be larger than if the President had started with a tight Budget figure.

For comparison, for FY 1964 the original economic assistance request was for \$3.1 billion. The final appropriation is likely to be \$2.0 billion.

Taking military and economic aid together, the FY 1964 request was \$4.5 billion. The FY 1965 request might look substantially smaller at \$800 million military plus \$3.0 billion economic. Taking into account \$600 million of transfers and adjustments, however, an FY 1965 request of \$3.8 billion would be equivalent to an FY 1964 request of \$4.4 billion.

Study of "Major Revisions"

The Senate Foreign Relations Committee, and several individual Senators including Fulbright, have called on the Executive Branch to conduct a "basic review" of the foreign aid program and to come forward with major revisions next spring. There is no consensus in the Congress on what changes should be made. Nor am I sanguine that major revisions can be found which would not harm the fundamental purposes of the program, since I believe the basic causes of Congressional requests for a revamping of aid are rooted in objections to some elements of our foreign policy and in Congressional frustration with the world as it is -- conditions which could not be relieved by reorganizing the aid program.

Nevertheless, in deference to the depth of feeling of Senator Fulbright and others, I think we must consider the matter very seriously.

Accordingly, I recommend that you direct that a careful re-examination of the program be undertaken, including consultation with members of Congress and knowledgeable persons from outside the Government, with instructions to make an initial report to you by January 15th. Since we have been actively pursuing this subject with other U.S. Government agencies and private sources for several weeks, a good deal of spade work has already been done. I think a useful set of alternatives and recommendations could be put before you by January 15th, although some questions could probably not be answered by then.

Public Impression

I recommend that the President begin establishing a public impression of his attitude toward foreign aid which blends the following elements:

- strong support for effective programs of economic and military assistance for underdeveloped countries as part of a positive, constructive, U.S. foreign policy; and

- insistence on greater efficiency in the aid program - requiring more self-help from recipients, learning from past experience, trimming excess staff, etc.

I suggest that the best early opportunity to make these points would be in a statement in connection with signing the foreign aid authorization act. We will propose a draft and include in it an indication that you have called for a careful re-examination of the aid program in view of Congressional desires that it be revamped. I think it is important to mention this but that it should not be emphasized too much, lest it arouse at this time exaggerated expectations of a sweeping reorganization.

David E. Bell

David E. Bell

Attachment

CONFIDENTIAL

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TABLE 1

ECONOMIC AID APPROPRIATIONS

(Millions of Dollars)

	FY 1963	FY 1964			FY 1965	
		Cong. Request	Authorizing Legislation	HAC Action	Maximum	Minimum
Development Loans (outside of Latin Am.)	975.0	1060.0	925.0	600.0	1050.1	910.0
Development Grants (outside of Latin Am.)	225.0	257.0	220.0	150.0	254.0	222.8
Alliance for Progress	525.0	850.0	705.0	530.0	780.0	582.0
Supporting Assistance	395.0	435.0	380.0	300.0	365.0	329.7
Contingency Fund	250.0	300.0	160.0	50.0	300.0	150.0
Contributions to International Organizations	148.9	136.1	136.1	100.0	145.6	145.6
Other (Administrative Expenses, etc.)	55.0	86.5	76.0	71.7	73.3	73.3
TOTAL New Obligational Authority	2573.9	3124.6	2602.1	1801.7	2967.9	2413.4
Plus Carryover, Recoveries, etc.	197.2	184.2	284.5	411.5	78.1	78.1
Less Unused	337.6	--	--	--	--	--
Total Program	2433.5	3308.8	2886.6	2213.2	3046.0	2491.5

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TABLE 2

ECONOMIC AID PROGRAMS

(Millions of Dollars)

	FY 1963	FY 1964			FY 1965	
		Cong. Request	Authorizing Legislation	HAC b/ Action	Maximum	Minimum
Latin America	555.7	913.5	809.0	635.0	805.5	609.5
Far East	443.7	451.4	389.7	276.0	428.3	365.0
Near East & South Asia	991.7	1088.9	1006.8	846.0	992.8	930.0
Africa	266.2	338.5	287.3	145.0	284.0	232.0
Non-Regional a/	176.2	216.5	211.9	134.2	235.4	205.0
Unprogrammed	--	300.0	181.9	177.0	300.0	150.0
TOTAL PROGRAM	2433.5	3308.8	2886.6	2213.2	3046.0	2491.5

a/ Includes contributions to international organizations, administrative expenses, and unallocable program overhead.

b/ Preliminary estimate of regional distribution.

CONFIDENTIAL

Mr Smith

95

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Foreign Aid

~~SECRET~~ December 14, 1963

McGB -

It's about time to put out the request for WH review of the chief aid program changes required by the Hill cuts. Aside from giving the President a chance to sign off on what are in effect major foreign policy decisions, this exercise could also have real educational value. It will show the President the cost to us from the Hill's cuts and help give him a useful feel for where our aid money is going.

RWK

Attach. RWK Draft Nasm to SecState, SecDef and AdAID dtd 12/14/63

~~SECRET~~

95a

~~SECRET~~

December , 1963

NATIONAL SECURITY ACTION MEMORANDUM ________________

MEMORANDUM FOR THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

SUBJECT: Distribution of Foreign Aid Cuts

The President wishes to review the changes proposed in the FY 1964 foreign aid program as a result of Congressional action this year, since the way in which these cuts are distributed may involve important foreign policy decisions.

Therefore, AID and the Department of Defense should outline briefly the major changes proposed from the $4.5 billion FY 1964 presentation figure, with a brief recapitulation of the reasons for each. Any reductions in commitments or implied commitments should also be appropriately mentioned. I suggest that individual mention need be made only of changes over $10 million, e.g. a cut in a country program, lumping the remainder together in appropriate categories.

The Department of State should submit any alternative recommendations with respect to these program changes which it feels required from the foreign policy point of view.

I would like to be able to show these reports to the President by 27 December.

cc: Director, of the Budget

McGeorge Bundy

~~SECRET~~

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December 14, 1963

MEMORANDUM FOR MESSRS. DUNGAN
BUNDY
O'BRIEN

If the President has to sign the aid authorization bill Monday so the appropriation process can go forward, here is a chance to suggest a strong statement.

It would serve two purposes. It might help to stem the tide toward the further sharp cuts Passman wants. Second, it could provide an occasion to snipe *inter alia* at the Gruening Amendment, as State/AID recommended be done when the bill was signed. Attached is low-key way of putting the Congress on notice that Gruening language is inoperable, but perhaps this should be beefed up.

My language isn't the most felicitous but if we're to suggest a statement by Monday, we'd better start now.

R. W. KOMER

Foreign Aid

~~SECRET~~

December 14, 1963/10:15 am

96a

In signing the FY 1964 foreign aid authorization bill, I feel it my duty as President to call upon the Congress to provide this government with the sinews needed to protect the interests of the United States.

Every President since the end of World War II has seen foreign aid as indispensable to an effective foreign policy. No President has seen this program treated so harshly by the Congress as my predecessor this year. Now, after the Congress has cut $900 million from President Kennedy's request, the House Appropriations Subcommittee has recommended a further $800 million cut.

The United States could not even live up to existing commitments--to the United Nations, to the Alianza, to our key allies--were foreign aid to be cut again this much. Further slashes in a bill already slashed will seriously impair my ability to carry out the kind of policy this nation needs and wants.

I have pledged myself to economy in government. I intend to carry out those pledges. But false economy is poor policy.

I have also pledged myself to fight for those policies which will continue to move this country forward at a time of tragedy when we can least afford to falter. The Congress and the electorate have assured me of their fullest support. Such support is as important in foreign affairs as it is in domestic policy.

