

usefully absorbed without encouraging even less effort and discipline on the part of government to the south. It should be recognized that demand for rapid results could lead to expenditures which would ultimately defeat their purpose.

2. While the Alliance has spurred some progress in Latin American willingness and ability to make necessary changes, the U.S. and hemispheric organs of the Alliance should make even more clear to the governments and publics of the hemisphere that they are serious about self-help, fiscal reform, and other changes. The U.S. should indicate it expects the achievement of certain attainable goals over the next few years, with continued assistance meanwhile conditioned on reasonable progress toward that end. In doing so, we must recognize there are various reasons for non-performance by Latin governments apart from their unwillingness, including legislative resistance, opposition from powerful private interests, shortages of able civil servants and technicians, and the absence of certain institutions. While we should not seek quickly what we have no right to expect, there are certain vital fields where improvements can and must take place; without them, Latin America has no hope for real progress and no claim to external assistance.

3. The U.S. should be increasingly more specific on the self-help and reforms it seeks and do so on a country by country basis. At the top of such a list are the goals of monetary stability, sound financial and social budgeting, reductions and eventual elimination of subsidies to government enterprises, tax systems and administration which contemplate raising local revenue levels, stimulating private local and foreign investment and distributing the tax burden more fairly, and measures for the better utilization of land designed to increase agricultural productivity and credit, expand and diversify agricultural exports, encourage rural development, and increase income on the lower levels of society.

4. Assistance should be concentrated heavily on those countries which undertake to meet the principles established in the charter of Punta del Este.

5. We must continue to assume leadership with Latin Americans in stimulating the offering of incentives to the private sector which are required if Latin development goals are to be attained. Impediments to the growth of private enterprise must be identified and treated, the shallowness and harm of doctrinaire biases against responsible private enterprise exposed, new sources of credit opened to medium and small Latin American businessmen, and foreign investment encouraged in the confidence that all governments now have means to protect themselves against potential abuses. Agitation for the expropriation of foreign enterprises and for nationalization of private productive ventures is hardly conducive to the mobilization of private local and foreign capital invest-

ment and is destructive to rapid economic progress. Latin America must be encouraged to see its essential choice between totalitarian, inefficient, state-controlled economies and societies on the one hand and an economically and politically freer system on the other, realizing that a society must begin to accumulate wealth before it can provide an improved standard of living for its members. We believe the increasing acknowledgement that proper incentives to the private sector are required for dynamic growth must be accompanied by sustained U.S. and Latin American efforts and decisions at all levels of government policy and action. With such a basis, a more progressive Latin private enterprise spirit, substantial foreign investment which receives no more and no less than fair treatment, and other Alliance aid, the development of Latin America would be assured.

6. While the U.S. must employ the judicious withholding of funds as well as their timely award to encourage necessary internal reform, neither granting nor withholding funds is of value if incapacity and not unwillingness is the source of the problem. What is needed in such instances is an internal effort to build new institutions and external provision of the technical advice and backing needed in connection with these changes. It will take an extraordinary mobilization of U.S. and other talent to make such external advice sufficiently broad and incisive to be effective in the near future.

7. Normally, the financing of most local costs of economic and social development are borne by the recipient country, as external assistance is provided in the form of foreign exchange. Thus far, this has not been the case with the Alliance for Progress. We do not believe the U.S. should continue to finance such costs directly or through the Inter-American Development Bank except in countries which are moving to mobilize their own resources for this purpose and to build the local institutions and procedures necessary to channel them into productive investment. Even there, this interim assistance while the mobilization of funds takes place should not be provided in amounts which deter Latin American governments from raising their own potentially ample funds and should be terminated in countries where it has this effect.

8. The U.S. should continue and expand its efforts to assist the freer trade and economic integration of this region, with special note of the importance of wide and non-discriminatory Latin American access to the Common Market and to the economic development and increased human well-being which would be stimulated by a free Latin American economic community.

9. Finally, we would stress the importance of Latin American governments consulting with and enlisting in the pursuit of their develop-

ment programs the support of industrial, financial, labor, cooperatives, and other leaders who believe in the goals of the Alliance.

