

PN-ABT-590

**Certain
Reports and Proposals
on Foreign Aid**

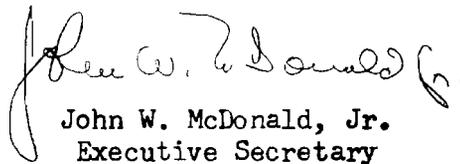
... Prepared by

The Executive Secretariat
International Cooperation Administration
September 15, 1956

MEMORANDUM TO RECIPIENTS

Attached is a composite selection of summary reports on certain of the more important studies and surveys on foreign aid conducted over the last several years -- since 1947. It will be noted that the reports have been grouped into three sections -- the first includes studies undertaken prior to and in preparation for implementation of the Marshall Plan; the second section includes studies undertaken since 1950; and the third section contains some of the new proposals offered in recent months as to new directions the program might move into.

No attempt has been made in preparing this collection to be comprehensive or to cover every study or survey on record. Rather, it is intended primarily as a guide and source of quick reference on the major unclassified reports of the past and on what appear to be some of the more significant new ideas likely to be considered and debated in discussions of foreign aid during the coming months.


John W. McDonald, Jr.
Executive Secretary

I N D E X

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IN PREPARATION FOR IMPLEMENTATION
OF THE MARSHALL PLAN

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PART I

STUDIES UNDERTAKEN PRIOR
TO AND IN PREPARATION FOR
IMPLEMENTATION OF THE MARSHALL PLAN

THE IMPACT OF FOREIGN AID UPON THE DOMESTIC ECONOMY

A Report to the President
by the Council of Economic Advisers

October 1947

This report, which was made at the request of the President, considered the extent of the burdens that would be imposed on the economy of the United States by providing further foreign aid during the next few years and the capacity of the economy to support those burdens. As a companion to the Krug Report on the impact of foreign aid on U.S. national resources and physical capacities, the CEA report concentrated on the effects of exports, partially Government-financed, upon domestic production, consumption, and prices.

Based on an examination of the effects of past aid in terms of the size of the export surplus and domestic consumption and the effects on price levels to date, the CEA report reflected the following findings and conclusions with respect to the general impact of a new foreign aid program:

In the absence of a new aid program, it was likely that the U.S. export surplus would sink to an annual rate of 4 to 5 billion dollars by the following year-1948-contrasted with the 13 billion dollar annual rate in the second quarter of 1947 and an estimated then current rate of about 10 billion dollars. Assuming that imports would remain at approximately the then current level of about 8 billion dollars a year, it was estimated that total U.S. exports during the next year would sink to an annual rate of 13 billion dollars or less, compared to an annual rate of 21 billion dollars in the second quarter of 1947 and an estimated then current annual rate of about 18 billion dollars. It was believed the major reductions would occur in exports to Europe.

The report stated that while this rapid reduction in exports would probably not inflict serious short run damage on the U.S. economy, substantial problems of readjustment would be generated. Moreover, the industrial paralysis which could be expected to result in some other countries would have repercussions of major proportions upon our own economy and upon world stability.

The report assumed for illustrative purposes a foreign aid figure based upon the Paris Conference Report which would reach a maximum annual rate of 8 billion dollars during the first year, including about 1 billion dollars already authorized, and which would produce a maximum export surplus of about 12 billion dollars a year. This would mean total exports at a peak of not more than 20 billion dollars a year, assuming 8 billion dollars of imports. Since these levels were lower than those reached during the second quarter of 1947 and were expected to decline appreciably from year to year, the CEA concluded that the export surplus resulting from any future foreign aid program would at no time equal, and for most of the time would be substantially less, than the levels reached during 1947.

In view of the long-run prospect for increasing American output if maximum employment and production were maintained, these facts led to the conclusion that the general impact of a new foreign aid program of the assumed size upon the American economy could be sustained because a larger impact had already been sustained. The report stressed, however, that problems raised by specific commodities in relatively short supply could distort or overturn this generally optimistic picture if not dealt with effectively.

NATIONAL RESOURCES AND FOREIGN AID
("The Krug Report")

by

J. A. Krug, Secretary of the Interior

October 9, 1947

The purpose of this study was to determine the effects of a program of foreign aid upon our national resources, particularly our raw materials, our manpower, and our production facilities. Its scope covered extensive studies of the availability, current utilization, and potential expansion of our resources--including surveys of the major nonexportable resources--manpower, electric power, and transportation--and statements concerning the current and prospective production, consumption, export, and resource reserve position of major commodities and commodity groups. The commodities selected for study were those representing the bulk of current exports and most likely to be required for a foreign aid program. A brief study of the levels and pattern of U.S. foreign trade was also included in order to provide perspective on the relative magnitude of foreign aid exports.