I appreciate the desire of the Congress to make sure foreign aid is spent wisely. But its increasing tendency to hedge in the Executive with restrictions deprives the President of the crucial flexibility he needs. How am I to determine, for example, whether a nation is preparing to commit aggression against another? While I will faithfully carry out the mandates of the Congress, I intend to interpret them prudently and to act with due caution, where vital foreign policy interests of this nation may be at stake.

This country needs a strong aid program--neither wastefully large nor foolishly small. I will revamp it as necessary to make sure we get a dollar's worth for a dollar spent. But the best administered program in the world will not suffice if the means to carry it out are cut below the danger point.

96-b

~~SECRET~~

McGB: December 13, 1963

Your copy of attached seems not to have arrived. We're in the old bind between those who say don't engage the President's prestige in losing causes, and those who say this strategy is undermining our ability to conduct foreign policy. But the brute fact is that we're so close to the margin now as to make every dollar count. And this year's floor will be next year's ceiling.

I frankly don't know what you could do fruitfully at this point. Harriman says a vote to cut is a vote for Khrushchev, but this doesn't move us forward either. Yet mustn't we warn the President of such infinite trouble ahead with so many clients as to warrant his weighing this fully against his political advice?

LBJ must sign aid authorization, probably Monday, before Congress can take up appropriation. After asking AID daily for a statement, I'm doing one. Here at least we can weigh in.

RWK
RWK

Mac — returning this for your background in case you want to redraft my first effort.

~~SECRET~~

96-c

December 13, 1963

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Fight in House Appropriations Committee Mark-up over Foreign Aid Bill

The Passman subcommittee has just finished marking up the foreign aid appropriations bill. His subcommittee has recommended to the full committee for action tomorrow, Saturday morning, a bill of $2.8 billion plus carryovers. This figure is $800 million less than the authorization, $1.7 billion less than the Administration request, and in fact, contains $1.3 billion less than the similar bill last year.

A table comparing the various figures is attached at Tab A.

This recommendation of the Passman subcommittee is so low that you may wish to consider whether and to what extent it seriously jeopardizes the national interest and the security of the United States. In addition, the reduction in certain categories of appropriations will have major foreign policy implications and might indicate American weakness and withdrawal -- especially in Latin America, in Asia and in the United Nations.

We therefore believe that we should mount a serious effort to restore at least some of the funds by action of the full committee tomorrow morning. A package of $200 million of restorations in the full committee would assist in repairing the worst damage done by the subcommittee action and is probably the most which the Committee might accept.

Generally speaking, we would strongly recommend:

(a) a restoration of $30 million in International Organizations in order that we may live up to our international commitments to international organizations (this is especially important because of the up-coming fight over the Soviet vote for failure to pay dues and assessments and the President's speech to the U. N. next week);

(b) a restoration of $60 million for the Alliance for Progress and the Inter-American Development Bank's Social Progress Trust Fund in order that we may fulfill our responsibilities within the Alliance;

(c) $90 million for Development Loans, because our existing commitments to India, Pakistan and Turkey under consortium arrangements already require $625.2 million, - more than has been recommended for appropriation; and,

(d) $20 million for Supporting Assistance, which is necessary to support the military forces of hard-pressed countries like Vietnam and Korea along the edge of the Communist bloc.

We would also urge that you call several senior members of the full Appropriations Committee and ask them to assist in this effort to restore $200 million, including George Mahon and Albert Thomas. We would propose to ask George Ball, Dave Bell, and Governor Harriman to call other members of the full committee to attempt to get their support for this action.

Frank M. Coffin
Acting Administrator

cc: Hon. George Ball
Hon. Lawrence O'Brien
Hon. McGeorge Bundy
Hon. Ralph Dungan

Foreign Aid

96-e

~~SECRET~~ December 14, 1963

McGB -

It's about time to put out the request for WH review of the chief aid program changes required by the Hill cuts. Aside from giving the President a chance to sign off on what are in effect major foreign policy decisions, this exercise could also have real educational value. It will show the President the cost to us from the Hill's cuts and help give him a useful feel for where our aid money is going.

RWK

RWK

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Hold for staff mtg Mon

LBJ OK'd but wants no political backlash

DECLASSIFIED
E.O. 12356, Sec. 3.4
NLJ 93-318
By ing, NARA, Date 5-12-95

~~SECRET~~

Foreign Aid.

96-f

December 13, 1963

MEMORANDUM FOR THE PRESIDENT

I just had a call from Bryce Harlow who spoke to President Eisenhower about foreign aid. President Eisenhower is going to call Congressman Halleck immediately and urge a $3.2 billion figure for foreign aid.

As soon as we get some report on this call, I will let you know.

Ralph A. Dungan

cc: Mr. Bundy
Mr. O'Brien

96-d

TAB A

	FY 1963 Appropriation	FY 1964 Authori-zation	HAC Appropri-ation
Development Loans	975	925	600
Development Grants	225	220	150
Alliance for Progress	525	525	430
Social Progress Trust Fund (Inter-American Development Bank)	170	180	100
Supporting Assistance	395	380	300
Contingency Fund	250	160	50
Contributions to International Organizations	149	136	100
Other	85	76	71.7
MAP	1,325	1,000	1,000
	4,099	3,602	2,802

foreign aid

97

December 13, 1963

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Fight in House Appropriations Committee Mark-up over Foreign Aid Bill

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Frank M. Coffin
Acting Administrator

cc: Hon. George Ball
Hon. Lawrence O'Brien
Hon. McGeorge Bundy
Hon. Ralph Dungan

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Other	85	76	71.7
MAP	1,325	1,000	1,000
	4,099	3,602	2,802

655

98

STATEMENT OF THE PRESIDENT
on Signing HR 9499, the Foreign Aid
Appropriations Act of 1964

I have today signed the Foreign Aid and Related Agencies Appropriations Act for Fiscal Year 1964. The funds made available under this bill will enable the United States to continue its efforts, in conjunction with other free countries, to assist in preserving the peace and security of free nations by building strength and independence.

I am particularly gratified in the refusal of the Congress to adopt provisions which would unduly restrict executive flexibility in the field of foreign affairs in keeping with our constitutional duties. The provisions relating to Export-Import Bank credit will be carefully followed, and I intend to notify the Congress fully and promptly of any action which might be taken.

The foreign assistance program was fully and frankly discussed this year. After this extensive review, I remain firmly convinced--as were my predecessors in this office--that the foreign aid program is essential to the security of the United States and constitutes a vital link between our country and the peoples of the developing nations.

But we must press on--to make this program more efficient, more effective, more tightly administered with harder criteria, less expensive and more responsive to our foreign policy needs.

The program for fiscal year 1965 will reflect our progress. I look forward to continuation of bi-partisan support that has characterized the assistance effort since 1947. Leaders on both sides of the aisle have long recognized that the foreign aid program protects and promotes the interests of all Americans. This assistance effort is essential to our continued leadership of the Free World.

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~~CONFIDENTIAL~~

DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON

Foreign Aid

DEC 12 1963

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OFFICE OF
THE ADMINISTRATOR

MEMORANDUM FOR: The Secretary of State
The Secretary of Defense
The Director, Bureau of the Budget
The Honorable McGeorge Bundy
The Honorable Ralph Dungan

In response to suggestions concerning my previous memorandum on the '65 foreign aid budget, I have prepared the attached much briefer draft, limited to questions the President must consider immediately.

Kermit Gordon is seeking to set up a date with the President for Saturday to discuss the question of the 1965 foreign aid budget figure. — Set for 11:30 Monday
ab

I would propose to use the attached memorandum, as modified by your comments, as the agenda paper for such a meeting.