With regard to U.S. military assistance programs in Latin America, training, civic action programs, internal security assistance where necessary, and military equipment of a small arms or communications nature should be continued and the remaining activity eliminated. Latin American military forces are not required for hemispheric defense in the event of external attack, and U.S. supply of modern, sophisticated equipment in response to the pressures of local military prestige contributes to dangers which outweigh whatever temporary value they may be designed to serve.

### *Sharing the Assistance Effort*

One must begin by giving due credit to the revived nations of Western Europe and Japan, as well as Canada, for taking up an increasing share of the burden of economic assistance to the less developed countries. Bilateral economic assistance from the governments of these nations rose from about \$1 billion in 1956 to \$2 billion in 1961. It is estimated that the comparable figure for 1962 is \$2.1 billion and for 1963 will be \$2.5 billion. While increasingly substantial sums have become available from these countries, only France is spending on as generally favorable terms as we are. With the exception of France, assistance from other free nations has to a substantial extent been in the form of hard loans to finance exports from the lending countries. Moreover, their aid includes obligations under reparations agreements and assistance to dependent overseas territories for which they are responsible.

We are convinced that the burden of sustaining foreign assistance to the less-developed countries is falling unfairly upon the U.S. and that the industrialized countries can and should do more than they are now doing. The present inequity is even more apparent when one adds defense expenditures to economic assistance to determine the national shares in the total expense of protecting and advancing the free world's well-being. This matter is of even greater concern when one considers the negative U.S. balance of payments.

The U.S. has been working on this problem for several years. The Development Assistance Committee of the Organization for Economic Cooperation and Development also has been striving for improved performance by the governments concerned and should be encouraged in its efforts. In addition, however, this matter should be the subject of systematic U.S. representation at the highest levels of government. Among our specific aims should be for Italy, despite her special problems, to allocate budgetary funds for aid, expand volume and liberalize terms, Canada to raise the volume of aid, the United Kingdom to lower interest

rates and increase the volume of its aid to independent, developing countries, Germany to raise its volume and soften terms, France to soften its aid terms outside of Africa, and Japan to soften its terms.

The importance of improving loan terms—including maturities, interest rates, and grace periods—is particularly apparent in the case of those nations undertaking comprehensive development programs. Unless the lending terms of other countries improve greatly and approach U.S. terms, international consortia and coordinating groups for such countries as India, Pakistan, Turkey, and Nigeria will saddle these countries with impossible debt-service requirements and U.S. funds would pay for these short-term and short-sighted debts. In this connection, we would note our belief that the International Bank for Reconstruction and Development and the Organization for Economic Coordination and Development should establish minimum terms for loans eligible to be considered as part of their consortia and other collective arrangements.

Other developed countries cannot, in a realistic world, be expected to assume their proper proportions of the assistance effort so long as we are apparently willing to bear more than our fair share. The U.S. should make clear its views to aid-giving and aid-receiving countries, since both have a role to play in its improvement. The U.S., other aid-providing countries, and the respective aid-receiving countries concerned should seek some understanding on the latter's borrowing patterns as developing nations. This is especially important for those countries which would utilize soft-term U.S. loans for repaying continuing hard-term loans from other sources. Also, developing countries must refrain from accepting inappropriate terms of aid and actively seek better terms from their various lenders.

### *Multilateral Aid*

The importance of increasing the amount and improving the nature of aid provided for developing countries leads directly to the subject of multilateral assistance from the free countries.

We believe that both multilateral and bilateral assistance programs will have important roles in the foreseeable future. We also believe that the interests both of the United States and of the developing nations will be best served by the gradual shifting to effective international administration, free of the complications arising from membership of the Soviet Bloc, of as large a share of the responsibility for developmental investment as the cooperation of other free world aid-giving nations makes possible.

A multilateral organization, having no political or commercial interests of its own to serve, is able to concentrate on obtaining the greatest possible return, in terms of economic and social development, for each dol-

lar of aid funds invested. It is also better able to limit its assistance to projects which are soundly conceived and executed and to condition the financing of such projects upon appropriate economic performance by the recipient country. Moreover, conditions imposed by an international, cooperative organization are not so susceptible to the charge that they infringe on the sovereignty of the recipient country; even if they offend national sensitivities, they do less damage to the fragile fabric of comity among nations than when such resentment is directed against a single country. Also, to the extent that international administration integrates funds contributed by a number of countries, it avoids the difficult problems of coordination which arise when aid is provided by many independent sources.