The fundamental question to which these studies sought to provide an answer was whether the economy of the U.S. could support, in terms of its physical impact, a program of foreign aid.

In discussing world needs and United States capacities, the report stated at the outset:

"The current high levels of production and consumption in the United States are creating, in a number of specific and important areas of our economy, certain difficult supply impacts that must be faced. They are also aggravating generally the urgent need for extending our programs for the conservation, development, and expansion of the Nation's resources. Even though foreign aid exports in general are a small proportion of our domestic production or requirements and their drain upon our resources relatively minor, they point up the need for finding solutions to several important supply problems and emphasize the importance of broadening our conservation practices and building up our stockpiles of strategic minerals."

Findings developed from the underlying studies showed that the problems created by the impact of a possible foreign aid program upon the economy of the U.S. would be of two sorts. Most immediately, there would be the supply impacts: the problems of obtaining adequate supplies of the commodities which are not currently being produced in sufficient quantities to satisfy all demands. To meet these problems, the report declared it would be necessary either to increase production through expanding capacity or utilizing existing capacity more intensively, or to divert consumption from less essential domestic and foreign uses to more essential ones.

Also cited were the resource impacts: the problems of preventing the combined domestic and foreign drain on our natural resources from depleting them at uneconomic or unsafe rates. The report states these could be met either by restricting production, and so running into conflict with the requirements of sound economic policy, both domestic and foreign, or by adopting conservation practices which will permit maximum rates of production to be attained with safety.

With respect to the supply impacts on specific items the report set forth the following findings:

- Wheat - We can continue to supply large quantities of wheat for foreign aid without substantial reduction of food supplies in this country or undue drain on our soil resources assuming average weather and our continued ability to plant in the Great Plains.

- Nitrogen - The foreign aid program should be designed to increase production of nitrogen by employing unused capacity in Europe and elsewhere to help to meet the current world food shortage and to minimize imports of food by aided countries. To this end coal and industrial equipment shipments for nitrogen fertilizer production should be given high priority.

- Coal - The problem of producing enough coal to meet our own requirements and those for export is not a coal resource problem but primarily a transportation problem. We must make most effective use of available transportation equipment and arrange for the procurement of coal for foreign aid under procedures that will minimize the impact on the domestic market.

Steel

- Maintenance of substantial European demands for American steel will aggravate a serious domestic supply situation. Industry and Government cooperation is needed to make raw materials, including coke and scrap, available and otherwise to assure full utilization of existing capacity. Continued consideration must be given to increasing domestic capacity for future needs in such a manner as to minimize the effect of taking steel from current critical uses. In the light of the world steel shortage, supplies made available for export should be channeled to the most important uses.

Industrial

Equipment

- Supply problems on machinery and equipment items, unlike the other supply problems, are capable of less precise evaluation in the absence of definite requirements. Their solution, moreover, is likely to be brought about by more careful attention to individual problems to assure the supply of specific items necessary for a coordinated reconstruction program. The impact of these exports will be lessened in many instances by a solution of the steel bottlenecks.

In summation, the findings deriving from this review of U.S. resources indicated that, from the standpoint of preserving both the national security and our standard of living, the U.S. economy in general was physically capable of providing the resource requirements of a considerable program of foreign aid. The report pointed out, however, that certain shortages resulting from our own current high levels of consumption would be intensified. These shortages, particularly in such essential commodities as wheat, steel, coal, nitrogen fertilizer, and certain items of industrial equipment, presented the immediate problems of supply and consequent economic repercussions, and that the effectiveness of the foreign aid program was dependent on intelligent and prompt handling of these problems. The report indicated further that the supply impacts could be minimized to a considerable extent by establishing effective procedures for the program for careful screening of requirements and for the channeling of supplies so that they would be effective in maintaining our own production and in providing the means for rehabilitation abroad.

