

Report to the President of the United States  
from  
The Committee to Strengthen  
the Security of the Free World

THE SCOPE AND DISTRIBUTION OF  
UNITED STATES MILITARY AND  
ECONOMIC ASSISTANCE PROGRAMS

March 20, 1963

Department of State  
Washington 25, D. C.

The Committee to Strengthen the Security of the Free World was created by the President of the United States on December 10, 1962, to advise the President, the Secretary of State, the Secretary of Defense, and the Administrator of the Agency for International Development on U.S. government foreign operations programs in the economic and military fields.

The members of the Committee are:

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At the President's request, the first task of the Committee was to examine U.S. military and economic assistance programs to determine whether their scope and distribution was contributing to the optimum security of the United States and the economic and political stability in the free world. This report is the result of that examination.

The Executive Secretary of the Committee during the period of this study was William T. Dentzer, Jr.

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March 20, 1963

THE PRESIDENT

OF THE UNITED STATES

Dear Mr. President :

Three months ago, you asked this Committee to examine the scope and distribution of U.S. foreign military and economic assistance and to recommend any changes we believed desirable for its optimum contribution to strengthening the security of the United States and the free world. This report embodies our general views on how the foreign assistance programs should be conducted. Our views concerning specific countries have been discussed at length with the Administrator of the Agency for International Development. We have not included the Export-Import Bank or its lending activity within the scope of this study.

## I. U.S. FOREIGN AID SINCE WORLD WAR II

At the end of the war, only the United States had the strength and resources to fill the power vacuum into which international Communism sought to move. To strengthen the free world, the U.S. then embarked upon an extensive foreign assistance effort which has lasted well over a decade. First, the special programs for Greece and Turkey, the Marshall Plan, and U.S. contributions through new international organizations were undertaken. This was followed by the establishment of Point IV's technical assistance operations, to help less developed countries build a basis for further development, and a military-economic program designed to increase the ability of nations bordering the Communist bloc to resist Russian or Chinese imperialism. More recently, the U.S. added capital loan assistance on generous terms and surplus agricultural commodities to its long-standing Export-Import Bank and technical assistance operations and embarked on a sustained program, including its participation in the Alliance for Progress, of economic aid to less developed countries.

### *Questions and Criticisms*

Each of our Presidents since foreign aid began has repeatedly expressed his judgment that this assistance is essential to the national interests of the United States and to the curtailment of Communist efforts in all parts of the world. Criticisms of aid activity, its burden on the already heavily pressed taxpayer, and the prospect of its prolonged continuation, however, have raised questions concerning the nature and conduct of these programs. There has been a feeling that we are trying to do too much for too many too soon, that we are over-extended in resources and under-compensated in results, and that no end of foreign aid is either in sight or in mind.

There are aspects of these programs which justifiably concern or perplex our citizens. It is clear, for example, that economic and social growth can be achieved only if it is based on an internal expression of will and discipline, without which external aid is of little value. Yet, many of the countries which have received our aid have not fully performed their part of the assistance bargain with their own resources. Moreover, we have not adequately conditioned our aid in many cases on the achievement of such performance. Indeed, we may find ourselves, in effect, granting a number of continuing subsidies because it is argued that their denial would create instability and lose us good will.

It is obvious, also, that the process of economic development is a long one and will be limited at the outset by the absence of trained manpower and adequate local institutions. Moreover, their absence in turn limits the capacity of these countries to absorb aid effectively. The miracle of post-war recovery in Western Europe was made possible by the application of temporary aid to countries whose well-established economic, political and social systems and trained manpower could use it wisely. In the less developed nations, most of these conditions do not exist. Moreover, the rapidity of population growth in many areas increases the magnitude of the development problem and accentuates social unrest.

There is evidence the American public feels strongly, too, that other prospering industrialized nations, having recovered their economic strength since the war with our assistance, should assume much more of the foreign aid burden than they are now carrying.

There has been increasing concern as well over the contribution of foreign aid to the persistent deficits in our international balance of payments—twelve in the last thirteen years. These deficits have produced a sustained decline in our gold stock and a marked increase in foreign-owned dollar balances, with a resulting loss in our international liquidity. Upon international dollar convertibility at the existing gold parity rest the international payments mechanism which has evolved since the war, the economic health and prosperity of the U.S. and its friends, and our role of political, economic, and financial leadership in the free world. Our commitment to the convertibility of the dollar is essential to the accomplishment of the objectives we properly seek abroad, including those of our foreign assistance programs.