International administration of development assistance, of course, will realize the advantages cited only if it is effectively organized. In this connection, we would point out that the International Development Association (IDA), an affiliate of the International Bank for Reconstruction and Development, is a ready-made instrument to accomplish these purposes. To the extent that the U.S. and its partners can agree to increase the use of IDA as a common channel for aid funds, we will have achieved many of our common objectives—a fairer sharing of the burden and the effective and coordinated use of the assistance provided on terms both appropriate to the needs of the recipient countries and impartial as among the commercial interests of the contributing nations.

### *Country Planning*

There is a difference between sound, forward-looking national budgeting in economic and social terms on the one hand and theoretical long-term national development planning as it is often encountered. Extrapolations of mathematical models based on questionable statistics for debatable base periods seem to have a way of going wrong, even when it is possible to find economists who agree with each other. Furthermore, these long-term projections have been of little or doubtful value and frequently have proved harmful by directing attention to the theory of economic development at the expense of its practical implementation. Sound governmental planning consists of establishing intelligent priorities for the public investment program and formulating a sensible and consistent set of public policies to encourage growth in the private sector. U.S. governmental officials and programs should strive for such utility and realism in the development planning they support and in which they cooperate.

### *U.S. Contributions to United Nations Assistance Agencies*

U.S. contributions to the budgets of these organizations should not exceed our proportionate share of our regular U.N. assessment. Excep-

tions should be limited to contributions designed to increase the totals of these budgets proportionately and should be discontinued promptly if they fail in this purpose.

### *Technical Assistance*

The most serious obstacle to growth in many less developed countries is the inability of their people to effectively utilize the resources at their disposal. Technical assistance should be directed primarily at the removal of these obstacles and is the major means by which external aid can help develop leadership and technological skills—essential preconditions for development—where they do not now exist. In many ways as well, our technical assistance programs are the most direct evidence to the people of other countries of our intent to help them advance. These programs need to be of high quality. Also, they should be undertaken only if deemed of sufficient value to be accepted and continued by the recipient country out of its own resources within a reasonable period of time. Such programs should be of specific and limited duration, fixed as they are started and scheduled for completion or turn-over to the recipient country. Three years may be an average period for such programs, and seven years would seem the maximum.

There is no doubt of our desire to help developing countries with what they essentially need and can absorb in the form of such assistance. The major limitations upon this are not financial but, instead, those which restrict their ability to utilize it well and which relate to the quality of the personnel at both ends of this process. Experience makes us doubt AID's ability to mobilize the high-quality manpower necessary to implement well and supervise properly all of the current technical assistance programs amounting to approximately \$380 million annually. We recommend that new program starts be sharply limited until the present total program review is completed in the light of developmental priorities for the various countries and of actual project operating effectiveness. We believe there are savings which can be made by a careful review of this nature concerning projects in a number of countries and of the technical staffs which implement them. This review and an earnest effort to assure future performance of high quality should limit the technical assistance program until and unless it can be demonstrated that an expanded, high-quality program can be placed in operation.

In this connection, we have noted certain resources whose potential has not been adequately tapped or in all cases adequately offered in the uniform high quality of personnel required. We believe that our nation's universities, particularly the land grant colleges as institutions created for development, possess talent and experience whose adaption should make possible a unique and greater contribution in several fields than is presently the case.

## *Loan Terms*

With the establishment of AID, development loan terms were almost uniformly softened to a standard rate of 40 years maturity with a  $\frac{3}{4}$  per cent service charge and a ten year grace period. This was done in the light of actual capacity of developing countries to service foreign debt and as a matter of U.S. national policy to assist their development efforts. Some 86 per cent of AID loans have been on this basis.

We believe that loan terms should be determined on a more flexible basis after country by country analysis. This would result in somewhat harder terms in the case of some countries than those which AID previously has extended and the transfer of strictly hard-term loans to other agencies. Loans to countries with adequate debt-servicing capacities in the foreseeable future should be made on harder terms. Also, as foreign assistance made possible by U.S. and other funds becomes increasingly available on soft terms from multilateral sources, soft U.S. bilateral loans correspondingly should become somewhat less necessary.