EUROPEAN RECOVERY AND AMERICAN AID

by the President's Committee on Foreign Aid
(The "Harriman Committee")

November 7, 1947

The President's Committee on Foreign Aid, known as the "Harriman Committee" carried the major responsibility for anticipating the problems that would arise, and for laying a groundwork of analysis essential to the establishment of policies for a sound program to implement the plan for European recovery introduced by General Marshall in his speech at Harvard on June 5, 1947. The committee was a nineteen-member nonpartisan advisory group composed of "distinguished citizens" representing major sectors of American life:

The Honorable W. Averell Harriman
Secretary of Commerce
Chairman

Hiland Batcheller, President,
Allegheny-Ludlum Steel Corp.,
Pittsburgh, Pennsylvania

Robert Earle Buchanan, Dean,
Graduate College,
Iowa State College,
Ames, Iowa

W. Randolph Burgess, Vice Chairman,
National City Bank of New York
New York, N. Y.

James B. Carey, Secretary-Treasurer,
C.I.O.,
Washington, D. C.

John L. Collyer, President,
B. F. Goodrich Company
Akron, Ohio

Granville Conway, President,
Cosmopolitan Shipping Co., Inc.,
New York, N. Y.

Calvin B. Hoover, Dean,
Graduate School,
Duke University,
Durham, North Carolina

Robert Koenig, President,
Ayrshire Collieries Co.,
Indianapolis, Indiana

Robert M. LaFollette, Jr.,
Washington, D. C.

Edward S. Mason, Dean,
School of Public Administration,
Harvard University,
Cambridge, Massachusetts

George Meany, Secretary-Treasurer,
American Federation of Labor,
Washington, D. C.

Harold G. Moulton, President,
The Brookings Institution,
Washington, D. C.

Melville F. Coolbaugh
Colorado School of Mines,
Golden, Colorado

Chester C. Davis, President,
Federal Reserve Bank,
St. Louis, Missouri

R. R. Deupree, President,
Procter and Gamble Co.,
Cincinnati, Ohio

Paul G. Hoffman, President,
Studebaker Corporation
South Bend, Indiana

William I. Myers, Dean,
College of Agriculture,
Cornell University,
Ithaca, New York

Robert Gordon Sprout, President,
University of California,
Berkeley, California

Owen D. Young,
Honorary Chairman of the
Board of Directors
General Electric Co.
Van Hornesville, New York

Richard M. Bissell, Jr., Executive Secretary

The idea for such an advisory council originated with a recommendation by Senator Vandenberg during a bipartisan consultation at the White House shortly after General Marshall's speech. The committee was formally appointed by the President on June 22, 1947, to advise on the limits within which the United States might safely and wisely plan to extend economic assistance to foreign countries and on the relation which should exist between such assistance and our domestic economy.

The committee and its staff worked throughout the summer and into the autumn and transmitted its 286-page report to the President on November 7, 1947. The basic conclusions of the President's Committee on Foreign Aid as set forth in the report may be summarized very briefly as follows:

1. The hope of Western Europe depends primarily on the industry and straight thinking of its own people.
2. The United States has a vital interest--humanitarian, economic, strategic, and political--in helping the participating countries to achieve economic recovery.
3. The aid which the United States gives will impose definite sacrifice on this country.
4. The magnitude of Western Europe's deficit with the American Continent in 1948 will be of the order of 7 billion dollars, but when all possibilities of financing are taken into consideration, the approximate need for appropriations past and future to cover the calendar year of 1948 may be of the order of 5.75 billion dollars.

5. The extension of such aid, now or in the future, calls for anti-inflationary fiscal policies on the part of this country, and a new independent agency to administer the aid extended. The head of this agency should be appointed by the President and confirmed by the Senate. A board of directors should be appointed, representing the Departments of Government concerned with the program, including the Secretary of State and such other persons as the Congress may see fit to add. The head of the new organization should be Chairman of the Board, which should have power only to establish and adjust general policies within the framework of Congressional action.

The new organization must have a chief representative in Europe, reporting directly to the head of that organization, and responsible to him, to deal with the continuing committee set up by the participating countries, and also to coordinate the activities of the various local representatives of the organization who will be needed in the different countries.

As a final word, both on the magnitude of the program recommended and on the policies outlined, the report emphasized that success depends on giving way neither to over-optimism or to undue pessimism. It is one thing to propose a program, it said, it is another to see it through. The immediate months and indeed years ahead are not apt to be easy either for this country or for the European nations. It is not wise to underestimate the steepness of the climb.

