

COPY

March 30, 1951

Mr. George W. Lawson, Jr.  
Branch Chief  
International Activities Branch, Estimates Division  
Bureau of the Budget  
Washington 25, D. C.

Dear Mr. Lawson:

It has come to my attention that certain of my remarks in the hearing on the Southeast Asia program over which you presided on March 29 have been interpreted as an argument for a policy as to the appropriate use of loans which may be inconsistent with the views set forth by representatives of the State Department, and, indeed, of this agency. I am writing you to forestall any possible misinterpretation.

To restate them briefly, my views about the fiscal year 1952 program are as follows:

(1) In general, I believe that the costs of heavy economic development in countries which have no balance of payments problem should be financed on a loan rather than on a grant basis, provided the conditions set forth in paragraph (5) below as to the administration of loan funds can be met. In making this general statement of policy, certain general exceptions or qualifications should be recognized. I believe it entirely appropriate to use grant funds to finance the planning that must precede major projects. There may well be occasions where the early stages of capital development projects should be financed with grant funds to enable them to be begun promptly. Moreover, it will often be appropriate to finance the repair of war damage on a grant basis even where such activities are carried out as a preliminary phase of a development project.

(2) I would propose that this general principle be applied to the Southeast Asia countries, other than the Philippines, in the following fashion and for the following reasons. All aid to Formosa should be on a grant basis because the economic problem in this case is a true balance of payments problem. There is no scope for loans in the Indo-China program, both because the country is running a massive balance of payments deficit and because the advanced state of internal political disorganization puts a premium of flexibility of speed and on the avoidance of requests for *quid pro quo*.

The same considerations apply, though with somewhat lesser force, in the case of Burma. In the case of both Thailand and Indonesia I believe that aid which is provided for the strengthening of institutions and for the ultimate purpose of improving the distribution of wealth and income should be on a grant basis, but

that, in accordance with the general principles set forth in paragraph (1) above, all true capital development should be financed on a loan basis, unless overriding political considerations call for a modification of this position.

(3) In speaking of aid for the strengthening of specific institutions (such as a health service or an agricultural service) it is important that we not fall into the error of making the basic distinction between the furnishing of personal services (technical assistance) and the furnishing of things (supplies and equipment). The success of JGRR's program can be attributed in considerable part to the fact that the institutions being built (including the JGRR structure itself) were able to furnish ECA-financed fertilizer and thus gain rapidly in the esteem of and cooperation from the people and government of Formosa. Similarly, the establishment of a broad agricultural service, even in a country with no balance of payments problem such as Thailand, needs to be set in motion by the catalytic use of grants in the first year or two for some supplies and equipment such as pumps to get an irrigation program under way. What is required is more than simply a single demonstration here and there, but enough technical help and enough equipment to get a broad program really under way. By the same token, it is most important that the use of grant funds in this manner be strictly limited as to time, the main objective of such use being to put the governmental service institution involved on a self-perpetuating basis as soon as possible.

(4) In the case of the Philippines I believe that an exception should be made to the above general principle in the first year of the program. Specifically, I recommend that the program of approximately \$50,000,000 be on a grant basis. This recommendation is based on my conviction that it is absolutely essential to get a wide-scale program covering many fields of activity underway with the least possible delay and in a fully coordinated plan. I believe there is a further political consideration which is unique to this country. The proposed program will be undertaken pursuant to the Foster-Quirine agreement negotiated last December, under the terms of which the Philippine Government has already carried through a drastic, painful, and altogether remarkable program of tax and reform legislation. Moreover, there is further legislation of a reform character that we will require during the calendar year. Although, I believe, for these reasons an exception should be made in the Philippine case, I doubt if the provision of \$50,000,000 grant aid would, in fact, turn out to violate the general principle stated above in any great degree because it seems probable that most of this sum would be expended for purposes other than economic development or else for the planning and repair phases of development projects. It is our hope, of course, that the total program for the fiscal year 1952 will turn out to be considerably larger and will include loan funds which it has not yet been possible to program.

(5) The general views set forth in paragraph (1) above, which I also expressed at the hearing referred to above, are valid only on the basis of certain assumptions as to the way in which loan funds are administered.

First, loans must be programmed or, to put it another way, loan funds must be used, not independently to finance projects, but to cover the costs of certain elements in overall economic programs. The programs must come first and be developed as such by representatives of the receiving government and the U.S. Government working in cooperation. Only thereafter should a decision be made to finance certain parts of the program on a loan basis.

Second, it must be possible to negotiate loans promptly so that long and unnecessary delays will not intervene between agreement between the two governments on a program and the negotiation of one or more specific loan agreements.

Third, the receiving country's actual expenditure of loan funds must be supervised in exactly the same way as its expenditure of grant-in-aid funds. This is especially important in Southeast Asia where, almost universally, the governments are new and inexperienced.

Fourth, it must be possible to finance with loan funds not only dollar or other foreign exchange costs but also local costs, otherwise the loans will not perform the functions of making up for the shortage of capital funds for public or private investment in the country.

Fifth, the value of loans will be greatly reduced unless their proceeds can be spent wherever necessary in the world and not merely in the United States.

Sixth, and finally, if the need for grants-in-aid is to be held at a minimum, some provision must be made for loans in situations in which the public lending institutions may not wish to extend credits but in which the economic prospects of the receiving country and the purposes for which aid is being given make the use of loan funds preferable to that of grants. For instance, the internal and external political dangers in a particular country may be so great as to make it a poor risk for a loan yet its economic prospects, provided the political dangers do not materialize, may be sufficiently favorable to justify the use of loans rather than grants for purposes judged to be necessary in the United States interests. I do not have a firm recommendation to make as to the way in which this problem should be solved. It would be unwise, I believe, to give any other agency the power to compel the lending institutions to make loans in amounts or to countries or for purposes unacceptable to those institutions. There are objections, also, to making an appropriation of funds to the U.S. to finance loans. Possibly the best solution would be one which

the ECA, in the case of the countries in which it operates, could guarantee loans of this character which would then actually be made by the lending institutions. Whatever the appropriate solution, I am convinced that some solution to this problem must be found if the programs are to be undertaken in Southeast Asia or to have a real chance of success at a minimum cost to the taxpayer.

I cannot emphasize too strongly my conviction of the importance of integrating the loan and grant operations in the manner indicated in paragraph (5) preceding. I believe programs submitted to the Congress should indicate total funds proposed to be made available to each country, including items to be financed with loan funds as well as those for which grant-in-aid appropriations are requested. Likewise, in negotiations with other governments and in the supervision of expenditures each country's program should be treated as a whole. It is only in this way that our government can make full and effective use of all the available resources as means to attain a single set of ends in each country.

I hope this will serve to clarify the views I expressed before you yesterday.

Sincerely yours,

/s/

Richard M. Bissell, Jr.  
Deputy Administrator

RMBissell/dovd

cc: Ty Wood

McCullough

Porter

Gen. Sec.

Griffin

Dean Rusk

HCleveland

Cleared: Porter, Ty Wood, Foster, HCleveland