## *U.S. Military Base Rights*

The Committee has examined the economic and military assistance the U.S. provides to certain countries in exchange for bases. In many instances, the practical cost seems excessive, particularly where the bases provide both considerable dollar income from expenditures by our personnel and substantial local employment. Aid for such purposes should be viewed as defense costs, and no economic assistance should be provided as their consequence. Moreover, every effort should be made to reduce assistance to foreign countries in return for these rights, especially Spain and Portugal, which are already more than adequately compensated.

## *Military Assistance Programs (MAP) in Less Developed Areas*

In addition to our remarks above concerning various areas, the Committee wishes to note its general view that only in extraordinary circumstances should the U.S. provide MAP aid, including military equipment of a small arms nature, where the principal quarrel of the recipient country is with a non-Communist neighbor with which the U.S. also maintains friendly relations.

## *The Private Sector*

AID has shown increasing awareness of the vital role played by local and foreign private investment in the development processes, but fuller cognizance is required in conceiving, conditioning, and implementing its programs in various countries. What we have said on this subject above concerning the Alliance for Progress has world-wide application. Our conviction is based not on doctrine but on the practical realization that

it is the private sector, operating with the cooperation of a vital and democratic labor movement and enlightened management on the basis of essential government services and sensible policies, which will make the greatest contribution to rapid economic growth and overall development.

We endorse AID's activity in expanding investment guaranty agreements and increasing the volume of guaranties extended, now running annually at about \$500 million, and we note that further improvements are now under consideration. The investment guaranty program can and should be expanded, though the Committee has serious doubts as to the wisdom of guaranties against commercial risk, and we doubt the advisability of continuing aid to countries which refuse to enter into investment guaranty agreements.

#### *The Food for Peace Program*

This program is contributing materially to the development of the free world. We urge the expanded use of the "Cooley loan" provision and are pleased at increasing sales for soft term dollar repayment. The Committee would not approve, however, of food-for-work programs conducted on a basis enabling foreign governments to use our surplus food as full "wages" for work performed.

#### *Organization of AID*

We have not attempted to formulate recommendations in this area, though we are prepared to advise the AID Administrator on this subject as he may desire. We would recommend, however, reducing the number and nature of AID overseas missions to the type of representation required to implement the programs which would result from the adoption of our recommendations. The Committee also is of the view that regional offices, located in the field and in Washington, can serve large areas of Africa and, increasingly, areas of Central America and the Caribbean. Such consolidated offices should permit a grouping of talented officers and still provide necessary assistance to the countries concerned. Also, it is clear that the AID Administrator needs special, flexible, immediate and continuing authority to separate those employees whose performance is marginal or whose technical skills are not required under changing program requirements.

## IV. FUTURE U.S. ASSISTANCE PROGRAMS

We are convinced that barring extraordinary developments, U.S. security interests will require maintaining our military assistance program for some years to come, though it should be reduced progressively as the economic capacities of recipient nations improve. We believe that in a few years, the basic need for such assistance can be served by an

annual appropriation of \$1 billion. It should be noted that the Department of Defense also contemplates the phased reduction of military assistance to this figure, though it believes it cannot be attained until fiscal year 1968. We believe further that the supporting assistance which supplements major military aid in several countries will continue to be necessary, though it should be possible to reduce this type of assistance in such cases sharply over a three year period.

For the present, however, we are convinced that reductions are in order in present military and economic assistance programs. Mindful of the risks inherent in using an axe to achieve quickly the changes recommended, the Committee recommends these reductions be phased over the next three years. This should permit the fulfillment of most past aid commitments and others which might be revised somewhat in the light of actions by the countries concerned. While dollar savings from these changes will be substantial, though not immediately great in relation to the total program, the changes wrought should permit aid to be more effective now and in the future.

The Committee recognizes that its recommendations to decrease or abolish aid in an number of countries and otherwise tighten standards will be difficult to implement and provoke charges that they are "politically impossible" in terms of good U.S. relations with countries concerned. The Committee recognizes as well that the political problems of pulling back from on-going aid programs are much greater than those created by U.S. refusals to extend aid where none previously has been given. Nonetheless, we believe these actions must be undertaken and can be effected by diligent diplomatic effort over a one to three-year period.