REPORT OF THE HERTER COMMITTEE

(Final Report on Foreign Aid of the
House Select Committee on Foreign Aid)

May 1, 1948

On July 29, 1947, the House of Representatives, through House Resolution No. 296, created a select committee of nineteen members to study the proposal that had been launched by General Marshall in his speech at Harvard on June 5th. Its membership, drawn only in part from the Foreign Affairs Committee, included a geographically and politically representative cross section of the House:

Charles A. Eaton, New Jersey, Chairman
Christian A. Herter, Massachusetts, Vice Chairman

Thomas A. Jenkins, Ohio	E. E. Cox, Georgia
Charles A. Wolverton, New Jersey	James P. Richards, South Carolina
August H. Andresen, Minnesota	Francis E. Walter, Pennsylvania
Francis Case, South Dakota	Harold D. Cooley, North Carolina
John C. Kunkel, Pennsylvania	George H. Mahon, Texas
John M. Vorys, Ohio	Overton Brooks, Louisiana
Charles W. Vursell, Illinois	Eugene J. Keogh, New York
W. Kingsland Macy, New York	A.S. Mike Monroney, Oklahoma
Richard M. Nixon, California	

W. Y. Elliott, Staff Director
Howard S. Piquet, Deputy Staff Director
Philip H. Watts, Executive Officer

SENIOR STAFF CONSULTANTS

Allen W. Dulles John M. Hancock Julius Klein

The group sailed for Europe with a small staff on August 28, carrying questionnaires that had been prepared with the State Department's assistance. They were intensely briefed during the crossing. Dividing into subcommittees which included some Senators, the members visited every nation in Europe except Russia, Yugoslavia, and Albania. Each subcommittee

traveled widely: one, on finance, went to twenty-two countries. In addition, Representatives Frances P. Bolton of Ohio and Chester E. Morrow of New Hampshire visited the Near East, and Congressman Walter H. Judd of Minnesota went to China, Japan, and Korea.

Soon after their return, the members reported to the Foreign Affairs Committee.* Although these hearings, in November 1947, bore directly on interim aid, much of the testimony and discussion dealt with longer-range problems involved in the Marshall Plan. No major disagreements emerged in the testimony from members of the select committee - even among those who had been regarded as "isolationists" as well as among those looked upon as "internationalists". Unanimity was especially evident on one subject, the peril of Communist expansion. Mundt spoke of Communist "overlords" deliberately slowing down economic activity "so as to produce chaos and put an end to freedom". Herter cited the danger of disruption to production by Communist-controlled labor unions. Bolton of Ohio linked the cold war in Europe to America's future security, and John Davis Lodge of Connecticut saw in it a challenge to the democratic system and its moral and spiritual values.

Many members returned more deeply convinced of the necessity for American leadership and aid. "Whether we like it or not," said Peter Jarman of Alabama,

"this great country of ours....has grown....into a position of leadership and power in the world which places on the shoulders of our country a responsibility which heretofore had not rested there.....Practically all of Europe is in danger of losing its way of life....(Our) position of leadership demands action on our part.....Somebody, some member of Congress very aptly described the situation upon returning from Europe when he asked the question: 'What would it cost us not to aid Europe?'"

Everett M. Dirksen of Illinois saw three choices before the American people. One was to withdraw from Europe and be prepared to let the Kremlin take over. Another was to give "niggardly aid." He continued:

"There is a third choice, and that is the choice that we must make. I want to make it. I have been back home. People have talked to me about giving away my country, and I have talked to them.....And I have said, 'Look, let us examine this whole picture.' And it is amazing to me to see how the people back home have changed their minds on the basis of such facts as you disclose them. I am not afraid of the reaction in this country. I am confident that in proportion as we do our jobs as representatives to bring them the story--that they will go along with the third choice, and the third choice in my book is immediate--adequate--aggressive aid. My formula, Mr. Chairman, is very, very brief. Do it--do it now--and do it right."

*Emergency Foreign Aid Hearings before the Committee on Foreign Affairs, 80th Congress, 1st Session (1947).

Some misgivings were voiced. Smith said, for example: "We ought to do all we possibly can. But I raise the question--and it is a sincere one--can we expect from these nations any more in the future than we have in the past so long as we give and give and give?" Such doubts were partly offset by the belief shared by many of the committee that the people of Europe, by and large, were struggling to find a way through their problems.

The Congressmen recognized that miracles could not be expected and that a very short-term aid program would not put Europe on its feet. Herter said: "I do not want to get into a situation where Congress takes an interim bite and thinks everything is settled." Jacob K. Javits of New York referred to the need for giving "political assurance that we will stay in Europe." John M. Vorys of Ohio asserted that "unless this present interim aid is part of a cure, an installment on a long-term program, it is unjustified." Mundt expressed the view that "this emergency program, on which we are now working, can provide some experience tables which will be of value to us in considering a more comprehensive program, running over a longer period of time." On the other hand, the Congressmen repeatedly stressed the necessity for maximum self-help by European countries and maximum aid to their neighbors.