There are other factors which trouble our citizens as well. While there is some awareness of the competence, dedication, and even gallantry on the part of many in the assistance programs, they believe that the quality of many others has not been adequate. They know also that the volume of aid and number of aid-giving sources in the free world have increased substantially and that the number of sources has created

difficult problems of effective coordination. They are concerned, too, that we have aided countries which are unaligned with us or even in opposition to us.

### *Recent Progress*

Certainly the Agency for International Development (AID) is now aware of the criticisms directed against our foreign aid programs. The Act for International Development of 1961 is a good one. The consolidation of aid agencies, improvement in personnel, reduction in marginal activities, better analysis of development requirements, and increased insistence on self-help pursuant to the Act have been steps forward, as has the shifting of aid from a subsidy to loan basis in several countries and the establishment of target dates for terminating aid in others. Amendments to the Act in 1962 also have been helpful, especially the Hickenlooper Amendment, requiring suspension of aid to countries expropriating privately-owned U.S. property without adequate compensation, and the provision banning aid to Communist countries except in extraordinary circumstances.

The harmful effect on our international accounts also has been mitigated by tying U.S. economic aid to procurement in this country, a step which was necessary despite its undesirability as a general and continuing practice. This tying of aid has become increasingly effective to the point where, from a figure of fifty per cent of expenditures in 1962, less than 20 per cent of U.S. aid commitments in fiscal year 1964 is expected to add to a negative balance. It is estimated that this balance will have been cut in half, from about \$1.2 billion in 1960 to \$500-600 million for 1964, while the direct financing of U.S. exports of goods and services in the same period will have tripled, going from \$600 million to about \$2 billion a year. Moreover, further efforts are being made to reduce this drain.

Also, more countries are becoming independent of U.S. aid through the successful combination of our assistance and their own internal efforts. Greece, Israel and the Republic of China are expected soon to reach the point where their external financial requirements can be met by conventional loans from the Export-Import Bank, the International Bank for Reconstruction and Development, and other sources. The Philippines, also, under its present vigorous leadership, is moving to a similar position.

## II. PRESENT STATUS AND FUTURE GUIDELINES

Even with due consideration for improvements, however, much remains to be accomplished. While we are concerned with the total cost of aid, we are concerned even more with whether its volume is justified

and whether we and the countries receiving it are getting our money's worth.] We believe that we are indeed attempting too much for too many and that a higher quality and reduced quantity of our diffuse aid effort in certain countries could accomplish more. We cannot believe that our national interest is served by indefinitely continuing commitments at the present rate to the 95 countries and territories which are now receiving our economic and/or military assistance. Substantial tightening up and sharpened objectives in terms of our national interests are necessary, based on a realistic look at past experience, present needs, and future probabilities.

There should be no doubt, however, of the great value of properly conceived and administered foreign aid programs to the national interest of the United States and of the contribution of the foreign assistance dollar in such programs to the service of our nation's security. We live in a world in which poverty, sickness, instability and turmoil are rife and where a relentless Communist imperialism manipulates this misery to subvert men and nations from freedom's cause. A foreign aid program is one instrument among many which we and other developed countries adequately can afford and vigorously must use in the defense and advancement of free world interests. It is our purpose in this report to point out how this essential program can be strengthened for this purpose, and our criticisms and proposals here should be viewed in the light of this objective.

There is ample evidence of the need for aid and that it can be successful under proper circumstances. While it may be argued that the cost of Marshall Plan assistance to the U.S. taxpayer was larger than necessary, it is clear that its provision made possible the rebuilding of a free world nucleus with the strength to withstand and forestall Communist pressure. Presently, there are many countries in the less developed areas which wish to be free of Communist domination but lack the political or economic strength to maintain their independence without help from more fortunate nations. If countries with a will to be free are to become or remain so and if their governments are to prove to their peoples that the democratic, non-Communist route to political and economic well-being is the better one, some form of external assistance to their internal efforts is necessary.

To examine the utility of our assistance programs objectively, one must bear in mind their basic purposes. In this year's programs, over \$1 billion was allotted for direct military assistance to countries on the bloc's periphery which are allied with us or each other in defense against Communist attack. These countries also received about \$700 million in economic aid to support their military effort and otherwise add to their stability and growth. These funds represent 44 per cent

of the total foreign assistance appropriation. If we add to this the military and economic support of Vietnam and Laos and of other border countries which wish to retain their independence, though not allied with us or with other countries in common defense, total expenditures for military support and accompanying economic aid in the border areas aggregate \$2.8 billion or 72 per cent of total appropriations. Dollar for dollar, these programs contribute more to the security of the free world than corresponding expenditures in our defense appropriations. If one adds to this sum our assistance under the Alliance for Progress, about 15 per cent of the total program, and our contributions to international organizations of which we are members, amounting to \$150 million, the total reaches 91 per cent of current foreign assistance appropriations. This does not mean, of course, that these programs are exempt from constant re-examination in the light of their necessity and effectiveness, but it indicates the major purposes which foreign assistance presently serves.