David E. Bell

David E. Bell

Attachment

cc: Mr. Ball
Governor Harriman

DECLASSIFIED
E.O. 12356, Sec. 3.4
NLJ 93-316
By lip, NARA, Date 8-20-93

~~CONFIDENTIAL~~

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DRAFT
12/12/63

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Foreign Aid Program for FY 1965

Of the numerous issues of substance and presentation concerning the FY 1965 foreign aid program, those that most urgently require your consideration are:

- what figures should be included in the forthcoming Budget;

- what work do you wish undertaken on the possibilities of "major revisions" in the program;

- what public impression do you wish to begin creating now about the 1965 aid program and your attitude toward it?

Budget Figures

A strong, constructive economic assistance program would require $2.4 - $3.0 billion in new appropriations for FY 1965. The higher figure is relatively generous; it would be needed if all recipient countries - notably including Brazil - undertook needed self-help measures, thereby justifying larger aid from us. The lower figure is a more hard-boiled guess as to what we might actually commit during the year, on the realistic assumption that a number of countries will not undertake proper self-help measures. Attached are tables showing the breakdown of these figures.

A strong, constructive military assistance program would require about \$1.2 billion (without adjusting for any transfers from military assistance to the regular Defense Department budget).

In addition to program requirements, the President will need to consider Congressional consequences of his aid budget figures. The two main considerations, in my judgment, are:

- the advantage of presenting a relatively low figure, which would respond in some degree to the widespread Congressional desire for a smaller, tighter program; and

- the risk that a relatively low figure would nevertheless be cut heavily by the Congress (the average cut over the last ten years has been 19 percent of the Executive Branch request).

On balance, my recommendation is for a figure in the range of \$4.1 billion (which compares to President Kennedy's budget figure of \$4.9 and subsequently reduced request of \$4.5), reduced to the extent of any transfers to the Defense budget. Since it is hoped to transfer about \$400 million in military assistance items, I think a figure of about \$3.8 billion is proper at this time (\$2.9 billion economic aid plus \$800 million military aid).

Study of "Major Revisions"

The Senate Foreign Relations Committee, and several individual Senators including Fulbright, have called on the Executive Branch to conduct a "basic review" of the foreign aid program and to come forward with major revisions next spring. There is no consensus in the Congress on what changes should be made. Nor am I sanguine that major revisions can be found which would not harm the fundamental purposes of the program, since I believe the basic causes of Congressional requests for a revamping of aid are rooted in objections to some elements of our foreign policy and in Congressional frustration with the world as it is -- conditions which could not be relieved by reorganizing the aid program.

Nevertheless, in deference to the depth of feeling of Senator Fulbright and others, I think we must consider the matter very seriously.

Accordingly, I recommend that you direct that a careful re-examination of the program be undertaken, including consultation with members of Congress and knowledgeable persons from outside the Government, with instructions to make an initial report to you by January 15th. Since we have been actively pursuing this subject with other U. S. government agencies and private sources for several weeks, a good deal of spade work has already been done. I think a useful set of alternatives and recommendations could be put before you by January 15th, although some questions could probably not be answered by then.

Public Impression

I recommend that the President begin establishing a public impression of his attitude toward foreign aid which blends the following elements:

- strong support for effective programs of economic and military assistance for underdeveloped countries as part of a positive, constructive, U.S. foreign policy; and

- insistence on greater efficiency in the aid program - requiring more self-help from recipients, learning from past experience, trimming excess staff, etc.

I suggest that the best early opportunity to make these points would be in a statement in connection with signing the foreign aid authorization act. We will propose a draft and include in it an indication that you have called for a careful re-examination of the aid program in view of Congressional desires that it be revamped. I think it is important to mention this but that it should not be emphasized too much, lest it arouse at this time exaggerated expectations of a sweeping reorganization.

David E. Bell

Table 1

AID APPROPRIATIONS

New Obligational Authority - By Appropriation Account
(millions of dollars)

	FY 1963	FY 1964		FY 1965	
		Cong. Request	Auth. Legislation	Alternative 1	Alternative 2
Development Loans (outside of Latin Am.)	975.0	1060.0	925.0	1050.1	910.0
Development Grants (outside of Latin Am.)	225.0	257.0	220.0	254.0	222.8
Alliance for Progress	525.0	850.0	705.0	780.0	582.0
Supporting Assistance	395.0	435.0	380.0	365.0	329.7
Contingency Fund	250.0	300.0	160.0	300.0	150.0
Contributions to International Organizations	148.9	136.1	136.1	145.6	145.6
Other (Administrative Expenses, etc.)	55.0	86.5	76.0	73.3	73.3
TOTAL new Obligational Authority	2573.9	3124.6	2602.1	2967.9	2413.4
Plus Carryover, Recoveries, etc.	197.2	184.2	315.2	78.1	78.1
Less Unused	337.6	-	-	-	-
Total Program	2433.5	3308.8	2917.3	3046.0	2491.5

TABLE 2

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AID PROGRAMS

(Millions of Dollars)

	FY 1963	FY 1964		FY 1965	
	Gross Obligations	Cong. Request	Authorizing Legislation	Alt. 1	Alt. 2
Latin America	555.7	913.5	815.0	805.5	609.5
Far East	443.7	451.4	404.4	428.3	365.0
Near East & South Asia	991.7	1088.9	1006.8	992.8	930.0
Africa	266.2	338.5	297.3	284.0	232.0
Non-Regional a/	176.2	216.5	211.9	235.4	205.0
Unprogrammed b/	--	300.0	181.9	300.0	150.0
TOTAL PROGRAM	2433.5	3308.8	2917.3	3046.0	2491.5

a/ Includes contributions to international organizations, administrative expenses and unallocable program overhead.

b/ Includes Contingency Fund in FY 1964 and FY 1965. Ultimate regional allocation unknown until used.

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Foreign Aid
✓ Staff Meeting Wednesday
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DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON

OFFICE OF
THE ADMINISTRATOR

December 10, 1963

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Your Meeting with Congressman Passman

This memorandum provides background on the aid bill for your discussion with Congressman Passman.

If the past is any guide, Passman will attempt to seek an agreement on an aid appropriation figure which:

(a) will be so general that he can later claim that it includes appropriations for related agencies such as the Peace Corps; (there is $310 million in the bill for such items, over and above economic and military aid);

(b) reduces the amount of new obligational authority (NOA) a substantial amount by substituting reappropriated carryovers for it, thus allowing him to get public credit for an apparent sharp cut below the authorizing figure. We have justified before the Senate Committee $3.6 billion in NOA plus use of all available carryovers, with one exception: $127 million of unobligated Contingency Fund money. (If he wants to reappropriate that $127 million, he could reduce the $3.6 billion accordingly without hurting the program.)

He may also confuse the issue by describing as carryovers, sums which aren't really carryovers (such as the funds set aside to back our investment guarantees).

As an example, Passman could "offer" a $3.0 billion appropriation with $600 million of carryover, (a) having in mind $2.7 billion for foreign aid plus $300 million for the Peace Corps and other agencies, (b) counting as A.I.D. carryovers certain sums which we do not regard as carryovers, and therefore intending to deny us reappropriation of some carryovers which we would assume would be included in a $600 million figure; and (c) planning to refuse to give us deobligation-reobligation authority for Development Grants and Supporting Assistance, which provides us additional funds yearly for these purposes.

The attachment relates all of these factors to this year's appropriation bill. While you may wish to press initially for the appropriation of the full \$3.6 billion authorized in the Senate-House Conference, the attached paper shows also what we would consider a desirable distribution of \$3.4 billion and \$3.2 billion of NOA. (The attachment assumes reappropriation of the \$127 million unobligated Contingency Fund as well as all carryovers.)