We hesitate to translate our recommendations into precise dollar terms. This would require in addition to our current examination, detailed review of programs now under consideration and judgments on the firmness of understandings arising from past negotiations with foreign governments. We have stated program criteria which affect the number of countries receiving aid and the nature of that assistance. AID informs us that if our criteria were now in effect, present programs would be reduced by approximately \$500 million, and there would be additional reductions in the following years as some of these programs were phased further down or out. We recognize the necessity of fulfilling present commitments which in some cases will delay the point when these criteria can be in full application and the existence of other commitments which could require increased funds in the future.

Beyond the period at hand, the future of economic assistance is not predictable. It depends on many factors, including the capacity of countries to absorb aid usefully, their pursuit of internal policies which

justify our external assistance, the pace at which sound multilateral institutions can increase their volume of activity, and the continued confidence of the free world in the stability of our economy. Once the objectives of the economic assistance program have been sharpened and operations improved, it will be easier to judge how much in the way of new resources should be provided yearly to facilitate the kind of economic growth in the developing countries which is in our national interest to support. In the long run, as more and more of the developing countries establish viable economies, there will be less need for extraordinary external assistance. As we approach this point, we can look for repayments of interest and principal on AID loans to provide an increasing share of the funds necessary for the economic assistance program. While repayments on AID loans in fiscal year 1964 will amount to only \$5 million, they will increase gradually thereafter. Moreover, there is approximately \$2 billion in outstanding dollar repayments of economic assistance loans from other sources, not including Export-Import Bank loans. The reappropriation of these repayments as well as those on AID loans could provide a revolving fund which could make possible a reduced appropriation of new resources needed yearly for the program.

In making our recommendations for present reductions, we recognize that future emergencies and unknown challenges are likely to arise. The President of the United States must have the flexibility to meet such contingencies, and nothing in this report should be construed to limit him from doing so as future circumstances require. It is for this reason that we strongly favor the provision of an ample Contingency Fund in the annual aid appropriation.

## V. CONCLUSION

These, Mr. President, are our views and recommendations. We express to you our appreciation for the candor and cooperation of the officials of the agencies concerned who have helped in our examination, especially the new and vigorous Administrator of AID, whose attitude and ability has impressed us greatly.

In submitting this report, we hope to have been responsive to the concerns which moved you to create this Committee and to repose your confidence in us as members. The reductions recommended in current activities should not be construed as minimizing the importance in principle of foreign assistance. On the contrary, we believe these programs, properly conceived and implemented, to be essential to the security of our nation and necessary to the exercise of its world-wide responsibilities. If our recommendations are accepted, they should assist the programs in meeting these objectives.

Our examination of U.S. foreign assistance programs and consideration of them in this report has been based upon the sharp criterion of their value to the security of our country and of the free world. We would not express ourselves adequately, however, if we failed to note the further interests of our country and of our people in the purpose and effect of these programs. For this reason, we would point out that the need for development assistance and an U.S. interest in providing it would continue even if the cold war and all our outstanding political differences with the Communists were to be resolved tomorrow. This is so not merely because it is part of the American tradition to be concerned with the plight of those less fortunate than ourselves. This is so not merely because it is in our national self-interest to assure expanding markets for our production and reliable sources of supply of necessary raw materials. It is because the people of the United States hope to see a world which is prosperous and at peace that we believe those nations which are seriously striving to promote their own development should be helped by us and by our partners to create and maintain the conditions conducive to steady economic progress and improved social well-being within the framework of political freedom.

Respectfully submitted,  
(signed)

Lucius D. Clay, Chairman  
Robert B. Anderson  
Eugene R. Black  
Clifford Hardin  
Robert A. Lovett  
Edward S. Mason  
L. F. McCollum  
Herman Phleger  
Howard A. Rusk, M.D.

## DISSENTING STATEMENT

*Mr. George Meany dissented from the report and submitted a separate statement.*

Dear Mr. President:

I regret that it is necessary for me to dissent on the Report of the Committee to Strengthen the Security of the Free World. The report does not represent, in my opinion, an adequate contribution to the over-

all problem of free world security. Nor does it show real understanding of the nature of the basic struggle being waged between the forces of tyranny and freedom.

Moscow, Peiping and various other centers of International Communism are arrogantly attempting to intone the funeral oration of democracy in the free world. More important, capitalizing on social and economic stagnation, they probe everywhere for areas of weakness where they can penetrate and dominate. We should know this and we should accept the long-term costs of frustrating this enemy and reinforcing our own strength by supporting around us a community of resolute, prospering, free world societies.