In asking whether we receive optimum value from our assistance programs, we must know what we seek and what it is we expect. We must not be disappointed if nations which receive our aid do not always agree with us. If our assistance strengthens the will and capacity of a country to remain independent and helps it move toward political and economic stability, our money will have been wisely spent. If our aid simply postpones the inevitable day of financial and national reckoning then we have wasted our substance and helped the country not at all. It is for this reason that aid to countries which are avowedly neutral and sometimes critical of us may be in order, so long as their independence is genuine, their overall behavior responsible, and their use of their own resources prudent and purposeful.

We must be clear as well as to the kind of economic systems we attempt to foster and assist. Our aid should help create economic units which utilize not only limited government resources wisely but mobilize the great potential and range of private, individual efforts required for economic vitality and rapid growth. The broad encouragement of these efforts requires incentives, as Mr. Khrushchev recently has emphasized in seeking to improve his own economic system. However, there have been too many instances in which foreign economic aid has been given without regard to this fact and to the historic form, character, and interest of our own economic system. We believe the U.S. should not aid a foreign government in projects establishing government-owned industrial and commercial enterprises which compete with existing private endeavors. While we realize that in aiding foreign countries we cannot insist upon the establishment of our own economic system, despite its remarkable success and progress, we should not extend aid which is

inconsistent with our beliefs, democratic tradition, and knowledge of economic organization and consequences. Moreover, the observation of countless instances of politically-operated, heavily subsidized and carefully protected inefficient state enterprises in less developed countries makes us gravely doubt the value of such undertakings in the economic lives of these nations. Countries which would take this route should realize that while the U.S. will not intervene in their affairs to impose its own economic system, they too lack the right to intervene in our national pocketbook for aid to enterprises which only increase their costs of government and the foreign assistance burden they are asking us to carry.

The argument that aid should be given for "political" as well as "economic" reasons also must be carefully examined. The problem in extending aid lies in distinguishing between those judgments which are wise, encompassing as they do the full range of economic, political, and other factors in long-term perspective, and those which are unwise. Whether a country ought to receive aid from the U.S. is a question of our enlightened self-interest; however, the kind and basis of aid provided thereafter—except when paramount military security or other extraordinary circumstances are involved—are questions to be determined on economic grounds. Here, as in other instances, the U.S. must establish sound benchmarks for its own performance and stick to them, whatever the vagaries of ephemeral world opinion.

Some aid projects have come into being as gifts to prove our esteem for foreign heads of state, hastily-devised projects to prevent Soviet aid, gambles to maintain existing governments in power, leverage for political support, and similar reasons. While a certain amount of this is unavoidable, there have been too many exceptions to the rule. Insofar as others believe we accept promises in lieu of performance, respond to careful campaigns against our embassies, pay higher prices for base and other settlements if negotiations are long and unpleasant enough, and give unjustified aid in the hopes of precluding Soviet assistance in marginal cases, to that extent the firmness of U.S. negotiating positions loses credibility, our efforts to make aid more effective by getting local self-help are weakened, and U.S. Congressional and domestic backing for aid is undermined.

We seek not to create difficulties for our official representatives around the world, beset with responsibilities to maintain good relations and concurrently urge foreign governments to take difficult steps in the interest of a better but uncertain future. We wish only a better understanding of this problem by our official representatives and those who would judge and assist them.

We are convinced that the U.S. must take more risks for the purpose

of obtaining performance from foreign governments, be more willing to live with charges that it is insensitive to other countries' needs, and accept the consequences that in some countries there will be less friendly political climates.

### III. FINDINGS

The conclusions of our examination embrace the nature of U.S. interests and programs in various areas of the world, general matters concerning the free world development assistance effort, and aspects of U.S. programs deserving special comment. We will consider them in that order.

#### *The Border Areas*

In examining our national interest in foreign military and economic assistance, the direct relationship to free world security is most evident in the defensive strengths of those nations which, in their contiguity to the Communist bloc, occupy the frontier of freedom. Many of these countries are our allies, and some belong to alliances with which we are associated. Several of these nations are carrying defense burdens far beyond their internal economic capacities. These countries are now receiving the major portion of U.S. foreign assistance but are also providing more than two million armed men ready, for the most part, for any emergency. While their armies are to some extent static unless general war develops, they add materially to free world strength so long as conventional military forces are required. Indeed, it might be better to reduce the resources of our own defense budget rather than to discontinue the support which makes their contribution possible.