In addition, Mr. Passman may argue that after appropriating \$3.9 billion for us last year, we have unused money left at the end of the year (unobligated balances) of over \$500 million. In fact, we committed \$3.7 billion in FY 1963 (he is ignoring the fact that we had carry in balances from FY 1962, as well as carry out balances from FY 1963).

If you wish any further information, we shall be glad to provide it.

David E. Bell

David E. Bell

Attachment

cc: Secretary of State
Mr. Lawrence O'Brien
Mr. Ralph A. Dungan
Mr. McGeorge Bundy

100a

ATTACHMENT

POSSIBLE HOUSE APPROPRIATIONS COMMITTEE FIGURES

The $3.2 and $3.4 billion alternative levels below refer only to New Obligational Authority (NOA) for A.I.D. economic aid and the Military Assistance Program. They (a) assume the carryover of all unobligated balances into FY 1964 (including $127 million of the Contingency Fund which was returned to the Treasury); (b) do not include any NOA or carryover for Peace Corps or any of the other activities in the overall Appropriations Bill, which amount to about $310 million; and (c) assume that deobligation-reobligation authority will be continued for economic annual accounts (Development Grants and Supporting Assistance, etc.) providing an additional estimated $31 million. If this authority is not granted, though we hope it will be because of its great value year after year, the following funds should be added to the appropriations: Development Grants - $16 million, Alliance for Progress (Grants) - $5 million, and Supporting Assistance - $10 million. Each of the assumptions above should be verified with Congressman Passman.

The total unobligated balances assumed to be carried over into FY 1964 amount to $402.1 million. Of this, $193.3 million does not need reappropriation, but $208.8 million must be reappropriated. The table below is based on Passman's statement that he wishes to reappropriate all carryovers.

(in Millions of Dollars)

	Authorization	NOA $3.4	NOA $3.2	Carryovers (Annual & No-Year)
Development Loans	925	900	850	96.2
Development Grants	220	185	162	47.3
Alliance for Progress Loans and Grants	525	500	425	96.3
IDB Trust Fund (SPTF)	180	180	160	0
Supporting Assistance	380	380	365	6.0
Contingency Fund	160	50	33	127.0
International Organizations	136	130.8	130.8	.3
Administration - AID	54	54	54	2.0
- State	3	3	3	0
American Schools and Hospitals	19	19	19	.1
Investment Surveys	0	0	0	1.1
Military Assistance Program	1000	1000	1000	25.8
TOTALS	3,602	3,401.8	3,201.8	402.1

Foreign Aid

~~SECRET~~

December 4, 1963

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McGB:

Dave Bell's 3 December memo on how to revamp FY '65 aid program worries me on one key score. You're asked to comment on it, so following might help.

Dave argues in essence (p.4) that we go for an austere budget figure for foreign aid, i.e. ask no more than \$2.4 - \$2.6 billion (excluding MAP). The idea would be that here's a hard figure we defend to the death rather than accepting major cuts as in prior years.

To me this ignores the facts of life--especially on how much we can educate Congress in an election year. As Dave admits, the chief risk is that Congress would cut sharply even our low figure. So I'd argue vigorously for more cut insurance. Though admitting we ought to ask for less than our \$3.1 billion FY 64 request, I'd go for \$2.9 rather than \$2.6. The President would, of course, have the best feel on an issue like this.

But I'm with Dave on not going any further than he suggests toward redoing the AID program. In fact, AID is vastly improved over three years ago, and Hill bitching is merely symbolic of general malaise--it has no firm thrust.

\- - - - - - - - - - -

I've been learning by doing on this foreign aid business, and think I've helped a bit. At any rate, nobody seems to have the key to getting much out of Congress in this field. So I offer my sense that we are at the eleventh hour on FY'64--if the President doesn't weigh in now, we won't get the bill through by Xmas and won't get the minimum \$3.35 billion we need. My fear is that this one may slip through the crack at a time when ~~we're~~ all are so busy on a lot of other crucial things.

RWK
RWK

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~~CONFIDENTIAL~~

DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON

OFFICE OF
THE ADMINISTRATOR

December 3, 1963

MEMORANDUM FOR: The Secretary of State
The Secretary of the Treasury
The Secretary of Defense
The Director, Bureau of the Budget
The Honorable McGeorge Bundy
The Honorable Theodore Sorensen

Attached is a draft memorandum for the President concerning the FY 1965 foreign aid program. I would appreciate comments and suggestions at your early convenience. I believe that a memorandum like this should go forward to the President, and if possible be discussed with him, before the end of the week.

For obvious reasons, the draft should be given very restricted circulation.

David E. Bell

David E. Bell

DECLASSIFIED
E.O. 12356, Sec. 3.4
NLJ 93-316
By [illegible], NARA, Date 8-20-93

~~CONFIDENTIAL~~

101-b

~~CONFIDENTIAL~~

D R A F T

December 3, 1963

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Foreign Aid Program for Fiscal Year 1965

We need early guidance from you on what changes you want us to make in preparing the FY 1965 foreign aid program for presentation to the Congress.

The attached memorandum discusses the issues. In summary, we believe much can be done to administer the program more efficiently, to serve U.S. interests at lower cost, to operate with tighter, harder criteria. We support Secretary McNamara's proposal to split off military from economic aid and handle the former through the Military Affairs Committees of the Congress. If Congressional understanding and concurrence can be achieved, we would urge a substantially lower Budget recommendation for FY 1965 than was recommended for FY 1964.

Together, these proposals would in our judgment create a somewhat improved impression of the foreign aid program in the Congress. The program would look smaller, more tightly controlled, better administered. But these proposals would not constitute the "basic revisions" urged by some Congressmen. We have not discovered any such "basic" changes that seem to us feasible -- nor do we agree with those offered in the Congress (e.g. stopping all military aid to Latin America, arbitrarily limiting our aid programs to fifty countries).

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Consequently we believe that the foreign aid program for FY 1965 presents a major legislative problem, one on which you will undoubtedly wish to have the advice of Congressional leaders, and one which we would appreciate an opportunity to discuss with you at your convenience.

The most urgent question concerns the Budget figure for FY 1965, which should if possible be settled within the next ten days.

In addition, I believe it is desirable at a very early date that the President instruct us to make a searching reappraisal of the program, and that these instructions be made known publicly.

David E. Bell

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~~CONFIDENTIAL~~ DRAFT

December 3, 1963

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MEMORANDUM ON POSSIBILITIES FOR REVAMPING THE FOREIGN AID PROGRAM FOR FISCAL 1965

This memorandum addresses the question: What changes should be made in the foreign aid program for fiscal 1965, in view of the exceptionally controversial struggle over foreign aid in the Congress this year, and of the explicit request by the Senate Foreign Relations Committee that the Executive Branch consider making major revisions in next year's bill.

This memorandum discusses in brief and summary form the major criticisms made of the program in the Congress, and our tentative judgments as to what can and should be done to respond to them.

The following paragraphs consider what seem to be the main lines of Congressional attack on foreign aid:

- the program is aimless and endless;
- it costs too much;
- other countries are not doing their share;
- the program is too much a "government-to-government" affair;
- it is loosely and inefficiently administered.

1. It is frequently asserted in the Congress that the foreign aid program is aimless and endless, that we are helping too many countries too indiscriminately.

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The correct response to this, in our opinion, is that we recognize the need for harder, sharper criteria in determining U.S. aid programs; we have made considerable headway recently in becoming more discriminating and selective; and we accept the responsibility to continue to move in this direction.