The Agency for International Development and our Military Assistance Programs, wisely administered, are insurance against possible vast military expenditures and sacrifices of American lives, so great as to overshadow completely the cost of this insurance. I do not accept the view that we cannot afford to pay the full cost for these essential programs, nor, I am confident, do the people of the United States.

The many millions of dollars that are contributed each year by the American people to private voluntary agencies engaged in helping people all over the world amply testify their willingness to have our government continue full-scale foreign aid. AID and MAP programs demonstrate the enlightened self-interest and the traditional goodwill of the American people where expansion of human freedom and social justice are concerned.

You are fully aware, Mr. President, that I look upon foreign aid both as a responsible citizen and as a spokesman for American labor. The views that I have just expressed are shared, I am assured, by the vast majority of my fellow citizens. My colleagues in the American labor movement also share with me the special concern I have regarding AID and the Alliance for Progress not as business operations primarily, but rather as activities designed to promote economic and social well-being for entire populations of developing countries.

The report does not come to grips with this basic orientation. While paragraph 9 on page 13 of the Committee's report does stress "... the importance of Latin American governments consulting with and enlisting the support of industrial, financial, labor, cooperatives, and other leaders who believe in the goals of the Alliance in the pursuit of their development programs", it makes scant mention, however, of labor elsewhere and prefers to treat it, apparently, simply as manpower which requires some vague type of technical assistance.

There is no real Communist anywhere who does not know that free labor is a priority target for control. Czechoslovakia is a classic example

of Communist tactics applied against the labor movement for quick conquest. Let history help us shape the direction of our assistance programs and influence us to enlist the free labor movement as a partner in the programs AID is undertaking, a partner in progress. The report, I am sorry to say, does not mention these matters which are vital to the basic purpose of U.S. external assistance.

The report does not consider the adherence of recipient governments to the Conventions of the International Labor Organization relating to the rights of workers to freedom of association, and the organization of workers under conditions free from racial discrimination and forced labor devices. Certainly, if the worker is to bear the brunt of privation and the burden of nation-building—as in the case of developing countries—we cannot expect this vast sector to voluntarily enlist in our cause without rights, without freedom, without justice, without bread. If the case for private enterprise is valid—and we are convinced that it most certainly is—then the individual must also concurrently have his opportunities in the market as a selective job seeker and consumer. Yet the report discusses merely the building of additional institutions presumably to manage this type of problem.

The report's recommendations on future requirements serve no purpose other than to encourage reduction of AID resources to support present and future projects. The report gives no documented basis for proposed reductions. I think it is better to rely upon the President's presentation to the Congress and the exacting legislative process itself, rather than the report's arbitrary limitations to fix the financial requirements for support of programs serving the broadest long-term national interests of the United States. It is interesting to note in this connection that past Presidents of the United States have been subjected to and have overcome the advice of individuals whose view of the national interest was too narrow, whose approach was negative, and whose arguments taken out of context could be disastrously misused by both those within the country and abroad hostile to the clearly enunciated objectives of the President.

In view of the world situation, our country must assume responsibilities which fall upon those who are strong. I believe that your desire to strengthen the security of the free world and to promote the growth and consolidation of human freedom should have and, in fact, does have wide popular support. Our goals can be achieved only with greater popular support both in the United States and in the recipient countries. Popular support has never been enlisted by a backward and negativistic viewpoint.

Therefore, I recommend the following steps be taken to ensure the

successful completion of the world wide commitments undertaken or to be undertaken by AID as well as the Alliance for Progress :

1. AID funds should be substantially increased and geared to the increasing ability of AID personnel to implement a stepped-up program.
2. The United States should call for well prepared economic and social planning based on coordinated efforts by Latin American governments, labor and management.
3. Some projects should be conducted under the direct supervision and management of AID or Alliance for Progress authority, through its representatives and personnel, in cooperation with labor, management, and government in the recipient country.

In conclusion, I would like to recommend that AID establish a trade union department for the implementation of those recommendations hereinbefore mentioned. It is to be remembered that the predecessors of AID have all included this supervisory and administrative entity.

Respectfully submitted,

(signed)

George Meany