This does not mean that the military assistance program in this area does not need present and continuing review. We are convinced that in several of these countries, indigenous forces are larger than required for their immediate mission of defense and not large enough to assume other missions. There, phased reductions of a very substantial order appear practical, after further careful examination, without unduly sacrificing immediate effectiveness. This would not only lessen the cost of military assistance but reduce related supporting economic assistance as well. Moreover, the amount of economic support for these military programs could be further reduced in at least one instance if long-delayed internal financial reforms were undertaken.

There are a few other border countries whose military forces presently are of value largely for internal security purposes. Even though they belong to alliances with which we are associated, we believe the present level of support to these forces, particularly with sophisticated weapons, cannot be considered as essential to the security of the free world. In

these countries, which have substantial resources of their own, significant reductions of military and economic assistance are in order.

In addition there are other countries in this border area, particularly in southeastern and western Asia, to which we provide economic assistance and, in some cases, military equipment, though they are neither allies nor members of alliances with which we are associated. We believe most of this military assistance is not essential to our own or free world security, and we cannot recommend continued supply of this equipment. Also, economic assistance provided to some of these countries on the basis of past agreements is beyond that necessary for our interests. While firm commitments to these countries should be honored, economic aid should be phased down in some cases and phased out in others.

In our consideration of border countries, we have not attempted to analyze the substantial cost of our efforts in Laos and Vietnam, since the nature of present U.S. commitments there precludes useful examination by this Committee. While we recognize that the foreign aid program must be flexible in view of rapid changes in today's world, it was not designed for combat zones; we suggest consideration be given to making provision for such areas other than in our foreign aid program.

In any review of front line countries, special attention must be given to India, even though it is not an ally. We have provided economic assistance to India for some time, most of it as part of a multilateral undertaking which obtains aid from other sources. Recently, we have agreed to extend military assistance on a parity with similar aid from the United Kingdom and other Commonwealth countries. The importance of this program frequently has been misunderstood in view of past expressions of Indian foreign policy and certain aspects of its internal philosophy. India has recently proved, however, that it is determined to maintain its independence from Communist domination. Together with our ally, Pakistan, it is the only area of South Asia able to offset the Red Chinese colossus. Unless their freedom and economic growth continue, there can never be a balance of power in Asia and our own involvement in this area could be indefinite and infinitely more costly. Thus, we believe that in the interest of our own and free world security, economic and military assistance to India, as well as to Pakistan, must continue under present circumstances. However, it would be difficult to justify continued economic assistance at present rates unless other free world countries continue and extend their support on terms comparable to our own.

We cannot leave this area of the world without special reference also to Indonesia. Because of its population, resources and geographic position, it is of special concern to the free world. However, we do not see how external assistance can be granted to this nation by free world

countries unless it puts its internal house in order, provides fair treatment to foreign creditors and enterprises, and refrains from international adventures. If it follows this path, as we hope it will, it deserves the support of free world aid sources.

On the western end of the bloc periphery, Greece and Turkey are moving toward increased security and well-being. Both of these important nations, however, are still in need of military assistance and economic support, and Turkey will require both forms of assistance for some time to come. We believe that other NATO members should increase their contributions to these countries to the point where they bear a proportionate share of the burden and that the proportion of our own assistance should be reduced accordingly. Elsewhere in Europe, there is no apparent need for further military or economic assistance other than for the fulfillment of existing commitments.

### *Africa*

As we consider the African nations, immediate security interests are less evident than in countries adjacent to the Communist bloc. The U.S. does have a stake in helping to create a climate of stability and growth in freedom, however, and the Communists have already displayed their interest and subversive potential in this area. Also, the new countries of Africa in most cases have maintained close ties with the former metropolises without impairment of their full independence, and the latter in turn have displayed considerable willingness to help meet the assistance needs of these young nations. The Committee regards Africa as an area where the Western European countries should logically bear most of the necessary aid burden. In fact, this is proving to be the case. Almost all nations formerly under French aegis are now receiving heavy French assistance, largely in grants. We welcome this present arrangement, based on past relationship, and trust it will continue. Similarly, the new nations formerly under British rule should look largely to the United Kingdom for economic assistance, and we hope that this experienced nation will continue to provide it. The new Overseas Development Fund of the European Economic Community also should prove a major source of help.