As evidence of both action and intention, the following points can be made.

- In the 20 to 30 countries where over 80 percent of our economic assistance goes, we are building U.S. programs aimed clearly at getting recipient countries on their own feet and ending U.S. aid as soon as possible, (but note that this is a process which can still be only dimly outlined for most countries, and which will range in time from a year or two to more than a decade).

- In the 50 or so countries where our economic aid is small, our aims have been reviewed and are clear and defensible (for example, in the 13 former French colonies in Africa, very small amounts of U.S. aid are being provided to make clear our support for their independence and growth, and to permit them to receive far larger amounts of aid from France without being politically vulnerable).

- in presenting the 1965 program to the Congress, we can and should emphasize our determination to terminate assistance to countries which have grown strong enough to do without it. Some sample specifics:

. announce that FY 1964 will be the last year for Development Loans to Greece and Israel; FY 1965 for Taiwan, Mexico, the Philippines;

. announce that we have ended Supporting Assistance to Turkey, and FY 1965 will see further reductions in total Supporting Assistance, as part of the continuing shift from support operations to development activities.

(But note that we would be continuing many of our major programs at high levels -- e.g., Korea, Vietnam, India, Pakistan, Turkey -- and we would be proposing to increase our total program in Latin America).

- in presenting the 1965 program to the Congress, we can and should stress our increasing reliance on self-help standards as criteria for U.S. aid decisions. Some sample specifics:

. point to progress where aid has been provided on self-help criteria, as in Chile and Colombia;

. point to U.S. withholding major aid where self-help criteria have not been met, as in Indonesia and Brazil;

. point to the establishment of the Inter-American Committee for the Alliance for Progress as a step toward establishing stronger standards of self-help by the Latin Americans themselves.

2. It is often asserted in the Congress that the foreign aid program "costs too much."

In actuality the cost of foreign aid today, in relation to the GNP, is less than half what it was in the days of the Marshall Plan. In comparison to the benefits to the Nation, all the responsible officers in the Executive Branch consider the cost very reasonable.

Nevertheless, there is a serious problem with respect to cost. Year after year, the President (Eisenhower as well as Kennedy) has sent a high request to the Congress; year after year the Congress has cut the request heavily; and there clearly has been no resulting serious damage to the national interest. This pattern has resulted in an increasing lack of confidence on the part of the Congress in the firmness of the President's foreign aid request. This is one explanation for this year's deep cuts in the authorization bill on the floor of both houses.

If the President considers it feasible, it would be highly desirable to break this past pattern, by proposing to the Congress a moderately austere - rather than a generous - Budget figure for foreign aid. A request of no more than \$2.4 - \$2.6 billion for economic aid might be desirable, in comparison with the FY 1964 request of \$3.1 billion. (If the military aid request were \$1.2 billion, the total foreign aid request for FY 1965 would be \$3.6 - \$3.8 billion, compared to the 1964 request of \$4.5 billion.)

The main question about proposing such a figure would be whether Congress would reduce it so much in the course of legislative action as to risk serious damage to U.S. interests. Perhaps it would be possible for the President to seek an advance agreement with Congressional leaders on an approximate final figure before submitting his Budget. If this were possible, it would not only represent a major advance in handling the foreign aid program more realistically in the Congress; it might also assist in reducing the potential length and controversy of the Congressional session in an election year.

Another change, not so much of substance as of form, may also assist in making the cost of the program more acceptable to the Congress. This is the proposal, recommended by Secretary McNamara, to place the economic and military assistance programs in separate bills, the latter to be considered by the Military Affairs Committees of Congress. In addition to this shift in legislative responsibility, Secretary McNamara proposes to shift some activities from the military assistance budget to the regular Defense Department budget. Senator Fulbright has advocated splitting off military from economic aid. Other members of Congress, particularly in the House, have opposed this in the past; their present position is not known.

3. It is often asserted in the Congress that other advanced countries are not carrying their share of the aid burden.

The facts are that in proportion to their national incomes, other advanced countries on the average are providing as much foreign aid as is the United States. However, certain countries are providing much less than the average (notably Canada and Italy). And all of the other countries except France provide their aid on harder terms than we do. We have accordingly been urging other countries to enlarge their aid programs, and particularly to soften their aid terms. (Some notable advances during 1963 - notably by the UK and Canada - can be pointed to in sending the 1965 program to the Congress.)

The Senate Foreign Relations Committee has suggested that the United States should spend more of our foreign aid through international financial institutions, in order to call forth larger contributions from others. We have recently completed a negotiation with other advanced countries to enlarge and to extend for three years (1965-67) our joint commitment to provide resources for the International Development Association (the "soft-loan window" of the World Bank). This negotiation was long and difficult, and those who conducted it, (mainly Secretary Dillon and Assistant Secretary Bullitt), are sure that the British, Germans, French, and others would be quite unwilling at present to increase their contributions to IDA.

Nevertheless, in deference to the attitude of those in the Congress who favor more use of international channels, and in recognition of the agreed desirability of some further shift in that direction, we suggest that the President make two proposals:

- to offer to contribute more U. S. funds (up to 100 million dollars) to the IDA. Our share of present IDA funding is about 41 percent. Our suggestion would be that we offer to put up funds equal to 40 percent of any total increase that could be negotiated by the IDA with other governments.

- to propose an increase (up to 100 million dollars) in U. S. funds available for "soft" lending through the Inter-American Development Bank. This would be accomplished simultaneously with a merger of the Social Progress Trust Fund and the Fund for Special Operations - the two present "soft windows" of the IDB. The U. S. funds would be partially matched by funds from Latin American countries.

There have been some suggestions in the Congress that we should put more of our development funds through international channels, regardless of matching. It is doubtful that there would be a consensus in the Congress in favor of such a course. Informal discussions with George Woods of the World Bank indicate that he would not want to receive large unmatched amounts of US funds to administer.

Moreover, we should not overlook the fact that bilateral aid serves U. S. interests better in many cases than multilateral aid. There are some situations (Vietnam, Korea) which cannot be handled through (present) multilateral organizations. The US can and should move more flexibly in many situations (Brazil, Bolivia) than the World Bank could. And U. S. priorities may be quite different from the World Bank's priorities (Latin America vs. Africa, for example). We do not believe, therefore, that the President should give unqualified support to multilateral financing of assistance.

4. It is often asserted that the foreign aid program is operated too much on a "government-to-government" basis.

The basic response to this should be, in our opinion, that

- we are doing far more than is generally realized to give direct support to private activities at the grass roots level, (many excellent examples can be given, ranging from the savings and loan associations stimulating private home ownership in Chile, to the rural development program as an integral part of the strategic hamlet program in the countryside in Vietnam).

- many of the "governmental" activities we are conducting are necessary to provide a basis for private activity, (transportation, education, power, for example);

- we do agree that there should be greater emphasis on using private resources in the aid program and stimulating private initiative in aided countries.

In this connection, a number of actions and intentions can be referred to by the President in presenting the FY 1965 program. Some sample specifics:

- point to the work we have been doing with the REA coops and the U.S. savings and loan associations in establishing parallel organizations in

Latin America;

- point to the sharp increase in investment survey grants, to the large number of new investment guaranty bilateral agreements, to increased activity in the Cooley Loan program, and to the rising trend of U.S. business investment (in manufacturing and service industries) in Latin America and elsewhere;

- announce the submission to the House Ways and Means Committee of the Administration's investment tax credit bill for investment in less developed countries.