The following May, the Herter Committee submitted its formal report--an 883-page document--to the House of Representatives.

The report listed six basic elements which must be taken into account in formulating and administering any program of aid to fill the genuine needs of recipient countries, restore their economies as rapidly as possible, and at the same time assure that the economy of the United States is not subjected to undue strain:

1. The recipient countries should make vigorous efforts, individually and jointly, to increase the production of food and materials needed to meet not only their essential internal needs but the needs of other countries. Increased local production to assure decreasing deficits should be sought, so as to limit the requirements from abroad to a minimum consistent with a sound economic balance.

2. The recipient countries should, through mutual help and cooperation, facilitate the economic interchange of goods and services among themselves, provide effective distribution and use of their own resources, as well as of the resources received from our side, and work toward the elimination of exchange controls, quota restrictions, and other obstacles to trade.

3. Certain countries other than the United States which are in a position to supplement a program of aid, which have the same incentive as we to do so and which enjoy access to United States supplies, should be expected to cooperate each in relation to its respective capacity.

4. Every encouragement should be given and every facility extended to private initiative to assume, as conditions permit, the emergency activities which have devolved on governments in the present crisis.

5. The recipient countries should adopt fiscal, financial, and monetary programs designed to arrest inflation, to correct existing monetary weaknesses, to accomplish stabilization of exchanges, and generally to restore confidence in their currencies.

6. The recipient countries should give full and continuous publicity regarding the purpose, source, character, and amounts of aid furnished by the United States where this aid is not on the basis of commercial loans or normal commercial transactions.

The report went on to state that in order that any program of foreign aid from the United States may be efficiently administered, provision should be made for the effective coordination of existing government agencies participating in the program. Additional governmental machinery should be limited to that necessary to provide such coordination and to fill gaps of authority which may exist.

The committee found that Western Europe's most pressing needs, as in most other countries, fell into three categories:

1. Foodstuffs, fuel, and fertilizers;
2. Commodities to be processed and certain types of specialized equipment;
3. Capital goods and equipment.

To administer aid in the form of food, fuel, and fertilizer, the committee recommended that a corporation be established under Federal charter, to be known as the Emergency Foreign Reconstruction Authority. The corporation was to be authorized to enter into arrangements with countries in need of foreign aid under which food, fuel and fertilizer would be made available to them, and to determine the form of remuneration to be obtained on the basis of its best estimate of the recipient country's capacity to pay.

With respect to the purchase and delivery of articles falling within the second category, the committee recommended that the facilities of the Export-Import Bank be utilized and its resources and authority strengthened so as to enable it to act as the financing agency for these goods.

For the financing of the third category of urgent needs--capital goods and equipment necessary for longer-range programs--the committee felt that the International Bank for Reconstruction and Development should be used.

The committee recommended further that in order to assure effective coordination of the work of the various American and international agencies dealing with the problem, and the liquidation of existing governmental agencies whose functions could be performed by the new corporation, there should be established a coordinating council directly under the President, to be known as the Foreign Aid Council.

The Council would be composed of the Secretaries of State, Defense, Treasury, Agriculture, and Commerce, the Chairman of the Emergency Foreign Reconstruction Authority and the other members of the Board of this Authority, the Chairman of the Export-Import Bank, and the United States Executive Directors of the International Bank for Reconstruction and Development and of the International Monetary Fund. The Secretary of State would act as Chairman of the Council.

It was envisioned that the Foreign Aid Council would function primarily as an arm of the President, advising and consulting with him regarding the establishment by him within the limits of the new law, of over-all programs and policies, as well as the manner in which such programs and policies should be executed by the various participating agencies of the Government.

Some of the suggestions made by the committee--especially those on administration and distribution of aid--were not adopted. But on many subjects the committee and its staff made significant contributions to Congressional thinking and to the legislation which finally emerged. These included production and production management, utilization of resources, local currency "counterpart" funds, the relationship of Germany to European recovery, American participation and acquisition of strategic and other materials by the United States. The breadth and responsibility of Congressional interest in the European recovery program were perhaps nowhere more convincingly demonstrated than in the work of the Herter Committee. Through its firsthand reports and the influence of its individual members, its impact was unique in United States legislative history; it fixed attention upon realities in Europe and set the tone for the deliberations that followed. "Without it," asserted Paul G. Hoffman some years later, "the program couldn't have gotten Congressional approval. It was a bipartisan approach."