It can always be said that in fragile, new, developing countries, the United States must provide aid lest they accept it from Communist nations with resulting political penetration and eventual subversion. We cannot accept this view. We believe these new countries value their independence and do not wish to acquire a new master in place of the old one; there already have been instances on the continent to corroborate this belief. While our aid programs in this area are generally new, experience has shown they tend to increase. In the light of its other

responsibilities, the United States cannot undertake to support all of the African countries, especially when their ties with other free world nations are largely elsewhere.

In the northern and northeastern area of the African continent, with the exception of surplus agricultural commodities, most of our assistance has gone to countries in which we have military bases. In general, future economic aid to countries in this area should either be curtailed as existing commitments are fulfilled or substantially reduced, except for technical assistance—the primary present need—and PL 480 shipments of agricultural commodities. Beyond this, further direct aid should be limited to loans for particular projects with economic justification and on terms appropriate to the financial abilities of the countries concerned.

Elsewhere in Africa, our economic assistance programs should be similarly limited. We should fulfill specific programs in Nigeria and Tanganyika to which we are committed, as with Tunisia in North Africa. As these commitments are completed, further U.S. aid should be confined to participation in multilaterally-supported programs.

With regard generally to U.S. military assistance to African countries, we must bear in mind that the chief burden of helping these nations to enhance their internal security capabilities again falls logically on the former metropolises, with which most of these countries have retained police and military relationships. In some cases, small-scale and supplementary U.S. training programs and internal security assistance may be justified, and limited activity in a few countries where we maintain bases is in order. Small programs and missions should be terminated elsewhere. We believe the problems created by military assistance programs in the African countries generally would be greater than those they would forestall or resolve.

The Congo merits particular mention. While recognizing that the U.S. has encouraged the United Nations to assume great responsibilities there, we believe the U.S. also has contributed proportionately more than its share to the task assumed. We believe the U.S. should attempt to maximize the economic assistance of other nations to the Congo and that its own contribution should be not more than half the total economic aid provided for the next few years, after which external assistance beyond conventional means could be discontinued to this potentially rich country. We believe also that military aid and expenditures should be reduced as rapidly as possible, consistent with and designed to improve the internal security problem which now exists.

#### *Latin America and the Alliance for Progress*

Because of the unusual importance of and difficulties in this area, the Committee has given it special attention.

The Alliance for Progress—predicated on a joint endeavor to achieve for the Latin American peoples economic progress and social justice with free institutions and political liberty—was born in the face of a formidable inheritance. Political and economic instability, habits of government, and social rigidity in Latin America, ambivalent emotions toward U.S. power and influence in the hemisphere, deteriorating Latin American terms of trade, vacuums of political leadership and technical skill, the absence of U.S. and Latin American institutional structures adequate to deal with these problems, and increasing Communist efforts to exploit them—these and other conditions combined to argue for both the urgent necessity and short-term impossibility of the Alliance.

Our offer of a multilateral Alliance and our performance subsequent to that offer should have proved the strength of our commitment to this program. Latin American understanding of and willingness to fulfill the undertakings of leadership, self-help, and self-discipline agreed to in the Punta del Este charter, however, with notable exceptions have yet to be proved.

Now that the first and organizational phase of this complex enterprise is completed, we believe the U.S. should increase its efforts to achieve greater Latin American performances beyond promises under the charter. This insistence on national economic and social performance, notwithstanding the internal and international political problems involved, is necessary, both because of and despite the primary importance of this area to the U.S. The U.S. and Latin America cannot allow another Castroite-Communist Cuba to come into existence. And while adequate and timely U.S. aid is necessary to reduce the political, economic, and social instability which could lead to such an end, as always it can be no more than a catalytic agent to supplement the attitudes and actions of indigenous governments and societies. No matter what the amount of outside assistance, nothing will avail to promote rapid progress if Latin American leaders do not stimulate the will for development, mobilize internal savings, encourage the massive flow of private investment, and promote other economic, social, and administrative changes.

With this in mind, the Committee believes the following in order :

1. The U.S. should continue to make unmistakably clear that the Alliance for Progress is a long-term venture of extraordinary complexity and scope, demanding a decade or more of sustained effort by all involved to attain truly significant results. Accordingly, the U.S. will not accept empty praise or unjustified criticism of the Alliance as substitutes for Latin American performance. Also, the American public should cease to judge the Alliance on whether it has accomplished in two years what must take much longer. Indeed, care must be taken even now to assure that U.S. assistance does not exceed amounts that can be