5. It is often asserted in the Congress that the aid program is loosely and inefficiently administered.

The basic response, in our opinion, should be to agree that, while some action has been taken to improve the administrative efficiency of AID, much more needs to be done. Some sample specifics, to indicate how improvement is expected to be achieved:

- announce the establishment of a management evaluation unit, to review continuously the programs and staffing of AID field missions; as recommended in the McGee report;

- announce a commitment to review the staff of AID by a specific amount, to be achieved partly by eliminating marginal people and positions, and partly by a further shift from direct hire to contracting in carrying out technical assistance projects. (But note that there need to be increases in some types of personnel, such as loan officers, auditors, and staff in Washington and the field concerned with private business activities.)

- announce a program for upgrading the quality of AID personnel, including better training and expanded use of selection-out authority;

- announce a series of steps to upgrade the quality of our technical assistance work, including more careful pre-planning, better evaluation during execution, and greater reliance on expert agencies, in and out of government, for conducting projects.

- point to the completion, during 1963, of a major review and codification of AID procedures and methods;

- point to the closing of Missions (Yugoslavia, Surinam, British Honduras) and the elimination of Mission Directors (Gabon, Ivory Coast, etc.) as evidence of our desire to do our work with a minimum establishment.

(But note that we would not propose a major reorganization. Such a reorganization was made in 1961. It established unified administration of capital and technical assistance in a single agency, responsible directly to the Secretary of State and the President. A further reorganization now is unnecessary, would set back efforts to increase efficiency and would be very harmful to morale in this already much - reorganized agency.)

~~CONFIDENTIAL~~

Other Aspects of Next Year's Presentation

In addition to the consideration of substantive changes in the program, as discussed above, attention needs to be given to the most effective presentation of the program as determined by the President. Among others, the following steps would seem desirable:

1. Beginning very soon and without generating expectations of great changes, there should be public indications that the President has asked that serious study be devoted to possible changes. Efforts should be made to engage key Senators and House members in discussions on this subject for the purpose of establishing more fully what they may desire, indicating the many problems concerning their suggestions of which they are not aware, and assuring them that their opinions are both desired and carefully considered.

2. Along with the elaboration of program changes next year, there should be an affirmation of the basic changes made in the 1961 reorganization and also of our continued strong backing of sound multilateral aid institutions. If carefully balanced, this will provide the opportunity for elaborating important facts of which the Congress is still not well aware, and will protect us from charges that we are trying to deceive Congress that we are making profound changes when in fact we are doing less than that.

3. A carefully-designed public information campaign designed to emphasize an improved program would be necessary, along with Presidential efforts to get maximum Congressional backing for next year's program. In particular, we would hope the President would give

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careful consideration to attempting to encourage certain key Senators and Congressmen to mute their criticism or perhaps even to support the program.

David E. Bell

Foreign Aid
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DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON

Cy Bundy 12/3

OFFICE OF
THE ADMINISTRATOR

December 3, 1963

Cy Sent Komer 12/4

MEMORANDUM FOR: The Secretary of State
The Secretary of the Treasury
The Secretary of Defense
The Director, Bureau of the Budget
The Honorable McGeorge Bundy
The Honorable Theodore Sorensen

Attached is a draft memorandum for the President concerning the FY 1965 foreign aid program. I would appreciate comments and suggestions at your early convenience. I believe that a memorandum like this should go forward to the President, and if possible be discussed with him, before the end of the week.

For obvious reasons, the draft should be given very restricted circulation.

David E Bell
David E. Bell

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DECLASSIFIED
E.O. 12356, Sec. 3.4
NLJ 93-316
By LG, NARA, Date 5-12-95

D R A F T

December 3, 1963

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Foreign Aid Program for Fiscal Year 1965

We need early guidance from you on what changes you want us to make in preparing the FY 1965 foreign aid program for presentation to the Congress.

The attached memorandum discusses the issues. In summary, we believe much can be done to administer the program more efficiently, to serve U.S. interests at lower cost, to operate with tighter, harder criteria. We support Secretary McNamara's proposal to split off military from economic aid and handle the former through the Military Affairs Committees of the Congress. If Congressional understanding and concurrence can be achieved, we would urge a substantially lower Budget recommendation for FY 1965 than was recommended for FY 1964.

Together, these proposals would in our judgment create a somewhat improved impression of the foreign aid program in the Congress. The program would look smaller, more tightly controlled, better administered. But these proposals would not constitute the "basic revisions" urged by some Congressmen. We have not discovered any such "basic" changes that seem to us feasible -- nor do we agree with those offered in the Congress (e.g. stopping all military aid to Latin America, arbitrarily limiting our aid programs to fifty countries).

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Consequently we believe that the foreign aid program for FY 1965 presents a major legislative problem, one on which you will undoubtedly wish to have the advice of Congressional leaders, and one which we would appreciate an opportunity to discuss with you at your convenience.

The most urgent question concerns the Budget figure for FY 1965, which should if possible be settled within the next ten days.

In addition, I believe it is desirable at a very early date that the President instruct us to make a searching reappraisal of the program, and that these instructions be made known publicly.

David E. Bell

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CONFIDENTIAL DRAFT
December 3, 1963

MEMORANDUM ON POSSIBILITIES FOR REVAMPING THE FOREIGN AID PROGRAM FOR FISCAL 1965

This memorandum addresses the question: What changes should be made in the foreign aid program for fiscal 1965, in view of the exceptionally controversial struggle over foreign aid in the Congress this year, and of the explicit request by the Senate Foreign Relations Committee that the Executive Branch consider making major revisions in next year's bill.

This memorandum discusses in brief and summary form the major criticisms made of the program in the Congress, and our tentative judgments as to what can and should be done to respond to them.

The following paragraphs consider what seem to be the main lines of Congressional attack on foreign aid:

- the program is aimless and endless;
- it costs too much;
- other countries are not doing their share;
- the program is too much a "government-to-government" affair;
- it is loosely and inefficiently administered.

1. It is frequently asserted in the Congress that the foreign aid program is aimless and endless, that we are helping too many countries too indiscriminately.

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The correct response to this, in our opinion, is that we recognize the need for harder, sharper criteria in determining U.S. aid programs; we have made considerable headway recently in becoming more discriminating and selective; and we accept the responsibility to continue to move in this direction.

As evidence of both action and intention, the following points can be made.

- In the 20 to 30 countries where over 80 percent of our economic assistance goes, we are building U.S. programs aimed clearly at getting recipient countries on their own feet and ending U.S. aid as soon as possible, (but note that this is a process which can still be only dimly outlined for most countries, and which will range in time from a year or two to more than a decade).

- In the 50 or so countries where our economic aid is small, our aims have been reviewed and are clear and defensible (for example, in the 13 former French colonies in Africa, very small amounts of U.S. aid are being provided to make clear our support for their independence and growth, and to permit them to receive far larger amounts of aid from France without being politically vulnerable).

- in presenting the 1965 program to the Congress, we can and should emphasize our determination to terminate assistance to countries which have grown strong enough to do without it. Some sample specifics:

. announce that FY 1964 will be the last year for Development Loans to Greece and Israel; FY 1965 for Taiwan, Mexico, the Philippines;

. announce that we have ended Supporting Assistance to Turkey, and FY 1965 will see further reductions in total Supporting Assistance, as part of the continuing shift from support operations to development activities.

(But note that we would be continuing many of our major programs at high levels -- e.g., Korea, Vietnam, India, Pakistan, Turkey -- and we would be proposing to increase our total program in Latin America).

- in presenting the 1965 program to the Congress, we can and should stress our increasing reliance on self-help standards as criteria for U.S. aid decisions. Some sample specifics:

. point to progress where aid has been provided on self-help criteria, as in Chile and Colombia;

. point to U.S. withholding major aid where self-help criteria have not been met, as in Indonesia and Brazil;

. point to the establishment of the Inter-American Committee for the Alliance for Progress as a step toward establishing stronger standards of self-help by the Latin Americans themselves.

2. It is often asserted in the Congress that the foreign aid program "costs too much."

In actuality the cost of foreign aid today, in relation to the GNP, is less than half what it was in the days of the Marshall Plan. In comparison to the benefits to the Nation, all the responsible officers in the Executive Branch consider the cost very reasonable.

Nevertheless, there is a serious problem with respect to cost. Year after year, the President (Eisenhower as well as Kennedy) has sent a high request to the Congress; year after year the Congress has cut the request heavily; and there clearly has been no resulting serious damage to the national interest. This pattern has resulted in an increasing lack of confidence on the part of the Congress in the firmness of the President's foreign aid request. This is one explanation for this year's deep cuts in the authorization bill on the floor of both houses.

If the President considers it feasible, it would be highly desirable to break this past pattern, by proposing to the Congress a moderately austere - rather than a generous - Budget figure for foreign aid. A request of no more than \$2.4 - \$2.6 billion for economic aid might be desirable, in comparison with the FY 1964 request of \$3.1 billion. (If the military aid request were \$1.2 billion, the total foreign aid request for FY 1965 would be \$3.6 - \$3.8 billion, compared to the 1964 request of \$4.5 billion.)

The main question about proposing such a figure would be whether Congress would reduce it so much in the course of legislative action as to risk serious damage to U.S. interests. Perhaps it would be possible for the President to seek an advance agreement with Congressional leaders on an approximate final figure before submitting his Budget. If this were possible, it would not only represent a major advance in handling the foreign aid program more realistically in the Congress; it might also assist in reducing the potential length and controversy of the Congressional session in an election year.

Another change, not so much of substance as of form, may also assist in making the cost of the program more acceptable to the Congress. This is the proposal, recommended by Secretary McNamara, to place the economic and military assistance programs in separate bills, the latter to be considered by the Military Affairs Committees of Congress. In addition to this shift in legislative responsibility, Secretary McNamara proposes to shift some activities from the military assistance budget to the regular Defense Department budget. Senator Fulbright has advocated splitting off military from economic aid. Other members of Congress, particularly in the House, have opposed this in the past; their present position is not known.

3. It is often asserted in the Congress that other advanced countries are not carrying their share of the aid burden.

The facts are that in proportion to their national incomes, other advanced countries on the average are providing as much foreign aid as is the United States. However, certain countries are providing much less than the average (notably Canada and Italy). And all of the other countries except France provide their aid on harder terms than we do. We have accordingly been urging other countries to enlarge their aid programs, and particularly to soften their aid terms. (Some notable advances during 1963 - notably by the UK and Canada - can be pointed to in sending the 1965 program to the Congress.)

The Senate Foreign Relations Committee has suggested that the United States should spend more of our foreign aid through international financial institutions, in order to call forth larger contributions from others. We have recently completed a negotiation with other advanced countries to enlarge and to extend for three years (1965-67) our joint commitment to provide resources for the International Development Association (the "soft-loan window" of the World Bank). This negotiation was long and difficult, and those who conducted it, (mainly Secretary Dillon and Assistant Secretary Bullitt), are sure that the British, Germans, French, and others would be quite unwilling at present to increase their contributions to IDA.

Nevertheless, in deference to the attitude of those in the Congress who favor more use of international channels, and in recognition of the agreed desirability of some further shift in that direction, we suggest that the President make two proposals:

- to offer to contribute more U. S. funds (up to 100 million dollars) to the IDA. Our share of present IDA funding is about 41 percent. Our suggestion would be that we offer to put up funds equal to 40 percent of any total increase that could be negotiated by the IDA with other governments.

- to propose an increase (up to 100 million dollars) in U. S. funds available for "soft" lending through the Inter-American Development Bank. This would be accomplished simultaneously with a merger of the Social Progress Trust Fund and the Fund for Special Operations - the two present "soft windows" of the IDB. The U. S. funds would be partially matched by funds from Latin American countries.

There have been some suggestions in the Congress that we should put more of our development funds through international channels, regardless of matching. It is doubtful that there would be a consensus in the Congress in favor of such a course. Informal discussions with George Woods of the World Bank indicate that he would not want to receive large unmatched amounts of US funds to administer.

Moreover, we should not overlook the fact that bilateral aid serves U. S. interests better in many cases than multilateral aid. There are some situations (Vietnam, Korea) which cannot be handled through (present) multilateral organizations. The US can and should move more flexibly in many situations (Brazil, Bolivia) than the World Bank could. And U. S. priorities may be quite different from the World Bank's priorities (Latin America vs. Africa, for example). We do not believe, therefore, that the President should give unqualified support to multilateral financing of assistance.

4. It is often asserted that the foreign aid program is operated too much on a "government-to-government" basis.

The basic response to this should be, in our opinion, that

- we are doing far more than is generally realized to give direct support to private activities at the grass roots level, (many excellent examples can be given, ranging from the savings and loan associations stimulating private home ownership in Chile, to the rural development program as an integral part of the strategic hamlet program in the countryside in Vietnam).

- many of the "governmental" activities we are conducting are necessary to provide a basis for private activity, (transportation, education, power, for example);

- we do agree that there should be greater emphasis on using private resources in the aid program and stimulating private initiative in aided countries.

In this connection, a number of actions and intentions can be referred to by the President in presenting the FY 1965 program. Some sample specifics:

- point to the work we have been doing with the REA coops and the U.S. savings and loan associations in establishing parallel organizations in

Latin America;

- point to the sharp increase in investment survey grants, to the large number of new investment guaranty bilateral agreements, to increased activity in the Cooley Loan program, and to the rising trend of U.S. business investment (in manufacturing and service industries) in Latin America and elsewhere;

- announce the submission to the House Ways and Means Committee of the Administration's investment tax credit bill for investment in less developed countries.

5. It is often asserted in the Congress that the aid program is loosely and inefficiently administered.

The basic response, in our opinion, should be to agree that, while some action has been taken to improve the administrative efficiency of AID, much more needs to be done. Some sample specifics, to indicate how improvement is expected to be achieved:

- announce the establishment of a management evaluation unit, to review continuously the programs and staffing of AID field missions; as recommended in the McGee report;

- announce a commitment to review the staff of AID by a specific amount, to be achieved partly by eliminating marginal people and positions, and partly by a further shift from direct hire to contracting in carrying out technical assistance projects. (But note that there need to be increases in some types of personnel, such as loan officers, auditors, and staff in Washington and the field concerned with private business activities.)

- announce a program for upgrading the quality of AID personnel, including better training and expanded use of selection-out authority;

- announce a series of steps to upgrade the quality of our technical assistance work, including more careful pre-planning, better evaluation during execution, and greater reliance on expert agencies, in and out of government, for conducting projects.

- point to the completion, during 1963, of a major review and codification of AID procedures and methods;

- point to the closing of Missions (Yugoslavia, Surinam, British Honduras) and the elimination of Mission Directors (Gabon, Ivory Coast, etc.) as evidence of our desire to do our work with a minimum establishment.

(But note that we would not propose a major reorganization. Such a reorganization was made in 1961. It established unified administration of capital and technical assistance in a single agency, responsible directly to the Secretary of State and the President. A further reorganization now is unnecessary, would set back efforts to increase efficiency and would be very harmful to morale in this already much - reorganized agency.)

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Other Aspects of Next Year's Presentation

In addition to the consideration of substantive changes in the program, as discussed above, attention needs to be given to the most effective presentation of the program as determined by the President. Among others, the following steps would seem desirable:

1. Beginning very soon and without generating expectations of great changes, there should be public indications that the President has asked that serious study be devoted to possible changes. Efforts should be made to engage key Senators and House members in discussions on this subject for the purpose of establishing more fully what they may desire, indicating the many problems concerning their suggestions of which they are not aware, and assuring them that their opinions are both desired and carefully considered.

2. Along with the elaboration of program changes next year, there should be an affirmation of the basic changes made in the 1961 reorganization and also of our continued strong backing of sound multilateral aid institutions. If carefully balanced, this will provide the opportunity for elaborating important facts of which the Congress is still not well aware, and will protect us from charges that we are trying to deceive Congress that we are making profound changes when in fact we are doing less than that.

3. A carefully-designed public information campaign designed to emphasize an improved program would be necessary, along with Presidential efforts to get maximum Congressional backing for next year's

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program. In particular, we would hope the President would give careful consideration to attempting to encourage certain key Senators and Congressmen to mute their criticism or perhaps even to support the program.

David E. Bell

Fgn Aid 103

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MEMORANDUM FOR November 26, 1963

THE PRESIDENT

Here is a much clearer analysis of the aid bill problem by Dave Bell. He thinks he has the situation well in hand, but a personal word from you to the leadership on the four key issues (aid level, MFN for Yugoslavia/Poland, Hickenlooper and Gruening Amendments) would certainly nail these down.

The most important question of all is whether the appropriation itself will now be cut the usual additional amount. With the Congress already having lopped off around $1 billion, you might want to get a firm commitment right now that the leadership will stop Passman at the level you want. If we end up too much below $3.5 billion for FY 1964, we just won't be able to carry out the kind of foreign policy you want.

R. W. Komer
R. W. Komer

DECLASSIFIED
E.O. 12356, Sec. 3.4
NLJ 93-318
By iep, NARA, Date 5-12-95

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DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON

NOV 26 1963

OFFICE OF
THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Senate-House Conference on Foreign Aid

The conferees met last Thursday and Friday and plan to meet again tomorrow. Thus far they are going along very well with our recommendations on the points at issue, and we do not believe your intervention is required at this time.

Major differences remaining to be resolved

1. Fund level. The House figure was \$3.5 billion, the Senate \$3.7 billion. We are asking for a little better than an even split. Our figures are shown on the attached table.

2. Most favored nation treatment for Yugoslavia and Poland. This is in the Senate bill but not the House bill. We strongly favor, and think the conferees will agree. The real question is whether this will be knocked out of the conference bill in the House on a point of order.

3. Hickenlooper amendment extending his own anti-expropriation amendment of last year. His new amendment would do three things: (1) require us to cut off PL 480 and Ex-Im Bank loans as well as AID loans and grants; (2) explicitly add contract nullification to ordinary expropriation as a cause of aid suspension; and (3) authorize the President to use the Foreign Claims Settlement Commission in determining the value of property taken. We oppose all three changes, but only the first - concerning PL 480 and Ex-Im Bank aid - is of primary importance to us. The main question is how much we can get the conferees to agree to, and here we expect to be guided mainly by Senator Fulbright.

4. Gruening-Farbstein amendment cutting off aid to countries engaging in or preparing for aggression. Identical language was passed by both houses so no change can be made in conference. We are proposing language in the conference committee report, on the floor of both houses when the conference committee report is being considered, and by the President when he signs the bill to make plain that: this amendment will not automatically bar aid to the UAR or any other nation, and that any Presidential determination of "aggression" on the part of any country would have to be weighed most carefully because of its profound and far-reaching legal and political implications.

5. Kuchel amendment cutting off aid to countries claiming extended territorial waters and interfering with U.S. fishing vessels in those waters. We strongly oppose, and think the conferees will agree to deletion.

6. Adair amendment prohibiting assistance after December 31, 1964 to countries which do not sign a bilateral investment guaranty agreement with the U.S. We strongly oppose, and think the conferees will agree to deletion.

7. Lausche amendment removing Presidential waiver authority on possible aid to Communist countries. While we have no plans to use such waiver authority, we strongly oppose such a rigid provision, and think the conferees will agree to its deletion, as they did last year.

8. Development loan terms. Both houses adopted amendments requiring a hardening of loan terms, but they differ on specifics. We are seeking the "softest" compromise that is possible.

9. Fulbright amendment authorizing research and assistance in the field of population control. We do not need this amendment to do what we think is appropriate in this field. The House conferees are likely to oppose it. We have taken no position, pro or con, and expect to hold to this neutral stand.

While we expect to be able to resolve the major conference issues without the President's direct intervention, we would hope that any convenient occasions might be used to stress the importance of a strong foreign aid program and of leaving the President's hands free of arbitrary restrictions. Furthermore, if the President is in conversation with any of the conferees, we would hope he might discuss some of the issues covered above, particularly the first four listed.

We will be following the present memorandum shortly with a memorandum on the problem of obtaining an appropriations bill not too far below the authorization.

David E. Bell

David E. Bell

Attachment

Attachment

AUTHORIZATION BILL, FY 1964
(Millions of $)

	House	Senate	Proposed Adjustment
Development Loans (Africa and Asia)	900	950	950
Development Grants (Africa and Asia)	217	225	221
Alliance for Progress (Loans and Grants)	450	600	525
Social Progress Trust Fund	200	155	178
Supporting Assistance	380	380	380
Contingency Fund	150	175	150-175*
Contributions to International Organizations	136	136	136
Administration - AID	54	52	54
State	3	3	3
American Schools and Hospitals Abroad	12	Open-ended (26)	19 or Open-ended (26)
Military Assistance	1,000	1,000	1,000
	3,502	3,702	3,617 - 3,649

* The figure preferred here will depend on whether the conferees will endorse a carryover of $117 million of unspent FY 1963 Contingency Fund monies, which would be in addition to FY 1964 monies for this purpose.

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November 15, 1963

Dear Senator Mansfield:

I write to urge in the strongest terms that the Senate should not approve any amendment to the Foreign Aid Bill which would prohibit the use of credit guarantees for trade with any Communist country. It would work against the interest of the United States in crippling the American exporter in fair competition with other free countries for non-strategic trade with the Communist world. The principle of such an amendment would jeopardize not only the projected sale of wheat to the Soviet Union, but possible sales of important quantities of other products like tobacco, corn, and cotton.

If this amendment is adopted, it is not primarily Communists who will be damaged, but the American producer and exporter. The Export-Import Bank exists to promote the trade of the United States. Its professional judgment is that the state credit of the Soviet Union and of other Communist countries is sufficiently reliable to justify a guarantee in support of U. S. exports. The judgment of the Bank on such matters of credit over a 29-year period has been outstanding -- less than 1% is now in default on total credits of $11 billion -- and in this process the earnings of the Bank after all expenses have been over $800 million.

It is anticipated that the proposed sale of wheat will be made for payment in gold or dollars, either in cash or on short-term credit not exceeding 18 months. The reinforcement of our balance of payments position which such a sale will provide is obvious. The Export-Import Bank will, as usual, charge an appropriate fee for any guarantee.

The proposed sale of wheat still depends upon negotiations between the Soviet Government and private traders. The availability of credit on normal commercial terms may be a central element in this negotiation. The interests of the United States will be advanced by a successful completion of this sale. The American farmer, the American exporter, the American shipping and railroad industry, and the American citizen concerned with the strength of our balance of payments position should all support this proposed sale. The guarantee of the Export-Import Bank is a normal element in a transaction of this sort, and to prevent such a guarantee by a legislative rider at this delicate stage of negotiations would be an act against the national interest.

Sincerely,

John F. Kennedy

The Honorable Mike Mansfield
United States Senate
Washington, D. C.